

4 Entrepreneurship and the economic analysis of socialism¹

In this article, I try to show the way in which the theory of entrepreneurship, as developed by Israel M. Kirzner, must be an essential element of any analysis of the impossibility of socialism. As a consequence of my analysis, I propose a new definition of socialism, based on the concept of entrepreneurship, which seems to be more general and analytically fruitful than the standard definition. In the first section, I explain my interpretation of the essence of entrepreneurship and, in the second, I introduce my new definition of socialism; thereafter I develop the analysis of its impossibility from the point of view of entrepreneurial theory. A critique of the alternative and traditional concepts of socialism is included in the final section.

The essence of entrepreneurship

In a general or broad sense, entrepreneurship coincides with *human action* itself.² In this respect, it can be said that any person who *acts* to modify the present and obtain his objectives in the future is practising entrepreneurship. Although, at first sight, this definition may appear to be too broad and out of line with current linguistic usage, it must be remembered that it corresponds to a concept of entrepreneurship which is being constantly worked upon and studied by economic science³ and which, moreover, is fully in line with the original etymological meaning of the term *entrepreneur*. In fact, both the English word *enterprise* (in French *entreprise*, in Spanish *empresa*) and the French and English *entrepreneur* (in Spanish *empresario*) have their etymological origin in the Latin verb *inprehendo-endi-ensum*, which means, discover, see, perceive, realize, trap; and the Latin expression *inprehensa* clearly implies the idea of *action*, meaning take, grasp or seize. In short, the Spanish word *empresa* is synonymous with action and in France the term *entrepreneur* has been used since medieval times to refer to people entrusted with the performance of important actions, generally connected with warfare or with great projects for the construction of cathedrals. In English, *The Oxford English Dictionary* defines *enterprise* as the ‘*action* of taking in hand’ and also as ‘the bold, arduous, or momentous undertaking’.⁴ And in Spanish, one of the meanings of *empresa* given in the *Dictionary* of the

Spanish Royal Academy is ‘arduous and difficult *action* which is valiantly commenced’. This word was also used in medieval times to refer to the insignias of certain orders of knighthood, which indicated the pledge, under oath, to carry out a certain important *action*. In any case, the meaning of *enterprise* as action is necessarily and inexorably linked to an enterprising, go-ahead attitude, which consists of continuously seeking, discovering, creating or becoming aware of new ends and means (all of which is in line with the etymological meaning stemming from the Latin verb *inprehendo*).

Entrepreneurship and alertness

Entrepreneurship, in the strict sense of the term, consists basically of discovering and appreciating (*prehendo*) the opportunities of attaining an end or, if one prefers, of obtaining a gain or profit, which arise in one’s environment, acting in consequence in order to take advantage of them. Kirzner says that the performance of entrepreneurship implies a special *alertness* (in Spanish *perspicacia*), i.e. continually being *alert*, which makes it possible for the human being to discover and become aware of what is happening around him.⁵ Perhaps Kirzner uses the English term ‘alertness’ because the term *entrepreneurship* is of French origin and does not automatically imply in the Anglo-Saxon language the idea of *prehendo* which is present in the continental European romance languages. In any case, in Spanish the adjective *perspicaz* is most appropriate to describe entrepreneurship, as it applies, according to the *Dictionary* of the Spanish Royal Academy, ‘to the very acute glance or look which is far-reaching’. Furthermore, *speculator* etymologically comes from the Latin noun *specula*, which means watchtower or high vantage point from which to discover or see in the distance. This idea fits in perfectly with the activity carried out by the entrepreneur when deciding what actions he will take and estimating the effect thereof in the future. Being alert is also acceptable as a feature of entrepreneurship as it implies the idea of attention or watchfulness.

Information, knowledge and entrepreneurship

The nature of entrepreneurship in the form in which we have been discussing it cannot be understood in depth without understanding how it modifies or produces changes in the information or knowledge which the actor possesses. First, perceiving or becoming aware of new ends and means leads to a modification of the actor’s knowledge, in the sense that he creates or discovers new information. Second, this discovery modifies the whole map or context of information or knowledge which the subject possesses. We may, therefore, pose the following essential question: what are the relevant characteristics of the information or knowledge discovered by the performance of entrepreneurship? We will study in detail six basic characteristics of this type

of knowledge: (1) it is subjective knowledge of a practical, non-scientific nature; (2) it is private or exclusive knowledge; (3) it is dispersed over the minds of all men; (4) most of it is tacit knowledge and, therefore, is not articulable; (5) it is knowledge which is created *ex nihilo*, from nothing, precisely by entrepreneurship; and (6) most of it is transmissible in a form which is not conscious, through very complex social processes the study of which constitutes the research subject of Economic Science.

