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# SOCIALISM AND WAR

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F. A. HAYEK

THE COLLECTED WORKS OF

F. A. Hayek

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# SOCIALISM AND WAR

Essays, Documents, Reviews

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F. A. HAYEK

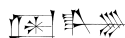
*Edited by Bruce Caldwell*



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*To the memory of my mother, Maryann Caldwell, who died  
January 12, 1997, aged seventy-eight; the center of our family,  
her influence lives on in every member of it.*

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## EDITORIAL FOREWORD

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The cry for control of economic means, for social planning and political direction of individual activity, is always loudest at moments of crisis when apparent limits of resources restrict the ambitions or compulsions of a nation. F. A. Hayek's heroic achievement is the consistent argument that these are the very times when liberty is most necessary. Advocacy of a free market comes easily to those who believe in an ever more abundant future; while those who can paint the vanishing point of dwindling resources have no trouble drawing plans for preferential use. Hayek demonstrated that it is precisely when there is great demand for a limited supply of given resources that knowledge of individual circumstances is crucial to determining the value of possible choices. Even in the midst of war, he has argued, it is more efficient to let individuals use the mechanism of a market to produce what is demanded than to impose controls upon them from a central plan that must be deficient in knowledge of individual capabilities.

The significance, so Hayek maintained, of the marginalist revolution in economic theory, and particularly the contribution of Carl Menger, came from the demonstration that economic value was to be found not merely in "man's relation to a particular thing or a class of things but the position of the thing in the whole means-end structure—the whole scheme by which men decide how to allocate the resources at their disposal among their different endeavours." The pursuit of war, on the other hand, is believed to require altogether different means, since the end—victory—is so compelling that it must be attained at whatever cost.

Even when the guns fall silent, the argument persists. The victors can point to the success of their plans, the losers to the failure to properly execute their plans: given any compelling objective, so it is claimed, an efficient means-end structure can be planned. Thus the compulsions of war are extended to such improbable domains as trade, drugs, and even gender, using some utilitarian calculus to determine the odds for casualties. War, it was said, is politics by other means. The logic of the argument for economic planning was believed to be beyond challenge. Hayek suc-

cessfully made the challenge. He argued, and the failure of planned economies has demonstrated, that economics is neither politics nor engineering by other means.

*Socialism and War*, volume 10 of *The Collected Works of F. A. Hayek*, brings together Hayek's seminal contribution to the 'socialist calculation' debate with related essays and reviews from the crucible of the late 1930s and early 1940s. There are striking parallels between the period following the First World War and the present period of confusion after the undeclared end of the Cold War. There is one great difference: then it was capitalism that was apparently discredited, now it is socialism. We know now that in the first instance appearance was not reality; will the same prove true of socialism?

I would like to express my considerable appreciation to Bruce Caldwell for his clear and perceptive re-creation of the context of the original debate and of its continuing significance. We are grateful to Gene Opton for her careful preparation of the manuscript, and to Leif Wenar for his timely bibliographical assistance. Penelope Kaiserlian and Margaret Mahan of the University of Chicago Press and Alan Jarvis of Routledge have tactfully blended enthusiasm with patience to see this volume into print. *The Banker*, Blackwell Publishers for the *Economic Journal* and *Economica*, *Contemporary Review*, Macmillan Magazines Ltd. for *Nature*, Routledge, *The Spectator*, and the *University of Chicago Law Review* have kindly granted permission to reprint various of the essays and reviews here included. To the original sponsors of the Collected Works of F. A. Hayek project may we once again express our gratitude.

Stephen Kresge  
Big Sur, California

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## INTRODUCTION

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An odd pairing it seems at first, the conjoining of 'socialism' with 'war'. It would not have seemed so, though, for Friedrich A. Hayek. His most famous book, *The Road to Serfdom*,<sup>1</sup> was written during the Second World War and dedicated "To the socialists of all parties" in an attempt to cool the growing passion for state planning emerging at that time in Britain. Nor would Hayek's mentor, Ludwig von Mises, have found the association strange. Mises's first paper on socialism, which appeared in 1920, was a response to the view that the extensive economic planning undertaken during the First World War could and should be continued in peacetime. The seismic social upheavals produced by the two world wars (and, not incidentally, by the Depression that separated them) provided both opportunity and impetus for a variety of socialist experiments, from Soviet and Chinese Communism to National Socialism to an assortment of social democracies. In the twentieth century, socialism and war have been frequent cohabitants.

