

CHAPTER III

SOCIALISM

In the last chapter, we analyzed the concept of entrepreneurship, and in this one, we will begin with a detailed explanation of the nature of socialism and how it precludes the emergence of the coordinating tendencies necessary to life in society. Specifically, we will study the effects socialism exerts on incentives and on the generation of information, as well as the perverse deviation it provokes in the exercise of entrepreneurship. In addition, we will explain the sense in which socialism constitutes an intellectual error and always has the same essential nature, despite the fact that historically it has emerged in different types or forms, the main characteristics of which we will attempt to isolate. We will wrap up the chapter with a critical analysis of the traditional alternative concepts of socialism.

1. THE DEFINITION OF SOCIALISM

We will define ‘socialism’ as *any system of institutional aggression on the free exercise of entrepreneurship*. By *aggression* or *coercion* we mean all physical violence or threats of physical violence which another person or group of people initiates and employs against the actor. As a result of this *coercion*, the actor, who otherwise would have freely exercised his entrepreneurship, is *forced*, in order to avoid greater evils, to act differently than he would have acted in other circumstances, and thus to modify his behavior and adapt it to the ends of the person or persons who are coercing him.¹ We could consider aggression, when defined in this

¹ The *Diccionario* of the *Real Academia Española* defines “coercion” as “force or violence used to oblige someone to do something” [“*la fuerza o violencia que se hace a una persona para que ejecute alguna cosa*”]. The term derives from the Latin word *cogere*, to impel, and from *coactionis*, which referred to tax collection. On the concept of coercion and its effects on the actor, see F. A. Hayek’s book, *The Constitution of Liberty* (reprint, London: Routledge, 1990). See esp. pp. 20-21. For his part, Murray N. Rothbard defines “aggression” this way: “Aggression is defined as the initiation of the use or threat of physical violence against the person or property of someone else.” See Murray N. Rothbard, *For a New Liberty* (New York: Macmillan Publishing, 1973), 8. There are three types of coercion or aggression: *autistic, binary, and triangular*. Autistic aggression involves a command issued to one subject only, a command which modifies the behavior of the coerced actor without affecting any interaction between him

way, to be the quintessential *antihuman action*. This is so because coercion keeps a person from freely exercising his entrepreneurship. In other words, as we read in the definition from the last chapter, it prevents a person from pursuing those objectives he discovers and from employing the means he deems within his reach, according to his information or knowledge, to help him achieve them. Therefore, aggression is an evil, because it precludes man from engaging in the activity which is most characteristic of him and which by its essence most intimately befits him.

Aggression can be of two types: systematic or institutional; or asystematic or non-institutional. This second type of coercion, which is dispersed, arbitrary, and more difficult to predict, affects the exercise of entrepreneurship to the extent that the actor considers it more or less probable that within the context of a specific action he will be coerced in the exercise of his entrepreneurship by a third party, who could even wrest away by force the product of the actor's own entrepreneurial *creativity*. While the effects of asystematic outbreaks of aggression on the coordinated exercise of human interaction are of varying seriousness, depending on the circumstances, *institutional or systematic* aggression, which constitutes the core of our definition of socialism, exerts a much more harmful influence, if that is possible. Indeed, institutional coercion is characterized by a highly predictable, repetitive, methodical, and organized nature.² The main consequence of this systematic aggression against

and another person. In cases of binary aggression, the governing body coerces the actor to obtain something from him against his will; that is, the governing body forces an exchange in its favor between it and the coerced actor. Triangular coercion is that in which the command and coercion of the governing body are intended to force an exchange between two different actors. We owe this system of classification to Murray N. Rothbard, *Power and Market: Government and the Economy*, 2nd ed. (Menlo Park, California: Institute for Humane Studies, 1970), 9, 10.

² Of course, within our conception of systematic aggression, we do not include the minimum level of institutional coercion necessary to prevent and rectify the damaging effects which non-institutional or asystematic arbitrary aggression produces. Even the non-institutional aggressor desires this minimum level of institutional coercion outside of the context of his asystematic aggression, to allow him to peacefully take advantage of it. The solution to the problem every society addresses when it attempts to avoid and remedy the effects of asystematic or non-institutional aggression lies in the development of an ethical theory of property rights. This theory would be based on the idea that the actor is the rightful owner of all fruits of his entrepreneurial creativity, when he has exercised it without initiating any aggression or coercion against anyone. We view as socialism any widening of the scope of systematic coercion beyond the minimum necessary to uphold the juridical institutions which define and govern property rights. The state is the organization which most typically uses systematic or institutional coercion, and in this sense, whenever the minimum amount of coercion necessary to prevent and eradicate asystematic aggression is exceeded, the state and socialism become intimately linked concepts. This is

entrepreneurship is that it thwarts to a high degree, and causes a perverse deviation in, the exercise of entrepreneurship in all areas of society in which such aggression is most effective.

The following chart reflects the situation which typically results from the systematic exercise of coercion.

[Stick figures]

Figure III-1

Let us suppose that in Figure III-1, the free human action of “C” in relation to “A” and “B” is prevented in a systematic and organized manner, via coercion, in a specific sphere of social life. We represent this situation using the vertical bars which separate “C” from “A” and “B”. The above systematic coercion presents a threat of serious harm and thus makes it impossible for “C” to discover and take advantage of the profit opportunity he would have if he could freely interact with “B” and “A”. It is very important to clearly understand that

not the place to cover the different arguments put forward in the interesting debate, within the field of libertarian theory, between those who defend a strictly limited system of government and supporters of an anarcho-capitalist system. Nevertheless, we should point out that members of the latter group argue that it is utopian to expect an organization with a monopoly on coercion to limit itself effectively, and in fact, all historical attempts to limit state power to the above-mentioned minimum have failed. (For this reason, anarcho-capitalist theorists propose a system of competitive organizations of voluntary membership which would tackle the problem of defining and defending property rights, as well as preventing and fighting crime.) Furthermore, if a strictly limited state is financed coercively by taxes; that is, by a systematic assault on the citizenry and their freedom of action in the definition and defense of property rights, then the limited state could be called socialist in a strict sense as well. For their part, defenders of a limited government argue that even the different private defense agencies would be forced to reach agreements on principles and organization, and thus a de facto state would inevitably reemerge as a result of the very process of social development. On the content of this stimulating debate, see the following works, among others: David Friedman, *The Machinery of Freedom* (Illinois: Open Court, 1989); Murray N. Rothbard, *For a New Liberty*, (New York: Macmillan, 1973), and *The Ethics of Liberty* (New Jersey: Humanities Press, 1982), chap. 23; and Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974). Hayek has not voiced a definite opinion on the chances that an anarcho-capitalist system will develop in the future. Against this possibility, he mentions that no process of social development has in the past given rise to a stateless society. He then indicates that, in any case, the evolutionary process of social development has not yet come to an end, and thus it is impossible to know today if in the future the state will disappear and become a sad, dark historical relic, or if, on the contrary, it will survive in a minimal form with strictly limited power. (He rules out the long-term survival of an interventionist or real socialist state, given the theoretical impossibility of both models.) See *The Fatal Conceit: The Errors of Socialism*. John Paul II, for his part (*Centesimus Annus*, chap. 5, section 48 [1991] <http://www.newadvent.org/docs/jp02ca.htm> [May 6, 2004]), points out that the principal obligation of the state is to guarantee the safety of individual freedom and of property, “so that those who work and produce can enjoy the fruits of their labors and thus feel encouraged to work efficiently and honestly.” He adds that the state should intervene only under circumstances of exceptional urgency, that intervention should be of a temporary nature, and that the *principle of subsidiarity* with respect to civil society should be respected. Finally, we should mention that in many societies, not only is systematic aggression committed by the state directly, but in numerous areas, with the state’s complicity and

aggression not only keeps actors from grasping opportunities for profit; *it precludes even the discovery of such opportunities.*³ As we explained in the last chapter, the chance of making a profit acts as an incentive for the actor to discover an opportunity. Therefore, if systematic coercion restricts a certain area of social life, actors tend to adapt to this situation and take it for granted, and hence they do not even create, discover, or recognize the latent opportunities for profit. We illustrate this situation in our diagram by crossing out the bulb we use to represent the creative act of pure entrepreneurial discovery.

Logically, if the aggression consists of a systematic assault on a social sphere and actors cannot exercise entrepreneurship in that area as a result, then none of the other typical effects we studied with respect to the entrepreneurial act will appear. First, new information will not be created nor transmitted between actors; and second, the necessary adjustment in cases of social discoordination will not be made. (The second of the above consequences is much more worrying than the first.) Indeed, as actors will be unable to freely seize profit opportunities, they will have no incentive to recognize the situations of social maladjustment or discoordination which emerge. In short, information will not be created; it will not be transmitted among agents; and individuals will not learn to key their behavior to that of their fellow men.

Thus, we see in Figure III-1 that the inability of “C” to exercise entrepreneurship keeps the system permanently disordinated: “A” cannot pursue the end “Y” due to the lack of a resource which “B” has in abundance yet has no use for; and “B”, unaware that “A” exists and urgently needs the resource, squanders it. According to our analysis, we can therefore conclude that the main effect of socialism as we have defined it is to inhibit the action of the coordinating forces which make life in society possible. Does this mean proponents of socialism fight for a chaotic or disordinated society? Quite the opposite is true. Barring rare exceptions,

consent, this type of aggression is wielded by groups or associations which, like unions, in practice enjoy the “privilege” of being able to use systematic violence with impunity against the rest of the population.

³ “In fact where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which *dries up the wellsprings of initiative and creativity.*” John Paul II, *Centesimus*

defenders of the socialist ideal defend it because they tacitly or explicitly believe or assume that not only will the system of social coordination not be disturbed by the institutional or systematic aggression they advocate, but that on the contrary, it will become much more effective, since the systematic coercion is to be committed by a *governing body* which is supposed to make assessments and possess knowledge (regarding both ends and means) quantitatively and qualitatively far superior to those possible on an individual level for the coerced actors. From this perspective, we can now complete the definition of socialism offered at the beginning of this section: *Socialism is any systematic or institutional coercion or aggression which restricts the free exercise of entrepreneurship in a certain social sphere and which is exercised by a governing body responsible for the necessary tasks of social coordination in this area.* In the following section, we will consider the extent to which socialism, as we have just defined it, is or is not an intellectual error.

2. SOCIALISM AS AN INTELLECTUAL ERROR

In the last chapter, we saw that social life is possible because individuals, spontaneously and without realizing it, learn to tune their behavior to the needs of others. This unconscious learning process springs naturally from man's exercise of entrepreneurship. Thus, as each person interacts with others, he spontaneously initiates a process of adjustment or coordination in which new tacit, practical, and dispersed information is continually created, discovered, and transmitted between people. We know that socialism consists chiefly of institutional aggression against the free exercise of human action or entrepreneurship. Hence, the question socialism poses is this: Can the coercive mechanism possibly instigate the process which adjusts and coordinates the behavior of different people and is essential to the functioning of life in society, and can it do so within an environment in which people constantly discover and create new practical information that permits the advancement of civilization? Socialism establishes a

Annus, chap. 3, section 25, paragraph 3 (1991) <http://www.newadvent.org/docs/jp02ca.htm> (May 6, 2004).

highly daring and ambitious ideal,⁴ since it involves the belief that not only can the mechanism of social coordination and adjustment be set in motion by the governing body that applies institutional coercion in the social sphere in question, but also that this coercive procedure can even result in a more proper adjustment.

In Figure III-2 we use a diagram to represent the concept of socialism as we have defined it. On the “lower” level of this figure we find human beings, who possess practical knowledge or information and therefore try to freely interact with each other, even though institutional coercion precludes this interaction in certain areas. We illustrate this coercion via the vertical bars that separate the stickmen of each group of three. On the “higher” level, we depict the *governing body*, which exercises institutional coercion in certain spheres of social life.⁵ The vertical arrows which point up and down from the stickmen at the left and right of each group of three represent the existence of maladjusted personal plans, a typical sign of social discoordination. Such cases of discoordination cannot be discovered and eliminated through entrepreneurship, because institutional coercion has erected barriers to it. The arrows drawn from the head of the governing stickman toward each of the human beings indicated on the lower level stand for the *coercive commands* which embody the institutional aggression typical of socialism and which are intended to compel citizens to act in a coordinated manner and pursue end “F” which the *governing body* considers “just.”

A *command* can be defined as any specific instruction or rule which has an explicit content and which, regardless of its formal legal appearance, forbids, orders, or compels people

⁴ Ludwig von Mises affirmed: “The idea of socialism is at once grandiose and simple. We may say, in fact, that it is one of the most ambitious creations of the human spirit, so magnificent, so daring, that it has rightly aroused the greatest admiration. If we wish to save the world from barbarism we have to refute socialism, but we cannot thrust it carelessly aside.” *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981), 41.

⁵ John Paul II uses the same terminology in his encyclical *Centesimus Annus*, where, in the context of his criticism of the “social assistance” or welfare state, he asserts: “A community of a *higher order* should not interfere in the internal life of a community of a *lower order*, depriving the latter of its functions.” *Centesimus Annus*, chap. 5, section 48, paragraph 4 (1991) <http://www.newadvent.org/docs/jp02ca.htm> (May 6, 2004). The coercion typical of a higher order can be applied by one lone person, or, as is more common, by a group of people who usually act in an organized, though not necessarily consistent, manner. In both cases, aggression is used by a very small number of people in comparison with the size of the total coerced population, which comprises the lower-order social groups.

to carry out certain actions under particular circumstances. A command is characterized by the fact that it prevents human beings from freely exercising their entrepreneurship in a given social area. Furthermore, commands are deliberate creations of the governing body which applies institutional coercion, and they are designed to force all actors to realize or pursue not their own objectives, but those of the authorities.⁶

Socialism is an intellectual error, because it is theoretically impossible for the agency in charge of applying institutional aggression to gain access to enough information to allow it to issue commands capable of coordinating society. This simple argument, which we will study in some depth, can be developed from two distinct but complementary points of view: first, from the standpoint of the group of human beings which make up society and are coerced; and second, from the perspective of the coercive organization which systematically exercises aggression. Next, we will analyze the problem socialism poses from each of these points of view.

[Text from Figure III-2. From left to right, then top to bottom.]

“Higher” level
(Institutional aggressor)

Central Coercion Agency
(Governing body which issues coercive COMMANDS)

“Lower” level
(Society)

Specific sphere of society upon which institutional coercion is used

Figure III-2

⁶ F. A. Hayek opposes the concept of command to that of *substantive law*, which we could define as an abstract rule which has a general content and applies to all people equally without regard for any particular circumstance. In contrast with what we state about commands in the text, the *law* establishes a framework within which it is possible for each actor to create and discover new knowledge and to take advantage of it as he works toward his particular ends in cooperation with others, no matter what these ends are, as long as he abides by the law. In addition, *laws*, unlike commands, are not deliberate creations of the human mind, but rather are of *customary* origin. In other words, they are institutions which have developed over a very long period of time due to the participation of many individuals, each of whom, by his behavior, has contributed his own small store of experience and information. This clear distinction between law and command often goes unnoticed, as a result of changes in state legislation, most of which consists almost exclusively of commands enacted in the *form* of laws. See F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1959), chap. 10. In Table III-1, later in this chapter,

3. THE IMPOSSIBILITY OF SOCIALISM FROM THE STANDPOINT OF SOCIETY

The “Static” Argument

Each of the human beings who interact with each other and comprise society (the “lower” level in Figure III-2) possesses some exclusive bits of practical and dispersed information which for the most part is tacit and thus cannot be articulated. Therefore it is *logically impossible* for this information to be transmitted to the governing body (the “higher” level in Figure III-2). The total volume of all practical information perceived and managed in dispersed form and on an individual level by all people is of such magnitude that it is inconceivable that the governing body could consciously acquire it. Furthermore, and more importantly, this information is dispersed throughout the minds of all men in the form of tacit knowledge which cannot be articulated, and hence *it cannot be formally expressed nor explicitly transmitted to any governing agency*.