Subjective and practical non-scientific knowledge

First, the knowledge we are analysing, the most important or relevant to the practice of human action, is, above all, *subjective* knowledge of a *practical*, non-scientific, nature. Practical knowledge is all knowledge that cannot be formally represented, but that the subject acquires or learns through practice, i.e. from human action itself carried out in its corresponding contexts. It is, as Hayek says, the knowledge relevant to all kinds of particular circumstances as regards its subjective coordinates in time and space.⁶ In short, we are talking about knowledge of specific human valuations, i.e. both of the ends desired by the actor and of his knowledge about the ends which he believes other actors desire or pursue. In the same way, it is practical knowledge of the means which the actor believes to be within his reach to attain his ends and, in particular, of all the circumstances, personal or otherwise, which the actor considers may be relevant within the context of each specific action.⁷

Private and dispersed knowledge

Practical knowledge has an exclusive and dispersed nature. This means that each human actor possesses only some of what we could call 'atoms' or 'bits' of the information which is globally generated and transmitted at the social level, but which, paradoxically, only he or she possesses, i.e. which only s/he consciously knows and consciously interprets. Therefore, each person who acts and practises entrepreneurship does so in a strictly personal and unrepeatable way, as his or her starting point is an attempt to attain ends or objectives in accordance with a vision and knowledge of the world which only s/he possesses with all its richness and variety of nuances and which cannot be exactly repeated in any other human being. Therefore, the knowledge to which we refer is not something which is *given*, available to everybody by some material means of information storage (newspapers, specialized journals, books, computers, etc.). On the contrary, the relevant knowledge for human action is basically practical and strictly exclusive, which can only be 'found' spread over the mind of all and every one of the men and women who act and constitute humanity. In Figure 4.1, we will introduce some stick people, with the sole objective of helping us make the analysis contained herein more graphic.

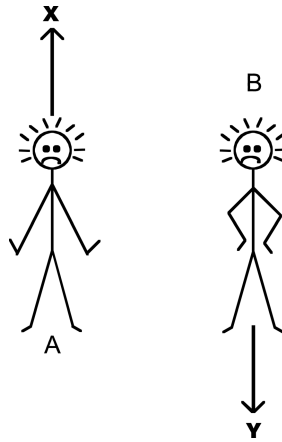


Figure 4.1

In this figure we wish to represent two real human beings of flesh and blood, whom we call A and B. Each of the people represented by A and B possesses his or her own exclusive knowledge, i.e. knowledge which the other does not have; what is more, from the point of view of an external observer, we may say that there ‘exists’ knowledge we, as observers, do not possess and which is dispersed between A and B, inasmuch as A has part of it and B another part. Thus, for example, let us assume that the information which A has is that she aims to attain an end X (which we represent by the arrow above her head pointing towards X) and that, with a view to attaining this end, possesses certain practical information which is relevant in the context of the action (this knowledge or practical information is represented by the ‘halo’ which A has around her head). B’s case is similar, except that the end he pursues is very different, in this case, Y (represented by the arrow at his feet pointing towards Y); the practical information which the actor B considers relevant in the context of his action is also represented by the ‘halo’ around his head.

In some simple actions the actor, individually, possesses the information necessary to attain the proposed end without the need to relate to other actors at all. In these cases, whether or not the action is undertaken is the result of an *economic calculation* or estimative judgement made by the actor, weighing up and *directly* comparing the subjective value s/he places on the end s/he aims to attain with the cost or value s/he places upon what s/he renounces if s/he pursues the chosen end. However, the actions on/ which the actor can take this type of decisions directly are few and very simple. The majority of actions in which we are involved are much more complex, as we will now explain. Let us imagine, as represented in Figure 4.1, that A has a great desire to reach end X but, in order to do so, requires the existence of a means M which she does not have at her disposal and which she *does not*

know either where or how to obtain. Simultaneously, let us suppose that B is somewhere else, that he aims to attain a very different end (end Y), to which he devotes all his efforts, and that he knows, or ‘knows of’ or has at his disposal a large quantity of a means M which he does not consider useful or suitable for attaining his end but which, by coincidence, is the means which A would need to enable her to reach the objective she desires (X). What is more, it must be emphasized that, as is true in most real cases, X and Y are *contradictory*, i.e. each actor pursues different ends, with a different degree of intensity and with a relative degree of knowledge regarding the ends and regarding the means within his or her realm which do not coincide with or are not adjusted to his or her needs (this explains the disconsolate expression with which we have drawn our stick people). Later on, we will see how the practice of entrepreneurship makes it possible to overcome this kind of contradictory or *uncoordinated* behaviour.

Tacit, inarticulate knowledge

Practical knowledge is mostly *tacit* and *inarticulate*. This means that the actor knows how to do or carry out certain actions (*know how*) but does not know what the elements or parts of what he is doing are, or if they are true or false (*know that*).⁸ Thus, for example, when a person learns to play golf, he is not learning a set of objective, scientific rules which permit him to make the necessary movements as a result of the application of a series of formulae of mathematical physics, but the learning process rather consists of the acquisition of a series of practical habits of conduct. In the same way, we may quote, as Polanyi does, the example of the person who learns to ride a bicycle, trying to keep his balance by moving the handlebar to the side towards which he is beginning to fall, thus causing a centrifugal force which tends to keep the bicycle upright. However, practically no cyclist is aware of or knows the physical principles on which his ability is based. On the contrary, the cyclist is rather using his ‘sense of balance’, which, in some way, indicates to him the way in which he should behave at any given moment in order not to fall. Polanyi even states that tacit knowledge is, in fact, the dominant principle of all knowledge.⁹ Even the most highly formalized and scientific knowledge is always the result of an intuition or act of creation, both of which are simply manifestations of tacit knowledge. Apart from the fact that the new formalized knowledge, which we can acquire thanks to formulae, books, graphs, maps, etc., is, above all, important because it helps to reorganize all our contexts of information from different, richer and more productive points of view, which opens up new possibilities for using creative intuition.

