

## LAWS OF ECONOMICS UNDER SOCIALISM

ALLEN GINDLER

*ABSTRACT:* This article argues that praxeology, as a general theoretical approach, can explain the emergence of the socialist doctrine. However, socialist laws of economics cannot be derived from praxeology. It is specifically shown that the immutability of market economic laws does not allow society to achieve a full-fledged communist reality. Using the Soviet Union as an example, this article demonstrates that the market economy cannot be eradicated, despite government efforts, but is omnipresent even if it is ostensibly outlawed. Also, this article demonstrates that Ludwig von Mises’s conclusion about the principal impossibility of economic calculation under socialism is fully applicable to the highest stage of communism, as theorized in Marxism. In relation to socialism in a broader sense, as the collectivization of the means of production grows, the magnitude of the impairment of economic calculation grows with it. Socialist thinkers failed to rebuff Mises’s reasoning because all their proposals violated the economic uncertainty principle: the exact price structures before the exchange are unknown and are in superposition.

### PRAXEOLOGY AND ECONOMIC LAWS

Each branch of science tries to uncover fundamental laws that can objectively explain observed phenomena. Economics is no exception. In the centuries since the emergence of economics as a science, fundamental laws have been discovered that govern human economic activity. Considering economics to be an objective science, its principles should have universal significance and use despite differences in societal order.

The Austrian school of economics differs from other approaches in explaining economic phenomena because it is based on

---

Allen Gindler (agindler@cyberrex.com) is an independent scholar.



axiomatic-deductive methodology which states that basic principles of economics are not empirical but a priori. According to the Austrian school of economics, the laws of economics are conceptual truths that might be observable in real life, but not directly derived from it. The advance of the Austrian approach is similar to the development of mathematical logic, which begins with an axiom and deduces subsequent theorems by logical constructions from previous assumptions. These methods are based on the laws of logic, which lead to self-sufficient and consistent conclusions. Thus, economic laws cannot be refuted by observing real-life events, because they are axiomatic and a priori, rather than empirical. The derived laws can only be challenged within a logical framework using the same axiomatic-deductive approach.

Austrian economics in Ludwig von Mises's interpretation is based on the science of praxeology, the study of intentional action. He posited that "economics, as a branch of the more general theory of human action, deals with all human action, i.e., with man's purposive aiming at the attainment of ends chosen, whatever these ends may be" (Mises 1998, 880). The goal of the action is to alleviate one's felt uneasiness. All action is an attempt to exchange a less satisfactory state of affairs for a more satisfactory one. The actor finds himself (or expects to find himself) in a nonperfect state, and, by attempting to attain his most urgently desired ends, expects to be in a better state (Rothbard 2009, 19).

Uneasiness can be described as an ascending function because, if no actions are taken, uneasiness will steadily grow. It should be understood that inaction is also an act if it reduces discomfort. At some point, uneasiness might asymptotically reach a limit that results in an unbearable degree of suffering or even demise. Humans receive physiological or psychophysical signals of increasing felt uneasiness before the magnitude of suffering reaches a critical threshold. Because actions possess the power to decrease uneasiness, a person might decide to act.

Human action is a triplex. First, every action is a choice among alternatives, both in means and goals. Second, the chosen course of actions is implemented. Third, the individual assesses whether the actions performed eliminated the feeling of discomfort. Without a final assessment, the action is incomplete and meaningless. A person may not act at all if he cannot evaluate whether his situation has improved. In other words, failure to evaluate

invalidates the action. Due to the great importance of the final assessment of the actions taken, evaluation is singled out here as a separate logical component.

Therefore, the general and axiomatic procedure in praxeology is as follows:

(1) Felt Uneasiness → Action → Evaluation

From the above elementary proposition, praxeology is able to construct the entire science of economics a priori and find its validity in real life. This process is similar to proving a theorem in mathematics and applying it to engineering problems. Although Mises did not appreciate the use of mathematics in economics, to put it mildly, logic, mathematics, and praxeology can nevertheless work together to derive theorems in a succinct form from the “axiom of action” as presented by Futerman and Block (2017). A set of propositions in the form of axioms and theorems constitutes the laws of economics that govern intentional human activity in society. Given that humanity develops within the framework of the division of labor, it induces cooperation in the form of the exchange of goods and services. *Economic laws explaining the rational activity of people aimed at satisfying their needs comprise a set of market laws.*

Although economic laws imply rational and thoughtful human actions, they are objective and do not depend on individual will. Mises (1998, 59) emphasized that

it is in this subjectivism that the objectivity of our science lies. Because it is subjectivistic and takes the value judgments of acting man as ultimate data not open to any further critical examination, it is itself above all strife of parties and factions, it is indifferent to the conflicts of all schools of dogmatism and ethical doctrines, it is free from valuations and preconceived ideas and judgments, it is universally valid and absolutely and plainly human.

It may sound counterintuitive, but it is nonetheless true. For example, one fundamental economic principle states that the exchange of goods between two people occurs if and only if one values another person’s goods more than his own and vice versa. In precise economic terms, it means that “a man will exchange a unit of a good so long as the goods that it can command in exchange have greater value to him than the value it had in direct use, i.e., so long as its exchange-value is greater than its direct use-value” (Rothbard 2009, 88). The comparison and assessment between direct-use and

exchange values are subjective, but the result of trade is objective, which is regulated by the economic law. *Objective laws can be neither canceled nor changed.* This follows from the principle of praxeological invariance, which will be discussed below.

Because economics is the derivative of praxeology, for the domestic mode of the production of one isolated individual, formula (1) above is transformed to the following:

(2) Needs → Production → Consumption → Evaluation  
 (private) (private) (private) (private)

Thus, the action is an act of production, which can comprise many sequential steps. Consumption is an end that is meant to satisfy wants. The evaluation is mainly qualitative in nature, because the satisfaction of needs is assessed on an ordinal scale.

