

**SOCIALISM AND WAR: ESSAYS, DOCUMENTS, REVIEWS:  
THE COLLECTED WORKS OF F.A. HAYEK, VOLUME 10.  
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**T**his volume of F.A. Hayek's collected works brings together chapters, articles, and reviews Hayek wrote between 1935 and 1949. The volume's editor, Bruce Caldwell, has divided the contents into three parts: market socialism and the socialist calculation debate; the economics and politics of war; and planning, freedom, and the politics of socialism. Readers familiar with Hayek's 1944 book, *The Road to Serfdom*, will find that its themes and arguments relate closely to the ideas expressed in the papers collected here.

Part I contains Hayek's introductory and summary chapters of the important 1935 volume he edited, *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism*, two journal articles, a book review, and the foreword he wrote for Boris Brutzkus, *Economic Planning in Soviet Russia* (1935).

In these papers Hayek traced the history and nature of the socialist calculation problem. He observed that the issue had been brought to the forefront by

the experience of the war years, when the states had set up food and raw material administrations to deal with the serious shortage of the most essential commodities. It was generally assumed that this had shown that not only was central direction of economic activity practicable and even superior to a system of competition, but also that the special technique of planning developed to cope with the problems of war economics might be equally applied to the permanent administration of a socialist economy. (p. 71)

Although Hayek credited the German sociologist Max Weber and the Russian economist Boris Brutzkus with having "arrived independently at very similar conclusions" (p. 74), he gave pride of place to his mentor Ludwig von Mises for having shown the necessity of a money price system for rational allocation of resources and, most importantly, for having presented a "detailed demonstration that an economic use of the available resources was only possible if this pricing was applied not only to the final product but also to all the intermediate products and factors of production" (p. 74). Hayek also clarified Mises's enigmatic statement that socialism was impossible: "what he meant was that socialism made rational calculation impossible" (p. 76).

Hayek described how socialist planning would fail as follows:

There is no reason to expect that production would stop, or that the authorities would find difficulty in using all the available resources somehow, or even that output would be permanently lower than it had been before planning started. What we should anticipate is that output, where the use of the available resources was determined by some central authority, would be lower than if the price mechanism of a market operated freely under otherwise similar circumstances. (p. 91)

In response to socialists who proposed that central planning required only that the planners solve the appropriate set of Walrasian equations, Hayek described the proposal as “humanly impracticable and impossible” (p. 93) and characterized its proponents as having failed to perceive the real nature of the problem. Socialist economists erroneously assumed various forms of knowledge to be “given” when in reality such knowledge is only discovered by people engaged in the competitive process. Moreover, much knowledge is dispersed and specific to time and place, and much knowledge is not transmissible but tacit, pertaining not so much to “what is” as to “how to.” Socialist economists displayed an “excessive preoccupation with the conditions of a hypothetical state of stationary equilibrium” (p. 105), but actual economies are dynamic, undergoing constant change. Aiming to abolish profits, the socialists overlooked the essential role of profits as an equilibrating force. “To assume that it is possible to create conditions of full competition without making those who are responsible for the decisions pay for their mistakes seems to be pure illusion” (p. 112).

In a 1940 *Economica* article, Hayek took on the so-called market socialists, Oskar Lange and H.D. Dickinson. He concluded that these theorists had failed to solve the problems identified by their critics. Even if the planners were competent and completely devoted to serving the public interest—outrageous assumptions but ones Hayek was willing to make for purposes of discussion—they had no way to employ inherently dispersed knowledge or to adjust quickly to the constant changes of the real world. In addition, without a capital market, “the decision of how much to save and invest would necessarily have to be arbitrary” (p. 133).

Part 2, which deals with war-related issues, contains articles and reviews written for such outlets as *The Banker* and *The Spectator* as well as Hayek’s review in the *Economic Journal* of John Maynard Keynes’s notable pamphlet *How to Pay for the War* (1940).

Responding to calls for the establishment of resource priorities and rationing by government, Hayek observed that in wartime no less than in peacetime, costs cannot be ignored and rational resource allocation requires a price system: “It is a common fallacy to assume that in the conduct of war everything is needed so urgently that cost does not matter” (p. 152). He also exploded the fallacy that speedier production has no cost: “even in wartime it is rarely justifiable to think only of the effects in the shortest of periods without regard to the consequences” (p. 153).

