

# CHAPTER I

## INTRODUCTION

We will devote this introductory chapter to an outline of the main features and new insights which distinguish the analysis of socialism contained in this book. We will briefly summarize and assess the content, structure, and conclusions of the work and will wrap up the chapter by suggesting some possible lines of research which, if pursued with the proposed analysis as a basis, should be of great interest and importance and thus inspire scholars to develop them.

### 1. SOCIALISM AND ECONOMIC ANALYSIS

#### *The Historic Failure of Socialism*

The fall of socialism in the countries of Eastern Europe was a historic event of the first magnitude, and there is no doubt that it caught most economics experts off guard. The issue is not only that economic science failed to rise to the occasion in the face of momentous historical circumstances which economists were unable to predict, but also, and this is even more serious, that it failed to provide mankind with the analytical tools necessary to prevent the grave errors committed.<sup>1</sup> In fact, economists have often done quite the opposite: they have used their scientific aura and prestige to justify and promote economic policies and social systems which have been patently unsuccessful and involved a disproportionate cost in human suffering.

When confronted with this situation, western economists have not appeared profoundly uneasy or disconcerted; instead, they have carried on with their science *as if nothing had happened*.<sup>2</sup> On those few occasions when a prominent economist has raised the uncomfortable

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<sup>1</sup> Now that it has become clear that economists had conducted little or no research in this field, which until recently was excluded from nearly all scientific research programs, it actually seems relatively unimportant that economic science was again found wanting when its help was required to accomplish the transition to market economies in the recently collapsed systems.

<sup>2</sup> The leading economists of Eastern Europe have not followed suit, and we will take an extensive look at their reaction in the following chapters. Moreover, these authors are the most aware of

question of why most professional theorists were unable to adequately evaluate and predict the course of events in a timely manner, the answers have been naive and superficial, and thus unsatisfactory. For example, economists have referred to an “error” in the interpretation of statistical data from the systems of the former Eastern bloc, data which may have been accepted in the profession without sufficient “critical” thought. They have also mentioned the inadequacy of the scientific consideration given to the role of “incentives” in the economy.<sup>3</sup> The most distinguished members of the economics profession, and the profession in general, have made little further effort to admit responsibility. No one, or rather almost no one, has explored the possibility that the very root of the problem may lie in the methods which prevailed in economics during the twentieth-century period that saw the persistence of socialist systems. Furthermore, we can count on the fingers of one hand the economists who have undertaken the unavoidable, crucial task of bringing to light and reevaluating the content of the debate surrounding the economic impossibility of socialism. Ludwig von Mises started the debate in 1920, and it continued in the decades that followed.<sup>4</sup> Aside from these isolated and honorable exceptions, it seems as if most economists have preferred to direct their research from this point on with a conscious disregard for all that has been written about socialism up to now, both by them and by their predecessors.

Nevertheless, we cannot turn past socialism’s chapter in history as if the failure of this system were to exert no influence on human scientific knowledge. In fact, the history of economic thought would suffer considerably if theorists again attempted to focus their concentration on the most urgent specific problems at all times, while forgetting the fundamental need to thoroughly and critically reevaluate and study the analyses of socialism carried out thus far, and particularly the need to produce a definitive, theoretical refutation of

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the theoretical deficiencies of western economics, a fact which often causes in them a curious, theoretical apprehension or confusion which their arrogant colleagues from the West have not managed to comprehend.

<sup>3</sup> These were the only explanations Gary Becker offered in the “Presidential Address” he delivered at the regional meeting of the Mont-Pèlerin Society which took place in Prague, Czechoslovakia from November 3 to 6, 1991 under the general title “In Search of a Transition to a Free Society.”

this social system. In any case, we must face the fact that economic science has again betrayed the high hopes man is entitled to pin on it. In reality, as an abstract system of thought which is firmly rooted in the innate, rationalist arrogance or conceit of human beings,<sup>5</sup> socialism will be destined to surface again and again if action is not taken to prevent it. To avert its reappearance, we must seize the unique, and perhaps unrepeatable, historic opportunity now before us to make a thorough examination of the theoretical conscience, to specify the errors committed, to entirely reevaluate the analytical tools used, and to ensure that no historical period is considered closed until we have first arrived at the necessary theoretical conclusions, which should be as definitive as possible.