We saw in the last chapter that social agents create and transmit the information important to social life in an implicit, decentralized, and dispersed manner; in other words, they do so unconsciously and unintentionally. Indeed, the different agents *learn* to discipline their behavior in terms of others, but without explicitly realizing that they are doing so nor that they are playing a key role in this learning process: They are simply aware that they are acting; that is, trying to achieve their own particular ends by employing the means they believe available to them. Therefore, the knowledge in question is only available to the human beings who act in society, and by its very nature, it cannot be explicitly transmitted to any coercive central body. As this knowledge is essential to the social coordination of the different individual behaviors which makes society possible, and because it cannot be articulated and thus cannot be

we outline the way in which socialism corrupts law and justice as it replaces them with arbitrary commands.

transmitted to the governing body, the belief that a socialist system can work is logically absurd.⁷

The “Dynamic” Argument

Socialism is impossible, not only because the information actors possess is by its very nature explicitly non-transmissible, but also because, from a dynamic standpoint, when people exercise entrepreneurship; that is, when they act, they constantly *create and discover* new information. Moreover, it is hardly possible to transmit to the governing body information or knowledge which *has not yet been created*, but which gradually emerges as a result of the social process itself, to the extent that this process is not assaulted.

[Text from Figure III-3. From left to right, then top to bottom.]

“Higher” level
(Institutional aggressor)

- a) When commands do not penetrate the “capsule” – points t2 and tn – the governing body cannot obtain the practical information it needs to deliberately coordinate society.
- b) When commands do penetrate the “capsule,” the governing body still cannot acquire the information it needs, since the entrepreneurial process is under attack and individuals cannot freely pursue their particular ends, and therefore these ends do not act as incentives for the discovery of the relevant information, which as a result is not generated. (The light bulbs do not “light up.”)

“Lower” level
(Society)

⁷ In the words of Hayek himself: “This means that the, in some respects always *unique*, combinations of individual knowledge and skills, which the market enables them to use, *will not merely, or even in the instance, be such knowledge of facts as they could list and communicate if some authority asked them to do so*. The knowledge of which I speak consists rather of a capacity to find out particular circumstances, which becomes effective only if possessors of this knowledge are informed by the market which kind of things or services are wanted, and how urgently they are wanted.” See “Competition as a Discovery Procedure” (1968), in *New Studies in Philosophy, Politics, Economics and the History of Ideas* (London: Routledge and Kegan Paul, 1978), 182. Also, on page 51 of the second chapter of the first volume, entitled “Rules and Order,” of F. A. Hayek’s work, *Law, Legislation and Liberty* (Chicago: University of Chicago Press, 1973), we read the following: “This is the gist of the argument against *interference* or *intervention* in the market order. The reason why such isolated *commands* requiring specific actions by members of the spontaneous order can never improve but must disrupt that order is that *they will refer to a part of a system of interdependent actions determined by information and guided by purposes known only to the several acting persons but not to the directing authority*. The spontaneous order arises from each element balancing all the various factors operating on it and by *adjusting all its various actions to each other, a balance which will be destroyed* if some of the actions are determined by another agency *on the basis of different knowledge and on the service of different ends.*” (Italics added.)

The passage of “subjective” time →FUTURE

Figure III-3

In Figure III-3, we depict the actors who create and discover new information throughout the social process. As *time* passes (*time* understood, as we saw, in the subjective or Bergsonian sense), those who exercise entrepreneurship in interaction with other people constantly recognize new profit opportunities which they attempt to seize. As a result, the information each of them possesses changes continuously. This is represented in the diagram by the different *light bulbs* which light up as time passes. It is clear that the governing body cannot possibly obtain the information necessary to coordinate society via commands, not only because this information is dispersed, exclusive, and cannot be articulated, but also because it constantly changes and emerges *ex nihilo* as time passes and actors freely exercise entrepreneurship. In addition, it would hardly be possible to transmit to the governing body the information essential at all times to coordinate society, when this information has not yet even been generated by the entrepreneurial process itself, nor can it ever be generated if institutional coercion is applied to the process.

For example, when the day dawns with signs of a change in the weather, a farmer *realizes* he should alter his plans regarding the particular tasks it most behooves him to perform *that day*, though he cannot formally articulate the reasons behind his decision. Thus, it would not be possible for the farmer to transfer that information, a product of many years of experience and work on the farm, to a hypothetical governing agency (a Ministry of Agriculture in the capital, for instance) and then wait for instructions. The same can be said for any other person who exercises entrepreneurship in a given setting, whether it be to decide between investing or not in a certain company or sector, buying or selling certain securities or stocks, or hiring or not certain people to collaborate on one’s work, etc. Hence, we can consider practical information to be *encapsulated*, so to speak, in the sense that it is not accessible to the higher authority which engages in institutional aggression. Moreover, this information is constantly changing and emerging in new forms as actors create the future step by step.

Finally, let us recall that the more continuous and effective socialist coercion is, the more it will preclude the free pursuit of individual ends and therefore keep these ends from acting as an incentive and actors from discovering or producing, through the entrepreneurial process, the practical information necessary to coordinate society. The governing body thus faces an inescapable dilemma. It definitely needs the information the social process generates, yet it can never acquire this information: if the governing body intervenes coercively in this process, it destroys the capacity of the process to create information, and if it does not intervene, it does not obtain any information either.

In short, we conclude that from the standpoint of the social process, socialism is an intellectual error, since the governing body in charge of intervening via commands cannot conceivably glean the information necessary to coordinate society. It cannot do so for the following reasons: *First*, it is impossible for the intervening body to consciously assimilate the enormous volume of practical information spread throughout the minds of human beings. *Second*, as the necessary information is of a tacit nature and cannot be articulated, it cannot be transferred to the central authority. *Third*, the information actors have not yet discovered or created, and which emerges only from the free process of entrepreneurship, cannot be transmitted. *Fourth*, the exercise of coercion prevents the entrepreneurial process from provoking the discovery and creation of the information necessary to coordinate society.

4. THE IMPOSSIBILITY OF SOCIALISM FROM THE PERSPECTIVE OF THE GOVERNING BODY

From the standpoint of what in our figures we have called the “higher” level, that is, the more or less organized person or group of people who commit systematic and institutional aggression against the free exercise of entrepreneurship, we can make a series of observations which confirm, to an even greater extent if possible, the conclusion that socialism is simply an intellectual error.

We will begin by assuming for the sake of argument, as Mises does,⁸ that the governing entity (be it a dictator or military leader, an elite, a group of scientists or intellectuals, a cabinet ministry, a group of representatives elected democratically by the “people,” or, in short, any combination, of any level of complexity, of all or some of these elements) is endowed with the maximum technical and intellectual capacity, experience, and wisdom, as well as the best intentions *humanly* conceivable (though we will soon see that these assumptions are not justified in reality and why). Nevertheless, we cannot possibly suppose that the governing body has superhuman abilities nor, to be specific, the gift of *omniscience*, that is, the ability to simultaneously gather, assimilate, and interpret all of the dispersed, exclusive information spread throughout the minds of all of the people who act in society, information which these people constantly generate *ex novo*.⁹ The truth is that the governing authority, sometimes called the central or partial planning agency, for the most part lacks or has only very vague indications of the knowledge available in dispersed form in the minds of all of the actors potentially subject to its orders. Thus, it is a remote or non-existent possibility that the planner will come to know what or how to seek and where to find the bits of dispersed information generated by the social process, information the planner so desperately needs to control and coordinate the process.

⁸ Ludwig von Mises, *Human Action*, 696.

⁹ What is the just or mathematical price of things? The Spanish scholastics of the sixteenth and seventeenth centuries asked this question and arrived at the conclusion that the *just price* depends on so many *particular circumstances* that only God can know it, and that consequently, for human purposes, the just price is the price spontaneously established by the social process; in other words, the market price. John Paul II expresses just this idea in his encyclical, *Centesimus Annus* (chap. 4, section 32 [1991] <http://www.newadvent.org/docs/jp02ca.htm> [May 6, 2004]), where he states that the just price is that “mutually agreed upon through free bargaining.” Perhaps within the very foundations of socialism lies a hidden, atavistic desire of man to be like God, or to put it more accurately, to *believe he is God*, and thus free to tap a much greater store of knowledge and information than would be humanly possible. Hence, the Jesuit cardinal Juan de Lugo (1583-1660) wrote that “preium iustum mathematicum, licet soli Deo notum” (*Disputationes de Iustitia et Iure*, Lyon 1643, volume 2, D. 26, S. 4, N. 40). For his part, Juan de Salas, also a Jesuit and a professor of philosophy and theology at various universities in Spain and Rome, agreed with Juan de Lugo when he asserted, in reference to the possibility of knowing the just price, that “quas exacte comprehendere et ponderare Dei est, non hominum” (*Commentarii in Secundam Secundae D. Thomas de Contractibus*, Lyon 1617, Tr. Empt. et Vend., IV, number 6, p. 9). Other interesting quotations from Spanish scholastics of this period appear in F. A. Hayek’s work, *Law, Legislation and Liberty*, vol. 2, 178, 179. For a magnificent summary of the important contributions sixteenth and seventeenth-century Spanish scholastics made to economics, see Murray N. Rothbard’s article, “New Light on the Prehistory of the Austrian School,” in *The Foundations of Modern Austrian Economics* (Kansas City: Sheed and Ward, 1976), 52-74.

Moreover, the coercive body is unavoidably composed of flesh-and-blood people, with all of their faults and virtues, human beings who, *like all other actors, have personal goals which act as incentives that lead them to discover the information essential to their particular interests.* Therefore, it is most probable that if those who comprise the governing agency are adept at exercising their entrepreneurial intuition, then they will promote their own ends and interests and generate the information and experience they need, for example, to stay in power indefinitely and to justify and rationalize their acts to themselves and others, to apply coercion in an increasingly sophisticated and effective manner, to present their aggression to citizens as inevitable and attractive, etc. In other words, though at the beginning of the last paragraph we assumed the authorities had good intentions, the above incentives will normally be the most common, and they will prevail over others, especially the interest in discovering the important, specific practical information that exists in society at all times in dispersed form and which is necessary to make society function in a coordinated way via commands. These peculiar incentives will also *keep the directing authorities from even being aware of their degree of inevitable ignorance*, and they will sink more and more into a process which progressively distances them from precisely those social realities they aim to control.

Furthermore, the governing agency will be incapable of making any *economic calculation*,¹⁰ in the sense that, regardless of the agency's ends (and even assuming they are the most "human" and "moral"), these authorities will have no way of knowing whether the cost to them of pursuing those ends is higher than the value they subjectively attach to them. The cost is simply the subjective value the actor places on what he gives up when he acts, and works

¹⁰ In 1920, Mises made an original and brilliant contribution when he called attention to the impossibility of carrying out economic calculations without the dispersed, practical information or knowledge only generated in the free market. See his article, "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen," published in the *Archiv für Sozialwissenschaft und Sozialpolitik*, vol. 47, 86-121. The English version of this article appears under the title, "Economic Calculation in the Socialist Commonwealth," in the work, edited by F. A. Hayek, *Collectivist Economic Planning* (Clifton: Augustus M. Kelley, 1975), 87-130. Mises's main idea appears on page 102, where he states: "The distribution among a number of individuals of administrative control over economic goods in a community of men who take part in the labour of producing them, and who are economically interested in them, *entails a kind of intellectual division of labour*, which would not be possible without some system of calculating production and without economy." (Italics added.) We will devote the following chapter in its entirety to

toward a certain end. Clearly, the governing body cannot obtain the knowledge or information it needs to perceive the true cost it incurs according to its own value scales, since the information about the specific circumstances of time and place that is necessary to estimate costs is dispersed in the minds of all of the people or actors who comprise the social process and who are coerced by the governing body (democratically elected or not) in charge of committing systematic aggression against society.

If we define *responsibility* as the quality of an action performed by one who has become aware, through a rough economic calculation, of the action's cost, we can conclude that the directing authority, regardless of its structure, method of selection, and value judgements, will invariably tend to act *irresponsibly*, because it is unable to *see* and determine the costs it incurs. Thus arises this unsolvable *paradox*: the more the governing authority insists on planning or controlling a certain sphere of social life, the less likely it is to reach its objectives, since it cannot obtain the information necessary to organize and coordinate society. In fact, it will cause new and more severe maladjustments and distortions insofar as it effectively uses coercion and limits people's entrepreneurial capacity.¹¹ Hence, we must conclude that it is a grave error to believe the governing body capable of making economic calculations in the same way the individual entrepreneur makes them. On the contrary, the higher the rung in the socialist system, the more first-hand, practical information essential for economic calculation is lost, to the point that calculation becomes completely impossible. The agency of institutional coercion obstructs economic calculation precisely to the extent that it effectively interferes with free human action.

an examination of all implications of the Misesian argument and to an analysis of the start of the ensuing debate.

¹¹ "The paradox of planning is that it cannot plan, because of the absence of economic calculation. What is called a planned economy is no economy at all. It is just a system of groping about in the dark. There is no question of a rational choice of means for the best possible attainment of the ultimate ends sought. What is called conscious planning is precisely the elimination of conscious purposive action." Ludwig von Mises, *Human Action*, 700-701. On the "paradox of planning" and the concept of responsibility, see section 6 of this chapter.

5. WHY THE DEVELOPMENT OF COMPUTERS MAKES THE IMPOSSIBILITY OF SOCIALISM EVEN MORE CERTAIN

Different people without a clear understanding of the peculiar nature of the knowledge crucial to the functioning of society have often argued that extraordinary advances in the field of computer science could make it possible, both theoretically and practically, for the socialist system to operate. However, a simple theoretical argument will permit us to show that the development of computer systems and capacity *will never make it possible* to remedy the ignorance inherent in socialism.

Our argument rests on the assumption that the benefits of any technological development in the field of computer science will be available to both the governing body and the different human actors who take part in the social process. If this is so, then in all contexts in which actors exercise their entrepreneurship, the new computer tools available to them will tremendously increase their ability to create and discover new practical, dispersed, and tacit information. There will be a dramatic rise in the quantity and quality of the information generated through entrepreneurship with the help of new computer tools, and this information will become progressively deeper and more detailed, to an extent inconceivable to us today, based on the knowledge we now have. Moreover, as is logical, it will still be impossible for the governing body to acquire this dispersed information, *even if it has available to it at all times the most modern, capable, and revolutionary computers.*

To put it another way, the important entrepreneurial knowledge generated in the social process will always be tacit and dispersed, and thus not transmissible to any governing agency, and the future development of computer systems *will further complicate the problem* for the directing authority, since the practical knowledge produced with the help of such systems will become progressively more vast, complex, and rich.¹² Therefore, the development of computers

¹² There will always be a “lag” or “qualitative leap” between the degree of complexity the governing body can take on with its computer equipment and that which social actors create in a decentralized and spontaneous manner using equipment that is similar (or at least of the same generation). The latter will invariably be much greater. Perhaps Michael Polanyi explained this argument better than anyone when he stated: “Our whole articulate equipment turns out to be merely a tool box, a supremely effective instrument for deploying our inarticulate faculties. And we need not hesitate then to conclude

and computer science not only fails to alleviate the problem of socialism, but makes it much more difficult, since computers enable actors to entrepreneurially create a much larger volume of increasingly complex and detailed practical information, data which will always be richer and more profound than that the governing body can discover with computers. Figure III-4 illustrates this argument.