In the course of societal evolution, “production for exchange” gradually replaced the domestic mode of production. Market exchange, or simply the market, emerged with the development of the division of labor. If a household is able to satisfy all the needs of all its members, then the material basis for the market does not exist. But the history of mankind from prehistoric times to the present day has shown a gradual expansion of market relations in sync with the development of the division of labor and cooperation. Within the division of labor, a person does not satisfy all needs with his own labor, but rather relies on others to provide him with the missing goods and services. This is a mutually beneficial relationship, because that person offers something to meet the wants/needs of another individual. Therefore, the satisfaction of human needs in the framework of division of labor is unthinkable without a market. *Consequently, any economic relationship is a market relationship.*

The formula for an individual’s actions in an unhampered market with an indirect exchange takes the following form:

(3) Needs → Production → Exchange → Consumption → Evaluation  
 (private) (private) (market) (private) (private)

Here, human action embodies production and market exchange. Production based on private property and market exchange forms prices for goods and services, which makes it possible to evaluate actions not only ordinally but also using cardinal accounting operations. Consumers can estimate the cost of meeting specific needs;

manufacturers can calculate the cost of production and expected profit or loss. In this way, the assessment phase of actions becomes meaningful and manageable for both consumers and entrepreneurs.

Division of labor and induced cooperation are evolutionary processes that have led to market relations, which, in turn, are governed by the laws of a market economy. Division of labor relies on autonomous and independent individuals characterized by dualism—they are simultaneously both producers and consumers. As a producer, a person offers for himself and for others. As a consumer, he satisfies his needs individually. Nobody can eat or watch a movie for you—the consumption is private and specific. The innate essence of a person, endowed with its own consciousness, a body that occupies a space inaccessible to others, and having unique needs that are satisfied only individually, invariably leads to a natural state of private possession. Private consumption is naturally and harmoniously balanced by production based on private property, as in the two parts of the equation. Human society achieved this balance in the era of capitalism, after a long historical process, when private property rights and the social order based on such rights became the main consensus in society.

## PRAXIOLOGICAL INVARIANCE

The apriorism of praxeology is centered on the concept of universal logic and its invariance, regardless of place, time, and social groups having some kind of indication. Indeed, the universality of logic is a predetermining factor in the objectivity of both praxeology and economics. If logic can vary depending on social grouping or certain circumstances, then this means the fundamental impossibility of deriving universal and objective laws of economics within an axiomatic-deductive methodology.

An ideology that allows multiple and variant logic is called polylogism. Polylogism is a doctrine that presupposes there is no one correct logic or one correct method of reasoning that is obligatory for all people, but that there are many logics, each of which is valid for some and not valid for others. There are two types of polylogism: normative and descriptive. Normative polylogism suggests that every social group has its own logic that is correct for that group. Regarding descriptive polylogism, it too assumes that every group can have its own logic, but one of them might be right and all others wrong.

Polylogism was widely used in the doctrines of Marxism and Nazism. The Nazis divided people either by race or ethnic groups, and the Marxists by class. Both socialist ideologies endowed their designated groups—Aryans and proletarians, respectively—with a different way of thinking, a mental and logical structure that supposedly transcended the logic of their counterparts.

The Nazis endowed the Aryans with exceptional physical and mental abilities and a messianic historical mission, while declaring other races inferior and subordinate to them. Marxists believed that the laws of economics are of a class nature. During capitalism, these laws serve the purposes of the bourgeoisie, but under socialism, a different set of economic laws will serve the purposes of the proletarians. In general, the left supposes that a change in the socioeconomic formation will lead to a change in the fundamental laws of the economy or the emergence of new ones with a socialist essence.

The problem of polylogism is philosophical in nature. Undoubtedly, polylogism has philosophical implications regarding the theory of logic and praxeology, which must be founded on unshakable ground; the entire foundation of praxeology presupposes the falsity of both types of polylogism—normative and descriptive.

According to Long (2004), Mises (1998, 111, 126) successfully rebuffed normative polylogism but remained vulnerable to descriptive polylogism because of his suggestion of the possibility of extinct primates who had a different logical structure than the *Homo sapiens sapiens* but did not advance in evolution. In other words, Mises's reference to possibilities of deviant logic opens a door to descriptive polylogism. Long (2004) rightly asserted that “until the spectre of descriptive polylogism has been laid to rest—a task neither Frege nor Mises appeared to have accomplished—their eloquent critique of normative polylogism will not suffice to guarantee the existence of that common logical structure of human action to which praxeology must appeal.”

Long found a solution in Wittgenstein's philosophy of logic and mathematics. Wittgenstein posited that “thought can never be of anything illogical, since, if it were, we should have to think illogically.” He additionally stated that “in a certain sense, we cannot make mistakes in logic. . . . Language itself prevents every logical mistake. What makes logic a priori is the *impossibility* of illogical

thought” (Wittgenstein 1961, 11, 47). In other words, the basic principles of logic are absolutely necessary and a priori knowable. If one doubts the basic principles of logic, then he cannot think coherently at all. Thus, to think coherently is just to think logically (Shapiro 2005, 4).

In a nutshell, Wittgenstein indirectly deals with descriptive polylogism by simply inferring that there is no such thing as illogical thought. This, in turn, nullifies the quest to identify one true logical system because illogical cognition does not exist. Thus, Wittgenstein’s approach reduces descriptive polylogism into normative polylogism and closes the latter by the proposition of the universality of rational logic.