### *The Subjective Perspective in the Economic Analysis of Socialism*

Throughout this book, we propound and develop the basic thesis that socialism can and should be analyzed only from the standpoint of a deep and clear understanding of human action and of the dynamic processes of social interaction it sets in motion. For the most part, the economic analysis of socialism carried out so far has failed to satisfactorily incorporate the methodological individualism and the subjectivist viewpoint Hayek considers essential to the advancement of our science. In fact, he states: “It is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism.”<sup>6</sup> Indeed, we have attempted precisely this in our

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<sup>4</sup> Worthy of special mention among the works of these professionals is Don A. Lavoie’s *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (Cambridge: Cambridge University Press, 1985), which has become required reading for all experts on the subject.

<sup>5</sup> This is the thesis F. A. Hayek presents in his book, *Fatal Conceit: The Errors of Socialism*, published as volume 1 of the *Collected Works of F. A. Hayek* (London: Routledge, 1989).

<sup>6</sup> F. A. Hayek, *The Counter-Revolution of Science* (New York: Free Press of Glencoe, 1952), 31. (See the splendid 1979 reprint from Liberty Press, Indianapolis.) In footnote 24, on pages 209-210, Hayek adds that subjectivism “has probably been carried out most consistently by L. v. Mises and I believe that most peculiarities of his views which at first strike many readers as strange and unacceptable are due to the fact that *in the consistent development of the subjectivist approach he has for a long time moved ahead of his contemporaries*. Probably all the characteristic features of his theories, from his theory of money to what he calls his *apriorism*, his views about mathematical economics in general, and the measurement of economic phenomena in particular, and his criticism of planning all follow directly from his central position.” (As in the rest of the footnotes of this book, in the absence of an explicit comment to the contrary, the italics have been added and do not appear in the original text. Also,

socialism study; namely, to base it on a radical and consistent application of “subjectivism,” to build it upon the most intimate and essential characteristic of man: his ability to act in an entrepreneurial, creative manner.

In this light, we have made a sustained effort to free our work, without exception and in all contexts, from the remains of that “objectivism” which still, on either an overt or a covert, subconscious level, pervades many areas of our science and thus cripples its productiveness and severely hampers its future development. Although we can never be absolutely certain that the vain objectivism which floods our science has not furtively crept into our analysis (especially after the long years of academic misguidance all economics students endure while completing their university studies), we have done all within our power to break with the oppressive, prevailing paradigm. Hence, we have taken special care to resist the erroneous view that economic phenomena have a factual, “objective” existence outside of the subjective interpretation and knowledge of them which humans generate when they act. Therefore, we have come to conceive economics as a science which deals exclusively with “spiritual” facts, i.e. with the subjective information or knowledge people create in the processes of social interaction.

### *Our Definition of Socialism*

Our expressed desire to apply subjectivism with the greatest possible rigor and consistency to the analysis of socialism manifests itself, above all, in our definition of this social system. Indeed, we have already stated our view that the core, or most characteristic feature, of human nature is the ability of all people to act freely and creatively. From this standpoint, we consider that *socialism is any system of institutional aggression on the free exercise of human action or entrepreneurship*. Later, in chapter 3, we will have the opportunity to explore in detail all elements and implications of our definition, and we will examine its decided, productive comparative advantages over the other definitions used until now. At the moment it is sufficient

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whenever possible, we have provided the direct quotes in the language in which they were originally

for us to stress that our conception of socialism as the systematic and aggressive *thwarting of action*, institutional *coercion* in other words, inevitably and necessarily gives our analysis of socialism a wide relevance and makes it an entire *economic theory on institutional coercion*. Moreover, it becomes clear that to examine the theoretical ramifications of the systematic attack on human action and interaction, one must first acquire a deep enough knowledge and understanding of the basic theoretical analysis of unfettered human action. In chapter 2, to which we have given the general title of “Entrepreneurship,” we focus entirely on providing this groundwork.