Furthermore, we should note that the machines and computer programs produced by man will never be capable of acting or exercising entrepreneurship; they will never be able to create new practical information from nothing, to discover and seize new profit opportunities unnoticed up to that point.¹³

[Text from Figure III-4. From left to right, then top to bottom.]

“Higher” level
(Institutional aggressor)

If computers (represented by screens in the diagram) of the same generation are available on both levels, the problem socialism poses does not become easier to solve, but more difficult, since computers enable actors to generate such complex practical information that it cannot be accounted for by known computer systems. (This principle is illustrated by the multiplication of “bulbs” or creative acts on the “lower” level.)

Commands

“Lower” level
(Society)

The Passage of Subjective or Bergsonian Time → FUTURE

Figure III-4

that the tacit personal coefficient of knowledge predominates also in the domain of explicit knowledge and represents therefore at all levels man’s ultimate faculty for acquiring and holding knowledge ... Maps, graphs, books, formulae, etc. offer wonderful opportunities for reorganizing our knowledge from ever new points of view. And this reorganization is itself, as a rule, a tacit performance.” See *The Study of Man*, 24, 25. See also Rothbard’s argument, which we remark on in footnote 84 of chapter 6.

¹³ Also, as Hayek asserts, it is a logical contradiction to hold that the human mind will some day be able to explain itself, much less reproduce its ability to generate new information. Hayek’s argument, which we advanced in chapter 2, footnote 17, is that an order, composed of a certain conceptual system of categories, can explain simpler orders (those which comprise a simpler system of categories), but it is logically inconceivable that it ever account for or replicate itself, or explain more complex orders. See F. A. Hayek, *The Sensory Order*, 185-188. See also, in Roger Penrose’s book cited in footnote 28 of the last chapter, Penrose’s arguments against the chances of the future development of artificial intelligence. Finally, even if the blueprint for the model of artificial intelligence were to be successful in the future (which we deem impossible for the reasons stated), it would simply mean the creation of new “human” minds, which would have to be incorporated into the social process and would complicate and distance it even further from the socialist ideal. (We owe this argument to our good friend Luis Reig Albiol).

The “information” stored on computers is not “known,” i.e. consciously assimilated or interpreted by human minds and capable of turning into practical information that is significant from a social standpoint. The “information stored” on a computer disk or any other computer medium is identical to the “information” included in books, charts, maps, newspapers, and journals, simple instruments to be used by the actor within the context of specific actions that are important for the achievement of his particular ends. In other words, *the “stored information” is not information* in the sense we have attributed to the word: important practical knowledge which the actor knows, interprets, and uses in the context of a specific action.

Moreover, clearly there is no way to computer process the practical information which, because it has not yet been entrepreneurially discovered or created, does not exist. Thus, computer systems are of no use in coordinating the process of social adjustment via commands; the fundamentally creative nature of human action is the only catalyst to initiate and further this process. Computers can only process information that has already been created and articulated, and without a doubt, they are a highly useful and powerful tool for the actor, but they are incapable of creating, discovering, or recognizing new profit opportunities; that is, they cannot act entrepreneurially. Computers are instruments at the actor’s disposal, but they do not act, nor will they ever act. They can only be used to manage *articulate, formalized, and objective* information, and the information significant on a social level essentially cannot be articulated and is always *subjective*. Hence, computers are not only incapable of creating new information; they are also fundamentally incapable of processing information that has already been created if, as occurs in social processes, this information is essentially of the sort which cannot be expressed. In the example of Figure II-2, in chapter 2, even if “A” and “B” became able to verbalize, formally and in detail, those resources they lacked and needed to accomplish their respective goals, and even if somehow they could transmit this information to a gigantic and extremely modern database, the act by which a human mind (that of “C”) realizes that the resource of one could be used to gain the objectives of the other is an entrepreneurial act of pure creativity, one which is essentially subjective and cannot be equated with the objective, formalized patterns characteristic of a machine. For a computer to direct action effectively, not

only must it first receive articulate information, but someone must *program* it as well. In other words, it is first necessary to thoroughly and formally indicate the rule of action, for example: whenever a person possesses a certain amount of resource “R,” the resource will be used by the person who is pursuing objective “X.” The formal existence of this rule presupposes the *prior* discovery of the course of action appropriate from an entrepreneurial standpoint, regarding the use of resources “R” for the accomplishment of goals “X.” Thus, it is evident that *computer systems can only apply previously discovered knowledge to given situations*; they can never create new information with respect to situations that have not yet been discovered and in which the *ex novo* creation of the subjective, tacit, and dispersed knowledge typical of the social process predominates.

Therefore, trusting in computers as instruments which can make socialism possible is just as absurd as believing that in a much less advanced society, the invention of the printing press and other simpler methods of gathering and handling articulate information could make available the practical and subjective knowledge crucial to society. The outcome of the discovery of books and printing was just the opposite: it made society even richer and more difficult to control. It would only be conceivable that the problem of socialism could be somewhat alleviated quantitatively, yet never resolved, if the governing authority could apply the most modern computers to a society in which the continuous generation of new practical information had been reduced to a minimum. This state of affairs could only be achieved through an extremely rigid system which would forcibly hinder, to the greatest extent possible, the exercise of entrepreneurship, while prohibiting people from using any type of computers, machines, calculating instruments, books, etc. Only in this hypothetical society of *enslaved brutes* could the problem of economic calculation in socialism appear somewhat less complex. Nevertheless, not even in such extreme circumstances could the problem be resolved

theoretically, since even under the most adverse conditions, human beings have an innate, creative entrepreneurial capacity¹⁴ which is impossible to control.

Finally, in light of the above considerations, it should not surprise us that the most qualified computer scientists and software programmers are precisely the most skeptical professionals in terms of evaluating the possibilities of using computers to regulate and organize social processes. In fact, not only do they clearly grasp the principle that imprecise information entered into a machine yields results which in turn multiply errors (“garbage in, garbage out”), but also, they constantly find in their daily experience that as they attempt to develop increasingly extensive and complicated programs, they encounter more and more difficulties in ridding them of logical defects to make them operational. Hence, programming a social process to such a degree of complexity as to incorporate man’s most fundamental creative capacities is out of the question. Moreover, computer science has not come to the aid of interventionists, as many “social engineers” naively hoped and expected, but instead the latest advances in computer science have taken place due to the reception in that field of the intuitions and knowledge developed by theoretical economists who focus on spontaneous social processes, specifically Hayek, whose ideas are today considered to be of enormous practical importance in promoting and facilitating the design and development of new computer programs and systems.¹⁵

¹⁴ The argument we offer in the text reveals the absurdity of the belief, held by many “intellectuals” not well versed in the functioning of society, that it is “obvious” that the more complex society becomes, the more necessary exogenous, coercive, and institutional intervention becomes. This idea originated with Benito Mussolini, who stated: “We were the first to assert that the more complicated the forms assumed by civilization, the more restricted the freedom of the individual must become” (cited by F. A. Hayek in *The Road to Serfdom*, [Chicago: University of Chicago Press, 1972]). However, as we have shown, the logical-theoretical reality is just the opposite: as the wealth of society and the development of civilization increase, socialism becomes much more difficult. The less advanced or more primitive a society is, and the more plentiful are the means the directing authority has available to handle information, the less complicated the problem of socialism appears (though from a logical and theoretical standpoint it is always impossible when applied to human beings endowed in their actions with an innate creative capacity).

¹⁵ Here we should mention an entire group of “computer scientists” who have introduced theorists in their field to the contributions of the Austrian school of economics and have actually developed a whole new scientific research program called “Agoric Systems” (a term that derives etymologically from the Greek word for “market”), which places key importance on the theory of market processes with respect to achieving new advances in computer science. In particular, we should mention Mark S. Miller and K. Eric Drexler, of Stanford University (see their “Markets and Computation: Agoric Open Systems,” in *The Ecology of Computation*, ed. B. A. Huberman [Amsterdam: North Holland,

6. OTHER THEORETICAL CONSEQUENCES OF SOCIALISM

In the preceding sections, we showed that socialism is an intellectual error which stems from the *fatal conceit*¹⁶ of supposing that man is intelligent enough to organize life in society.

In this section, we will succinctly and systematically analyze the inexorable consequences which follow when man overlooks the logical impossibility socialism represents and insists on establishing an institutional system of coercion which, to a greater or lesser extent, restricts the free exercise of human action.

Discoordination and Social Disorder

a) We have already seen that when its exercise is impeded to one degree or another, entrepreneurship can no longer uncover the maladjustment situations which arise in society. When coercion is used to keep actors from seizing the profit opportunities every maladjustment creates, the actors fail to even perceive the opportunities, which go unnoticed. Moreover, if, by chance, a coerced actor should recognize an opportunity for profit, it would be irrelevant, since institutional coercion itself would preclude him from acting to benefit from the opportunity.

Furthermore, the governing body in charge of applying institutional coercion cannot conceivably coordinate social behavior via orders and commands. To do so, it would have to have access to information it cannot possibly obtain, given that this information is scattered throughout the minds of all of the actors in society, and each one has exclusive access to his own part of it.

1988]). See also the following article (including all sources cited therein), which summarizes the program: “High-tech Hayekians: Some Possible Research Topics in the Economics of Computation,” written by Don Lavoie, Howard Baetjer, and William Tulloh and published in *Market Process* 8 (spring 1990): 120-146.

¹⁶ This is precisely the title of F. A. Hayek’s last work, *The Fatal Conceit: The Errors of Socialism*. See *The Collected Works of F. A. Hayek*, ed. W. W. Bartley III (Chicago: University of Chicago Press, 1989). Hayek himself, when interviewed in Madrid by Carlos Rodríguez Braun, stated that the essence of his book was to show that “it is arrogant, boastful, to believe one knows enough to organize life in society, life which is in fact the result of a process which draws on the dispersed knowledge of millions of individuals. To think we can plan that process is completely absurd.” See the *Revista de Occidente*, no. 58 (March 1986): 124-135.

Therefore, according to theory, the first consequence to follow from any attempt to establish a socialist system will be widespread social *discoordination or maladjustment*, characterized by the systematically conflicting actions of multiple agents, who will not adapt their behavior to that of others nor realize they are committing systematic errors on a broad scale. As a result, a very large number of human actions will be thwarted, as maladjustments will prevent them. This generalized *frustration of plans* or discoordination strikes at the very heart of social life and is apparent both *intra-* and *intertemporally*. That is, it affects both current actions as well as the vital coordination between present and future actions in any social process.

Hayek considers “order” to be any process in which a multitude of diverse elements interact in such a way that knowledge of one part permits the formulation of correct expectations concerning the whole.¹⁷ This definition exposes socialism as a producer of social *disorder*; to the extent that it hampers and even blocks the necessary adjustment between disordinated individual behaviors, it also hampers and even blocks potential human actions based on unfrustrated expectations of others’ behavior, since the social maladjustments which invariably emerge whenever the free exercise of entrepreneurship is obstructed persist and remain hidden. Hence, the voluntaristic desire to “organize” society via coercive commands essentially creates disorder, and the more complex a social order is in Hayekian terms, the more clearly impossible the socialist ideal will be, since a complex order will require the delegation of many more decisions and activities, which will depend on circumstances completely unknown to those bent on controlling society.

b) Paradoxically, widespread social discoordination is very often cited as a *pretext* for administering subsequent doses of socialism; in other words, institutional aggression which is unleashed in new areas of social life or is even more involved or stringent than before. The above usually occurs because the directing authority, though it cannot perceive in detail the particular conflicting and maladjusted actions its intervention provokes, does sooner or later

become aware that the social process in general is not working. From the perspective of its extremely limited power of appraisal, the directing authority interprets this situation as the logical result of the “lack of cooperation” shown by those citizens who do not wish to strictly obey its orders and commands, which therefore become increasingly broad, detailed, and coercive. This increase in the degree of socialism will infuse the social process with even greater discoordination or maladjustment, which will in turn be used to justify new “doses” of socialism, etc. Thus, we see socialism’s overwhelming tendency toward *totalitarianism*, understood as a regime in which the government tends to “forcefully intervene in all areas of life.”¹⁸ In other cases, this totalitarian process of progressive increases in coercion is accompanied by continuous *jolts* or sudden changes in policy, radical modifications of the content of commands or the area to which they apply, or both, and all in the vain hope that asystematic “experimentation” with new types and degrees of interventionism will provide a solution to the insoluble problems considered.¹⁹

c) The coercive interventionary measures socialism embodies exert effects on society which are generally the exact *opposite* of those the governing body itself intends. This authority aims to achieve its ends by directing coercive commands to the social spheres most connected with these ends, and the paradoxical result is that the commands prevent the exercise of human action in those areas and do so with particular effectiveness. In other words, the governing body immobilizes the force of entrepreneurship precisely where it is most necessary, considering that this force is essential to the coordination of the social sphere in question and hence to the accomplishment of the goals pursued. In short, the necessary adjustment process is

¹⁷ F. A. Hayek, *Rules and Order*, vol. 1 of *Law, Legislation and Liberty*, 2:35-54 and José Ortega y Gasset, *Mirabeau o el Político*, vol. 3 of *Obras Completas* (Madrid: Revista de Occidente, 1947), 603.

¹⁸ Real Academia Española de la Lengua, *Diccionario*, s. v. “*totalitarismo*,” second meaning.

¹⁹ Even the extremely sagacious Michael Polanyi made the very common mistake of deeming this sort of experimentation with planning relatively harmless, due to its incapacity to produce practical results, yet he was overlooking the severe damage done to social coordination by attempts to carry out utopian programs of social engineering. See his *The Logic of Liberty*, 111. Those responsible for the coercive agencies are unable to fathom how, despite all of their efforts, social engineering does not work or works increasingly poorly, and they often end up sinking into hypocrisy or desperation and attributing the unhappy direction of events either to divine judgement – as did the Count-Duke of Olivares, as we see in footnote 49 – or to the “lack of cooperation or harmful intentions of civil society itself” – as did Felipe

not triggered and in fact becomes more remote, and the social process becomes less likely to produce the desired ends. The more effectively imposed the commands are, the more they distort the exercise of entrepreneurship. Not only do commands fail to incorporate the necessary practical information, but they also deter people from creating it, and economic agents cannot rely on them as a guide to coordination. Theorists have long been familiar with this self-destructive effect socialism exerts, also known as the “*paradox of planning or interventionism*,” but only recently have they managed to explain it in the precise terms of the theory of entrepreneurship.²⁰

d) Though the *inhibiting* effect socialism has on the creation of practical information appears in all social spheres, perhaps it is most obvious in the economic sphere. First, for example, *poor quality* in the goods and services produced is one of the most typical signs of socialist coordination, and it stems precisely from the lack of incentives for actors in the social process and members of the directing authority to generate information and discover people’s true desires with respect to quality standards.

Second, in a socialist system, investment decisions become purely arbitrary, both quantitatively and qualitatively, due to the absence of the information necessary to make even rough economic calculations. In fact, in a socialist environment it is impossible to know or estimate the opportunity cost of each investment, and these difficulties emerge even when the

González Márquez, in the speech he gave at the Universidad Carlos III in Madrid for the Day of the Constitution, December 6, 1991.

