

Socialism: Still Impossible After All These Years

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In his recent article, “Is Socialism Really ‘Impossible’?,” Bryan Caplan questions the long-standing Austrian claim that socialism is impossible. Although Caplan is to be commended for engaging the arguments of Austrians such as Mises and Boettke, we contend that his arguments miss the mark. Caplan fundamentally misunderstands the Austrian proposition concerning socialism’s impracticability and fails to appreciate the traditional argument made by socialists that Mises was addressing. For reasons we reveal below, Caplan’s argument constitutes the triumph of cleverness over correctness, rather than the damning critique of the Austrian position he believes he has provided.

What Socialism Means

To put these issues into perspective we need to make a brief excursion into the state of the debate over socialism at the time Mises offered his impossibility claim. We agree with Caplan that socialism is characterized by state ownership of the means of production. This is necessary but not sufficient, however, to describe the economic system advocated by Marx and others, and opposed by Mises. In addition to describing a particular set of means (collective ownership), socialism is also defined by a particular set of ends. The ultimate end of socialism was the “end of history,” in which perfect social harmony would permanently be established. Social harmony was to be achieved by the

abolition of exploitation, the transcendence of alienation, and above all, the transformation of society from the “kingdom of necessity” to the “kingdom of freedom.” How would such a world be achieved? The socialists informed us that by rationalizing production and thus advancing material production beyond the bounds reachable under capitalism, socialism would usher mankind into a post-scarcity world.

Thus, in addition to prescribing a set of specific means that involved placing ownership of the means of production into the hands of the state, socialism also involved a specific set of ends, which included the ultimate goal of social harmony which was to be achieved through the intermediate end of advancing material production to levels previously unimaginable. If the reader questions this, we encourage her to look back at the writings of Marx and his followers.¹ These writings include strong critiques of capitalism on the grounds of that its production is “irrational,” that it tends towards increasing monopolization with the result of immiserating a growing proportion of the population, and that this immiseration leads inevitably to booms and busts in the market that make capitalism inherently unstable. In short, the writings of Marx and other socialists were concerned (in part) with demonstrating the productive inferiority of the capitalist system relative to what socialism could achieve. The organization of production under capitalism still reflects the “kingdom of necessity,” but the social organization of production under socialism will deliver mankind into the “kingdom of freedom” where, through rationalization of production, scarcity will be overcome.²

The socialist project that Mises responded to therefore proceeded in two interrelated stages: First, by rationalizing production, socialism would eliminate the waste inherent in capitalism owing to its “anarchy of production,” eliminate capitalism’s

tendency towards greater monopolization, and eliminate capitalism's inevitable crises, bringing about unprecedented and heretofore unimagined increases in material wealth. Second, these productivity gains would usher in an age of post-scarcity, which in turn would provide the material preconditions for creating lasting social harmony.

Why Socialism Is Impossible

The reason we have spent so much time belaboring the rather obvious point that socialism refers to particular ends as well as means, and that part of these ends include advanced material production, is two-fold. First, as apparent as this may seem, Caplan ignores socialism's ends, focusing exclusively on socialism's means in his discussion. Second, his failure to do this is what leads him to wrongly reject Mises' claim about the impossibility of socialism to achieve its stated ends.

Mises' argument should be understood as attempting to knock the legs out from under the first of those steps. If socialism could not accomplish what it set out to do in its first stage by achieving the intermediate objective of advanced material production, then it could not achieve its ultimate objective—social harmony. Mises' proved that it was impossible for socialist means to achieve socialism's intermediate goal of advanced material production because of the inability to engage in rational economic calculation. This is what he meant by saying that socialism is "impossible."