### *Entrepreneurship and Socialism*

Our conception of entrepreneurship is both very broad and very precise. In a general sense, we consider entrepreneurship and human action to be synonymous. In a stricter sense, entrepreneurship consists of the typically human capacity to recognize the opportunities for profit which exist in one’s environment. Action is a typically entrepreneurial phenomenon, and we will study in depth its main components and characteristics in chapter 2. Among its features, the most outstanding is the creative and coordinating power of entrepreneurship. In fact, each entrepreneurial act generates new information of an unspoken, dispersed, practical, and subjective nature and prompts the actors involved to modify their behavior or discipline themselves in terms of the needs and circumstances of others: it is in this spontaneous, unconscious manner that the bonds which make life in society possible are formed. Also, only entrepreneurship can produce the information necessary for *economic calculation* – understood as any estimation of the outcome of the different courses of action. If we correctly identify and clearly understand the essence of this remarkable process of social coordination and economic calculation, a process only entrepreneurship can initiate, we can comprehend, by comparison and contrast, the severe social discoordination and lack of economic calculation which necessarily follow any institutional coercion against entrepreneurial freedom. In other words,

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published, though for convenience, an English translation is often supplied.)

only through a correct understanding of the nature of market processes and society can we fully comprehend all the primary and secondary implications of the socialist system. In chapter 3, we will examine them from this viewpoint and consider the connections between them.

### *Socialism as an Intellectual Error*

If socialism has often been defended in scientific, political, and philosophical circles, it is because it was thought that the systematic use of coercion could make the process of social coordination much more effective. We devote the entire first half of chapter 3 to a theoretical refutation of this idea, and we develop our argument from two points of view, the “static”<sup>7</sup> and the “dynamic,” which are distinct but complementary. We conclude that in this light, socialism is simply an intellectual error, since according to theory, it is impossible to coordinate society by systematically imposing coercive measures.

The second half of chapter 3 deals in part with the secondary implications of our basic argument and does so from an interconnected, multidisciplinary perspective. It also includes an explanation and defense of our definition of socialism as opposed to the alternative conceptions which have prevailed in the past. An anatomy of the different historical varieties or types of socialism closes the chapter. Although different in motivation, degrees of intervention, and other particular characteristics, all varieties of socialism share a common denominator: they all rely, to a greater or a lesser extent, on the systematic use of aggression against the free exercise of entrepreneurship.

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<sup>7</sup> Our “static” argument is totally unrelated to the analysis of equilibrium or the static conception which we so strongly criticize in chapter 4 and, in general, throughout the entire book. However, we use the term “static” for want of a better one, since this argument deals with the *dispersed* nature of information which has hypothetically *already been created*, as opposed to the “dynamic” argument, which refers to the process by which *new* information is generated. Later we will show that from our perspective both arguments are equally dynamic and thus equally incompatible with equilibrium theory. In fact, both arguments refer to simultaneous, indistinguishable social processes which we discuss separately for educational purposes only.

## 2. THE DEBATE ON THE IMPOSSIBILITY OF SOCIALIST ECONOMIC CALCULATION

The analysis of socialism mentioned above reveals the need for a reevaluation of the debate which took place in the 1920s and 30s between Mises and Hayek, on one side, and different socialist theorists, on the other, concerning the impossibility of socialist economic calculation. First, let us remember, as we argued earlier, that the recent, historic fall of socialism in the countries of Eastern Europe obliges all serious, reputable researchers to review and reassess the theoretical observations on socialism which had already been offered by those who most diligently and minutely studied the problems involved. Second, our conception of entrepreneurship and socialism is the culmination of a theoretical synthesis which emerged in embryonic form at the start of the debate and gradually evolved and approached completion in the course of it. Hence, it is essential to analyze and reevaluate the controversy in order to clearly and fully grasp all of the implications of the socialism analysis we put forward here. Finally, by studying the debate, one becomes aware that the mainstream paradigm, which rests on the analysis of equilibrium, has failed to explain the theoretical problems inherent in socialism. Indeed, as this paradigm is based on Newtonian mechanicism and the idea of equilibrium, “repetitive inaction” in other words, it becomes impossible even to distinguish the inescapable theoretical problem institutional coercion poses. Furthermore, the fact that most authors of secondary sources on the debate and most experts who commented on these writings received their training within the above paradigm shows why they were unable to comprehend the nature of Mises and Hayek’s challenge; it also explains why the “myth” that the socialist side had won survived for so many years.