The papers and reviews collected in this volume document the lonely battle against socialism carried on by F. A. Hayek throughout the 1930s and 1940s. The materials, in roughly chronological order, cover three areas. First in order are his debates with the market socialists, which were carried on chiefly in British academic journals in the 1930s. Next come Hayek's responses to the onset of war, most of which appeared in short articles in weeklies and in book reviews. The third section contains a series of his papers examining the relationship between economic planning and freedom. Many of the reviews of the literature on capitalism and on the varieties of socialism that Hayek wrote during this crucial period are gathered in an Appendix to this volume.

The purpose of this introduction is to provide background for the materials collected here. The discussions that Mises participated in a genera-

<sup>1</sup>F. A. Hayek, *The Road to Serfdom* (London: Routledge and Kegan Paul; Chicago: University of Chicago Press, 1944; 50th Anniversary Edition, with a New Introduction by Milton Friedman, University of Chicago Press, 1994).

tion earlier provided the groundwork for Hayek's contributions to the market socialism debates, so we will examine them first. While the seeds of what would become Hayek's 'knowledge-based' critique of socialism are present in essays published in 1935, it was only after his exchange with Oskar Lange that they reached their mature form. Among Hayek's wartime contributions collected in the next section, special emphasis is given to Hayek's reaction to, and further development of, John Maynard Keynes's proposals in *How to Pay for the War*.<sup>2</sup> If his new emphasis on knowledge forever changed the way that Hayek viewed economics, an equally important part of his 1930s transformation was his move away from economics proper and towards social theory. Hayek's 1944 book *The Road to Serfdom* constitutes the most widely known evidence of this change of direction. But work on that book had begun by the late 1930s, and his progress can be traced in the papers gathered in part 3. As will be shown in the final part of the introduction, Hayek's path was much influenced by his desire to refute the claims of his opponents—in this instance virtually all of the British intelligentsia and in particular those who believed that the rational scientific planning of society provides the only means for ensuring the preservation of freedom.

### 1. German Language Debates on Socialism

Until the turn of the century, Continental Marxism was closely identified with German Social Democracy. Its statement of principles was the Gotha Program of 1875, in which various of Marx's doctrines were combined with the more moderate ideas of one of his chief rivals, Ferdinand Lassalle (much to the consternation of Marx himself). In 1891 the Erfurt Program, with Karl Kautsky the principal architect, superseded the Gotha Program. It marked a return to the more revolutionary, and hence more purely Marxian, socialist vision. The consensus was not to last long. At the end of the decade, Eduard Bernstein published *Die Voraussetzungen des Sozialismus*.<sup>3</sup> Influenced by his experience with the English Fabian socialists, Bernstein questioned Marx's theoretical edifice, as well as a number of his predictions, and touted an evolutionary rather than revolutionary path to the socialist future. Bernstein's vision directly contradicted that of Kautsky; the first revisionist controversy had begun. The second

<sup>2</sup>J. M. Keynes, *How to Pay for the War*, reprinted in *Essays in Persuasion*, vol. 9 (1972) of *The Collected Writings of John Maynard Keynes*, Austin Robinson and Donald Moggridge, eds, 30 vols (London: Macmillan, for the Royal Economic Society, 1971–89), pp. 367–439.

<sup>3</sup>Eduard Bernstein, *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie* (Stuttgart: Dietz, 1899), translated as *Evolutionary Socialism: A Criticism and an Affirmation* (New York: Huebsch, 1909; reprinted, New York: Schocken, 1961).

would come two decades later when Lenin split from Kautsky. This resulted in the great schism between Soviet-style Communism (with its ultimate dedication to revolution and extensive central planning) and German-style Social Democracy (which was more gradualist, and whose proponents tended to endorse variants of market socialism). The many divisions within Marxism meant that anyone who chose to criticize 'socialism' confronted a Hydra rather than a monolith. To be effective, the argument against socialism had to be a general one.