His argument proceeds as follows. Socialist means entail the complete abolition of private (i.e., non-collective) ownership of the means of production. Without private ownership of the means of production, there can be no exchange in these means. Without the exchange of them, there can emerge no market prices for them. And without market

prices for them, socialism cannot rationally allocate them. Rational allocation requires that resources be allocated in such a way that no more urgently felt consumer demand goes unsatisfied because the resources required for its satisfaction have been devoted to some less highly valued use. Under capitalism, market prices enable economic calculation, which ensures that this is the case. Without these prices, however, no such allocation is possible. In abolishing market prices for the means of production, socialism abolishes the very mechanism that enables societal economizing behavior. In short, a socialist *economy* is impossible. This is what Mises meant in saying that the relevant choice for us in deciding over economic systems was evidently not capitalism or socialism. Socialism's inability to rationally allocate resources precluded the possibility of a socialist economy by definition. *QED*.³

If socialism could not rationally allocate the means of production, it remained impossible for socialism to generate advanced material production, let alone achieve a level of material abundance required to move society from the "kingdom of necessity" to the "kingdom of freedom." Stage one of the sociality project therefore remained impossible to fulfill, making stage two impossible to fulfill as well. If you cannot achieve post-scarcity, then socialism will not be able to usher in the new age of social harmony that was its stated goal.

Note how straightforward this whole argument is when we acknowledge that socialism refers both to particular means *and* to particular ends.⁴ Ignoring socialism's ends, as Caplan does, can lead Mises' argument to become confusing. For instance, if impossibility does not refer to means-ends coherence, then what does it refer to? In other words, what does Mises mean by saying that socialism is impossible? Does he mean that

it is literally impossible to socialize the means of production? Does it mean something else? If we fail to recognize that socialism has as much to do with its ends as it has to do with its means, we run the high risk of falling into this confusion.

Caplan-Confusion-(a)

In rendering his argument, Mises assumed at the outset that any potential problems socialism might face regarding worker incentives and planner motivations were non-existent. He did not do this because he thought incentives and planner motivation problems would not plague socialism. He did it (1) to take the rhetorical high ground in assuming the best of intentions on the part of planners, so as not to impugn the character of these individuals thus diverting the argument from one of substance to one of name-calling and, (2) to show that even under the best case scenario for socialism incentive and motivation-wise, the information problem socialism necessarily would confront was alone enough to make it impracticable.⁵

This move has unfortunately confused Caplan about the substance of Mises' actual impossibility claim. Caplan mistakenly understands Mises' argument regarding socialism's impossibility to be that: (a) socialism's inability to calculate results in chaos and catastrophe, and (b) that the magnitude of the information problem created by socialism's inability to economically calculate trumps the magnitude that the incentive problem creates for real-existing socialism. Both of these claims are quantitative because both involve establishing the extent of the problem that socialism's calculation problem creates in the real world. This is why Caplan is led to erroneously conclude that Mises' impossibility argument is a quantitative one. And Caplan would be right if in fact (a) or

(b) constituted Mises' claim. But they don't. Mises' argument about the impossibility of socialism does not consist of either of these items that Caplan attributes to it.⁶

Admittedly, Caplan-confusion-(a) is not entirely his fault. Mises' colorful use of language throughout his discussion of socialism, which Caplan liberally quotes, may be slightly confusing in one respect. Mises does suggest that socializing the means of production on the scale of a national economy will result in catastrophe. And, in fact, the millions who starved under socialist planning suggest that Mises was not too far off the mark. However, Mises' predictions regarding the effects of real-world socialism must not be conflated with his theoretical argument regarding socialism's practicability.

Mises' predictions do constitute an empirical claim. And this is where Caplan gets balled up, so to speak. It is true, how much of a problem socialism's inability to economically calculate creates in reality is a quantitative, empirical question. But Mises' impossibility claim is not about this. It is about the ability of socialist means to achieve socialist ends in theory. As we showed above, and Mises argued, collective ownership cannot create advanced material production. This is all that the impossibility claim consists of. There is no question here about how much damage socialism will do, etc. There are also no quantities involved, for instance, about how hard it is for socialism to create advanced material production.