### *Ludwig von Mises and the Start of the Socialism Debate*

It was no coincidence that the controversy arose in the wake of Mises’s contributions shortly following the First World War. Indeed, only someone who, like Mises, had acquired a profound knowledge of the nature and implications of market processes driven by human action was able to intuit and comprehend the unavoidable economic-calculation problems socialism involves. We devote all of chapter 4 to an examination of Mises’s seminal contribution and the

background to it. We take special care to place Mises in the historical context in which he made his momentous contribution and in which a typically Marxist conception of socialism predominated. We also make a concerted effort to show that Mises's socialism analysis is one of dynamic theory in the strictest Austrian tradition and therefore bears no relation to static equilibrium analysis nor to the “pure logic of choice,” which was developed based on it. The chapter ends with a detailed critical study of socialist theorists' first proposed “solutions” to the problem of economic calculation. These included calculation in kind, in labor hours, and in so-called “units of utility,” and none remedied the inevitable theoretical problems Mises raised.

### *The Unjustified Shift in the Debate toward Statics*

The absurd idea that only the economic analysis of equilibrium, which underlies and pervades the mainstream paradigm, constitutes “theory” inevitably steered the debate toward the problems of statics. As we will see in chapter 5, economists either failed to comprehend Mises's challenge, or they realized his analysis was not of equilibrium and so considered it practical rather than “theoretical,” or, as happened with most, they interpreted the Misesian challenge in the narrow terms of equilibrium and of the strict “pure logic of choice.” In the last case, they neglected to recognize that Mises himself, from the very beginning, had very clearly established that socialism posed no problem whatsoever in a static sense, and that thus his theoretical argument against socialism was fundamentally dynamic and rested on his theory of the processes of human interaction which work in the market. The shift in the debate toward statics was *irrelevant*, since statics had nothing to do with the original theoretical challenge, as well as *unjustified*, since the deflection rendered the theoretical controversy entirely fruitless. (The static viewpoint prevented economists from discovering where the problem lay and from grasping its essential, insoluble nature.) In chapter 5 we also review socialist economists' different attempts at a “mathematical solution,” beginning with the arguments of a “formal similarity” in static terms between the market and socialism, and ending with the more serious contributions of Taylor and Dickinson. Finally, we take a detailed look at the “trial-and-error method,” which was conceived as a practical strategy for solving the corresponding system of

equations. Chapter 5 concludes with a critical analysis of “planometric” models based on the socialist theorists’ contributions covered in the chapter, models which economists have remained stubbornly bent on developing up to the present day.

#### *Oskar Lange and the “Competitive Solution”*

The notion that in terms of theory, Oskar Lange managed to refute Mises’s argument against socialism is possibly one of the greatest myths in the history of economic thought. In fact, the leading manuals and textbooks, as well as nearly all secondary sources on the debate, categorically offer this mythical and superficial version. In its turn, this illusion has been passed down, without any justification or critical analysis, to two entire generations of economists. For this reason, we have considered it imperative to do a meticulous critical study of the “competitive solution” Oskar Lange proposed. This study appears in chapter 6, and its content, length, and depth make it perhaps one of the most original and illustrative elements of our effort to apply subjectivist methodology to the economic analysis of socialism. Indeed, if our study, along with other recent, related writings which we will cite when appropriate, at least helps to dispel once and for all the myth that Lange refuted Mises’s argument, we will be satisfied.

#### *“Market Socialism” as the Impossible Squaring of the Circle*

The seventh and last chapter completes our analysis of the “competitive solution” with a look at the contributions Dickinson, Durbin, and Lerner made in this area at a time after Oskar Lange presented his ideas. In this chapter, we arrive at the conclusion that competition and socialism, like creative action and coercion, are radically and fundamentally contradictory concepts. Curiously, as we will see, a whole school of socialist theorists led by Dobb has maintained this same position and has invariably labeled as hypocrites and visionaries those of their colleagues in favor of market socialism. Following a few reflections on the true meaning of the impossibility of socialism, we close the chapter with a brief summary of our most important conclusions.

### 3. OTHER POSSIBLE LINES OF RESEARCH

Logically, the theoretical analysis of socialism we carry out here leaves plenty of room for future research. In fact, we consider our study the first step on a path toward a number of research possibilities which we believe could lead to highly promising results if explored or reexamined from the methodological perspective established here. Among these areas of future research, the following appear particularly significant:<sup>8</sup>

#### 1. *The Analysis of So-called “Self-Management Socialism”*

Discredited as “self-management” or “syndicalist” socialism is, especially following the economic, social, and political collapse of the Yugoslavian model, we believe that a study of this brand of socialism using our approach would be of great theoretical interest. This is particularly true in light of the specific coordination problems this model poses at all levels, as well as the fact that it has often been defended as a middle way capable of overcoming the obstacles associated with the traditional conceptions of both capitalism and socialism.