Another type of Marxist thought emerged at the turn of the century, this one from within the Austro-Hungarian Empire. Austro-Marxists retained a theoretical adherence to Marx's writings and, influenced by the physicist Ernst Mach,<sup>4</sup> were taken with the idea that Marxism constituted a truly 'scientific' approach to the study of social phenomena.<sup>5</sup>

The third volume of Marx's *Das Kapital* appeared in 1894, eleven years after its author's death. Advocates hoped that the final book would resolve certain key problems with the labour theory of value that were evident in the earlier volumes. In 1896, the Austrian economist Eugen von Böhm-Bawerk offered a comprehensive assessment of Marx's system and concentrated on the Marxian theory of value.<sup>6</sup> The title of the English translation, *Karl Marx and the Close of His System*, arguably carries a double meaning. The original German reads, "The *Completion* of the Marxian System", indicating that Böhm-Bawerk's essay was simply meant as a response to Marx's now finally completed trilogy. But Böhm-Bawerk's closing sentence, in which Marx is compared to Hegel, makes evident his intent to bring on the collapse of the Marxian edifice: "The specific theoretical work of each was a most ingeniously conceived structure, built up by a fabulous power of combination, of innumerable storeys of thought,

<sup>4</sup>For Hayek's view of Mach's influence, see his essay "Ernst Mach (1838–1916) and the Social Sciences in Vienna", reprinted as chapter 7 of *The Fortunes of Liberalism*, ed. Peter Klein, which constitutes vol. 4 (1992) of *The Collected Works of F. A. Hayek* (Chicago: University of Chicago Press, and London: Routledge), pp. 172–175. Compare his remarks in *Hayek on Hayek*, Stephen Kresge and Leif Wenar, eds (Chicago: University of Chicago Press, and London: Routledge, 1994), p. 47.

<sup>5</sup>The attempt by Viennese groups like the Austro-Marxists (as well as the psychoanalysts) to claim the mantle of science for their systems provoked Karl Popper to try to provide a criterion to demarcate science from pseudo-science; see his "Intellectual Autobiography", in vol. 1 of *The Philosophy of Karl Popper*, ed. Paul Schilpp (LaSalle, Ill.: Open Court, 1974), pp. 23–33.

<sup>6</sup>Eugen von Böhm-Bawerk, "Zum Abschluss des Marxschen Systems", in *Staatswissenschaftliche Arbeiten: Festgaben für Karl Knies*, ed. Otto von Boenigk (Berlin: Haering, 1896), translated as *Karl Marx and the Close of His System* (London: Fisher Unwin, 1898) and reprinted in *Karl Marx and the Close of His System and Böhm-Bawerk's Criticism of Marx*, ed. Paul Sweezy (New York: Kelley, 1949; reprinted, 1975).

held together by a marvelous mental grasp, but—a house of cards”.<sup>7</sup> The most important reply to Böhm-Bawerk’s critique came in 1904 from Rudolf Hilferding, a leader of the Austro-Marxists, in the first issue of the Marxist periodical *Marx-Studien*, which he co-edited with Max Adler.<sup>8</sup>

At about the same time that Hilferding’s article appeared, Böhm-Bawerk returned to teach at the University of Vienna, after many years of government service (including three periods as Finance Minister). For the next decade he conducted a seminar in economics, a gathering that remains noteworthy in the history of economics. Participants included Böhm-Bawerk’s young critic Rudolf Hilferding, who published *Das Finanzkapital* in 1910, perhaps the most important work in Marxian economic theory in the twentieth century;<sup>9</sup> Otto Bauer, political theorist of the Austro-Marxists who, at the conclusion of the First World War, became the leader of the Austrian Social Democrats; Emil Lederer, who became the first Dean of the Graduate Faculty of Political and Social Science at the New School for Social Research; the brilliant young economist Joseph Schumpeter;<sup>10</sup> the sociologist Otto Neurath, who became one of the leading members of the Vienna Circle of Logical Positivists in the 1920s; and finally Ludwig von Mises, who, though trained in the style of the historical school economists, embraced the doctrines of his teacher and in 1912

<sup>7</sup>Böhm-Bawerk, *Karl Marx and the Close of His System*, op. cit., p. 118.