²⁰ Perhaps the first to reveal this self-destructive result of institutional coercion was Eugen von Böhm-Bawerk, in his article, “Macht oder ökonomisches Gesetz?” *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung* (Vienna) 23 (December 1914): 205-271. J. R. Mez translated this article into English in 1931, and it appears with the title, “Control or Economic Law?” in *Shorter Classics of Eugen von Böhm-Bawerk*, vol. 1 (South Holland, Illinois: Libertarian Press, 1962), 139-199. Specifically, on page 192 of the English version of this article we read that “...any situation brought about by means of ‘power’ may again bring into play motives of self interest, tending to oppose its continuance.” Ludwig von Mises later carried on this line of research in his *Kritik des Interventionismus: Untersuchungen zur Wirtschaftspolitik und Wirtschaftsideologie der Gegenwart* (Jena: Gustav Fischer, 1929), which has been translated into English as *A Critique of Interventionism* (New York: Arlington House Publishers, 1977). Mises concludes that “all varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which – from the point of view of their authors’ and advocates’ valuations – is less desirable than the previous state of affairs which they were designed to alter.” Also worthy of special mention is the subsequent work of M. N. Rothbard, *Power and Market: Government and the Economy* (Menlo Park, California: Institute for Humane Studies, 1970). Nevertheless, we feel the most brilliant approach to this

governing body imposes its rate of time preference on all of society. Moreover, the governing body's lack of information also precludes the calculation of even minimally reliable depreciation rates for capital equipment. Thus, socialism provokes and maintains the widespread *malinvestment* of resources and factors of production, and to make matters worse, this malinvestment often develops a somewhat erratic, cyclical quality, due to the sudden changes in policy which are typical of this system and which we covered at the end of the last section.

Third, socialism gives rise to severe, generalized *scarcity* at all levels of society, mainly because institutional coercion eradicates the opportunity for the enormous force of human entrepreneurial ingenuity to systematically discover states of scarcity and seek new, more effective ways of eliminating them. In addition, the impossibility of economically calculating costs leads, as we have seen, to the squandering of a large share of the productive resources on senseless investments, which aggravates even further the problem of scarcity.²¹ Moreover, this scarcity goes hand in hand with an inefficient excess of certain resources which springs not only from production errors, but also from the fact that economic agents hoard all of the goods and resources they can, since systematic scarcity makes people unable to depend on an adequate supply of goods, services, and factors of production.

Finally, in the case of labor, errors in the allocation of resources are particularly grave. Labor tends to be systematically misused, and a high level of *unemployment* results and is concealed to a greater or lesser extent, depending upon the specific type of socialism in

topic is the one Israel M. Kirzner adopts in his superb article, "The Perils of Regulation: A Market Process Approach," in his *Discovery and the Capitalist Process*, 119, 149.

²¹ János Kornai coined the term "soft budget constraint" to describe this characteristic of socialism, namely decision-making at all levels which is not properly restricted by cost considerations. Although this term has gained a certain currency, we feel that it focuses too much on the most obvious manifestations of the fundamental problem in industrial organizations (the impossibility, in the absence of free entrepreneurship, of generating the information required to calculate costs), and that this has lead many scholars to inappropriately overlook the problem or fail to do it justice. See János Kornai, *Economics of Shortage* (Amsterdam: North Holland, 1980). More recently, however, Kornai has managed to express his theory in terms of entrepreneurship, thus demonstrating that he has finally fully grasped the essence of the Austrian argument on planning. See his "The Hungarian Reform Process: Visions, Hopes and Reality," *Journal of Economic Literature* 24 (December 1986), reprinted in *Visions and Reality: Market and State* (London: Harvester, 1990), 156-157. On this topic, see also the works of

question. In any case, a high level of unemployment is one of the most typical effects of institutional coercion against the free exercise of entrepreneurship in the social processes connected with the employment sector.

Erroneous Information and Irresponsible Behaviors

Socialism is characterized not only by its hindrance of the creation of information, but also by its triggering of processes that systematically attract and generate *erroneous information and thus encourage widespread irresponsible behavior*.

a) There is no guarantee that the *governing body* which exercises systematic coercion will be able to recognize the specific profit opportunities that emerge in the social process. Given the authority's lack of the practical information relevant to the coerced individuals, we cannot imagine it being capable of discovering the current social maladjustments, except in very isolated cases or by mere accident or coincidence. In fact, even if by chance a member of the governing body discovers a maladjustment, the "find" will most likely be covered up or hidden by the very inertia of the coercive organization, which, except on very few occasions, will have no interest at all in exposing unpopular problems that will invariably require, in order to solve them, "bothersome" changes and measures. At the same time, members of the directing authority will not even be aware of their grave, ineradicable ignorance. Therefore, the information generated via commands will be riddled with errors and fundamentally *irresponsible*, since members of the governing body cannot obtain the practical, dispersed information pertaining to the alternatives they give up when they decide to follow a certain course of action, and hence they will be unable to consider the true cost or value of these alternatives in their decision-making process.²²

Jan Winiecki, especially *The Distorted World of Soviet-Type Economics* (London: Routledge, 1988 and 1991), and *Economic Prospects East and West: A View from the East* (London: CRCE, 1987).

²² We view an action as "responsible" when the actor who undertakes it bears in mind the cost both he and others connected with him incur as a result of the action. Cost is the subjective value that the actor assigns to that which he forgoes upon acting, and it can only be properly estimated by one who possesses the necessary subjective, tacit, and practical information regarding his own personal circumstances, as well as those of the other individuals with whom he interacts. If, because the free exercise of entrepreneurship is not permitted (systematic coercion), or the corresponding property rights

b) The fact that the governing body is inexorably separated from the social process by a permanent veil of ignorance, through which it can only discern the most obvious, basic particulars, invariably compels it to focus on the accomplishment of its goals in an *extensive* and *voluntaristic* manner. *Voluntaristic* in the sense that the governing body expects to achieve its ends through mere coercive will, in the shape of commands. *Extensive* in the sense that only the parameters which are the easiest to define, articulate, and transmit are used to measure or judge the achievement of those ends. In other words, the governing body concentrates merely on statistical or quantitative parameters which exclude or fail to sufficiently incorporate all of the subjective and qualitative nuances that are precisely the most valuable and distinctive part of the practical information dispersed throughout human minds.

Thus, the proliferation and excessive use of *statistics* is another characteristic of socialism, and it is not at all surprising that the word “statistic” derives etymologically from precisely the term for the quintessential organization of institutional coercion.

c) When the systematic generation of inaccurate information leads to widespread irresponsible behaviors, and the coercive governing body pursues its ends in a voluntaristic and extensive manner, the consequences which ensue are tragic for the *environment*. As a general rule, the environment will deteriorate precisely in those geographical areas in which socialism is most prevalent (that is, where the greatest constraints are placed on the exercise of entrepreneurship), and the more generalized and far-reaching the coercive intervention is, the more severe this deterioration will be.²³

are not adequately defined and defended (asystematic coercion), this practical information cannot be created or transmitted, the actor *cannot perceive the costs* and thus tends to act irresponsibly. On the concept of responsibility, see Garret Hardin’s article, “An Operational Analysis of Responsibility,” in *Managing the Commons*, ed. Garret Hardin and John Baden (San Francisco: W. H. Freeman, 1977), 67. The irresponsibility typical of socialism causes the “tragedy of the commons” phenomenon to spread in a socialist regime to all of the social areas it affects (M. Rothschild, *Bionomics* [New York: Henry Holt, 1990], ch. 2).

²³ The quasi-religious reverence for statistics originated with Lenin himself, who stated: “Bring statistics to the masses, make it popular, so that the active population learn by themselves to understand and realise how much and what kind of work must be done.” Translated from p. 33 of the *Die nächsten Aufgaben der Sowjetmacht* (Berlin, 1918) by F. A. Hayek, *Collectivist Economic Planning* (Clifton: Augustus M. Kelley, 1975), 128. On the overproduction of statistics that arises from interventionism, and the great social harm, cost, and inefficiency they yield, see Stephen Gillespie’s article, “Are Economic Statistics Overproduced?” *Public Choice* 67, no. 3 (December 1990): 227-242. On socialism and the

The Corruption Effect

Socialism has the effect of *corrupting* or *perversely* deflecting the force of entrepreneurship, which is the manifestation of all human action. The *Diccionario* of the Royal Academy of the Spanish Language defines “to corrupt” as “to spoil, deprave, damage, rot, pervert, destroy, or warp,”²⁴ and it specifically indicates that this destruction applies mainly to social institutions, understood as behavior patterns. Corruption is one of the most typical and fundamental consequences of socialism, as this system tends to systematically pervert the process by which information is created and transmitted in society.

a) First, coerced or managed human beings soon make the entrepreneurial discovery that they stand a better chance of achieving their ends if, rather than try to discover and coordinate social maladjustments by seizing the profit opportunities they yield, they devote their time, efforts, and human ingenuity to influencing the decision-making processes of the governing body. Thus, an impressive volume of human ingenuity – and the more intense the socialism, the larger the volume – will be constantly devoted to thinking up new and more effective ways to influence the governing body, with the real or imaginary hope of gaining personal advantages. Therefore, socialism not only prevents each member of society from learning to tune his behavior to that of the other members, but it also provides a tremendous incentive for different individuals and groups to try to influence the governing body, with a view to using its coercive commands to forcibly acquire personal privileges or advantages at the expense of the rest of society. Hence, the spontaneous and coordinating social process is corrupted and replaced by a *power struggle process*, in which systematic violence and conflict between the different individuals and social groups that vie for power or influence become the leitmotif of life in society. Thus, in a socialist system, people lose the habit of behaving morally (that is, according to customs or principles) and gradually alter their personalities and their

environment, see T. L. Anderson and D. R. Leal, *Free Market Environmentalism* (San Francisco: Pacific Research Institute for Public Policy, 1991).

²⁴ “*Echar a perder, depravar, dañar, pudrir, pervertir, estragar o viciar.*” *Real Academia Española de la Lengua, Diccionario*, s. v. “*corromper*.”

behavior, which becomes increasingly amoral (that is, less subject to principles) and *aggressive*.²⁵

b) Second, we see another sign of the corrupting effect of socialism when those groups or individuals who have not managed to acquire power are forced to devote a major part of their entrepreneurial ingenuity or activity to an attempt to divert or avoid, in their own circumstances, the effects of coercive commands, which for them are more damaging or drastic, by conferring privileges, advantages, and certain goods and services on the people in charge of monitoring and enforcing the fulfillment of those commands. This corrupting activity is of a *defensive* nature, since it acts as a true “escape valve” and permits a certain alleviation of the harm socialism causes in society. It can have the positive effect of enabling people to maintain some minimally coordinating social connections, even in the severest cases of socialist aggression. At any rate, the corruption or perverse deflection of entrepreneurship will always be *superfluous* and *redundant*, as Kirzner clearly indicates.²⁶

²⁵ Perhaps it was Hans-Hermann Hoppe who best described the corrupting effect of socialism when he stated: “The redistribution of chances for income acquisition must result in more people using aggression to gain personal satisfaction and/or more people becoming more aggressive, i.e., *shifting increasingly from non aggressive to aggressive roles, and slowly changing their personality as a consequence of this*; and this change in the character structure, in the moral composition of society, in turn leads to another reduction in the level of investment in human capital.” See *A Theory of Socialism and Capitalism* (London: Kluwer Academic Publishers, 1989), 16-17. See also our analysis in “El Fracaso del Estado Social,” *ABC* (April 8, 1991): 102-103. Another sign of the corrupting effect of socialism is a general increase in the “social demand” for coercive state commands and regulations, an increase which arises from a combination of the following factors: 1) the desire of each special interest group to obtain privileges at the expense of the rest of society; 2) the impossible, naive illusion that greater doses of regulation will be able to reduce the generalized legal uncertainty that everywhere predominates due to the expanding and tangled web of contradictory legislation; and 3) the prostitution of habits of personal responsibility, which subjectively and unconsciously reinforce acceptance of state paternalism and feelings of dependence on authority.

²⁶ See Israel M. Kirzner, “The Perils of Regulation: A Market Process Approach,” in *Discovery and the Capitalist Process*, 144, 145. In a socialist regime, because people need to influence the coercive body while continuing to at least appear to obey its commands, and because this body is highly arbitrary and discretionary, the *old-boy network* is considered vital. In fact, a system is more interventionary, the more necessary and important this network is, and the more social spheres it touches (precisely the spheres where intervention is strongest). Personal contacts are depended upon to the detriment of the sort of interaction typical in the free world, interaction which is more abstract and impersonal, and thus relegates questions of friendship to the background, always subordinate to the essential object of achieving one’s own ends by furthering as much as possible others’ interests, as revealed by the market. Moreover, attempts to win the favor of those in power, and the *servility* which this entails, often provoke a curious sort of “Stockholm syndrome,” which gives the coerced person surprising feelings of “understanding” and camaraderie toward those who institutionally coerce him and prevent him from freely realizing his innate creative potential.

c) Third, the members of the governing body, i.e. the more or less organized group which systematically exercises coercion, will also tend to use their entrepreneurial capacity, their own human ingenuity, in a perverse manner. The chief object of their activity will be to *hold onto power* and to justify their coercive action before the rest of the actors in society. The details and peculiar characteristics of the corrupting activity of those in power will vary depending upon the specific type of socialism in question (totalitarian, democratic, conservative, scientific, etc.). What we should emphasize at this point is that the perverse entrepreneurial activity of those who ultimately control the governing body will tend to *creatively* bring about situations in which this power can increase, spread, and appear justified.²⁷ Thus, for example, those in power will encourage the establishment of privileged special interest groups that back the governing body in exchange for benefits and privileges it can grant them. Also, any socialist system will tend to overindulge in political *propaganda*, by which it will invariably idealize the effects on the social process of the governing body's commands, while insisting that the absence of such intervention would produce very negative consequences for society. The systematic deception of the population, the distortion of facts, the fabrication of false crises to convince the public that the power structure is necessary and should be maintained and strengthened, etc. are all typical characteristics of the perverse and corrupting

²⁷ See Thomas J. Di Lorenzo, "Competition and Political Entrepreneurship: Austrian Insights into Public Choice Theory," in *The Review of Austrian Economics*, ed. Murray N. Rothbard and Walter Block, vol. 2 (Lexington: Lexington Books, 1988), 59-71. Although we consider the contributions of the public choice school highly significant with respect to its analysis of the functioning of bureaucracies and political bodies in charge of applying institutional coercion, we agree with Di Lorenzo that the analysis of this school has until now been seriously weakened by its excessive dependence on the methodology of neoclassical economics; that is, by its excessively static nature, the use of the formal instruments characteristic of the economic analysis of equilibrium, and the failure to fully accept the dynamic analysis based on the theory of entrepreneurship. The introduction of the conception of entrepreneurship leads us to conclude that coercive institutional activity is much more perverse even than the public choice school has traditionally revealed. This school has generally overlooked the capacity of the governing body to entrepreneurially *create* perverse, corrupting actions and strategies which are new and more effective. For a summary of the most important contributions of the public choice school in this area, see William Mitchel, *The Anatomy of Government Failures* (Los Angeles: International Institute of Economic Research, 1979); J. L. Migué and G. Bélanger, "Toward a General Theory of Managerial Discretion," *Public Choice*, no. 17 (1974): 27-43; William Niskanen, *Bureaucracy and Representative Government* (Chicago: Adine-Atherton Press, 1971); Gordon Tullock, *The Politics of Bureaucracy* (Washington D.C.: Public Affairs Press, 1965); and Ludwig von Mises's pioneering work, *Bureaucracy* (New Rochelle, New York: Arlington House, 1969). We have outlined in Spanish the main arguments of all of this literature in our article, "Derechos de propiedad y gestión privada de los recursos de la naturaleza,"

effect socialism exerts on its own governing bodies or agencies.²⁸ Furthermore, these characteristics will be common to the supreme decision-making authorities in charge of institutional aggression and to the intermediate *bureaucratic* bodies which are necessary to issue coercive commands and supervise their fulfillment. These secondary bureaucratic organizations will always tend to overexpand, to seek the support of specific interest groups, and to create the artificial need for their existence by exaggerating the “beneficial” results of their intervention and systematically concealing its perverse effects.