Using the insights of his theory, Mises' goes on to make empirical and quantitative claims about economic catastrophe under socialism. But this does not make his theory quantitative any more than predictions that use the law of demand make the law of demand empirical. The law of demand is purely theoretical and may be deduced *a priori*. This law can then be used to make predictions about consumer behavior in the

real world. For instance, using the law of demand one could predict that a rise in the price of shoes will lead to a massive drop in the quantity of shoes demanded. Whether or not this is true, of course, depends upon consumers' price elasticity of demand for shoes. Thus this prediction is quantitative. The prediction, however, does not make the law of demand quantitative. The law remains entirely aprioristic.

The same is true of Mises' argument about the impossibility of socialism. The impossibility claim is aprioristic; the application of this claim for real world predictions is quantitative. Of course, any such predictions also refer to real world socialism, not 'pure' socialism, which was advanced by socialism's proponents and which the impossibility argument attacks. Caplan may wish to question Mises' empirical predictions and this is fine. But he should not construe his critique as applicable to Mises' claim regarding the impossibility of socialism because this claim is patently false.

Caplan also tries to argue that Mises impossibility claim is quantitative because Mises points out that collective ownership among a family, for instance, will not result in catastrophe while it will when the scale of organization it is applied to is large. But here too Caplan is mistaken. Mises' does admit that a household, for instance, could collectivize its means of production without brining the household to its knees. But this does not establish what Caplan thinks it does.

First, when evaluating the impossibility of an arrangement we must remember again to consider its means as well as its ends. Recall that Mises' impossibility claim relates to means-ends coherence. The first question to ask then in this case is the following: what are the household's ends? Without getting at all specific about these ends, it seems abundantly clear that families are *not* organized in order to advance

material production and move to post-scarcity (in contrast to socialism). Therefore, collectivizing ownership inside the family is not necessarily an incoherent means as it is in the case of socialism, which has as one of its ends the creation of unimaginable wealth to achieve social harmony. The same can be said of a small commune. If a small commune sought advanced material production, then collective ownership would be an incoherent means with respect to this end. In fact if this were a small commune's end, then remaining a small commune would also be an incoherent means because small communes that remain small necessarily restrict their ability to grow by limiting the extent of the division of labor enabled by their meager populations.

So to recognize, as Mises did, that families, small communes, etc. can collective ownership without creating catastrophe does not mean that socialism is possible in some situations.⁷ In order for these things to constitute socialism, they must first have advanced material production as their stated end, which they do not. Thus these arrangements that use socialist means are not socialist arrangements because, unlike socialism which refers to a specific set of means and a specific set of ends including advanced material production, they do not aim at advanced material production. That is, they do not have socialist ends.

Furthermore, in light of this, it should be obvious that pointing out that small families can calculate in kind does not mean that socialism's possibility is a quantitative question. In the first place, as we have said above, these families do not aim at advanced material production and thus are not socialism. And in the second place, *if* they did take this as their end and thus could be classified as socialist arrangements, they would be unable to achieve advanced material production if for no other reason than their

extremely small size. Thus the ability to calculate in kind would be of no help and “socialism” here would also be impossible. In either event then, socialism remains impossible.

We might also point out that arrangements like family and tiny communes are in any case evidently not socialism (the subject of Mises’ critique), because socialism, at least as advanced by socialists themselves, referred to a global arrangement, not five or ten-man communes.⁸ The truth of this is so obvious that it would require no elaboration save for the fact that Caplan, for whatever reason, blithely pretends that he is unaware of this fact. Notions of communal socialism are appealing to those who want to jettison the ‘rat race’ of the modern economy, and they were particularly prevalent among religious advocates of socialism, and also the counter-culture in the western democracies in the 1960s. But none of the leading socialist theorists and activists in Europe and Russia at the beginning of this century to which Mises addressed his argument made a plea for the simple life as part of the promise of socialism.