<sup>8</sup>Rudolf Hilferding, “Böhm-Bawerk’s Marx-Kritik”, *Marx-Studien*, vol. 1, 1904, pp. 1–61, translated as *Böhm-Bawerk’s Criticism of Marx*, reprinted in *Karl Marx and the Close of His System and Böhm-Bawerk’s Criticism of Marx*, op. cit., pp. 121–196.

<sup>9</sup>Rudolf Hilferding, *Das Finanzkapital* (Vienna: I. Brand, 1910); translated as *Finance Capital* (London: Routledge and Kegan Paul, 1980). M. C. Howard and J. E. King, in their *A History of Marxian Economics, Volume I 1883–1929* (Princeton: Princeton University Press, 1989), p. 100, judge *Finance Capital* “the most influential text in the entire history of Marxian political economy, only excepting *Capital* itself”.

<sup>10</sup>Schumpeter’s early works included *Das Wesen und der Hauptinhalt der Theoretischen Nationalökonomie* (Leipzig: Duncker & Humblot, 1908); *Theorie der wirtschaftlichen Entwicklung* (Leipzig: Duncker & Humblot, 1912), translated by Redvers Opie as *The Theory of Economic Development* (Cambridge, Mass.: Harvard University Press, 1934; reprinted, New York: Oxford University Press, 1961); and *Epochen der Dogmen- und Methodengeschichte, Grundriss der Sozialökonomik*, vol. 1, part 1, first ed. (Tübingen: J. C. B. Mohr, 1914), translated by R. Aris as *Economic Doctrine and Method, An Historical Sketch* (New York: Oxford University Press, 1954). The first contained a variety of methodological insights as well as praise for the Walrasian variant of marginal analysis; Schumpeter would in his *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 827, call Walras “the greatest of all economists”, a remark sufficient in itself to remove him from the pantheon of Austrian School economists. His second book contained a theory of capitalist development, and the last book foreshadowed his lifelong interest in the history of ideas. For Hayek’s assessment of Schumpeter, see chapter 5 of *The Fortunes of Liberalism*, op. cit., pp. 160–165.

published his classic contribution to monetary theory, *Theorie des Geldes und der Umlaufsmittel*.<sup>11</sup>

Mises reminisced in his memoirs about the first semester's meetings of Böhm-Bawerk's seminar. His respect for other members of the seminar, even those with whom he sharply disagreed, is evident.

As the subject matter of the first seminar Böhm-Bawerk chose the fundamentals of the theory of value. From his Marxian position, Otto Bauer sought to dissect the subjectivism of the Austrian value theory. With the other members of the seminar in the background, the discussion between Bauer and Böhm-Bawerk filled the whole winter semester. Bauer's intellect was very impressive; he was a worthy opponent of the great master whose critique had mortally wounded Marxian economics.<sup>12</sup>

But while he praised Böhm-Bawerk and his rivals, Mises excoriated one member of the group.

Böhm-Bawerk was a brilliant seminar leader. He did not think of himself as a teacher, but as a chairman who occasionally participated in the discussion. Unfortunately, the extraordinary freedom to speak which he granted to every member was occasionally abused by thoughtless talkers. Especially disturbing was the nonsense which Otto Neurath presented with fanatical fervor.<sup>13</sup>

Otto Neurath, who was born in Vienna in 1882, received his doctorate in Berlin, then returned to Vienna to teach at the Neue Wiener Handelsakademie. In 1909 he began publishing articles on the subject of 'war economy', that is, how to run an economy under conditions of modern

<sup>11</sup>Ludwig von Mises, *Theorie des Geldes und der Umlaufsmittel* (Munich and Leipzig: Duncker & Humblot, 1912), 2nd edition translated by H. E. Batson as *The Theory of Money and Credit* (London: Cape, 1934; reprinted, Indianapolis, Ind.: LibertyClassics, 1981). Hayek said of the seminar, "There is no doubt that the foundations of Mises's characteristic ideas on socialism were laid then. . . ."; see his Foreword to Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, reprinted in chapter 4 of *The Fortunes of Liberalism*, op. cit., pp. 136-143.

<sup>12</sup>Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978), pp. 39-40.

<sup>13</sup>*Ibid.*, p. 40.

warfare. He argued that the continued use of a peacetime market economy would hinder the pursuit of military objectives, that only with centralized control could a successful war effort be mounted. Otto Neurath thus was one of the first to link socialism explicitly with war.