Finally, the *megalomaniacal* nature of socialism becomes obvious. Not only do bureaucratic organizations tend toward unlimited expansion, but those who control them also instinctively try to reproduce the macrostructures of these bodies in the society they act upon, and, under all sorts of false pretexts, these authorities force the creation of increasingly large units, organizations, and firms. Their reason for this action is twofold: first, they instinctively believe that such structures make it easier for them to supervise the execution of the coercive commands issued from above; and second, such structures provide the bureaucratic authorities with a false sense of security against genuine entrepreneurial effort, which always originates from an essentially individualistic and creative microprocess.²⁹

Cuadernos del Pensamiento Liberal (Madrid: Unión Editorial), no. 2 (March 1986): 13-30, reprinted in our *Estudios de Economía Política* (Madrid: Unión Editorial, 1994), 229-249.

²⁸ Precisely because socialism generates corruption and immorality, it will always be the most corrupt, immoral, and unscrupulous individuals, that is, those most experienced in breaking the law, exercising violence, and successfully deceiving people, who will tend to rise to power. History has time and again confirmed and illustrated this principle in a variety of contexts, and in 1944 F. A. Hayek analyzed it in detail in chapter 10 (“Why the Worst Get on the Top”) of his *The Road to Serfdom* (Chicago: The University of Chicago Press, 1972 edition), 134-152. There is a Spanish translation by José Vergara, *Camino de Servidumbre*, Libros de Bolsillo, no. 676 (Madrid: Alianza Editorial, 1978). We consider the title, *El Camino hacia la Servidumbre*, to be more suitable. Valentín Andrés Álvarez proposed this translation in his 1945 review of Hayek’s book (“El Camino hacia la Servidumbre del Profesor Hayek,” *Moneda y Crédito*, no. 13 [June 1945], reprinted as ch. 2 of *Libertad Económica y Responsabilidad Social*, commemorative edition marking the centennial of the birth of D. Valentín Andrés Álvarez [Madrid: Centro de Publicaciones del Ministerio de Trabajo y Seguridad Social, 1991], 69-86), a review that nearly cost him his professorship in Madrid, due to the political intolerance in Spain at that time.

²⁹ Jean-François Revel, *El estado megalómano* (Madrid: Planeta, 1981). According to Camilo José Cela, winner of the Nobel prize for literature in 1989, “the state divorces nature and leaps above countries, blood, tongues. The dragon of Leviathan has opened its jaws to devour mankind ... The thousand gears of the state teem with its worm-like servants; they crawl with the worms who learned the

The Underground or “Irregular” Economy

Another typical consequence of socialism is that it triggers an inexorable social reaction in which the different actors, to the best of their abilities, systematically disobey the coercive commands of the governing body by undertaking a series of actions and interactions outside of the regular framework the commands are intended to establish. Thus an entire social process begins behind the backs of those the governing body considers “regular,” and this process reveals the extent to which institutional coercion is condemned to failure in the long run, since it goes against the fundamental essence of human action. Therefore, often the governing body has no choice but to exercise its power while implicitly tolerating “irregular” social processes that survive alongside the rigid structures it devises. Hence, the emergence of a hidden, “irregular,” or *underground economy* or society is an integral feature of socialism, and one that appears without exception in spheres of coercive activity and varies in intensity with that activity. The basic characteristics of corruption and of the underground economy are the same in both real-socialist countries and mixed economies. The only difference is that in the latter, corruption and the underground economy are present precisely in those areas of social life in which the state intervenes.³⁰

A Lag in Social (Economic, Technological, Cultural) Development

a) Socialism patently entails an assault on human creativity and hence on society and the advancement of civilization. In fact, to the extent that the free exercise of human action is forcibly impeded via coercive commands, actors are unable to create or discover new information, and the advancement of civilization is blocked. To put it another way, socialism implies the systematic establishment of a series of barriers to free human interaction, and these

fateful lesson that they must preserve their host.” “El Dragón de Leviatán” (lecture delivered before UNESCO, July 1990), in “Los Intelectuales y el Poder,” *ABC* (Madrid), 10 July 1990, pp. 4, 5.

³⁰ An excellent summary of theory concerning the irregular economy and an outline of the most important literature on the subject appear in the works of Joaquín Trigo Portela and Carmen Vázquez Arango, *La Economía Irregular* (Barcelona: Generalitat de Catalunya, 1983) and *Barreras a la Creación de Empresas y Economía Irregular* (Madrid: Instituto de Estudios Económicos, 1988). An outstanding illustration of the theoretical argument offered in the text, yet applied to the specific case of Peru, is found in Hernando de Soto’s *El Otro Sendero: La Revolución Informal* (Mexico: Editorial Diana, 1987).

barriers freeze the development of society. This effect is felt in all areas of social development, not just in those which are strictly economic. One of the most typical characteristics of the socialist system is its *slowness to innovate* and to introduce current technological innovations, and as a consequence, socialist systems invariably trail behind their competitors in the development and practical application of new technologies.³¹ This is so even though socialists, in an extensive and voluntaristic manner as always, strive to force society's technological development by issuing commands and creating pretentious institutes or councils devoted to scientific research and to planning the future development of new technologies. Nevertheless, the very creation of these bureaucratic agencies for the development of innovations is the clearest and most obvious sign that the system is blocked with respect to scientific and technological development. The fact is, *it is impossible to plan the future development of knowledge which has not yet been created and can only emerge in an environment of entrepreneurial liberty that commands cannot simulate.*

b) The above remarks also apply to any other sphere in which spontaneous and constant social development or evolution takes place. Specifically, we are referring to cultural, artistic, and linguistic areas, and in general, to all areas rooted in the spontaneous evolution and development of social habits and customs. *Culture* is simply the spontaneous result of a social process in which multiple actors interact, and each one makes his own small contribution of experience, originality, and vision. If the authorities apply systematic coercion to this process, they cripple and corrupt it, if they don't stop it altogether. (Again the governing body will seek to appear as the "champion" of the cultural impetus by establishing all sorts of agencies, ministries, councils, and commissions entrusted with boosting and "fostering" cultural "development" using commands.)³²

³¹ Moreover, V. A. Naishul has pointed out that the socialist system does not tolerate changes and innovations, given the profound, multiple maladjustments they cause in the rigid organization of the economy. See "The Birthmarks of Developed Socialism," chap. 5 of his *The Supreme and Last Stage of Socialism* (London: CRCE, 1991), 26-29, esp. p. 28, "Hostility to Change."

³² Jacques Garello is the author of a splendid analysis of the damaging effects socialism exerts on culture, with special reference to France. See his article, "Cultural Protectionism" (presented at the Mont Pèlerin Society Regional Meeting, Paris, 1984).

c) The evolution or development of new social habits is key as well, since they teach people how to behave with respect to the new circumstances, products, services, etc. that emerge in the process of social development. There is nothing more tragic than a society which has stagnated due to institutional aggression against the interaction of its members, an assault that hampers the learning process necessary to confront the new challenges and make the most of the new opportunities which constantly arise.³³

The Prostitution of the Traditional Concepts of Law and Justice. The Moral Perversion Socialism Creates

a) In the last chapter, we saw that the social process, propelled by the force of entrepreneurship, is made possible by a set of customary rules which also spring from it. These behavioral habits are the substance of private contract law and criminal law, and no one deliberately designed them. Instead, they are evolutionary institutions which emerged as a result of the practical information contributed to them by a huge number of actors over a very lengthy period of time. From this viewpoint, the law is composed of a series of substantive *laws or rules* which are *general* (as they apply equally to all) and *abstract* (as they only establish a broad framework for personal conduct, without predicting any concrete result of the social process).

Because socialism rests on institutionalized, systematic aggression (in the form of a series of *coercive orders or commands*) against human action, socialism entails the disappearance of the above traditional concept of law and its replacement with a spurious sort of “law,” composed of a conglomeration of administrative orders, regulations, and commands

³³ One example which graphically illustrates the argument we have invoked in the text is that of the harmful effects which authorities' systematic aggression on the production, distribution, and consumption of drugs exerts on the social process by which people learn how to behave in connection with drugs. In fact, historically many drugs have met with less aggression, and as a result, throughout the adjustment process entrepreneurship drives, society has been able to generate a large volume of information and experience which have taught people how to behave properly with respect to these substances. For example, in many societies, this is what has occurred in the case of drugs such as wine and tobacco. However, a similar process is impossible as regards more recently discovered substances which, from the beginning, have been subjected to a very rigorous system of institutional coercion, a system that, apart from failing utterly, has kept individuals from experimenting and learning what the

which spell out exactly how each person should behave. So, as socialism spreads and develops, laws in the traditional sense cease to act as guidelines for personal behavior, and their role is usurped by the coercive orders or commands which emanate from the governing body (whether democratically elected or not). In this way, the law's scope of practical application is gradually restricted to those regular or irregular spheres not directly and effectively influenced by the socialist regime.

In addition, a very important secondary effect appears: when actors lose the yardstick substantive law provides, they begin to change their personalities and drop their habits of adjustment to abstract general rules, and hence, the actors become progressively worse at assimilating traditional rules of conduct, and they abide by them less and less. In fact, given that on many occasions dodging commands is necessary to satisfy one's own need to survive, and that on others it is a sign that the corrupt or perverse entrepreneurship socialism always provokes is successful, in general the population comes to view the infringement of the rules more as a commendable manifestation of the human ingenuity which should be sought and encouraged, than as a violation of a system of standards and a threat to life in society. Therefore, socialism induces people to violate the law, drains it of its content, and corrupts it, by completely discrediting it in society and as a result, causing citizens to lose all respect for it.

b) The prostitution of the concept of law, which we explained in the last section, is invariably accompanied by a parallel exploitation of the concept and application of *justice*. Justice, in the traditional sense, consists of the equal application to everyone of the substantive, abstract rules of conduct which make up private law and criminal law. Therefore, it is no coincidence that justice has been portrayed as blindfolded, since above all she must be *blind*, in the sense that she must not allow herself to be influenced in her application of the law by the gifts of the rich, nor by the tears of the poor.³⁴ Because socialism systematically corrupts the

appropriate behavior patterns should be. See Guy Sorman, *Esperando a los bárbaros* [Waiting for the Barbarians] (Barcelona: Seix Barral, 1993), 327-337.

³⁴ “Do not pervert justice; *do not show partiality to the poor or favoritism to the great*, but judge your neighbor fairly.” Lev. 19:15. “So I have caused you to be despised and humiliated before all the people, because you ... have shown partiality in matters of the law.” Mal. 2:9 New International Version.

traditional concept of law, it also modifies this traditional idea of justice. In fact, in the socialist system, “justice” primarily consists of the arbitrary judgement of the governing body, based on the more or less emotional impression its members derive from the concrete “final result” of the social process which they believe they perceive and which they daringly attempt to *organize* from above via coercive commands. Thus, it is no longer human behaviors which are judged, but the perceived “result” of them within a spurious context of “justice,” to which the adjective *social* is added to make it more attractive to those who suffer it.³⁵ From the opposite perspective of traditional justice, *there is nothing more unjust than the concept of social justice*, since it hinges on a view, impression, or estimate of the “results” of social processes, regardless of the particular behavior of each actor from the standpoint of the rules of traditional law.³⁶ The role of the judge in traditional law is of a merely intellectual nature, and he must not allow himself to be swayed by his emotional inclinations nor by his personal assessment of the

³⁵ The word “social” completely alters the meaning of any term to which it is applied (justice, rule of law, democracy, etc.). Other terms also used to camouflage reality with attractive connotations are, for example, the adjectives “popular” and “organic,” which often precede the term “democracy.” Americans use the expression *weasel words* to refer to all such words employed to semantically deceive citizens and permit the continued use of enormously attractive words (like “justice” and “democracy”) but with meanings that directly contradict those they traditionally convey. The term “weasel word” derives from the well-known line from Shakespeare that refers to the ability of the weasel to drain an egg without damaging its shell at all. (“I can suck melancholy out of a song, as a weasel sucks eggs.” *As You Like It* in *The Riverside Shakespeare* [Boston: Houghton Mifflin, 1974], 2.5.11, p. 379.) For more on this topic, consult in detail all of chapter 7 of Hayek’s book, *The Fatal Conceit*. Another term whose meaning has been corrupted is *solidarity*, which today is used as an alibi for state violence considered legitimate if it is reportedly employed to “help” the oppressed. Nevertheless, “solidarity” has traditionally meant something quite different and has referred to the human interaction which emerges in the spontaneous social process entrepreneurship drives. In fact, *solidarity* derives from the Latin term *solidare* (to solder or unite) and means, according to the *Diccionario* of the Royal Academy of the Spanish Language, “circumstantial commitment to the enterprise of others.” The market, as we have defined it, is therefore the quintessential mechanism or system of solidarity between human beings. In this sense, there is nothing more antithetical to solidarity than the attempt to forcibly impose, from above, principles of “solidarity” which are as short-sighted as they are biased. Furthermore, the problem of permanent ignorance which plagues the regulatory agency is inevitably shared by those who conceive “solidarity” strictly in the terms of helping the needy, and this help will be inefficient and superfluous if the state proffers it instead of the individuals interested in voluntarily helping others. It is quite pleasing to see that John Paul II, in his encyclical *Centesimus Annus*, not only refers to the market as a “progressively expanding chain of *solidarity*” (chap. 4, section 43, paragraph 3), but he also affirms that “needs are best understood and satisfied by people who are closest to them and who act as neighbours to those in need,” and thus he criticizes the social assistance state: “By intervening directly and depriving society of its responsibility, the Social Assistance State leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending” (chap. 5, section 48, paragraph 5).

³⁶ The best critical treatise on the spurious concept of social justice was written by F. A. Hayek. See *The Mirage of Social Justice*, vol. 2 of *Law, Legislation and Liberty*.

effect the ruling will have on each party. If, as occurs in socialism, the objective application of the law is impeded and legal decision-making based on more or less subjective and emotional impressions is permitted, all legal certainty vanishes, and soon actors begin to perceive that any desire can obtain judicial protection if only a favorable impression can be made on the judge. Consequently, an extremely strong incentive to litigate is created and, together with the chaotic situation produced by the increasingly imperfect and contradictory jumble of coercive commands, it overloads judges to the extent that their job becomes more and more unbearable and inefficient. So the process continues, a progressive breakdown which comes to an end only with the virtual disappearance of justice in its traditional sense, and of judges, who turn into ordinary bureaucrats at the service of the authorities and are in charge of supervising the fulfillment of the coercive commands they issue. The following pages contain a systematic table in which we list the most significant differences between the spontaneous process based on entrepreneurship and on free human interaction and the system of organization based on commands and on institutional coercion (socialism). In the table, we note the opposite effects the two exert on the concepts and application of law and justice.

c) Another of the most typical characteristics of socialism is the loss of the habits of adapting one's own behavior to general standards which have formed through tradition, and whose essential social role is not fully grasped by any one individual. Morality is weakened at all levels and even disappears and is replaced by a reflection of the governing body's mystic approach to social organization, a mysticism that tends to reproduce on the level of each individual actor's behavior. Hence, on an individual level as well, the wishful thinking typical of socialism is sure to prevail with respect to the achievement of ends a subject pursues more through caprice or personal "commands" fed by his own desires and instincts, which he declares ad hoc in each particular case, than by the exercise of human interaction subject to general moral and legal guidelines.