However, in the chapter “The Case for Reason,” Mises (1998, 123) wrote, “the knowable is, as far it is known already, necessarily rational. There is neither an irrational mode of cognition nor a science of irrationality.” Upon interpretation, both Wittgenstein and Mises meant the same thing, because the impossibility of irrational thoughts is a tautology of the illogical method of cognition. Both conclusions imply the proposition of the universality of the logical structure of the human mind. Mises’s allusion to the extinct species having an illogical structure of the mind is properly closed by stating that this irrational mode of cognition is impossible. He invoked this example just to emphasize the impossibility of abnormal logic. Mises unwittingly suggested an anthropological criterion in dealing with the deviant logic of imaginary beings of the past: humans exist because of the universal and proper logical structure of their minds, whereas those who were not endowed with such a blessing are extinct or reduced to the species that follows instincts, not reason.

Thus, Mises’s vulnerability to descriptive polylogism was superficial from the beginning and did not weaken the foundations of praxeology and an a priori approach in economics. At the same time, Wittgenstein’s philosophy as interpreted by Long and its application to the defense of Mises’s praxeology did indeed put it on a more solid philosophical foundation.<sup>1</sup> As Wittgenstein’s

---

<sup>1</sup> Wittgenstein’s philosophy of mathematics and logics has evolved over time. Unfortunately, his language was so ambiguous that it could be interpreted in various ways. Thus, Wittgenstein is often hailed as a hero by social constructivists; see Bloor (1983). They interpreted him as a proponent of “psychologistic, radically

philosophy of language and logic thinking implies logical principles, in praxeology, the intentional and rational human action embodies economic principles. Given the philosophical support for the universality of logic, it follows that theorems obtained in praxeology must be objective and invariant. Praxeological invariance means that its laws are universal and independent of the influence of place, time, and circumstances. Thus, one can conclude that an a priori approach in praxeology is fully justified and can be used in the manner of mathematics and logic.

## PRAXEOLOGY AND SOCIALISM

Socialist economics cannot be derived from praxeology. If one starts with the action axiom, applies it to an individual, as in the Robinson Crusoe economy, and then includes other participants, then the principles of a market economy will eventually be deduced. This path has already been tried by the Austrian school of economics. If one declares that the original axiom means society as a whole acting rationally, then it will describe society without any distinction between individuals and their personal goals. This assumption is contrary to the whole history of mankind. True, it must be noted that the collectivization of consciousness, which is implicitly present in such a formulation, is a desirable goal and one of the paths to arrive at the socialist system (see Gindler 2020).

Nevertheless, praxeology as a general theoretical approach can explain the emergence of socialist ideas. If a socialist idea is considered as logic that is merely wrong, this can lead into the trap of descriptive polylogism. Indeed, there is a temptation to proclaim the notion of collectivism as a “hitherto unknown kind of madness” and reject it once and for all. However, doing so would open a door to the descriptive polylogism, which in turn might lead to the normative polylogism as well, which could undermine the foundation of praxeology.

Therefore, socialism needs to be explained within the framework of praxeology as well. Such an effort has to start by accepting the premise that socialist ideology is not a madness but complies with universal logic. The aim of socialism is to build a more just society—and there is nothing wrong with the desire to achieve

---

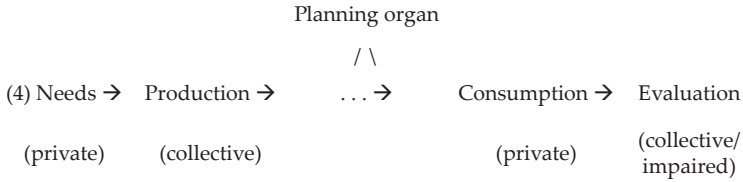
empiricistic, purely conventionalist, ethnomethodological or relativistic account of mathematics” (Floyd 2005, 110).

such a goal. Socialists thought they could achieve a better lot than has been achieved in capitalism. There is nothing wrong with such an assumption from the praxeological point of view. In order to arrive at the better state, socialists have suggested several approaches which revolve around two main factors: (1) private property as the means of production, and (2) consciousness. Thus, Marxism assumes complete socialization of private property and collectivization of consciousness. These factors are regarded as the means to attain the ultimate ends. In other words, a more prosperous society is thought to be achieved by complete collectivization. Therefore, Marxism has chosen the ends, which cannot be dismissed as madness.

Marxism does not deny that humanity advances by division of labor. Moreover, it even postulates that the main goal of a communist society is to satisfy the ever-increasing needs of its members, thus implicitly confirming the validity of the action axiom: a man acts to achieve a better state. However, not every purposeful action would attain the desired ends. Additionally, not all actions can be reduced to economics. The means offered by Marxism do not correspond to the economy; they are political coercive actions that affect the economy, but do not contain an iota of true economics.

Marx's theory of surplus value tries to show the mechanism of chronic exploitation of the proletariat by capitalists, owners of the means of production. Private ownership of the means of production has been declared an existential evil because it engenders exploitation. The proposed solution is to "expropriate the expropriators" and secure all means of production in communal ownership. Marx postulated that capitalism is sick with constant crises and anarchy in production. The proposed solution is to replace the market with government planning. Therefore, applying a polylogical approach to the subject of economics, Marxism tries to find a political solution to the problems of economics.

Collective ownership of the means of production and state planning do not arise naturally according to the laws of economics. These are deliberate and coercive actions that have no praxeological justification. That is, if the Marxists' ultimate goal—a just and prosperous society—fits into praxeology, then the proposed means do not, in the sense that they do not belong to the field of economics. These measures are beyond economic comprehension.



Marxism ultimately changes the equation to the following: private consumption is balanced by production based on collective ownership and organized by the plan. Removing market exchange from the formula reduced it to formula (2), which contradicts both praxeology and the evolution of the division of labor. In addition, the planning body is a state body that stands outside the economy, and, therefore, natural economic relations are replaced by artificial extraeconomic ones.

The Evaluation phase in formula (4) is logically linked to the conclusion that Mises arrived at concerning economic calculation under socialism. In 1920, Mises (2012) published his seminal paper, “Economic Calculation in the Socialist Commonwealth,” in which he suggested that socialism contains an inherent, logically insoluble flaw that will lead the socialist socioeconomic order into chaos. In particular, Mises theoretically substantiated the impossibility of making economic calculations under the socialist system. No economic calculations means no meaningful evaluation of the action.