His efforts continued at the end of the First World War.<sup>14</sup> By then his theses were, first, that the experience of the war had demonstrated that the efficient central planning of a complex economy was feasible, and, second, that a concern for justice dictated that such planning should be continued now that the fighting had stopped. Neurath envisioned the full socialization of the economy. A 'central office for measurement in kind' would be set up that would run the economy as if it were one giant enterprise. Planning and administration authorities would make extensive use of statistics to guide them in their decision-making.

Perhaps most controversially, Neurath believed that money would be unnecessary in the new planned order. Calculation regarding the appropriate inputs and outputs of goods would be handled in physical terms. For the determination of societal needs, various statistics measuring demographic and social variables would be employed. In Neurath's opinion, the real needs of society could not be measured in money terms. The monetary system was uncontrolled and disorderly. Any attempt to employ monetary calculations within a planned society would render impossible scientific economic management, which had to be conducted in terms of 'real' physical quantities.

In 1919 Neurath served as the President of the Central Planning Office of the short-lived Bavarian Soviet Republic. Returning to Austria, he became in 1924 the Director of the Social and Economic Museum, one of the showplaces of the 'Red Vienna'<sup>15</sup> of the 1920s. Visitors to the museum observed Neurath's ISOTYPE system (the International System of Typographical Picture Education), a collection of images meant to represent economic and social conditions. He also participated in the Vienna Circle, where he advocated physicalism, the doctrine that all scientific statements must make a reference to phenomena that are observable and,

<sup>14</sup>See Otto Neurath, *Durch die Kriegswirtschaft zur Naturalwirtschaft* (Munich: Georg D. W. Callwey, 1919), which collects a number of his articles. The table of contents and selected articles are translated and appear as chapter 5 of Otto Neurath, *Empiricism and Sociology*, Marie Neurath and Robert S. Cohen, eds (Dordrecht, Holland: D. Reidel, 1973). The title is translated there as "Through War Economy to Economy in Kind". *Naturalwirtschaft* can also be translated as 'barter economy' or 'natural economy'.

<sup>15</sup>Though they took part in two coalition governments directly after the war ended, the Austrian Social Democratic Party fell from power nationally in June 1920. After that, their stronghold was in large urban centers, and Vienna became the centerpiece for various socialist experiments, hence the epithet.



when feasible, quantifiable.<sup>16</sup> Neurath fled Vienna in 1934, ultimately settling in Oxford, where he died in December 1945.

Neurath's apparently disparate projects were actually all of a piece. His insistence that non-monetary statistics be used to manage a planned economy led naturally to the development of ISOTYPE. The ISOTYPE system, in which signs represent social reality, was itself a practical analog to the Logical Positivist assertion that scientific theories are nothing more than formal systems of signs, rules for their manipulation, and 'correspondence rules' which link up the signs to elements of phenomenal reality. Neurath's physicalism was wholly compatible with the view that statistical information on physical quantities of goods and on 'life dispositions' are all that is needed to scientifically manage a complex economy. It was also a good antidote to the 'metaphysical' view that a monetary order expresses through prices such subjective 'entities' as 'utility' and 'value'.

According to Hayek, it was Neurath's book that "provoked" Ludwig von Mises to initiate the socialist calculation debate.<sup>17</sup> Mises wrote about socialism in a book published in 1919, and though Neurath is not mentioned by name, there is no mistaking his ideas, nor Mises's reaction to them: "Right at the beginning of the war a catchword turned up whose unfortunate consequences cannot be completely overlooked even today: the verbal fetish 'war economy'."<sup>18</sup> Mises argued that 'war socialism', widely credited for helping the war effort, in fact hindered it; that while "statism sought to avoid the inevitable collapse, it only hastened it."<sup>19</sup>

Mises's main contribution to the calculation debate came in a journal article published the next year. He took as a starting premise that under socialism all 'production-goods' (factors of production) are owned by the state, and that as such there is no market for them. But this has substantial consequences:

... because no production-good will ever become the object of exchange, it will be impossible to determine its monetary value. Money could never fill in a socialist state the role it fills in a competitive society

<sup>16</sup>For more on the doctrines of the Vienna Circle, see Bruce Caldwell, *Beyond Positivism: Economic Methodology in the Twentieth Century* (London: Allen and Unwin, 1982; reprinted, London: Routledge, 1994), chapter 1.