Hayek endorsed Keynes’s 1939 scheme to use forced savings to help finance the war, calling the proposal the product of “the most fertile mind among living economists” (p. 164). Hayek preferred, however, that rather than repaying the wartime takings in cash installments after the war, timed along Keynesian lines to offset the expected postwar slump, the government would impose “a capital levy

on old wealth," giving the lower-income taxpayers what would amount to shares in the private capital stock. When Keynes refined his scheme in 1940, he adopted the idea of a capital levy, crediting Hayek for suggesting it. In his review, however, Hayek objected that "the purpose for which I proposed [the capital levy] was very different from that to which Mr. Keynes intends to put it" (p. 171)—namely, to finance the postwar discretionary cash repayments Keynes had proposed initially.

Part 3 contains a 1938 magazine article and a 1939 pamphlet that clearly prefigure *The Road to Serfdom*, two articles on how and why scientists and intellectuals tended to support socialism, and half a dozen reviews of books on central planning and related topics.

As early as 1941, in a book review published in *The Spectator*, Hayek had encapsulated his characteristic themes in the form of a rhetorical question:

Is it not possible that all that planning and direction, which in Germany longer than elsewhere has been universally demanded, necessarily require a "totalitarian" regime, arbitrary preferences, the use of force, and the institution of a new hierarchical order of society, and that only the most ruthless and unscrupulous are capable of satisfying the clamour of the masses for "action," while the decent falter and fail when faced with the concrete task? (pp. 174–75)

As we know, most opinion leaders rejected Hayek's argument that planning would necessarily lead to totalitarianism, arguing that democracy would protect the public from government excesses. Hayek disagreed. As he wrote in 1939, "only capitalism makes democracy possible. And if a democratic people comes under the sway of an anti-capitalistic creed, this means that democracy will inevitably destroy itself" (p. 185).

A highlight of Part 3 is Hayek's 1949 article "The Intellectuals and Socialism," originally published in the *University of Chicago Law Review*. Hayek argued that the intellectuals, "second-hand dealers in ideas" whom he distinguished from "the real scholars or experts," exercise great influence. "Even though their knowledge may be often superficial and their intelligence limited, this does not alter the fact that it is their judgment which mainly determines the views on which society will act in the not too distant future" (p. 225)—another instance of agreement between Hayek and Keynes, whose own statement in this regard has become a cliché. Hayek maintained that "neither selfish interests nor evil intentions but mostly honest convictions and good intentions . . . determine the intellectuals' views" (p. 227). Hence Hayek's lifelong, always courteous attempt to set the collectivist intellectuals straight. Even after fifty years, Hayek's speculations about why the intellectuals tend toward collectivism make provocative reading.

Caldwell has performed admirably as editor of this volume. His 50-page introduction provides much background and context for the collected papers and helps to clarify Hayek's arguments. His explanatory notes scattered throughout the text are also informative.

Caldwell advances interesting speculations about why forty years elapsed before these papers began to bear significant intellectual fruit in the economics profession. Of course, Hayek's views were completely out of step with the ideological

(collectivist) and scientific (positivist) persuasions of most economists from 1935 to 1975. But economists did not exactly refute Hayek's ideas. As Caldwell aptly observes, "few economists ever really seemed to have understood what Hayek was saying" (p. 29). Why not?

Whether one is a neoclassical or a market socialist, one's principal goal as an economist is the same: to make one's chosen system more efficient, using the marginal conditions provided by the Paretian system as the benchmark. . . . Hayek's ultimate endorsement of markets is not based on their alleged Pareto-efficiency characteristics. Rather, a system of free markets is one among a number of institutions that are vital for the creation and discovery of knowledge and for the coordination of agents' plans in a world in which knowledge is dispersed and error is possible. By assuming away these essential characteristics of the market process, the Paretian paradigm completely obscures the Austrian message. (pp. 29–30)

Also, Hayek argued in words, but mainstream postwar economists increasingly resisted accepting any kind of argument unless it had been formalized in the prescribed mathematical fashion.

This volume makes an important contribution to Hayek's *Collected Works*. Many of the papers in it will be read for years to come. Scholars are fortunate to have them available in such a convenient and skillfully edited form.

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