#### 2. *“Indicative Planning”*

Although likewise practically forgotten nowadays, we feel indicative planning should be studied for several reasons. First, this model had a large group of defenders, particularly in the 1960s, who attempted to justify their positions with a series of theoretical arguments which in essence closely resembled those underlying the “market socialism” model, and which went virtually unanswered at the time. Therefore, even though “indicative planning” has fallen into disuse, it is necessary to properly analyze it afresh before closing the theoretical file on it for good. Second, as a result of the curious phenomenon described above (the abandonment or forgetting of a number of theoretical positions without the prior, necessary scientific study and ruling on them), various Eastern European economists have sought to revive “indicative

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<sup>8</sup> The list is not meant to be exhaustive, as is clear, and corresponds to the outline of a second volume on socialism, a follow-up to this one. The content of this new project has already been partially prepared.

planning” as a panacea for their economies. Third and finally, we must point out that our socialism analysis is perfectly applicable to the theory of “indicative planning,” since the theoretical arguments which explain the impossibility of socialism, and which we will examine in this book, are precisely the ones that prevent indicative planning from achieving the intended objectives. The same is true of a whole set of techniques which, like input – output tables, many scientific economists doggedly persist in attempting to use to make planning (indicative or otherwise) feasible.<sup>9</sup>

### *3. The Healthy Acknowledgement of “Scientific Accountability”*

The establishment and persistent propagation (for almost forty years) of the myth that socialist theorists had “won” the debate on the impossibility of socialist economic calculation, and thus that socialism as a model posed no theoretical problem whatsoever, constitutes one of the most curious aspects of the controversy. Particularly responsible for the creation of this myth are the scholars who produced the secondary sources on the debate, as well as an entire legion of economists who, all these years, have either accepted the most popular version without bothering to do any in-depth study on their own, or have simply disregarded the whole debate because they considered it obvious that socialism presented no theoretical problem. Although we can confidently assert that, with respect to the difficulty socialism poses, most social scientists have not lived up to the expectations mankind had a right to place on them and have at least failed to fulfill their crucial scientific duty of informing and warning citizens of the grave dangers inherent in the socialist ideal, a substantial difference exists with respect to the bad faith, negligence, or mere ignorance attributable to each individual theorist. Hence, it becomes essential that we perform the very healthy, instructive exercise of acknowledging the responsibility of different scientists. With respect to ordinary citizens and the future of

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<sup>9</sup> Such is the case with the scientific economist Wasily Leontief, who, always desirous of finding new “applications” for his “intellectual creature” (input – output tables), does not hesitate to propose continual plans for intervention and attacks on society. See Don A. Lavoie, “Leontief and the Critique of Aggregative Planning,” in *National Economic Planning: What is Left?* (Cambridge, Massachusetts: Ballinger Publishing, 1985), 93-124.

economic thought, such an exercise should portray each theorist, without regard to name nor to current or transient reputation or popularity, in an appropriate light.<sup>10</sup>

#### 4. *Consequences of the Debate with Respect to the Future Development of Economics*

Perhaps the most daring contention we express in this book is that the fall of socialism will necessarily exert a major impact on the prevailing paradigm and on the future of economic science. It seems clear that a critical element in economics has failed when economists, barring extremely rare exceptions, have been unable to foresee such a momentous event. Luckily, at the present time, the heavy blow received has put us in the position to correctly evaluate the nature and degree of the theoretical short-sightedness that affects the mainstream paradigm, which until now has precluded economists from assessing and interpreting with sufficient clarity the most significant events of the social realm. Moreover, we will not need to start from scratch, since many of the new analytical tools have been undergoing a process of development and refinement triggered by the efforts of *Austrian* theorists to explain, defend, and fine-tune their positions throughout the debate on the impossibility of socialist economic calculation.<sup>11</sup>

Although we could not possibly list here all of the areas of our discipline which are affected, much less meticulously revise their content, we can offer a few examples. Perhaps we should begin with the *method* appropriate to our science. The factors which make socialism impossible (i.e. the subjective, creative, dispersed, and tacit qualities of the information society uses) are exactly the same ones which render unattainable the ideals of empirical comparison and precise measuring which until now economists have defended with equal degrees of eagerness and naiveté. And we have not even mentioned the adverse effects which mathematical formalism and the pernicious obsession with analyses based on complete

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<sup>10</sup> We find an example of this line of research in Don A. Lavoie's fascinating paper, "A Critique of the Standard Account of the Socialist Calculation Debate," *The Journal of Libertarian Studies: An Interdisciplinary Review* 5, no. 1 (winter 1981): 41-87.