<sup>17</sup>F. A. Hayek, Foreword to Mises, *Socialism*, in *The Fortunes of Liberalism*, op. cit., p. 139.

<sup>18</sup>Ludwig von Mises, *Nation, Staat und Wirtschaft: Beiträge zur Politik und Geschichte der Zeit* (Vienna: Manz'sche Verlags und Universitäts-Buchhandlung, 1919), translated by Leland Yeager as *Nation, State and Economy: Contributions to the Politics and History of Our Time* (New York and London: New York University Press, 1983), p. 140.

<sup>19</sup>*Ibid.*, p. 147.

in determining the value of production-goods. Calculation in terms of money will here be impossible.<sup>20</sup>

Mises's reasoning was straightforward. In a market economy, entrepreneurs choose from among innumerable possible combinations of factors of production in an attempt to find the combination that minimizes their expected costs. They do this in an attempt to maximize their profits, which is the difference between revenues and costs. This self-interested search for the best combination helps to guide resources to their highest-valued uses, an outcome beneficial to society as a whole. Because of the multiplicity of production-goods and the fact that production takes place through time (during which all manner of changes on both the demand and the supply side of the market might occur), the task is not an easy one. Entrepreneurs are aided in their deliberations by the money prices attached to the factors which reflect their relative scarcity. But in the socialist state no such prices would exist. Socialist managers would not have recourse to price signals to tell them which factors are relatively scarce and which relatively plentiful; they would be left "groping in the dark". The results were plain to see: "Where there is no free market, there is no pricing mechanism; without a pricing mechanism, there is no economic calculation."<sup>21</sup>

The contrast between two views could hardly be greater. Neurath argued that the use of money undermined the rational management of a planned economy. Mises, the monetary theorist, argued that in the absence of market-generated money prices to direct the allocation of resources, the rational planning of production (by which he meant, planning that attempts to avoid wasting resources) in a complex economy is impossible. Mises's article also makes clear that the two apparently unrelated subjects under discussion (monetary theory and socialism) are in fact intimately linked. He spends a number of pages examining the limitations of money as a tool for measuring value, noting that its own value need not be stable, and that many aspects of life are not subject to monetary calculation. Only when the value of money is itself stable will prices accurately reflect relative scarcities and thereby help to guide production. For Mises, sound money and freely adjusting relative prices go hand in hand in making a private enterprise system work. Neurath wanted to do

<sup>20</sup>Ludwig von Mises, "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen", *Archiv für Sozialwissenschaft*, vol. 47, 1920, pp. 86–121, translated by S. Adler as "Economic Calculation in the Socialist Commonwealth", in *Collectivist Economic Planning*, ed. Friedrich A. Hayek (London: Routledge and Sons, 1935; reprinted, Clifton, N. J.: Kelley, 1975), p. 92.

<sup>21</sup>*Ibid.*, p. 11.

away with all of it and justified his views by invoking principles of scientific management.

Mises's article bears close reading. His statement that "No single man can master all the possibilities of production, innumerable as they are, so as to be in a position to make straightway evident judgements of value without the aid of some system of computation"<sup>22</sup> is suggestive of Hayek's later arguments about the dispersion of knowledge. In a like manner, his brief paragraph stating that calculation would be unnecessary in the 'static state' foreshadows Hayek's argument that his opponents are blinded by an unhealthy preoccupation with the conditions of static equilibrium.<sup>23</sup> Finally, in the section entitled "Responsibility and Initiative in Communal Concerns", Mises discusses a number of incentive problems that exist under socialism, most of them due to the absence of private property.<sup>24</sup>

It is not surprising that in the debate with Neurath, Ludwig von Mises very quickly won the day; most socialists of the time agreed with him that Neurath's scheme of a moneyless planned economy was fundamentally flawed.<sup>25</sup> This was doubtless in part due to the clear and horrifying evidence provided by Soviet policies during the period of 'War Communism' from May, 1918, through the end of 1920.<sup>26</sup> But Neurath was not the only person calling for planning based on the wartime model. Had that

<sup>22</sup>*Ibid.*, p. 102.

