

## *THE SECOND SOCIALIST CALCULATION DEBATE: COMMENTS AT THE 2018 AUSTRIAN ECONOMICS RESEARCH CONFERENCE*

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*ABSTRACT:* This article discusses the influence of the initiation of the Second Socialist Calculation Debate on my own subsequent research and contributions to that debate, and briefly summarizes that research presented in articles on arguments made by Plato, Karl Marx, Friedrich von Wieser, Friedrich Hayek, Lionel Robbins, Joseph Schumpeter, and Israel Kirzner. It also mentions some of the changes in Austrian economics understanding stimulated by the Second Socialist Calculation Debate, and suggests a direction for future research.

*KEYWORDS:* Friedrich Hayek, Karl Marx, Lionel Robbins, Friedrich von Wieser, calculation, socialism, sociology

*JEL CLASSIFICATION:* B1, B2, P2, P5

It is a pleasure to be here at this prestigious conference, and to be on this panel concerned with the most important economic issue of the past two centuries—that of economic calculation. After all, to economize is to calculate; it is to seek the lowest expected opportunity cost of the means to achieve the end for which one is economizing. That is why Mises argued that the

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socialist planned economy is in reality no economy. It cannot by definition calculate the expected opportunity costs of higher order goods in order to assess their relative scarcity, and thus enable a decision of how they are to be efficiently used in the production of lower order goods. It cannot do so because without private property in higher order goods, there cannot be market-determined prices for those goods to reveal their current relative scarcities and thus allow economic calculation.

Joe Salerno asked each of us to discuss our respective contributions to the second socialist calculation debate, how this most recent debate influenced our later research, and how we think Austrian economics has changed as a result of that debate.

My own interest in this topic stems from my interest in imagined, as well as attempted, historical utopias. As a scholar in the Austrian school tradition, I cannot help being in part a sociologist. Albion Small recognized this aspect of the Austrian school in his book *Origins of Sociology* (1924) where he devoted considerable space to a discussion of Carl Menger's contribution to the discipline. Of course, I use the term "sociology" in the sense that Ludwig von Mises used it in his early scholarship. Later, Mises would substitute the term "praxeology" for "sociology" as the latter term came to mean a sort of philosophy of history, rather than a science of human action.

At one time, I intended to write a history of various theories of communism. In researching the topic, I came across a comment by Karl Marx in his inaugural article as editor of the *Rheinische Zeitung*. Marx identified Plato as an early communist theorist. "That can't be true," I thought. The research that falsified any such claim led to my 1994 contribution to David Reisman's edited collection *Economic Thought and Political Theory*. Of course I argued against such a simple-minded assessment of Plato's *Republic* and *Laws*. I also became aware of Friedrich von Wieser's attempt at rationalizing a socialist utopia in his *Natural Value* during the preliminary research I did on communist theories.

Meanwhile, Joe Salerno had attracted my interest back to Austrian school theory with his 1990 article "Ludwig von Mises as Social Rationalist." There Joe began the process of dehomogenizing Mises and Hayek and initiated the second socialist calculation debate, which has occupied some of us Austrians for the past thirty years.

When I read Joe's 1993 contribution to that debate, it struck me that his reference to Hayek as strongly influenced by his teacher and mentor, Wieser, deserved a firm grounding. That caused me to go back and intensively read Wieser. The result was my summer 2003 *QJAE* article "Wieser on Economic Calculation under Socialism." After having exhaustively studied Wieser's published writings on the socialist planned society, I not only placed him in the general equilibrium tradition of Walras, but also explained the total emptiness of his theory of planning. I found his concept of a unit of "natural value" as the basic unit of economic calculation to be nothing but a faux "util" and thus a fantasy, and his explanation of "imputation" as the method of deriving the values of higher order goods from the "natural values" of first order goods to be spurious. The terms in his equations are ambiguous, and his conception of imputation appears to be an attempt at a mere static theory of distribution.

I concluded that Hayek's attempt to use Wieser's "simple economy" of socialism as an analytical device as late as 1941 in his *Pure Theory of Capital*, as well as a number of his other laudatory references to Wieser over the years, to be telling. Also, Hayek's use of a general equilibrium context for most of his own theoretical work places him pretty firmly in the Walras/Wieser tradition. This may explain Hayek's emphasis on knowledge problems in his critique of the planned socialist society, rather than on its inability to use economic calculation.

To my surprise and delight, my article won the 2005 Lawrence A. Fertig prize. For that I remain greatly thankful to the prize committee. I was stimulated to continue my research on Wieser and that had two results. While a visiting professor at the University of Economics in Prague, Czech Republic, in 2005 I had the honor of delivering the inaugural Wieser lecture. This later appeared as an article titled "Friedrich von Wieser's Theory of Socialism: A Magnificent Failure" in the university's journal *Politická Ekonomie*. There I argued that the views that became the backbone of Wieser's last book, *The Law of Power* (1926), actually lay behind many of his expressed criticisms of the market economy and his desire to rescue the theory of the planned economy.