A leading exponent of this moral perversion socialism begets was Lord Keynes, one of the most conspicuous forces behind systematic coercion and interventionism in the monetary and fiscal sphere. Keynes offered the following explanation of his "moral" position: "We

entirely repudiated a personal liability on us to obey general rules. We claimed the right to judge every individual case on its merits, and the wisdom, experience, and self-control to do so successfully. This was a very important part of our faith, violently and aggressively held, and for the outer world it was our most obvious and dangerous characteristic. We repudiated entirely customary morals, conventions and traditional wisdom. We were, that is to say, in the strict sense of the term, immoralists. We recognized no moral obligations, no inner sanction, to conform or obey. Before heaven we claimed to be our own judge in our own case ... So far as I am concerned, it is too late to change. I remain, and always will remain, an immoralist.”³⁷

Thus, socialism appears to be both a natural product of the false, exaggerated rationalism of the so-called Enlightenment and a result of the basest and most atavistic human instincts and passions. In fact, by believing there are no limits to the capacity of the human mind, the naive rationalists rebel, like Keynes, Rousseau, and so many others, against the institutions, habits, and behaviors which make the social order possible; cannot, by definition, be completely rationalized; and are irresponsibly labeled as repressive and inhibitory social traditions. The paradoxical outcome of this “deification” of human reason is simply the elimination of the moral principles, rules, and behavioral norms which allowed civilization to evolve, and the inevitable abandonment of man, who needs these vital guides and standards, to his most atavistic and primitive passions.³⁸

³⁷ For this passage, see pp. 25 and 26 of vol. 1 of F. A. Hayek’s work, *Law, Legislation and Liberty*, where Hayek quotes from John Maynard Keynes’s book, *Two Memoirs* (London, 1949), 97-98. See also the work by Robert Skidelsky, *John Maynard Keynes: Hopes Betrayed, 1883-1920* (London: Macmillan, 1983), 142-143.

³⁸ See F. A. Hayek, *The Fatal Conceit*, chap. 1.

TABLE III-I

<i>SPONTANEOUS SOCIAL PROCESS</i> <i>Based on entrepreneurship</i> <i>(Unassaulted social interaction)</i>	<i>SOCIALISM</i> <i>(Systematic institutional aggression against entrepreneurship and human action)</i>
1) Social coordination occurs spontaneously, due to entrepreneurship, which constantly discovers and eliminates social maladjustments, which emerge as profit opportunities. (Spontaneous order)	1) Attempts are made to deliberately impose social coordination from above via <i>coercive commands, orders, and regulations</i> which emanate from the authorities. (An organized hierarchy – from <i>hieros</i> , sacred, and <i>archein</i> , to command)
2) The protagonist of the process is <i>man</i> , who acts and exercises creative entrepreneurship.	2) The protagonists of the process are the <i>leader</i> (democratic or not) and the <i>public official</i> (that person who acts in compliance with the administrative orders and regulations which emanate from the authorities).
3) The links of social interaction are <i>contractual</i> , and the parties involved exchange goods and services according to substantive legal rules. (Law)	3) The links of social interaction are <i>hegemonic</i> ; some people command and others obey. In a “social democracy,” the “majority” coerces the “minority.”
4) <i>The traditional, substantive concept of law, understood as an abstract, general rule</i> predominates and is applied equally to all regardless of particular circumstances.	4) <i>Commands and regulations</i> predominate and, notwithstanding their appearance as formal laws, are specific, concrete orders which command people to do certain things in particular circumstances and are not applied equally to all.
5) The laws and institutions which make the social process possible have not been deliberately created, but have <i>evolved</i> from <i>custom</i> , and they incorporate an enormous volume of practical experience and information which has accumulated over many generations.	5) Commands and regulations are deliberately issued by the <i>organized authorities</i> and are highly imperfect and unsound, given the ineradicable ignorance in which the authorities are always immersed with respect to society.
6) The spontaneous process makes <i>social peace</i> possible, since each actor, within the framework of the law, takes advantage of his practical knowledge and <i>pursues his own particular ends</i> , through pacific cooperation with others and by spontaneously adapting his behavior to that of others, who pursue different goals.	6) One end or set of ends must <i>predominate</i> and be imposed on all through a system of commands. This results in unresolvable and interminable social conflict and violence, which obstruct social peace.
7) <i>Freedom</i> is understood as the absence of coercion or aggression (both institutional and asystematic).	7) “Freedom” is understood as the ability to achieve the specific ends desired at any moment (through a simple act of will, a command, or caprice).
8) The traditional meaning of <i>justice</i> prevails and indicates that the law in substantive form is applied equally to all, regardless of the concrete results of the social process. The only equality pursued is <i>equality before the law</i> , applied by a justice system blind to particular differences between people.	8) The spurious sense of “justice of the results” or “ <i>social justice</i> ” prevails; in other words, <i>equality of the results</i> of the social process, regardless of the behavior (whether correct or not from the standpoint of traditional law) of the individuals involved.
9) <i>Abstract, economic, and commercial</i> relationships prevail. The spurious concepts of	9) <i>The political</i> predominates in social life, and the basic links are “tribal”: a) <i>loyalty</i> to

<p>loyalty, “solidarity,” and hierarchy do not come into play. Each actor disciplines his behavior based on substantive law rules and participates in a <i>universal social order</i>, in which there are no “friends” nor “enemies,” nor people he is close to nor distant from, but simply many human beings, the majority of whom he does not know, and with whom he interacts in a mutually satisfying, and increasingly far-reaching and complex, manner (correct meaning of the term <i>solidarity</i>).</p>	<p>the group and to the chief; b) respect for the <i>hierarchy</i>; c) help to the “fellow man” one knows (“solidarity”) and forgetfulness or even contempt toward the “other” more or less unknown people, who are members of other “tribes” and are distrusted and considered “enemies” (spurious and short-sighted meaning of the term “solidarity”).</p>
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Socialism as the “Opium of the People”

Finally, socialism exerts the systematic effect of seriously hindering citizens’ discovery of the negative consequences it produces. By its very essence, socialism obstructs the emergence of the important information necessary to criticize or eliminate it. When actors are forcibly blocked in the creative exercise of their own human action, *they lack even the awareness of what they fail to create in the coercive, institutional environment in which their lives are immersed.*

As the old saying goes, “What the eye does not see the heart does not grieve for.”³⁹ Thus, a mirage appears, and the different actors identify the coercive agency with the existence of those goods and services which are considered crucial to life and which the agency provides. It does not even enter the actors’ minds that the imperfect result of the coercive commands could be achieved in a much more creative, fruitful, and effective manner via free, entrepreneurial human action. Therefore, complacency, cynicism, and resignation spread. Only the underground economy and knowledge of what occurs in other, comparatively less socialist systems of government can trigger the mechanisms of civil disobedience necessary to dismantle, either through social development or revolution, the organized, institutional system of coercion against human beings. Furthermore, socialism, like any drug, is “addicting” and causes “rigidity;” as we have seen, its authorities tend to justify increasing doses of coercion, and the

³⁹ [Ojos que no ven, corazón que no siente.] Miguel de Cervantes (*El Quijote*, chap. 67) uses the form, “Ojos que no ven, corazón que no quiebra,” and the version, “Ojos que no ven, corazón que no llora” is also acceptable. (See pp. 327-328 of the *Diccionario de Refranes*, by Juana G. Campos and Ana Barella, Appendix 30 to the *Boletín de la Real Academia Española*, Madrid, 1975.)

system makes it very painful and difficult for people who become dependent on it to return to entrepreneurial habits and behavior patterns not based on coercion.⁴⁰

Conclusion: The Essentially Antisocial Nature of Socialism

If we recall our definition of “society” from the end of the last chapter, it becomes obvious that nothing is more antisocial than socialism itself. Our theoretical analysis has revealed the ways in which, in the *moral sphere*, socialism corrupts the principles or behavioral rules essential to upholding the fabric of society and does so by discrediting and encouraging the violation of the law (the concept of which becomes perverted) and disposing of justice in its traditional sense. In the *political sphere*, socialism inevitably tends toward totalitarianism, since systematic coercion tends to spread to every social nook and cranny, while erasing freedom and personal responsibility. *Materially speaking*, socialism greatly impedes the production of goods and services, and thus it encumbers economic development. *Culturally speaking*, socialism shackles creativity by preventing the development and learning of new behavior patterns and interfering with the discovery and introduction of innovations. In the *field of science*, socialism is simply an intellectual error which originates from the belief that the human mind has a much greater capacity than it actually does, and hence, that it is possible to obtain the information necessary to improve society through coercion.⁴¹ In short, socialism constitutes the quintessential antihuman and antisocial activity, since it is based on systematic coercion against the most intimate characteristic of man: his own ability to act freely and creatively.

⁴⁰ From this standpoint, the situation is even graver, if possible, in a social democracy than in “real socialism,” because in the former, the examples and alternative situations which might open the eyes of the citizenry are almost non-existent, and the possibilities of concealing the harmful effects of democratic socialism through demagogic and ad hoc rationalizations are nearly overwhelming. Hence, now that the “paradise” of real socialism has been lost, the true “opium of the people” lies today in social democracy. On this point, see pp. 26-27 of our preface to the Spanish edition of *The Fatal Conceit: The Errors of Socialism*, vol. 1 of the *Obras Completas de F. A. Hayek*.

⁴¹ In the words of F. A. Hayek himself: “On the moral side, socialism cannot but destroy the basis of all morals, personal freedom and responsibility. On the political side, it leads sooner or later to totalitarian government. On the material side it will greatly impede the production of wealth, if it does not actually cause impoverishment.” See his “Socialism and Science,” in *New Studies In Philosophy, Politics, Economics and the History of Ideas* (London: Routledge, 1978), 304.

7. DIFFERENT TYPES OF SOCIALISM

Now that we have stated the theoretical definition of socialism, explained why this system is an intellectual error, and studied the theoretical consequences it produces, in this section we will examine history's most salient cases of socialism. We intend, initially, to connect our theoretical analysis with the real world by using our analysis to interpret the main, distinctive characteristics of each type of socialism. All of the examples we will mention share the trait of being socialist systems; in other words, they are all based on systematic, institutional aggression against the free exercise of entrepreneurship. As we will see, the differences between them lie in the general purposes or ends pursued, and particularly in the breadth and depth to which institutional aggression is exercised in each.

Real Socialism, or that of Soviet-Type Economies

This system is characterized by the great breadth and depth to which institutionalized aggression is exercised against individuals' human action, and specifically, by the fact that this aggression is always, and at least, expressed in an attempt to block the free exercise of entrepreneurship with respect to economic goods of higher order, or material factors of production. Material factors of production (capital goods and natural resources) are all economic goods which do not directly satisfy human needs, but require the intervention of other factors of production, especially human labor, in order for consumer goods and services to be produced, through a production process that always takes time. From the perspective of the theory of human action, material factors of production, or higher-order economic goods, are *all of the intermediate stages, subjectively considered as such by the actor, which form part of an action process prior to its ultimate conclusion*. Thus, we can now grasp the profound effect institutionalized aggression will have if it spreads to the factors of production, since such aggression will necessarily, to a greater or lesser extent, influence all human actions on a fundamental level. This type of socialism has long been considered the purest, or socialism par excellence. It is also known as *real socialism*, and for many theorists and thinkers unfamiliar with the dynamic theory of entrepreneurship, it is, in fact, the only type of socialism that exists.

As for the *motives* behind it, real socialism is generally, and passionately, aimed at not only “freeing humanity of its chains,” but also at achieving *equality of the results*, which is deemed to be the quintessential ideal of “justice.” It is of great interest to carry out a detailed study of the development and chief characteristics of this first type of socialism, which is currently in a state of marked decline.

Democratic Socialism, or Social Democracy

Today, this is the most popular variety of socialism. Historically, it emerged as a *tactical* departure from real socialism and differs from it insofar as social democracy is meant to achieve the objectives of its advocates via the traditional democratic mechanisms which have formed in western countries. Later, mainly due to the development of social democracy in states like West Germany,⁴² democratic socialists gradually abandoned the goal of “socializing” the means or factors of production, and they began to place more and more emphasis on focusing systematic or institutionalized aggression on the fiscal sphere, with the purpose of evening out “social opportunities” and the results of the social process.

We must point out that, contrary to the impression which socialism of the above sort is intended to make on the public, the difference between real socialism and democratic socialism is not one of category or class, but simply one of degree. In fact, institutional aggression in social democracies is quite profound and far-reaching; we refer both to the number of social spheres and processes affected, and the degree of effective coercion exercised against the action of millions of people, who witness the systematic expropriation, through taxes, of a very large share of the fruits of their own entrepreneurial creativity, and who are forced via commands and regulations to take part in multiple actions which they would not voluntarily undertake, or would perform differently.

⁴² On the emergence and development of social democracy in West Germany, see the pertinent remarks Hans-Hermann Hoppe makes in his *A Theory of Socialism and Capitalism*, chap. 4, esp. pp. 61-64.

Social democrats usually pursue ostensibly “noble” goals, such as the “redistribution” of income and wealth and, in general, the “improved functioning” of society. This system tends to create the illusion that, because its primary aim is precisely the “democratic” ideal and institutional aggression is ultimately exercised by democratically elected “representatives,” such aggression poses no problem. In this way, the system obscures the fact that the theoretical consequences of socialism inexorably appear, regardless of whether the governing body is composed of democratically elected representatives of the people. For *democratic elections have no bearing on the fundamental problem of the ineradicable ignorance which envelops the entire governing body in charge of applying systematic coercion*. Whether or not it originates in a democratic chamber, aggression always hinders to some extent the human interaction based on creative entrepreneurship, and thus it prevents social coordination and gives rise to all of the other theoretical consequences of socialism we have already analyzed.

Hence, the basic issue involved in harmonious social relations is not whether or not they are “democratically” organized, but on the contrary, the breadth and depth of systematic coercion against free human interaction. For this reason, Hayek himself explains that, if the so-called “democratic ideal” means granting representatives the power of unlimited institutional aggression, he does not consider himself a democrat. He defends a system defined by limits on state power and distrust toward the institutional aggression typical of the state, a system which rests on a series of self-compensating bodies comprised of democratically elected representatives. Hayek suggests the name “demarchy” for this political system.⁴³

Finally, the “mirage” effect described in the last section appears wherever democratic socialism prevails: since this system has spread to some degree throughout all countries where real socialism is absent, there is no comparative social system which reveals to citizens the

⁴³ F. A. Hayek, *The Political Order of a Free People*, vol. 3 of *Law, Legislation and Liberty*, 38-40. On page 39, Hayek explicitly states: “Though I firmly believe that government ought to be conducted according to principles approved by a majority of the people, and must be so run if we are to preserve peace and freedom, *I must frankly admit that if democracy is taken to mean government by the unrestricted will of the majority I am not a democrat, and even regard such government as pernicious and in the long run unworkable*” (italics added). Next, Hayek explains his rejection of the term “democracy” by pointing out that the Greek root *kratos* derives from the verb *kratein* and incorporates an

adverse consequences of social-democratic institutional aggression, and which, as is now occurring with respect to real socialism, strengthens the necessary movements, whether revolutionary or not, in favor of its dismantling and reform. Nevertheless, ordinary people are becoming increasingly aware of the damaging consequences of the social-democratic aggressor state, due to the latest advances in the realms of both theory⁴⁴ and practice. (In fact, despite multiple attempts to the contrary, social democracy has not managed to remain perfectly undisturbed by the failure of real socialism.) In more and more societies, the above factors are creating certain trends, now more or less consolidated, toward a reduction in the scope and depth of the systematic coercion inherent in social democracy.