<sup>23</sup>*Ibid.*, pp. 109–110. This is not to say that the positions of Mises and Hayek are identical. Indeed, a debate has arisen recently among Austrian scholars as to whether one of the positions (either Mises's "calculation based on property rights" critique or Hayek's "knowledge-based" one) should be viewed as more fundamental. See Joseph T. Salerno, "Ludwig von Mises as Social Rationalist", *The Review of Austrian Economics*, vol. 4, 1990, pp. 26–54, and Leland Yeager, "Mises and Hayek on Calculation and Knowledge", *The Review of Austrian Economics*, vol. 7, 1994, pp. 91–107.

<sup>24</sup>*Ibid.*, pp. 116–122.

<sup>25</sup>Thus, for example, Helene Bauer, Otto Bauer's wife, attacked Neurath by citing Marxist literature; Otto Leichter proposed that calculations in a centralized economy be made in terms of labour-hours. See Günther Chaloupek, "The Austrian Debate on Economic Calculation in a Socialist Society", *History of Political Economy*, vol. 22, no. 4, Winter 1990, especially pp. 662–670.

<sup>26</sup>Policies enacted during the period of 'State Capitalism' (which directly preceded the 'War Communism' episode) were explicitly drawn from German *Kriegswirtschaft* models. Peter Boettke, in *The Political Economy of Soviet Socialism: The Formative Years, 1918–1928* (Boston: Kluwer, 1990), p. 106, notes that, for Lenin, "the Soviet dictatorship of the proletariat provides the political basis for social transformation, while the German war-planning machine provides the economic basis". Under War Communism the first steps towards the abolition of money were instituted. For more on this, see Eugène Zaleski, *Planning for Economic Growth in the Soviet Union, 1918–1932* (Chapel Hill, N. C.: University of North Carolina Press, 1971), pp. 13–24.

been the case, Mises would probably not have felt the necessity of writing a whole book devoted to the refutation of socialism.<sup>27</sup>

Socialization schemes were in fact being proposed everywhere, and not just by socialists. One of the most widely respected voices was that of the German industrialist Walther Rathenau. During the war he was instrumental in setting up a new division at the Ministry of War, the KRA (*Kriegsrohstoffabteilung*), or Raw Materials Section, which made raw materials procurement secure for much of the duration. The KRA became for many social democrats the model of what could be accomplished through efficient central planning. Rathenau, a successful industrialist and a man of action, was also an urbane intellect. He wrote an influential pamphlet published in 1918 in which the variety of goods available under capitalism was portrayed as indicative of the system's great wastefulness.<sup>28</sup> Rathenau argued that far greater amounts of standardized goods could be produced (thereby ensuring plenty for all) if centrally controlled mass production techniques developed during the war were utilized. Given his role in the war, Walther Rathenau was a hero to the German-speaking people in a period when precious few heroes were to be found.<sup>29</sup> That he was bourgeois rather than socialist, and one who spoke from experience, added further to his credibility. This progressive Jewish internationalist was assassinated by right-wing thugs soon after becoming Foreign Minister. Instead of playing a leading role in the Weimar Republic, he ended up a harbinger of the world that was to come.

## *2. Hayek and the Socialist Calculation Debate*

F. A. Hayek, born in Vienna in 1899, was too young to have attended Böhm-Bawerk's seminar and knew him only as an occasional guest at the home of his grandparents. After war service, Hayek entered the University of Vienna, receiving degrees in 1921 and 1923. While working on his second doctoral degree he came to know Ludwig von Mises, with whom he worked in a temporary government office. At the time, Mises was known principally as a monetary theorist and a champion of sound money. Within the year, Mises's massive tome on socialism had appeared. As Hayek says in a preface to a later edition, the book "gradually but

<sup>27</sup>Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922), 2nd edition translated by J. Kahane as *Socialism: An Economic and Sociological Analysis* (London: Cape, 1936; reprinted, Indianapolis, Ind.: LibertyClassics, 1981). Mises criticizes socialism from a number of different perspectives in the book.

<sup>28</sup>Walter Rathenau, *Die neue Wirtschaft* (Berlin: S. Fischer, 1918).

<sup>29</sup>Hayek mentions the pamphlets of Rathenau and of Karl Renner as providing his first exposure to economic and social analysis; see F. A. Hayek, *Hayek on Hayek*, op. cit., p. 47.