Mises analyzed the proposals of Marx and Engels, because they at least advanced some theory developed according to the scientific method of the time, whereas other socialists simply expressed a long-standing aspiration for a just and fair society. It is impossible to argue with a pure dream, but it is possible and necessary to argue against the doctrine that substantiates socialist ambitions. Thus, Mises contrasted his arguments with a very specific theory of scientific socialism, also known as communism or Marxism.

Mises’s argument boils down to this: When private ownership in land and other production factors is completely replaced by the collective ownership, there will be no market for means of production. The absence of a market for means of production and money as a common medium of exchange will lead to the impossibility of setting prices for goods of a higher order. Without prices reflecting the relative scarcity of capital goods, it is impossible to rationally calculate alternative options for their use. The isolation

of the socialist community will make it difficult to borrow prices worked out properly in a capitalist economy.

Mises deduces that in a closed communist society based on collective property in means of production and lacking market relations and money, economic calculations are impossible in principle. As a result, communism is not a sustainable system and will collapse because of its internal economic deficiency. It was a theoretical and well-argued response to the Marxist theory of scientific socialism in the Austrian tradition of denying Marxism in general, as well as its individual parts.

Private consumption cannot be canceled. Consumption is always individual, regardless of the prevailing form of ownership of the means of production in society. Because consumption is private, others cannot effectively regulate it. A person may know his needs today, but tomorrow, he may develop completely different needs that he did not think about the day before. Desires of different people arise spontaneously, and their satisfaction is problematic if there is no mechanism able to quickly restructure and begin the production of goods that satisfy these needs.

Such a mechanism is the production based on private property and managed by entrepreneurs who assume the risk and responsibility to anticipate people's current and future needs. Millions of market participants interact with each other, generating information that allows all market participants to assess the economic situation in time and space and to reconcile irregularities between supply and demand. The market is a dynamic process that constantly tries to achieve equilibrium at the level determined by the previous initial conditions but may not achieve it, because constant changes in the market rebuild the relationship between supply and demand and the economy begins to move toward a new equilibrium.

In the planned economy adopted by the communists, production was regulated by central authorities. By prohibiting a legal market process, planners are deprived of exactly this type of changing information. Although consumption remains private, it is indirectly influenced by planners, because they are tasked with anticipating needs and directing production accordingly. Practically, a handful of bureaucrats decide for everyone what is consumed and what is produced. However, nature did not endow a person with the ability to get into the head of every member of society and determine their desires today and in the future.

Planners will fail to account for the endless variety of product offerings that are tailored to meet the needs of the end user. Consequently, central planning is limited to a finite set that planners can imagine and process. In this respect, the market has an advantage, because each market participant is a kind of “planner.” Every day, the market is replenished with new entrants and replaces the losers in the competition for the opinion of consumers. This market dynamic takes precedence over static central planning, because millions of “planners” with specific knowledge of how to improve their own lot will surpass thousands of government planners with incomplete information about what a person wants.

Moreover, it is impossible to choose the most rational way to produce goods of higher order, which stays too far from personal consumption, among a myriad of different possibilities. As Mises deduced, in the case of a complete absence of a market for capital goods and market prices, it is impossible to rationally allocate resources in the autarky economy. Hayek (1945, 521), in turn, postulated that socialism would suffer from the knowledge problem—knowledge of “the particular circumstances of time and place” is individually dispersed and therefore neither available nor accessible for central planners.

Two complementary approaches can therefore be suggested, because they point to the different parts of the formula. Inadequate knowledge and judgment of needs leads to faulty collectivist production and unsatisfied consumption, which in turn would be impossible to fix because there is no legal market to work out prices and perform economic calculations to alleviate uneasiness for the next cycle. Adequate planning is impossible without knowledge of the price structure, objective price structures cannot arise without the market, and the market is impossible without private ownership of the means of production and the division of labor.

One can endlessly argue which approach is more fundamental, but it is better to emphasize under what conditions they apply. Mises’s approach is a theoretical response to the Marxist provisions regarding the complete abolition of private ownership of the means of production, the absence of market prices, the abolition of money, and the presence of central planning and autarky. In such circumstances, the prohibition of private ownership of the means of production is a key factor explaining the plight of communism. At the same time, such conditions are not fully available either at

the lowest stage of communism or in those varieties of socialism that allowed private property, at least nominally. Hayek's argument boils down to the assertion that any socialist regime that uses central planning is attempting to predict the unknowable, because the collection of scattered knowledge cannot be carried out without loss and distortion.

Socialists have failed to recognize that it is impossible to know price structures before the trade occurs. All listed prices are asking prices: they can be accepted or be ignored. Additionally, as soon as an exchange occurs, the trade price will elapse, only reflecting the particular circumstances that were present at that point in time. Therefore, economics has deterministic past prices that are archived, and all future prices are probabilistic in nature. One can say that future prices are in superposition: they can have any value, some more probable than others.

*This is the uncertainty principle in economics: the exact price structures before the exchange are unknown and are in superposition.*

The economy is always moving forward, evaluating the price structure only in hindsight, because only the past is certain. Moving forward is inherently stochastic and risky, like any process of trial and error. It is impossible not to notice that the economy developed within the framework of evolutionary processes of living organisms and that it meets the same fundamental principles. All market agents are both in competition and in voluntary cooperation between each other. Owners of means of production compete for available energy and resources, creating both price and production structures in the process. The ultimate criterion for economic decisions is loss or gain. In a capitalist economy, a loss for one does not mean a loss for the whole society. On the contrary, losses signal that the wrong path was chosen.