If socialism did not refer to a global arrangement then how would one explain the rather rancorous debates among socialists on the issue of socialism in one-country in the early 20th century? At least for the Russian context, it is quite apparent in Trotsky’s notion of permanent revolution, or in Bukharin’s rhetoric about how revolution in Russia will shake the revolutionary tree of Europe, that the idea was for a worldwide socialist revolution. After all, the slogan of this movement was “Workers of the world unite!” *not* “let’s join a small commune and live the simple life.”⁹

Because of all of this, in acknowledging the ability of families to collectivize property internally without problem, Mises is not admitting the possibility of socialism

on some scale as Caplan suggests. Collective ownership at the family level is *not* socialism because it is neither global nor aims at advanced material production. Furthermore, if a family or small commune stated advanced material production as its end and thus could be considered “socialist,” we have showed why socialism in this case is impossible as well. Such a family or small commune will be unable to realize its goal despite the ability to calculate in kind.

Caplan-Confusion-(b)

Responsibility for Caplan-confusion-(b) lies squarely on the shoulders of Caplan himself. It is clear from reading Mises that he assumes away the incentive and motivation problems of socialism for rhetorical purposes, not because he thinks the calculation problem is more severe empirically than the incentive or motivation problem. His predictive comments regarding the trouble real-world socialism will confront do emphasize the calculation problem identified in the impossibility argument.¹⁰ However, this is likely more a consequence of the fact that he is using this theory in which incentive issues are assumed away for the sake of argument and for the purpose of highlighting the calculation problem to think about the issues real world socialism will face, rather than a theory that focuses on incentive problems and assumes away information ones. In the next section we will argue that the calculation problem may in fact be the dominant one for real-world socialism. But for now, it suffices to point out that Mises’ impossibility claim contains nothing about the magnitude of calculation problem relative to the incentive one for real world socialism. It merely establishes that collective ownership cannot create advanced material production.

*Empirical Reality and the Problems of Real-World Socialism*¹¹

Recognizing that Caplan does not argue against Mises' impossibility claim as he suggests he does, but instead argues against Mises' empirical predictions regarding the damage socialism will do, we now turn to the empirical record to evaluate Caplan's argument.

The first thing to do in such a discussion is to first be upfront about what we are evaluating. In discussing real-world socialism we are necessarily dealing with a degree of collectivization less than that put forward in socialist theory by socialists. The inevitable appearance of black markets, for instance, is already enough to make real world socialism "less than complete." In this situation, the extent of the problem caused by an attenuated ability to calculate will of course be dampened relative to other problems socialism faces that are not tempered by the less than complete nature of collectivization.

The second thing to recognize is that it is virtually impossible to isolate the extent to which the varying problems that plague socialism independently affect socialism's performance in the real world with any degree of accuracy. There is simply no reasonable way to go about separating out the effects of the calculation problem vs. those caused by the incentive problem. In reality, the two are closely related. And even if they were not, there exists no way to determine the relative magnitudes of the two problems individually. The historical record is of some value, but even there significant problems remain. Foremost among these is the fact that evidence can be found in ample quantities that points to the trouble caused by both the calculation problem and the incentive

problem. Which problem trumps the other? We do not feel that the historical record is able to definitively answer this.¹²

In what follows, then, we do not so much claim to be offering incontrovertible proof that the calculation problem trumps the incentive one empirically, so much as we present counter evidence to Caplan’s deliberately one-sided presentation in order to show that it is equally plausible that the calculation problem is the empirically relevant argument for real-world socialism. The strongest evidence that economic calculation was the most significant problem confronted by real-world socialism comes from the War Communist period of Soviet Russia between 1918 and 1921. In these years, Lenin imposed the closest example of full-blown theoretical socialism the world has ever seen. His economic program was the most ambitious socialist undertaking in human history. If the reader is tempted to question the extent to which the means of production in this period were fully socialized, we invite her to revisit the historical record. To preempt any disagreements that might emerge regarding the extent of socialism under War Communism before they get off the ground, we present a summary timeline of the steps taken by Lenin under War Communism provided in Table 1.¹³

Table 1: Major Economic Decrees and Resolutions Passed By the Bolsheviks, 1917-1921