<sup>11</sup> Israel M. Kirzner has revealed the key importance this debate has taken on as a catalyst for the development, refinement, and proper articulation of Austrian-school theories, in general, and for the thorough analysis and comprehension of the theory of entrepreneurship and of the dynamic market processes of creativity and discovery, in particular. See Israel M. Kirzner, "The Economic Calculation

information and on equilibrium have exerted on the development of our science. It is also necessary to abandon the functional theory of price determination in favor of a *price theory* that explains how prices are dynamically established through a sequential, evolving process driven by the force of entrepreneurship, in other words, by the human actions of the actors involved, rather than by the intersection of mysterious curves or functions which lack any real existence, since the information necessary to devise them does not exist even in the minds of the actors involved. In addition, we must abandon and reconstruct the flimsy, static theory of “*perfect competition and monopoly*” and replace it with a theory of competition understood as a dynamic and purely entrepreneurial process of rivalry, a theory which does away with monopoly issues in their traditional sense by rendering them irrelevant and focuses on institutional restrictions on the free exercise of entrepreneurship in any sphere of the market.

The *theory of capital and interest* is likewise profoundly affected by the subjectivist conception, which depicts as a capital good each and every intermediate stage, subjectively considered as such by the actor, within the context of the specific action in which he is immersed. The actor’s experience of culmination gives rise to the subjective idea of the passage of time. Capital appears as a mental category in the actor’s economic calculation or subjective estimation of the value of each stage in monetary market prices. This conception explains the leading role time preference plays in determining the interest rate; it also explains the absence of any causal relationship between the interest rate and capital efficiency. The belief in such a relationship derives from three distinct but closely linked errors: the analysis of only a perfectly adjusted state of equilibrium, the idea of production as an instantaneous “process” that does not take time, and the notion of capital as an actual “fund” which is independent of the human mind and replicates itself.

The *theory of money*, credit, and financial markets represents perhaps the greatest theoretical challenge our science faces in the twenty-first century. In fact, we would go so far as to assert that now that the “theoretical gap” created by the absence of an adequate analysis of

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Debate: “Lessons for the Austrians,” in *The Review of Austrian Economics*, vol. 2 (Massachusetts:

socialism has been filled, the least-known field, and the most important, is that of money, where systematic coercion, methodological errors, and theoretical ignorance prevail in all areas. For the social relationships which involve money are by far the most abstract and difficult to understand,<sup>12</sup> and therefore the knowledge they produce and incorporate is the most vast, complex and obscure, which makes systematic coercion in this area decidedly the most detrimental. The *theory of interventionism*, in general, and of *economic cycles*, in particular, fit in perfectly with the socialism definition and analysis we propose here, which clearly explain the disturbing effects systematic coercion exerts on market intra- and intertemporal coordination in all areas, especially in the monetary and fiscal spheres.

Economists have built the *theory of growth and economic development* upon macroeconomic aggregates and the concept of equilibrium and have overlooked the one, true protagonist of the process: man and his alertness and creative, entrepreneurial ability. Thus it is necessary to reconstruct the entire theory of growth and underdevelopment and to eliminate all elements which justify the institutional coercion that until now has rendered the theory destructive and fruitless. We must refocus the theory on the theoretical study of the discovery processes which reveal development opportunities that have not yet been exploited, due to a lack of the essential entrepreneurial component. A similar observation could be made about all of so-called *welfare economics*, which rests upon the chimerical Pareto notion of efficiency and becomes irrelevant and useless, since its operative management requires a static environment of complete information, and such an environment never exists in the real world. Hence, more than on Pareto criteria, efficiency depends on and should be defined in terms of the capacity of entrepreneurship to spontaneously coordinate the maladjustments which arise in situations of disequilibrium. The *theory of “public” goods* has always been constructed in

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Lexington Books, 1988), 1-18.