Many socialist intellectuals of all stripes have tried to refute the views of Mises and Hayek on the problem of calculation under socialism by offering various proposals.<sup>2</sup> However, their solutions attempt to mitigate the uncertainty principle, albeit unsuccessfully. Their collective actions are akin to attempts by amateur engineers to build a perpetual motion machine: it has

---

<sup>2</sup> Austrian economists Lavoie (2015) and Horwitz (2020) described in detail the dynamics of the calculation debates, the essence of market socialist proposals, and their ultimate blunder.

been proven that this is impossible in principle, but there are those who try to contest the obvious.

The only way to work with the uncertainty principle is to increase the number of market participants, especially entrepreneurs, who employ the means of production and compete for both resources and the favor of the consumers. Don Lavoie (2015, 123) pointed out that “producers discover feasible and more efficient methods of production only by trying different ones and either failing or succeeding, success being revealed only in profit and loss of figures.” Those figures can be known only after the trade occurs, when the producer’s assumptions and way of production are ultimately assessed by the market.

Because communist planning, in principle, cannot foresee the qualitative, quantitative, temporal, and spatial characteristics of either individual consumption or collective production, according to the insights of Mises and Hayek, it will err on every attempt to do so, leading to economic disaster. The communist formula—private consumption and planned collective production—does not lead to equilibrium, but results in imbalance between consumption and production. The economy would have both a glut of goods that nobody wants and a deficit of commodities and services that people desire.

A man is still trying to improve in communist society, but the economic means he can use are limited by what the planners have in store for him. Consequently, the government forces people to accept the paradigm in which the state replaces the individual’s will; it knows better than an individual and will take care of everyone. It is not for nothing that practically all types of socialism process the collectivization of consciousness as an essential condition for building a socialist society.

As stated at the beginning of the article, feelings of uneasiness become more intense if a person does not take action to reduce them. Unsatisfied needs are detrimental for an individual and do not disappear on their own. The axiomatics of praxeology and the fact that a man acts by virtue of being human will lead to the use of all possible (legal and even illegal) means to attain ends. Unsatisfied private wants under communism would naturally try to find compensation elsewhere—this “elsewhere” is the market, because nature has not created anything that could replace it in society with the division of labor. Because the legal market is outlawed by the communist regime, it will turn into a “black” or shadow market.

In a planned economy, planning and rationing may spontaneously coincide with needs, but rather than a rule, it is a coincidence that requires the minimization of wants and occurs in special circumstances, as in the war period. Thus, communists cannot eliminate the market and market relations by decree, because *the dissatisfaction of individual needs is a given in the communist society*. The market will complement planning and rationing, and its share in the entire communist economy will vary depending on how well collective production meets individual needs, but it will never disappear. As a rule of thumb, the worse the satisfaction of consumer needs, the greater the share of the economy the shadow market would be.

Therefore, even before reaching the ideal state of complete collectivization of private ownership of the means of production and the disappearance of money, the deterioration in satisfying of the most urgent needs would induce rejuvenation of market relations. First, this will affect the consumer goods market, and then the means of production. Despite the de jure prohibition of market and state coercion toward its participants, it is de facto omnipresent under socialism.

Socialism cannot eliminate the market by decree nor cancel market economic laws. The class attitude toward the laws of economics completely leads to the denial of their objectivity. The disappearance of the market corresponds to neither the requirement of objectivity of the laws of economics nor the natural essence of man. That is, the laws of economics, deduced by the method of praxeology, cannot be falsified by communism.

The analysis showed that, in general, praxeology can explain the emergence of the communist idea. At the same time, the means to achieve the goals proposed by Marxism were intended to influence the economy not by economic methods, but from the field of politics.

## THE REAL SOVIET ECONOMY

Marxists claim that because market relations and private ownership of the means of production disappear under socialism and are replaced by a planned economy and collective forms of ownership, market laws will cease to exist. At first glance, their assertion makes sense: the absence of a market means the absence of market laws.

However, can a market simply disappear?

The communists nationalized industry, destroyed successful farms, founded collective and state farms, and organized the State Planning Committee, Gosplan. De jure, the market was destroyed and private ownership of the means of production became collective, although commodity–money relations remained, like rudiments of capitalism, waiting to sink into oblivion as communism was built. However, with a meticulous analysis of socialist transformation in Soviet society, one can see a picture that differs from the propagandized cliché.

The interworking of the real Soviet economy disappoints the public, who take it for granted that the economy under the lowest stage of communism is entirely planned, and private property is completely liquidated, as has been argued by the socialist thinkers. Rothbard (2009, 1275) had great insight, suggesting that the extent of socialism in such countries as Soviet Russia is overrated:

Those people who point to Russia as an example of “successful” planning by the government ignore the fact (aside from the planning difficulties constantly encountered) that Soviet Russia and other socialist countries cannot have full socialism because only domestic trade is socialized. . . . A socialist State, therefore, can still buy and sell on the world market and at least vaguely approximate the rational pricing of producers’ goods by referring to the prices of factors set on the world market.

Gindler (2019) argued that, contrary to popular belief, socialism failed to kill the market economy. This suggestion is in line with another of Rothbard’s propositions about “the possibility of a ‘black’ market, with resources passing illicitly into private hands” (Rothbard 2009, 1275). A thorough investigation of the socio-economic functioning of the Soviet Union shows that the death of the market was greatly exaggerated. The market went underground and turned into a black market, functioning according to the laws of a market economy. These market economic activities were contrary to the laws of the country, and those who took part in the shadow economy could be severely punished, even executed, if caught. However, despite the risks, the official economy of the Soviet Union was supplemented by a shadow economy because the former could not meet the needs of the people.