Dates (Western Calendar)	Decrees and Resolutions
8 November 1917	The Council of the People’s Commissars is formed
8 November 1917	Decree on Land; abolished landlord’s right of property and called for the confiscation of landed estates
27 November 1917	Decree on Workers’ Control over Production
15 December 1917	Supreme Economic Council is established
27 December 1917	Declaration on the Nationalization of Banks
15 January 1918	Dividend and interest payments and all dealings in stocks and bonds are declared illegal
16 January 1918	Declaration of the Rights of the Working and Exploited People

	abolished the exploitation of man by man
10 February 1918	Repudiation of all foreign debt
22 April 1918	Nationalization of foreign trade
1 May 1918	Abolition of inheritance
9 May 1918	Decree giving the Food Commissariat extraordinary powers to combat village bourgeoisie who were concealing and speculating on grain services
9 June 1918	Labor mobilization for the Red Army
28 June 1918	Nationalization of large-scale industry and railway transportation
2 November 1918	Decree on the Extraordinary Revolutionary Tax to support the Red Army and the International Socialist Revolution
22 March 1919	The Party Programme of the Eighth Party Congress; called for increased centralization of economic administration
29 March to 4 April 1920	The Outstanding Resolution on Economic Reconstruction is passed; called for increased centralization of economic administration to insure the unity of the plan necessary for the economic reconstruction after the civil war and foreign intervention
29 November 1920	Decree of the Supreme Economic Council on the nationalization of small industrial enterprises; all enterprises without mechanical power who employed ten or more workers were nationalized
March 1921	The Kronstadt Rebellion
8-16 March 1921	Resolution on Party Unity abolishing factionalism within the Party is accepted
23 March 1921	The Tax in Kind is established and NEP is introduced

One way of empirically tacking the calculation vs. incentive magnitude issue is to consider which problem the planners themselves thought was of a more pressing concern at the time they introduced their plan to socialize the economy. This is the approach we will take here by considering words of Lenin and others in this regard concerning War Communism. In establishing unprecedented state control over the economy in these years, Lenin repeatedly noted the importance of creating a system of accounting to ensure that production was being correctly channeled. According to Lenin, the decisive aspect of organizing socialist production in Soviet Russia was “the strictest and country-wide accounting and control of production and distribution of goods” (1977, vol. 27, 245). The successful implementation of accounting and control, alongside the amalgamation of all banks into a single state bank would transform the banking system into “nodal points

of public accounting under socialism” (1977, vol. 27, 252). These “nodal points of public accounting” were required to enable calculation in the absence of money prices, which performed this role under capitalism, but would necessarily be absent under socialism. In identifying the importance of doing this, Lenin makes clear that the problem of calculation was a central one concerning the ability of socialism to effectively function.

Part of the urgency of establishing a system of public accounting had to do with the fact that socialism was to encompass a massive population—not tiny communes. Socialism “is inconceivable without planned state organization which keeps tens of millions of people to the strictest observation of a unified standard in production and distribution. We Marxists have always spoken of this, and it is not worth while wasting two seconds talking to people who do not understand even this” (Lenin 1977, vol. 27, 339). Lenin’s emphasis on strict accounting and control within state enterprises was due to his recognition that socialism needed to replace monetary calculation, which it abolished but which enabled rational allocation under capitalism. Yuri Larin, who was commissioned by Lenin as an economic advisor, recognized this as well. At the plenary session of the Supreme Economic Council in April of 1918 he said: “We have made up our minds to establish commodity exchange on new bases, as far as possible without paper money, preparing conditions for the time when money will only be an accounting unit” (as quoted in Malle 1985, 165).

This emphasis on following strict accounting and control methods as a substitute to perform the important function of monetary calculation under capitalism was echoed by Trotsky as well, who in his speech to the Central Executive Committee on February 14, 1918 repeated the necessity of rationalizing the economic life of Russia through strict

conformity to the plan: “Only a systematic organization of production, that is, one based on a universal plan—only a rational and economic distribution of all products can save the country. And that means socialism” (as quoted in Shagwell 1927, 24).