Perhaps those previous two articles explain why I was later invited to contribute the Wieser chapter in a book collection on

Austrian school economists. Unfortunately, after I had completed my 55-page contribution, publication apparently fell through and the book was never published. I hope to be able to harvest something from that manuscript at some point in the future.

At any rate, articles in the second calculation debate continued to stimulate my research and one result was a *QJAE* article arguing that Mises's methodology was not an extension of that of Lionel Robbins. Rather, the influence actually ran the other way, although significant differences between the two approaches remain.

Another project that stemmed from arguments presented during the recent calculation debate was a result of references to Joseph Schumpeter as another of Wieser's students. Schumpeter is known particularly for his theory of economic development and his concept of the entrepreneur as a force for "creative destruction." I was intrigued to look for signs of Wieser's influence on Schumpeter and I found them while reading through Schumpeter's various publications. More importantly, I was astonished at the generally *ad hoc* nature, classical school roots, and Walrasian general equilibrium context of Schumpeter's work. Schumpeter's entrepreneurial theory stands in stark contrast to that of Mises, as well as to Israel Kirzner's extension of Mises's concept of functional entrepreneurship.

The result was my 2013 *QJAE* article unfavorably contrasting Schumpeter's theory of entrepreneurship with that of Kirzner. The research on Kirzner's theory had a further result. I decided to use it in a historical study of the steel magnate and entrepreneur, Andrew Carnegie. After obtaining a publisher, I read through the major biographies of Carnegie and discovered that none of them really explained why Carnegie was successful. They detailed his success, but only historically. Historical explanation needs more than bare facts, however obtained. It needs the application of theory to identify historical cause and effect relations. What was missing from what I read was the grasp of economic understanding that is only provided by Austrian school theory. So, I used an Austrian school context and Kirzner's entrepreneurial theory as key elements of my economic biography of Carnegie.

Now that I am done with that project, I plan to return to writing my book on the early Austrian school trio of Menger, Böhm-Bawerk, and, of course, Wieser. So far, I only have about a couple

of hundred pages and I am stuck on Böhm-Bawerk's capital theory, but hope to dislodge myself. I particularly want to understand why Menger viewed Böhm-Bawerk's capital theory as a big mistake.

How has Austrian economics changed as a result of the second economic calculation debate? Well, it certainly opened my eyes concerning the development of the Misesian paradigm, as compared to that of Hayek. And, it greatly increased our understanding of the theoretical failures of the various planned socialist society models. In addition, it has produced a refinement of our understanding of what Misesian economic calculation assumes as necessary for the market process to take place. Most particularly, it has highlighted the radical importance of private property rights, subjective aspects of ownership that affect relative scarcity, and accurate cost accounting.

Added to that is the additional understanding of the overwhelming arguments for what is now called "market socialism." I find it ironical that when pressed to explain how market socialism could solve each of the successive problems identified with their successive models, advocates of market socialism step-by-step adopted features of the private property, free market model. And they have done this while still trying to keep an iron grip on their wish for an economy with no private property rights in higher order goods.

This started with the Lange/Taylor early attempts to adopt a surrogate perfect competition, general equilibrium model, with no private property in higher order goods. After this was exposed as a fantasy, then came Lange's use of a Walrasian auction model of price determination. After that was knocked down, market socialism's defenders proposed to turn firm managers into pretend entrepreneurs, without giving them the discretion over all of the firm's physical and financial resources that exists in a private property regime. This infects the market socialist financial sector with a fatal weakness. The administrators have no financial skin in the game—kind of like the Board of Governors of our Federal Reserve System. And we all know the recent consequences of that morbid fact.<sup>1</sup>

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<sup>1</sup> Of course, there is a sense of "skin in the game" for administrators in a Stalinist system. See Simon Sebag Montefiori (2004), for detailed descriptions of the arrest, imprisonment, sentencing to forced labor, or execution of soviet administrators, as

One is left with the question of why some perfectly intelligent people still lust for a society without private property rights in potentially productive resources. Is it simply the result of a personal lust for power? Or does it stem from the envy of those who are more materially successful in a free market context? I leave the question for future research. Particularly, I hope that young Austrian school economists will turn their interest to China. Under Xi Jinping, it looks like we have an emerging Stalinist regime. If so, it will function no better than its original, as the socialist calculation debate has taught us.

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well as their families, who failed to achieve the goals set for their production units during the Stalin era of the USSR. This even extended down to the local level of agricultural production. In his *Memoirs* (1996, pp. 24–27), former General Secretary, then President of the USSR, Mikhail Gorbachev relates how his grandfathers were arrested, tortured, and accused of being Trotskyite counterrevolutionaries for their loss of grain, destruction of livestock, and repression of local Stakhanovites during the 1930s. One was exonerated and the other sent to a forced labor camp.

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