The price structure that emerges on the black market is in no way coordinated with the planners. Gosplan pretended that there was no such market. There was a double, parallel price structure in the

country; one was established by the government, and the other was formed in the market. Accordingly, many scarce goods usually had two price tags: legal, legitimated by the state and written on the label, and the real one, reflecting a true subjective value of the commodity for consumers. Despite the proclaimed planned economy, people were engaged in market relations on all levels and trusted the price of the goods and services that were established by the market more than the prices set by the government.

The presence of two prices is the clearest illustration of the “Copernican” revolution in economics made by the Austrian school. The pricing practiced by the government was based on the Marxist labor theory of value, which was imposed on the population. But people remained human even under communism and used their right to a subjective assessment of the usefulness of a product. Their subjective assessments and preferences were reflected in a parallel price structure. If the labor theory of value were true, then a parallel price structure would not have objective reasons to arise.

The key participants in the shadow economy were *tsekhoviki*, which can be translated as underground shop owners. They were entrepreneurs who organized the clandestine production of scarce consumer goods—clothes, underwear, fur coats, hats, shoes, handbags, jeans, etc. However, they also fabricated and sold commodities of a higher order, such as welding apparatuses, distilling equipment, food processing devices, presses, and autoclaves. Thus, the market of means of production was supported on a nominal level by private entrepreneurs. Most often, production was carried out on the premises of state enterprises, although in some cases, specially equipped shops were organized. *Tsekhoviki* distributed their goods through the state retail chain of stores, thrift stores, and clothing markets, as well as through a network of agents throughout the country. Prices on these goods were not established by the state but were negotiated between buyers and sellers. The existence of a black market was an open secret among Soviet citizens. Goods produced in the shadow economy were consumed by both non-Party individuals and rank-and-file communists.

The scale of the growth of the shadow economy was staggering; the Soviet authorities kept it a secret, and Western analysts, with the exception of a few, did not notice. Boettke (1993, 59) quite correctly characterized the real Soviet economy:

The illusion of central planning must be rejected. Illicit markets existed both inside and outside of the “plan” and, in fact, were vital to the operation of the system. In reality, the Soviet system remained at heart a commodity production economy that depended on the decentralized decisions of individuals to coordinate economic affairs in an *ex post* fashion.

Following the collapse of the Soviet Union, some concrete data have become available. The annual value of illegally produced goods and services in the early 1960s was approximately ₰5 billion, and in the late 1980s, it reached ₰90 billion. In 1960, the gross national product (GNP) of the Soviet Union was ₰195 billion, and in 1990, it reached ₰701 billion. Thus, the economy of the Union of Soviet Socialist Republics over the thirty years grew 3.6-fold, and the shadow economy fourteenfold. If the shadow economy in relation to the official GNP was 3.4 percent in 1960, then by 1988, this amount had grown to 20 percent.

The number of people employed in the shadow economy in the early 1960s was six million; by 1974, it had increased to seventeen million to twenty million. This was 6 to 7 percent of the country’s population. In 1989, there were already thirty million such shadow workers, or 12 percent of the U.S.S.R.’s population (Katasonov 2014). These thirty million represent 23.6 percent of the average annual workforce in the same year (Goskomstat SSSR 1990, 48). Undoubtedly, statistics indicate that the shadow economy, although illegal, grew rapidly.

The major repository of the spirit of private possessions was in the agricultural sector. The Russian Empire was a huge agrarian country, but after the Bolshevik coup and the policy of collectivization and repression against wealthy farmers—*kulaks*—agriculture fell into decay. Soviet collective agriculture in the form of collectives and state farms could not provide the population with enough food, and on the other hand, the state could not afford to pay peasants a salary on which they could live. Thus, the Soviet government tolerated peasants having their own small household plots and livestock for family subsistence.

The private sector in Soviet agriculture provided a large proportion of the country’s crop output, primarily various vegetables, fruits, honey, and nuts, and an even larger share of the products obtained from animal husbandry. Agricultural products were sold by farmers to the state at fixed prices and were also sold

in bazaars in cities and towns at market prices. In 1966, the private sector produced 55.8 million tons of potatoes, or 64 percent of the U.S.S.R.'s total gross production of potatoes; 7.4 million tons of vegetables, or 43 percent of total production; 40 percent of its meat; 39 percent of its milk; and 66 percent of its eggs. It is very important to emphasize that the private sector produced these volumes having only slightly over 3 percent of all sown areas in the U.S.S.R. (de Pauw 1969). These statistics are a guilty verdict on the Marxist idea of socializing private ownership of the means of production and the introduction of planned regulations.

Thus, the miniscule private undertakings on household plots, which were mostly worked by hands in their spare time, were able to outperform mechanized collective farms on potato production by over fiftyfold. Over time, the share of the harvest from household plots increased in every possible way, because the regime endowed the inhabitants of the cities with plots of land as well. Wädekin (1973, 125) estimated that there were fifty million small agricultural producers in the Soviet Union in the early 1970s on the basis of overt and covert statistics on plot areas and private livestock holdings.<sup>3</sup>

At the same time, private agricultural production was foreign to the Soviet system both economically and ideologically. Wädekin (1973, 2) remarked,

Economically, it was alien because it was amenable to direct planning and involves unsocialized labor. Ideologically, it was alien because it involved private ownership of cattle as well as of small agricultural implements and buildings, thus contradicting the Marxist-Leninist position on socialization of the means of production.

Nevertheless, economic necessity prevailed over ideological postulates and misgivings: the prospect of famine outweighed ideological canon. The Soviets declared this state of affairs a transitional phenomenon that would disappear when genuine communism was achieved. But nothing is more permanent than "temporary." Private agricultural production survived the collapse of communism, and moreover, contributed to its overthrow.

---

<sup>3</sup> It is necessary to clarify that formally, the land remained state property. However, from the point of view of practical economics, the institution of subsidiary plots and personal livestock was managed as if they were privately owned.