The comments of the first chairman of the Supreme Economic Committee, who was also a manager of the state bank, similarly suggest that the planners under War Communism understood the disastrous effects that the absence of money calculation could bring if it were not replaced with some other form of enabling calculation. As he stated it: “Our financial policy has been aimed recently at building up a financial system based on the emission of paper money, the ultimate objective of which is the natural transition to distribution of goods without using money and to transform the money tokens in to accounting units” (as quoted in Szmauely 1974, 34). The intent of this system was to abolish money while creating a “system of cashless clearing” to allow for calculation and accounting.

Bukharin also emphasized the importance of calculation for socialism’s success in his popular exposition of the Program of the Communist Party adopted at the 8th Party Congress in March of 1919. As he put it:

If all the factories and workshops together with the whole of agricultural production are combined to form an immense cooperative enterprise, it is obvious that everything must be precisely calculated. We must know in advance how much labour to assign to the various branches of industry; what products are required and how much of each it is necessary to produce; how and where machines must be provided. These and similar details must be thought out beforehand, with approximate accuracy at least; and the work must be guided in

conformity with our calculations” (Bukharin and Preobrazhensky 1966 [1919], 70).

This quote is so clear on the importance of calculation for the information problem socialism confronts that it sounds as if it could have been taken from Mises himself! According to Bukharin, the planning process was to be entrusted to “various kinds of bookkeeping offices and statistical bureau.” “Just as in an orchestra all the performers watch the conductor’s baton and act accordingly, so here will all consult the statistical reports and will direct their work accordingly” (Bukharin 1966 [1919], 74). The planners of War Communism emphasized the importance of calculation, not incentives, in making socialism work. The fact that the planners recognized this, of course, does not definitively establish the calculation problem was the foremost problem confronting War Communism. It does, however, establish that clearly in their minds the calculation problem existed in addition to any incentive problems that might have existed. Furthermore, it suggest that the calculation problem was of greater concern than the incentive problem because at least from our readings, incentives do not appear to enter the concerns of the War Communist planners, whereas, as we saw above, calculation is of great concern.

While the planners under War Communism realized the importance of at least creating some kind of a crude replacement for monetary calculation under capitalism, these substitutes based on moneyless accounting failed because as Mises argued, there is no substitute for money prices in the capitalist economy.¹⁴ Thus the result of War Communism was disaster as recorded by one of the first contemporary historians of Soviet Russia. As William Chamberlin commented, “War Communism may fairly be

considered one of the greatest and most overwhelming failures in history. Every branch of economic life, industry, agriculture, transportation, experienced conspicuous deterioration and fell far below the pre-War levels of output” (1935, vol. 2, 105). The same appraisal is offered by H.G. Wells (1921, 137), Moshe Lewin (1985, 211), and others.

Why this tremendous failure? If we are to take the quotations from Lenin, Bukharin and others from above seriously, the issue of calculation, not incentives, stood at the center of socialism’s ability to perform. Thus as the historian of War Communism, Lancelot Lawton pointed out, War Communism’s failure stemmed from its “disregard of economic calculation” (1932 I, 107). The “attempts of the Bolsheviks to establish moneyless accounting ended with no accounting at all.” Thus in striving “to make all men wealthy, the Soviet state had made it impossible for any man to be otherwise than poor” (1932 I, 111). This reason for War Communism’s failure was reiterated by the Russian economist Boris Brutzkus as well. Writing near the end of the War Communist period in 1920, he put it this way: the attempt to substitute a central plan for the spontaneous process of market evaluation led to the “atrophy of economic calculation” in the Soviet Union. The failure of War Communism resulted from the fact that it “no longer possesses the sensitive barometer provided by the market prices” (1982, 37). And in the aftermath of the failure of War Communism, Nikolai Bukharin himself stated that Mises was “one of the most learned critics of communism” and that the economic catastrophe that was evident in 1921 did resemble the picture “predicted” by Mises. (1925, 188)¹⁵ Before finally concluding, however, we should point out again that it is not our intention here to deny incentive problems under socialism. Rather, we desire merely

to point out that socialist leaders, contemporary economists, and the first historians of the socialist experience in Soviet Russia seemed to have given priority to the calculation problem in considering the feasibility of the socialist project under War Communism.