Conservative or “Right-Wing” Socialism

We can define “conservative” or “right-wing” socialism as that type in which institutional aggression is employed to maintain the social *status quo* and the privileges certain people or groups of people enjoy. The fundamental objective of “right-wing” socialism is to keep things as they are by preventing the free exercise of entrepreneurship and creative human action from disrupting the pre-established framework of social organization. To reach this objective, “right-wing” socialist systems rely on systematic, institutionalized aggression at all levels necessary. In this sense, conservative socialism and democratic socialism differ only in the motivations behind them and in the social groups each aims to favor.

Conservative or “right-wing” socialism is also characterized by its marked *paternalism*, understood as the attempt to freeze the behavior of human beings by assigning them the roles as consumers or producers which the conservative regulatory agency deems fitting. Moreover, in a

idea of “brute force” or “heavy handedness” which is incompatible with a democratic government subject to the law, understood in a substantive sense, and applied equally to all (“isonomy”).

⁴⁴ Specifically, we are referring to the chief contributions of the public choice school and the theory of interventionism developed by the Austrian school. See the related comments and bibliography offered in footnote 27 of this chapter. A detailed outline of the reasons public, bureaucratic management is condemned to failure even when it rests upon a “democratic” foundation appears in our article, “Derechos de Propiedad y Gestión Privada de los Recursos de la Naturaleza,” *Cuadernos del Pensamiento Liberal* (Madrid: Unión Editorial), no. 2 (March 1986): 13-30; reprinted in our *Lecturas de Economía Política*, vol. 3 (Madrid: Unión Editorial, 1987), 25-43.

socialist system of this kind, the authorities typically seek to dictate, via commands, certain behaviors considered moral or religious.⁴⁵

Military socialism is closely related to conservative or “right-wing” socialism, and Mises defines it as socialism in which all institutions are designed with a view to making war and the value scale by which citizens’ social *status* and income are determined depends primarily or exclusively on the position each person holds with respect to the armed forces.⁴⁶

Guild socialism and *agrarian socialism* can also be considered types of conservative or right-wing socialism. In the first of these two systems, authorities intend to organize society based on a hierarchy of experts, managers, overseers, officers, and workers, and in the second, to forcibly divide up land among certain social groups.⁴⁷

Finally, we must emphasize that conservatism is a philosophy totally incompatible with innovation and creativity, rooted in past, distrustful of anything market processes might create, and fundamentally opportunistic and bereft of general principles, and hence it tends to recommend that the exercise of institutional coercion be entrusted to the *ad hoc* criteria of “wise and good” leaders.” In short, conservatism is an obscurantist doctrine which completely overlooks the manner in which social processes driven by entrepreneurship function, and specifically, the problem of the ineradicable ignorance which envelops all leaders.⁴⁸

⁴⁵ The theorist who has most brilliantly explained conservative or right-wing socialism is Hans-Hermann Hoppe. See *A Theory of Socialism and Capitalism*, chap. 5.

⁴⁶ Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Press, 1981), 220 (J. Kahane’s English translation of the work, *Die Gemeinwirtschaft. Untersuchungen über den Sozialismus* [Jena: Gustav Fischer, 1922]). Nevertheless, Mises shows that military socialism cannot compete on its own martial ground against those societies in which the exercise of creative entrepreneurial activity is permitted, and in fact he explains that the great Incan communist military empire was very easily destroyed by a handful of Spaniards (pp. 222-223).

⁴⁷ On guild and agrarian socialism, see Mises, *Socialism*, 229-232, 236-237.

⁴⁸ F. A. Hayek, “Why I am not Conservative,” in *The Constitution of Liberty*, 397-411.

*Social Engineering, or Scientistic Socialism*⁴⁹

Scientistic socialism is that type favored by the scientists and intellectuals who believe that because they possess articulate knowledge or information “superior” to that of the rest of society, they are authorized to recommend and direct the systematic use of coercion on a social level. Scientistic socialism is especially dangerous, since it legitimizes all other kinds of socialism from an intellectual standpoint and tends to accompany both democratic socialism and the enlightened despotism typical of “right-wing” socialism. Its origin lies in the intellectual tradition of *Cartesian or constructivist rationalism*, according to which the reason of intellectuals is capable of anything, and in particular, has been behind man’s deliberate creation or invention of all social institutions and is thus sufficient for him to modify and plan them at will. Hence, champions of this “rationalism” acknowledge no limits to the potential of human reason, and, obsessed with impressive advances in the natural sciences, technology, and engineering, they attempt to apply the methods used in these areas to the social sphere, and in this way to develop a sort of *social engineering* capable of organizing society in a more “just” and “efficient” manner.

The main error the socialist intellectual or scientistic social engineer commits is to assume that it is possible, by scientific means, to centrally observe, articulate, store, and analyze

⁴⁹ The Royal Academy of the Spanish Language fails to recognize the term *cientismo* [scientism], which we use. The closest term we find in its dictionary is *cientificismo*, the fifth meaning of which is listed as “the tendency to attach excessive value to scientific or supposedly scientific notions.” While Gregorio Marañón did on occasion also use the term *cientismo*, ultimately he appears to have preferred *cientificismo*, which he views as a “caricature of science” and defines as the “excessive display of a science which is lacking.” He concludes: “The crux of the matter is that the *cientificista* uncritically attaches excessive, dogmatic importance to all his vast knowledge; *he takes advantage of his position and reputation to lead followers and listeners alike down the garden path*” (italics added). See “La plaga del Cientificismo,” chap. 32 of *Cajal: su tiempo y el Nuestro*, vol. 7 of *Obras Completas* (Madrid: Espasa Calpe, 1971), 360-361. However, we feel the term *cientismo* is more precise than *cientificismo*, since in fact the former refers more to an abuse of science *per se* than to an improper manner of practicing science. (*Científico* derives from Latin: *scientia*, science, and *facere*, to do.) Also, the word *scientism* is used in English to denote the inappropriate application of the methods used in the natural sciences, in physics, technology, and engineering, to the field of the social sciences. (“A thesis that the methods of the natural sciences should be used in all areas of investigation, including philosophy, the humanities, and the social sciences.”) See *Webster’s Third New International Dictionary of the English Language Unabridged*, vol. 3 (Chicago: G. & G. Merriam, 1981), 2033. Finally, Manuel Seco, in his well-known *Diccionario de Dudas y Dificultades de la Lengua Española*, 9th ed. (Madrid: Espasa Calpe, 1990), 96, states that the terms *ciencismo* and *ciencista* are both acceptable, though we consider them inferior to *cientismo* and *cientista*, since the latter derive from the Latin term *scientia* (and not the Spanish word *ciencia*), which is also the root of the corresponding expressions in French and English.

the dispersed practical information actors constantly generate and transmit in the social process. To put it another way, a scientific individual believes he can and must occupy the upper rung of the socialist governing agency, by virtue of his superior knowledge and intellectual position with respect to the rest of society, and that these factors authorize him to coordinate society via coercive commands and regulations.⁵⁰

Cartesian rationalism is simply a *false rationalism* to the extent that it neglects to recognize the limits of human reason itself.⁵¹ It embodies a very grave intellectual error, which is especially significant since it comes from those who supposedly benefit from the best intellectual education and thus should be more humble when evaluating their own potential. This error of rationalists is that they assume the social laws and institutions which make the process of human interaction possible are a product of man that was deliberately sought,

⁵⁰ This common arrogance of the socialist intellectual is perfectly illustrated by a legend which tells of Alfonso X, the Wise or Learned, who “was so insolent and arrogant due to his great knowledge of the humanities and to the secrets of nature he was privy to, that he went so far as to say, in contempt of providence and the supreme wisdom of the universal Creator, that if God had asked him for advice at the time the world was created along with everything in it, and he was with God, some things that were made would have been constructed or formed better than they were, and other things would not have been made at all or would have been improved or corrected.” According to legend, this blasphemy of the king was punished with a terrible thunder, lightening, and wind storm that started a fire in the alcazar of Segovia, where the king and his court dwelt, a fire which left several people dead and others injured, and from which the king himself miraculously escaped with his life and immediately repented of his overweening pride. This fierce summer storm which set fire to the alcazar of Segovia and nearly cost the king his life struck on August 26, 1258 and is a rigorously confirmed historical event. See the outstanding biography of *Alfonso X El Sabio*, written by Antonio Ballesteros Beretta (Barcelona: Ediciones “El Albir,” 1984), 209-211, where we find a critical evaluation of all versions of this legend and its connection with related events that have been historically verified. Although this legend appears to be apocryphal, there is no doubt that the scientific nature of the “wise” king manifested itself at least in the strict regulations he unsuccessfully imposed to control and fix prices, to prevent a natural, inevitable increase which he himself had caused by systematically devaluing the currency, as well as in the king’s equally failed attempt to replace Castile’s traditional law of inheritance with a code considered more “scientific,” the *Siete Partidas*, all of which set him against his son and successor, Sancho, and gave rise to a civil war that spoiled the last years of his life. Another historical figure who perfectly illustrates the failure of scientific constructivism in social matters is the Count-Duke of Olivares, who was the royal favorite of King Philip IV and during much of his reign, responsible for the fate of the Spanish empire. The good intentions, capacity for work, and efforts made by the count-duke were as excessive as they were futile. In fact, the main fault of the count-duke was that “by nature, he wished to organize everything,” and he could not resist the ambition to dominate in all areas of social life. In the final stage of his rule, he himself expressed his “deep discouragement that any remedy attempted *produced an effect which was precisely the opposite of that intended*.” Nevertheless, the count-duke never came to understand that this was simply the natural, inexorable result of trying to forcibly control and organize all of society, and thus he never attributed the disastrous situation he left Spain in to his management, but rather to the anger of God at the moral depravity of the age. See the excellent study by J. H. Elliot, *El Conde-Duque de Olivares* (Barcelona: Edit. Crítica, 1990), esp. 296, 388. [The two above quotations from Elliot’s book were translated from the Spanish version.]

created, and designed. They fail to consider that these institutions and laws may be the result of an evolutionary process in which, over a very prolonged period of time, millions and millions of people have taken part, and each has contributed his own small store of practical information and experience generated throughout the social process. Precisely for this reason, these institutions cannot possibly have sprung from a deliberate act of creation by the human mind, which *lacks the capacity necessary to take in all of the practical information or knowledge these institutions incorporate.*

Hayek has covered the litany of errors all socialist scientists are guilty of, and he boils them down to the following four mistaken ideas: 1) the idea that it is unreasonable to follow a course of action that one cannot scientifically justify or confirm via empirical observation; 2) the idea that it is unreasonable to follow a course of action that one does not understand (due to its traditional, habitual, or customary nature); 3) the idea that it is unreasonable to follow a certain course of action unless its purpose has been clearly specified *a priori* (a grave error made by intellects of the stature of Einstein, Russell, and Keynes himself); and 4) the idea, which is closely related to those above, that it is unreasonable to embark on any course of action unless its effects have been fully predicted beforehand, are expected to be beneficial from a utilitarian standpoint, and are entirely observable once the action is undertaken.⁵² These are the four basic errors the socialist intellectual commits, and they all stem from the fundamental error of believing the intellectual observer capable of grasping, analyzing, and “scientifically” improving the practical information which the observed create and use.

At the same time, whenever a social engineer believes he has discovered a contradiction or maladjustment in the social process and “scientifically” justifies or recommends the issuance

⁵¹ F. A. Hayek, “Kinds of Rationalism,” in *Studies in Philosophy, Politics and Economics* (New York: Simon and Schuster, 1967), 82-95.

⁵² F. A. Hayek, *The Fatal Conceit: The Errors of Socialism*, 61, 62. Utilitarianism rests on exactly the same intellectual error as socialism, since it involves the assumption that the utilitarian scientist will have available to him the information on costs and benefits that is necessary to make “objective” decisions. However, given that such information is not centrally available, utilitarianism is impossible as a political-social philosophy, and hence the only option is to act within the framework of the law and patterned behavioral principles (morality). In fact, it may seem paradoxical, but given man’s ineradicable ignorance, there is nothing more useful and practical than to base one’s actions on principles and give up all naïve, myopic utilitarianism.

of a command involving institutionalized coercion or aggression intended to resolve the maladjustment, he commits four additional types of errors: 1) he fails to realize that in all probability, his “observation” concerning the discovered social problem is mistaken, since he has not been able to incorporate all of the crucial practical information; 2) he overlooks the fact that, if such a maladjustment does actually exist, it is extremely likely that certain spontaneous entrepreneurial processes have already been set in motion and will tend to eliminate it much faster and more effectively than the proposed coercive command; 3) he does not see that if his advice prevails and the social “repair” is carried out using coercion, there is every likelihood that this typical manifestation of socialism will halt, obstruct, or render impossible the necessary entrepreneurial process by which the maladjustment could be discovered and eliminated, and therefore, instead of solving the problem, the social-engineering command will complicate it even further and make it impossible to eliminate; and 4) the socialist intellectual specifically overlooks the fact that his behavior will modify the entire framework of human action and entrepreneurship and will render them superfluous and perverse and, as we have seen, will direct them toward areas which do not normally correspond to them (corruption, the purchase of favors from the government, the underground economy, etc.).⁵³ Finally, we should add that social engineering rests on an unsound methodological approach to the science of economics and of sociology, an approach which focuses exclusively on final states of equilibrium and depends upon the arrogant presumption that all information necessary is given and available to the scientist, and this approach and assumption virtually pervade most modern-day economic analysis, leaving it useless.⁵⁴

⁵³ It was Israel M. Kirzner who pointed out the above four errors social engineers commit when they make pseudo-scientific recommendations of coercion. See “The Perils of Regulation: A Market Process Approach,” in *Discovery and the Capitalist Process*, 136-145.

⁵⁴ Norman P. Barry, *The Invisible Hand in Economics and Politics. A Study in the Two Conflicting Explanations of Society: End-States and Processes* (London: Institute of Economic Affairs, 1988). In the following chapters, we will have the opportunity to see how it was that the scientific theorists with an ingrained focus on equilibrium were unable to grasp the Misesian argument with respect to the impossibility of economic calculation in socialist economies, and we will also study, as one of the most significant by-products of this controversy, the methodological inconsistencies of modern economic analysis based on equilibrium.

Other Types of Socialism (Christian or Solidarity-Based, Syndicalist, Etc.)