It should be noted that villagers lived in private houses that they inherited from their parents or were built by an extended family and friends. This was a striking difference from the urban population, who mainly lived in apartments provided by the state. Thus, the spirit of private possessions was not eradicated by the proletarians in spite of the bloody war they conducted against peasants after assuming a dictatorship.

So it's clear that the Soviet economy had both legal and illegal private enterprises, which significantly corrected the shortcomings inherent in the so-called scientific planned economic management. Let this figure sink in: thirty million people working in the shadow economy and fifty million private agricultural producers. There is no doubt that the spirit of market relations had not been eradicated. But that is not the entire picture. The Soviet people developed unique socioeconomic relations in the form of informal personal networks that were used to obtain goods and services in conditions of constant scarcity and centralized rationing. These informal mutual ties, called *blat* in Russian jargon, grew to such proportions that they became an integral part of the Soviet economy and mentality.

The socialized economy alienates people from the means of production, but the Soviet people learned to use their official position endowed by the state to provide and receive informal services and goods. The workplace was pseudoprivatized by an individual and was used as a means of obtaining certain benefits. In her detailed study of the phenomenon, *Russia's Economy of Favours*, Ledeneva (1998, 141) characterized the *blat* as an "intermediary form of exchange to be associated neither with 'the gift' nor with 'commodity exchange.'" However, *blat* could be considered in a broader understanding as an extraordinary means of production, which creates some value for a person.

Besides their job responsibilities to the state, people used the workplace as a lobbying enterprise to redirect the distribution of goods and services in the direction requested by a partner in their network. At the same time, it was expected that the partner would provide a mutual service, not necessarily immediately, but sometime in the future, when necessary. The ability to render or accept favors was capital for many Soviet people in the economic sense and definitely in the social sense, bringing prestige, status, and material wealth. *Blat* was the Soviet people's response to

the unnatural prohibition of the legal private property and to the socialist system of distribution and planning, which led to a constant deficit and inadequate satisfaction of needs.

The countries that fell under the influence of the communist regime of the Soviet Union developed along the same patterns and demonstrated both the inferiority of the planned economy and the invariance of the economic laws of the market. Thus, Lungu and Mursa (2020, 247–57), using the example of Romania, showed that the entrepreneurial dimension of the activities conducted by individuals under a totalitarian regime could not be fully annihilated.

Thus, in its seventy-four years of existence, the totalitarian communist regime could not completely eliminate the spirit of private entrepreneurship, private property, or the market, nor change the natural essence of people, despite the tough policy of collectivization of consciousness. Communists tried, in vain, to artificially inhibit the free flow of objective economic laws by creating political barriers in the form of specific legislation and punitive policies. They blindly followed the Marxian blunder that assault on private property and market relations would shut down market laws and bring to life socialist economic laws. Soviets took up the task which, in principle, has no rational solution, much like the abolition of gravity or other fundamental laws of nature.

Regarding the inability to perform an economic calculation in the Soviet Union, it has to be admitted that some convoluted estimations were possible. Mises (1951, 145) explained why:

The attempt of the Russian Bolsheviks to transfer Socialism from a party programme into real life has not encountered the problem of economic calculation under Socialism, for the Soviet Republic exists within a world which forms money prices for all means of production. . . . Without the basis for calculation which Capitalism places at the disposal of Socialism, in the shape of market prices, socialist enterprises would never be carried on, even within single branches of production or individual countries.

In general, with regard to the lower stage of communism and other currents of socialism, it makes sense to talk about inadequate economic calculations due to varying degrees of impediments on private property rights in means of production and curtailing of legal market relations. Mises (1951, 127) pointed out that “every step that leads away from private ownership of the means of production and the use of money is a step away from rational economic activity.”

Therefore, if one looks carefully, it is possible to see a market relation even though it is veiled by the regime and its participants are outlawed. It is natural for people to be the owners of various private property, including the means of production, and no repressions and obstacles can stop market relations. The market can transform into other forms, like the shadow market, but it will not disappear, and some socialist economic laws will not arise. The notion of special socialist economic laws and relations has been a fallacy, a pseudoscientific concept. *The economic laws of the market are invariant.*

## CONCLUSION

Praxeology and its a priori method rest on a solid foundation of logic and philosophy. The principles of praxeology are invariant; they are cleared of empirical and psychological predilections. The laws of economics arising from praxeology are objective and universal. Moreover, economic laws derived from praxeology are market laws and economic relations are market relations. In other words, praxeology and economics derived from it are designed to explain social relations regardless of the “isms” attributed to one formation or another by political ideologies. Consequently, market relations will be present in a society and communism is unattainable because the market economy can be ignored but cannot be eradicated.

Mises skillfully played the devil’s advocate in his thought experiment and allowed the Marxist idea to come to full fruition. He allowed complete collectivized ownership of the means of production, a planned or command economy, complete collectivization of consciousness, and the emergence of socialist economic laws. In other words, Mises analyzed the brainchild of Marx, as mathematicians say, to the limit, and showed theoretically as an economist that the system cannot work as intended due to the impossibility of conducting proper economic calculations. Mises took all the propositions of Marxism as they were and reduced their arguments to *reductio ad absurdum*: the inability to calculate says a lot about the scientific nature of socialism.

The complete impossibility of economic calculation under the highest stage of communism should be understood as a purely abstract concept, along with Marxism itself. Therefore, based on this article, it must be stated that Mises’s principle is better

formulated as a *continuous impairment of economic calculation under socialism as the assaults on private ownership of the means of production and collectivization of consciousness grow*. This was confirmed by the example of the Soviet Union: The outstripping growth of the shadow economy over the planned one meant that the state coped increasingly poorly with economic calculations and could not ensure the production of essential goods and services. The shadow sector took over this function to make up for the gap. Therefore, it can be seen that *the increasing dissatisfaction of needs in collective production induces actions leading to the restoration of market relations*. In other words, a society that has adopted socialism and brought the economy to decline finds salvation in a market economy.