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We applaud Caplan for engaging the issue of socialism's possibility. Unfortunately, his discussion is wrongheaded on several fronts. First and foremost, his failure to understand what the proponents of socialism were after prevents him from fully appreciating Mises' argument in particular and the status of this position in the eyes of Austrian economists in general. Socialism referred to specific ends (advanced material production being among them) in addition to specific means (collective ownership). Recognition of this fact, as we have showed, makes Mises' impossibility argument as clear as day. Furthermore, we have provided some evidence to suggest that the historical record supports the possibility that economic calculation played at least as large a role as incentives in accounting for the failures of real-world socialism. Indeed, if we are to take the concerns as expressed by planners themselves under War Communism, it appears that the calculation problem played the more significant role.

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NOTES

¹ Boettke collected the main documents that constitute the debate over socialism in the 20th century in *Socialism and the Market: The Socialist Calculation Debate Revisited*, 9 volumes (2000). The first volume in this reference collection – *The Natural Economy* – compiles the crucial excerpts from the writings of Marx, Engels, Lenin, Bukharin, Preobrazhensky, and Neurath. What emerges in these writings is a shared vision among these thinkers for a social organization that would eradicate the ills of capitalism by the abolition of commodity production. Production for exchange would be replaced by production for direct use and a Natural Economy would be established. The seductive aspect of this program to the subversive mind is that it suggests that reformist attempts to correct for the ills of capitalism, such as exploitation of the workers, will never adequately address these social ills. The problem with private property and the

capitalist system is that it leads to exploitation of man by other men (which requires justice) and to the alienation of man from his true being (which requires transcendence). The revolutionary lure of Marxism over progressive era reformism was the claim that justice could only be achieved through transcendence. Revolution, not reformism, would usher in the new age of social harmony. As even Mises had to admit: “Socialism is at once grandiose and simple. Even its most determined opponents will not be able to deny it a detailed examination. We may say, in fact, that it is one of the most ambitious creations of the human spirit. The attempt to erect society on a new basis while breaking with all traditional forms of social organization, to conceive a new world plan and foresee the form which all human affairs must assume in the future --- this is so magnificent, so daring, that it has rightly aroused the greatest admiration.” (1922, 41).

² See Andrzej Walicki’s *Marxism and the Leap to the Kingdom of Freedom: The Rise and Fall of the Communist Utopia* (1995).

³ “Without economic calculation,” Mises wrote in his original article on the subject, “there can be no economy. Hence, in a socialist state wherein the pursuit of economic calculation is impossible, there can be – in our sense of the term – no economy whatsoever.” (1920, 105)

⁴ Mises’s emphasis on means/ends analysis is what he referred to as “value free” social science. He cautioned against ever engaging in a debate about ends, but that the social scientist must limit their analysis to the assessment of relationship between the means adopted and the ends sought from the point of view of those who propose the policy or particular institutional arrangement.

⁵ In showing this, Mises solidified the calculation argument as the lynchpin theoretical argument against socialism. That is, he demonstrated the impossibility of the socialism even under the most favorable incentive and motivational assumptions for socialism. For more on this see, Boettke and Leeson (2004a).

⁶ Mises’s methodological position is that there is an epistemological distinction between theory (conception) and history (understanding). The argument about the impossibility of socialism is in the realm of theory, whereas the question of magnitudes is one of history. Both theory and history are essential in the study of man, but their epistemological status is distinct. Both of us follow Mises in this methodological and epistemological position for the sciences of man, see Boettke and Leeson (2004b).

⁷ Household economies, and “The experiences of a remote and bygone period of simple production do not provide any sort of argument for establishing the possibility of an economic system without monetary calculation.” (Mises 1920, 103). The problems which Mises highlighted do not pertain, he readily admits, in situations of simple production, nor do they present a problem under static conditions. He states these points clearly in his original article, his fuller treatments in his 1922 book and his discussion in his treatise, *Human Action* (1949). Mises also makes it clear that his impossibility, argument does not deal with nationalized firms competing in society with monetary exchange. The impossibility argument relates to the aspirations of socialists themselves to abolish commodity production and substitute a social organization that would result in post-scarcity.