Socialism based on Christianity or “solidarity” arises when certain results of the social process are judged unfavorably from a “moral” standpoint and the systematic, institutional use of coercion to modify such situations of “injustice” is defended. In this sense, Christian socialism founded on “holy coercion” is no different from the other types of socialism we have already analyzed, and we only mention it separately due to the distinct, more or less religious grounds upon which people justify it. Also, Christian socialism typically rests on a total lack of knowledge and awareness of the functioning of the social processes the force of entrepreneurship drives. In the moral judgments involved, a vague idea of “solidarity” toward one’s *neighbor* or *fellow man* predominates, though it is unaccompanied by the knowledge that the social process of human interaction makes the development of civilization possible not only for one’s “neighbors,” but also for those far away and unknown, and this occurs spontaneously by a process in which diverse people cooperate by pursuing their own particular ends, even though they do not know each other. Finally, Christian socialists do not consider coercion morally detrimental if it is aimed at achieving *morally superior* goals. Nevertheless, systematic coercion, even when “holy,” is still antihuman coercion, and therefore constitutes socialism with all of the characteristic analytical consequences we have already noted.⁵⁵

Syndicalist socialism is another variety of socialism, and its advocates seek to create, through the systematic and institutional exercise of coercion, a society in which the workers *directly* own the means of production. This variety, sometimes called *self-management socialism*, is socialism nonetheless, to the extent that it relies on the widespread, systematic use of coercion and thus reproduces all of the features and consequences of socialism which we have already examined in this chapter. However, syndicalist socialism also gives rise to peculiar forms of discoordination which do not appear in other types of socialism, especially if it is not confined to a mere redistribution of wealth but is intended to become a lasting economic

⁵⁵ A particularly important source on Christian socialism is the book, *Religion, Economics and Social Thoughts*, ed. Walter Block and Irving Hexham (Vancouver, Canada: Fraser Institute, 1989). See also Mises, *Socialism*, 223-226.

and social system. Theorists have analyzed these typical, distinctive characteristics in detail, and the theoretical conclusions they have drawn have been perfectly illustrated by the few historical cases, like that of Yugoslavia, in which an attempt has been made to put syndicalist socialism into practice effectively.⁵⁶

8. CRITICISM OF THE ALTERNATIVE CONCEPTS OF SOCIALISM

The Traditional Concept and the Process by which the New Concept Developed

Socialism has traditionally been defined as that system of social organization based on state ownership of the means of production.⁵⁷ This meaning, which in practice coincides with the definition we gave earlier for “real socialism,” has long been the most widely accepted for historical and political reasons. It is the definition Mises originally used in 1922 in his critical treatise on socialism,⁵⁸ and afterward he himself, and the others of his school, used it as a point of reference throughout the subsequent debate on the impossibility of socialist economic calculation, a debate we will have the opportunity to study in detail in the forthcoming chapters.

Nevertheless, this traditional definition of socialism was clearly unsatisfactory from the start. To begin with, it was plainly of a static nature, since it was formulated in terms of the existence (or nonexistence) of a certain legal institution (property rights) in connection with a specific economic category (the means of production). The use of this definition required a prior explanation of property rights and their implications within the sphere of the economy. Furthermore, the very debate on the impossibility of socialism revealed that the different scientists involved had considerable difficulty communicating with each other, precisely due to

⁵⁶ On syndicalist socialism in general, and the attempt to apply it in Yugoslavia, see Svetozar Pejovich, “The Case of Self-Management in Yugoslavia,” in *Socialism: Institutional, Philosophical and Economic Issues* (Dordrecht: Kluwer Academic Publishers, 1987), 239-249 and the bibliography cited therein. See also E. Furubotn and S. Pejovich, “Property Rights, Economic Decentralization, and the Evolution of the Yugoslavian Firm,” *Journal of Law and Economics* no. 16(1973): 275-302.

⁵⁷ Sure enough, the *Diccionario* of the Royal Academy of the Spanish Language defines *socialismo* as precisely the “system of social and economic organization based on the collective, state ownership and management of the means of production” [el “sistema de organización social y económica basado en la propiedad y administración colectiva y estatal de los medios de producción”].

⁵⁸ According to Mises, “the essence of socialism is this: all means of production are in the exclusive control of the organized community. This and this alone is socialism. All other definitions are

the different meanings they considered implicit in the concept of property rights. Finally, the traditional definition appeared to exclude the interventionism and economic regulation which, though they did not require the complete nationalization of the means of production, did produce some discoordinating effects which were qualitatively very similar. For all of these reasons, it seemed highly advisable to continue to search for and to find a definition of socialism which would go to the very heart of the matter, be as free as possible of concepts that could lend themselves to mistaken interpretations, and, like the social processes to which the definition would be applied, have a distinctly dynamic nature.

One of the most important consequences of the debate on the impossibility of socialist economic calculation was the development and elaboration by Austrian economists (Mises, Hayek, and particularly Kirzner) of a theory of entrepreneurship, a theory which portrayed entrepreneurship as the leading, creative force behind all social processes. The direction to be taken in the formulation of a truly scientific concept of socialism was ultimately determined by the discovery that man's innate entrepreneurial capacity, expressed in his own creative action, is precisely what makes life in society possible, since it uncovers social maladjustments and leads to the creation and transmission of the information necessary for each actor to learn to tune his behavior to that of others.

Hans-Hermann Hoppe took the next most important step in the process toward the formation of a suitable definition of socialism.⁵⁹ Hoppe revealed the essential characteristic of socialism to be its basis of institutionalized aggression against or interference with property rights. His definition is more dynamic, and therefore much more operative than the traditional definition. It does not deal with the existence or nonexistence of property rights, but instead with the question of whether coercion or physical violence is institutionally, i.e. in an organized, repetitive manner, used to violate property rights. Although we view Hoppe's definition as a

misleading.” Ludwig von Mises, *Socialism*, 211. For reasons we point to in the text, we believe Mises made a mistake when he made this categorical statement.

⁵⁹ Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism*, 2. Hoppe affirms that “socialism, by no means an invention of XIX’s century Marxism but much older, must be conceptualized

breakthrough, we do not consider it completely satisfactory, since it requires one to specify or define *ab initio* what is understood by “property rights,” and it makes no mention whatsoever of the exercise of entrepreneurship as the leading force behind all social processes.

If we combine Hoppe’s intuition, specifically that all socialism involves the systematic use of coercion, with recent contributions by Professor Kirzner to the theory of entrepreneurship, we reach the conclusion that the most appropriate definition of socialism is that proposed and used in this chapter, namely, that socialism is *any organized system of institutional aggression against entrepreneurship and human action*. This definition offers the advantage of universal comprehensibility without the need for a detailed *a priori* explanation of the concept of property rights and what they should entail. It is obvious that human action can either constitute an attack or not, and that as long as it does not, and does not specifically consist of a defense against arbitrary or asystematic outside aggression, this action is the most intimate and typical characteristic of human beings, and therefore, is completely legitimate and must be respected.

In other words, we believe our definition of socialism is the most suitable because it has been formulated in terms of human action, man’s most intimate and fundamental trait. Moreover, socialism is conceived as an institutionalized assault on precisely those forces which make life in society possible, and in this sense the assertion that *nothing is more antisocial than the socialist system itself* is only apparently paradoxical. One of the greatest advantages of our definition of socialism is that it brings to light this state of affairs. Without a doubt, the process of social interaction free of aggression demands adherence to an entire series of rules, laws, or behavioral habits. Together these make up substantive law; that is, the framework within which human actions can be peacefully carried out. Nevertheless, the law does not precede the exercise of human action, but evolves in the form of custom from the very process of social interaction. Therefore, according to our definition, *socialism is not a system of institutional aggression against an evolutionary result of entrepreneurship (property rights), but is a system*

as an institutionalized interference with or aggression against private property and private property

of aggression against human action or entrepreneurship itself. Our definition of socialism enables us to directly link the theory of society with a theory of law and its emergence, development, and evolution. Furthermore, it leaves us entirely free to ask, on a theoretical level, what property rights emerge from the non-coercive social process, which property rights are just, and to what extent socialism is or is not ethically admissible.

Socialism and Interventionism

Another advantage of our definition of socialism is that it includes within its scope the social system based on interventionism. In fact, whether one regards interventionism as a typical manifestation of socialism or, as is more common, an intermediate system between “real socialism” and the free social process,⁶⁰ it is clear that since all interventionary measures constitute a coercive, institutional assault on a certain social sphere, interventionism, regardless of the degree, type, or motivation involved, is socialism from the standpoint of our definition, and thus, it will inexorably produce all of the discoordinating effects examined in this chapter.

The equation of the term “socialism” with the term “interventionism” is far from an unjustified broadening of the meanings these words usually convey, and is actually an analytical requirement of the theory of social processes based on entrepreneurship. In fact, though the first Austrian theorists who dealt with interventionism initially considered it a conceptual category separate from socialism, as the debate on the impossibility of socialist economic calculation progressed, the boundaries between the two concepts began to blur, and they continued to do so up to the present day, when it has become clear to the proponents of the theory of

claims.”

⁶⁰ This is the second meaning the *Diccionario* of the Royal Academy of the Spanish Language offers for the term *intervencionismo*: “an intermediate system between individualism and collectivism which entrusts the state with the management and supplementation of private enterprise in the life of the country” [“*sistema intermedio entre el individualismo y el colectivismo que confía a la acción del Estado el dirigir y suplir, en la vida del país, la iniciativa privada*”]. However, we see that the dictionary’s writers contradict themselves with this definition based on the “intermediate” nature of interventionism, since they adopt a position extremely close to the one we have maintained in the text when, in the same dictionary, they refer to *socialismo* as “state regulation of economic and social activities and the distribution of goods” [“*regulación por el Estado de las actividades económicas y sociales, y la distribución de los bienes*”]. This last definition is essentially very similar to the one the dictionary gives

entrepreneurship that no qualitative difference exists between socialism and interventionism,⁶¹ though colloquially the terms are sometimes used to refer to different degrees of the same reality.

Furthermore, the proposed definition of socialism permits scientists to fulfill the important function of exposing attempts, which are very skillful today in many political, social, and cultural areas, to immunize interventionism against the natural and inevitable effects necessarily exerted upon it by the economic, social, and political collapse of none other than its closest antecedent and intellectual forerunner: “real socialism.” At most, real socialism and interventionism are simply two manifestations, of different degrees of intensity, of the same coercive, institutional reality, and they fully share the same essential intellectual error and pernicious social consequences.⁶²

The Inanity of the “Idyllic” Concepts of Socialism

It is vacuous and futile to define socialism based on subjective, idyllic assessments. This type of definition, which prevailed from the start, never disappeared completely and has

for *intervencionismo*, which leaves us with the impression that its writers consider the two terms – *socialismo* and *intervencionismo* – virtually synonymous.

⁶¹ For example, with respect to “interventionism,” Don Lavoie recently concluded: “*It can be shown to be self-defeating and irrational on much the same grounds on which Mises pronounced complete central planning impossible...* piecemeal government interference into the price system must be seen as similarly obstructive of this same necessary discovery procedure, and therefore as distortive of the knowledge which it generates. Thus the calculation argument may be used to explain many of the less-than-total failures resulting from government *tinkering* with the price system, in fundamentally the same way that it explains the utter economic ruin inevitably resulting from the attempted *abolition* of the price system.” See “Introduction,” *The Journal of Libertarian Studies* 5, no. 1 (winter 1981): 5. For his part, Israel Kirzner has on various occasions referred to the *parallelism* between “socialism” and “interventionism.” See his “Interventionism and Socialism: A Parallel,” in “The Perils of Regulation: A Market-Process Approach,” chap. 6 in *Discovery and the Capitalist Process*, 121 and following. We must criticize the idea, which even Mises defended a time or two, that economic calculation is possible in the interventionist system, since such calculation is impossible precisely in the areas where intervention is present, and if in general calculations are possible, it is because the system does not extend its interference to all of society (to the degree which characterizes real socialism).

⁶² Nevertheless, our definition of socialism is not as broad as that proposed by Alchian, who states that “*government is socialism, by definition,*” and concludes that therefore, at least a minimum of socialism is essential to the preservation of a market economy. First, as we have already explained (see footnote 2), the minimum amount of institutional coercion necessary to prevent and quell isolated outbreaks of asystematic coercion cannot be considered socialism. Second, it is not clear that this minimum must necessarily be provided by a monopolistic, government organization. Armen Alchian and William R. Allen, *University Economics: Elements of Inquiry*, 3rd ed. (Belmont, California: Wadsworth Publishing, 1971), 627-628.

recently gained fresh impetus as a by-product of the dismantling of “real socialism” and the stubborn desire of many “intellectuals” to salvage at least an idyllic concept of socialism capable of retaining some popular appeal. Thus, it is not uncommon to again encounter definitions which equate socialism with “social harmony,” the “harmonious union of man with nature,”⁶³ or the simple “maximization of the welfare of the population.”⁶⁴ These are all empty definitions as long as they prevent one from discerning whether or not the author who proposes them intends to justify the systematic exercise of institutional coercion against free human interaction. Thus, it will be necessary to establish in each case whether we are faced with simple, blatant opportunism, with the deliberate desire to conceal institutional aggression behind an attractive façade, or simply, with intellectual confusion and hazy ideas.

Could the Term “Socialism” Someday be Restored?

Although not impossible, it is very doubtful and highly unlikely that the meaning of the term “socialism,” which rests on such a gross intellectual error and arises from such fatal scientistic conceit, will change in the future in a manner that permits the restoration of the word and its redefinition based on a theoretical analysis of social processes, an analysis free from scientific errors. The only possible way to renew the term “socialism” would be to redefine it based on the concept of society as a spontaneous order and process driven by man’s innate

⁶³ See Alec Nove’s comments on these “idyllic” definitions in his article, “Socialism,” in *The New Palgrave: A Dictionary of Economics*, vol. 4 (London: Macmillan Press, 1987), 398. Nove ultimately concludes with a traditional definition of socialism, according to which “a society may be seen to be a socialist one if the major part of the means of production of goods and services are not in private hands, but are in some sense socially owned and operated, by state, socialized or cooperative enterprises.” Incidentally, on p. 407 of this article, Nove betrays his total lack of understanding and knowledge of the dynamic theory of entrepreneurship when he groups together Mises and the “Chicago Utopia” and criticizes capitalism because it is quite different from the “perfect competition” models one finds in textbooks.

⁶⁴ This is the definition Oskar Lange suggested in 1942, during his most “liberal” period, before he turned to the more hard-lined Stalinism of his latter years. In fact, during the lecture he gave at the Socialist Club of the University of Chicago on May 8, 1942, Oskar Lange asserted: “By a socialist society, I mean a society in which economic activities, particularly production, is carried on in such a way as to maximise the welfare of the population.” He also added that in his definition, “the accent is rather on the purpose than on the means.” See the lectures of Oskar Lange on “The Economic Operation of a Socialist Society: I and II,” published by Tadeusz Kowalik in his “Oskar Lange’s Lectures on the Economic Operation of a Socialist Society,” reprinted in *Contributions to Political Economy* no. 6 (1987): 3,4.

entrepreneurial capacity, which we described in detail in the last chapter. In this way, people would no longer consider socialism fundamentally antisocial, as it is now viewed, and the word would come to denote any non-coercive system which respects the processes of free human interaction. “Socialism” would thus become synonymous with terms which, like “economic liberalism” and “market economy,” currently convey an idea of respect toward spontaneous social processes and minimization of the systematic coercion the state applies to them.⁶⁵ Nevertheless, the disenchantment caused by the intensive, continued pursuit of the socialist ideal, together with the essentially arrogant nature man demonstrates in all areas, but especially in science, politics, and society, make it almost impossible to imagine that this positive semantic development could actually take place one day.

⁶⁵ This would be a case of a word being rehabilitated and given a scientifically coherent meaning by a process which would reverse the semantic corruption that the adjective “social” provokes whenever it is attached to a concept, as we explained in footnote 35.