One unexpected corollary can be drawn from the above thoughts: because market economic laws are fundamental and objective, and socialist economic laws will never appear and are a pseudo-scientific concept, then socialism is not a separate socioeconomic formation, as propagandized by Marxists and other leftist doctrines, but rather a political regime that inhibits a free flow of economic laws. It is an intentionally and artificially broken capitalism, if you will. It is evident that as soon as a socialist mentality is introduced into society, the quality of economic decisions significantly deteriorates. Thus, evolutionary socialism, supported by the liberal elites and part of the population, also faces the problem of inadequate economic calculations. For example, in a real capitalist society where economics is unhampered by political expediency, it is impossible to imagine a situation where preferences are given to so-called green energy while it is economically and functionally inferior to traditional energy sources. As Mises (2012, 23) rightfully demonstrated, “socialism is the abolition of rational economy.” In this sense, the United States and other Western economies are more socialist than they seem.

Any intrusion into economics by political forces makes it difficult to rationally conduct business. Compulsory intervention in the economy leads to disequilibrating tendencies. As Wittgenstein (1984, 11e) said in relation to logic: “Logic takes care of itself; all we have to do is to look and see how it does it.” These words can be paraphrased in relation to economics as a science, reflecting the Austrian understanding of it: *economics takes care of itself; all economists have to do is to look and see how it does it*.

## REFERENCES

- Bloor, D. 1983. *Wittgenstein: A Social Theory of Knowledge*. London: Macmillan.
- Boettke, Peter J. 1993. *Why Perestroika Failed: The Politics and Economics of Socialist Transformation*. London and New York: Routledge.
- de Pauw, John W. 1969. "The Private Sector in Soviet Agriculture." *Slavic Review* 28, no. 1 (March): 63–71.
- Floyd, Juliet. 2005. "Wittgenstein on Philosophy of Logic and Mathematics." In *The Oxford Handbook of Philosophy of Mathematics and Logic*, edited by S. Shapiro, 75–128. New York: Oxford University Press.
- Futerman, Alan G., and Walter E. Block. 2017. "A Praxeological Approach to Intentional Action." *Studia Humana* 6, no. 4 (October): 10–33.
- Gindler, Allen. 2019. "Black Markets Show How Socialists Can't Overturn Economic Laws." *Mises Wire*, June 24, 2019. <https://mises.org/wire/black-markets-show-how-socialists-cant-overturn-economic-laws>.
- . 2020. "The Theory of the Political Spectrum." *Journal of Libertarian Studies* 24, no. 2 (May): 240–71.
- Goskomstat SSSR. 1990. *SSSR v tsifrakh v 1989 godu: kratkiy statisticheskiy sbornik* [The U.S.S.R. in figures in 1989: A brief statistical collection]. Moscow: Financy i Statistika. <http://elib.shpl.ru/ru/nodes/23887-v-1989-godu-1990>.
- Hayek, F. A. 1945. "The Use of Knowledge in Society." *American Economic Review* 35, no. 4 (September): 519–30.
- Horwitz, Steven. 2020. *Austrian Economics*. Washington, D.C.: Cato Institute.
- Katasonov, Valentin. 2014. "Teneviki" [Shadows]. *Stoletiye*. [http://www.stoletie.ru/territoriya\\_istorii/teneviki\\_230.htm](http://www.stoletie.ru/territoriya_istorii/teneviki_230.htm).
- Lavoie, Don. 2015. *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered*. Arlington, Va.: Mercatus Center at George Mason University.
- Ledeneva, Alena V. 1998. *Russia's Economy of Favours: Blat, Networking and Informal Exchange*. Cambridge: Cambridge University Press.
- Mises, Ludwig von. 1951. *Socialism: An Economic and Sociological Analysis*. Translated by J. Kahane. New Haven, Conn.: Yale University Press. German original published in 1922.
- . 1998. *Human Action: A Treatise on Economics*. Scholar's ed. Auburn, Ala.: Ludwig von Mises Institute. First published 1949.
- . 2012. *Economic Calculation in the Socialist Commonwealth*. Translated by S. Adler. Auburn, Ala.: Ludwig von Mises Institute. German original published in 1920.
- Long, Roderick T. 2004. "Anti-psychologism in Economics: Wittgenstein and Mises." *Review of Austrian Economics* 17, no. 4 (December): 345–69.

- Lungu, Anca E. and Gabriel C. Mursa. 2020 "Entrepreneurship under Socialism: The Case of Former Soviet Economies." In *The Indispensability of Freedom*, edited by Federico N. Fernández, Barbara Kolm, and Victoria Schmid, 247–57. Vienna: F. A. Hayek Institute. <https://www.austriancenter.com/wp-content/uploads/2020/12/The-Indispensability-of-Freedom-8th-Austrian-Economics-Conference-2019.pdf>.
- Rothbard, Murray N. 2009. *Man, Economy, and State with Power and Market*. 2nd scholar's ed. Auburn, Ala.: Ludwig von Mises Institute. First published 1962 and 1970.
- Shapiro, Stewart. 2005. "Philosophy of Mathematics and Its Logic: Introduction." In *The Oxford Handbook of Philosophy of Mathematics and Logic*, edited by Stewart Shapiro, 3–27. Oxford: Oxford University Press.
- Wädekin, Karl-Eugen. 1973. *The Private Sector in Soviet Agriculture*. Edited by George Karcz. Translated by Keith Bush. Berkeley and Los Angeles: University of California Press.
- Wittgenstein, Ludwig. 1961. *Tractatus logico-philosophicus*. Translated by D. F. Pears and B. F. McGuinness. London: Routledge.
- . 1984. *Notebooks, 1914–1916*. 2nd ed. Edited by G. H. von Wright and G. E. M. Anscombe. Translated by G. E. M. Anscombe, Chicago: University of Chicago Press.