⁸ To put it another way, it is important to remember that the social organization of production under socialism was not to be based on a rudimentary division of labor of a simple economy, but instead to be so rationalized through a settled plan as to generate a burst of productivity so that the division of labor can be done away with in the post-scarcity of world of the “Kingdom of Freedom.” As Marx wrote: “The life-process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is consciously regulated by them in accordance with a settled plan.” (Marx 1867, 92)

⁹ It should also be obvious that socialism did not refer to the economic organization of a small commune because a small commune could not, owing to its very size, achieve advanced material production, which we have argued is integral to socialism. If the reader doubts this, consider the fact that although you could go without the ability to calculate using money prices in your household, your household could never advance very far economically without reaching outside its bounds to draw on the abilities of other people.

¹⁰ Actually, a close reading of Mises will reveal that what he emphasized in his analysis of the real-world experience of socialism was two factors. First, he emphasized that what existed was not socialism, but a socialist oasis within a monetary exchange system so that despite the cumbersome nature, the socialist planner could rely on market signals in designing their plans. Second, he emphasizes how the calculation problem was revealed in the retardation of the social division of labor. Rothbard’s analysis of real-world socialism went beyond Mises and can be seen as a forerunner to the work that was done in the 1970s, 1980s, and 1990s on the black-market and the corruption that characterized the political economy in the

Soviet Union. See Rothbard (1962, 825-832). Also see Boettke and Coyne (2004) for a discussion of Rothbard's contribution to the theoretical literature on socialism and the empirical analysis of real-existing socialism.

¹¹ The argument that Boettke (1990, 1993, 2000, 2001) has given as to why the history of the Soviet Union cannot be understood unless the thrust of Mises' argument is appreciated is more nuanced than just saying that the Soviet Union had economic problems because of the calculation argument. In fact, as Boettke readily admits you cannot say something is logically impossible and then condemn it for practicing the seemingly impossible poorly. Instead, as Boettke's work stresses the calculation argument demonstrates why the extreme ambitions of the revolution met with such utter disaster and did so almost immediately, leading to the abandonment of the most extreme ambitions of abolition of commodity production in the Soviet Union. The calculation argument, thus, serves to *frame* the historical account and leads to the analysis of the real – *de facto* – organizing principles in Soviet economic life and the difficulties this set of arrangements had in coordinating the affairs of economic actors. The calculation argument, in short, enables the historian to understand why the original aspirations were defeated and it provides the framework for studying the real economic organization of the Soviet system.

¹² In Paul Gregory's recently published work, *The Political Economy of Stalinism* (2004) – which makes extensive use of the recently opened archives -- within pages of each other, he provides evidence that the leaders were worried about both incentive issues (labor discipline and effort, 94) and calculation issues (the allocation and coordination of labor and materials in a cost effective manner, 101).

¹³ Another important matter to keep in mind in looking at this table is the issue of the civil war and the timing of policy. The extreme centralization policies attempting to eradicate the market economy were pursued prior to the outbreak of civil war in June 1918 and continued after the armistice was signed in October 1920. For a discussion of this and the implication for the debate on War Communism see Boettke (1990).

¹⁴ Mises warned in 1920 that many socialists do not realize that “the bases of economic calculation are removed by the exclusion of exchange and the pricing mechanism, and that something must be substituted in its place, if all economy is not to be abolished and a hopeless chaos is not to result.” (1920, 124) Mises' argument, as we have seen, is that no such substitute exists that is consistent with socialism in terms of means and ends.

¹⁵ Bukharin didn't abandon his socialist aspirations, but argued instead that as long as the Bolsheviks retained the “commanding heights” of the economy they would be able to build socialism in the future more successfully. But in the short run he argued that the workers should enrich themselves and he also argued that entrepreneurs must be secure in their investments so that they will not fear accumulating wealth and thus fueling economic growth. It is important to stress that this argument made in the heat of the debate over the New Economic Policy would later be used against Bukharin as evidence of his “right wing” deviationism and led to his execution.