<sup>12</sup> “The operation of the money and credit structure has, with language and morals, been one of the spontaneous orders most resistant to efforts at adequate theoretical explanations, and it remains the object of serious disagreement among specialists... The selective processes are interfered with here more than anywhere else: selection by evolution is prevented by government monopolies that make competitive experimentation impossible.” F. A. Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago: The University of Chicago Press, 1989), 102-103.

strictly static terms and based on equilibrium, and theorists have presumed the circumstances which give rise to “joint supply” and “nonrivalry in consumption” to be given and destined to always remain the same. From the standpoint of the dynamic theory of entrepreneurship, any situation in which a “public” good appears to exist offers a clear opportunity for someone to discover and eliminate it through entrepreneurial creativity, and therefore from the dynamic perspective of free entrepreneurial processes, the set of “public” goods tends to be left empty. Thus one of the stalest alibis used to justify, in many spheres of society, systematic, institutional coercion against the free exercise of entrepreneurship disappears.

Finally, we mention the theories of the *public choice* school and of the *economic analysis of law* and of *institutions*. In these areas, theorists currently struggle to throw off the unhealthy influence of the static model based on complete information. This model is spawning a pseudoscientific analysis of many guidelines, an analysis grounded on methodological assumptions identical to those economists attempted to use at one time to justify socialism. Such assumptions totally bypass the dynamic, evolutionary analysis of the spontaneous social processes which entrepreneurship triggers and drives. It is manifestly inconsistent to strive to analyze guidelines and rules from a paradigm which presupposes the existence of complete information regarding the profits and costs derived from them, since such information, if it existed, would make the rules and guidelines unnecessary (and it would be much more effective to replace them with simple orders), and if anything accounts for the evolutionary emergence of law, it is precisely the ineradicable ignorance in which humans are constantly immersed.

We could name many other fields of research (the *theory of population*, the economic analysis of tax revenues and redistribution, the ecology of the market, etc.), but we feel that the outline given above provides an adequate illustration of the direction in which we believe economics will evolve in the future, once it has been rid of the theoretical and methodological defects the fall of socialism has exposed. As a result, hopefully a true social science at the service of humanity will emerge, a science which is much more wide-ranging, productive, and instructive.

## *5. The Reinterpretation and Historical Analysis of the Different Real Types of Socialism*

This line of research involves applying the economic analysis of socialism contained in this book to the redoing of work in the field of “comparative economic systems,” most of which has until now been plagued with serious defects, due to a lack of the necessary analytical tools. The aim, therefore, is to conduct a detailed study consisting of the historical reinterpretation of each and every one of the different types of socialism that have existed or still persist in the real world. The purpose of such a study is not only to illustrate theory, but also to reveal the extent to which events appear to support it as they develop.

## *6. The Formulation of a Theory on the Ethical Inadmissibility of Socialism*

It is necessary to consider whether or not efforts to find a theoretical basis for the idea of justice and for its implications are tainted with the methodological and analytical flaws we criticize. In other words, we need to strive to reconstruct the theory of justice, while abandoning the static paradigm of complete information and focusing instead on the creative and uncertain reality of human action, so that we can study the degree to which socialism, besides being an intellectual error and a historic failure, is or is not also ethically unacceptable.

## *7. The Development of a Theory on the Prevention and Dismantling of Socialism*

If it is concluded that socialism is ethically inadmissible, as well as a historic failure and an intellectual error, it will eventually be necessary to develop an entire tactical and strategic theory on the dismantling and prevention of it. The above will involve examining the concrete difficulties posed by the dismantling of each historical type of socialism (“real,” social democratic, self-management, etc.) and evaluating the advantages and disadvantages of the different alternatives or courses of action, particularly “gradualism *versus* revolution,” according to the possible specific circumstances in each case. Finally, prevention takes on key importance, given the recurrent, deceptive, and essentially corrupting nature of the mechanisms which at all times encourage the resurgence of socialism and necessitate unflagging alertness, not only in the scientific realm, but also with respect to the defense and development of the

institutions, habits, principles, and behavior patterns required by any healthy social framework free from systematic coercion.

#### 4. CONCLUSION

It was necessary to outline the above considerations in order to place our study of socialism and institutional coercion in its proper context. Only an appropriate understanding of the general theory of human action can explain the consequences which invariably follow from any attempt to forcibly block the free exercise of entrepreneurship. Hence, our analysis centers on human beings, understood as creative, acting subjects who struggle tirelessly throughout history to express and act according to their most intimate nature, free from the fetters and coercion which would be systematically imposed on them under the most varied and unjustified pretexts.