A type of inarticulate knowledge which plays an essential role in the development of society is that which is made up of a set of habits, traditions, institutions and legal rules which constitute law and make society possible and which humans learn to obey without being able to theorize or articulate

in detail the precise role played by such rules and institutions in the different situations and social processes where they intervene. The same may be said of language and also, for example, of the financial and cost accounting used by the entrepreneur to guide his actions and which is simply a practical knowledge or technique which, used within a determined context of market economy, is a generalized guideline for entrepreneurs to help them attain their objectives, without their being able, in the majority of cases, to formulate a scientific theory of accounting and, even less, to explain how such a theory helps in the complicated processes of coordination which make life in society possible.¹⁰ We can, therefore, conclude that the practice of entrepreneurship as we have defined it (the capacity to discover and appreciate opportunities for profit, undertaking a conscious line of behaviour in order to take advantage thereof) consists of a type of knowledge which is basically tacit and inarticulable.

The essentially creative nature of entrepreneurship

Entrepreneurship does not require any means for its execution. This means that entrepreneurship does not imply any cost and, therefore, is essentially creative. The creative nature of entrepreneurship is shown by the fact that it gives rise to profits which, in a certain sense, arise from nowhere and which we will call *pure entrepreneurial profits*. To obtain entrepreneurial profits it is not necessary, therefore, to have any prior means available, but merely to practise entrepreneurship well. We can illustrate this fact starting from the situation described in Figure 4.1. It is sufficient to *become aware of* the situation of *lack of adjustment or of coordination* which exists between A and B for the opportunity of pure entrepreneurial profit to arise. Thus, in Figure 4.2 it is assumed that it is a third person, in this case C, who practises

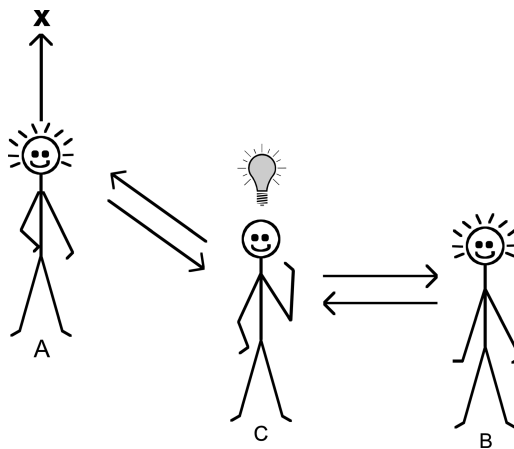


Figure 4.2

entrepreneurship on discovering the lack of adjustment or of coordination shown in Figure 4.1 (we represent the fact that C becomes aware of such opportunity by a 'bulb' which lights up). Logically, in practice, entrepreneurship could be practised by A or B or by both of them simultaneously, with the same or differing intensities, although, for our purposes, it is more illustrative to consider that it is carried out by a third person C).

In fact, it is sufficient for C to contact B and offer to buy the resource, which the latter possesses in abundance and upon which he places practically no importance, for a certain amount, let us say 3 monetary units, which B will find enormously satisfactory, as he never imagined he could obtain so much for his resource. Later, once the exchange has been made, C will be able to contact A and sell her the resource which A so intensely needs to attain the end she is pursuing, selling it to her for, let us say, 9 monetary units (if C does not have any money, he can obtain it, for example, by persuading someone to make him a temporary loan). As a consequence, therefore, of the practice of entrepreneurship by C, he has obtained, *ex nihilo*, pure entrepreneurial profit of 6 monetary units.

It is now of special interest to emphasize that, as a consequence of this act of entrepreneurship, there have been three effects of extraordinary importance. First, entrepreneurship has *created* new information which did not exist previously. Second, this information has been *transmitted* throughout the market. Third, as a consequence of the entrepreneurial act, the economic agents involved *have learnt* to act in accordance with each other. These consequences of entrepreneurship are so important that it is worth studying each of them separately in detail.

Creation of information

All entrepreneurial acts imply the creation *ex nihilo* of new information. This creation takes place in the mind of the person, in our example the person represented by stickman C, who is the first to practise entrepreneurship. Effectively, when C becomes aware that there exists a situation such as the one described, in which A and B are involved, new information, which he did not previously have, is created in his mind. But moreover, once C undertakes the action and enters into contact with A and B, new information is also created in the minds of A and B. Thus, A becomes aware of the fact that the resource which she lacked and of which she had such a need in order to attain her end is available in other parts of the market in greater abundance than she thought and that, therefore, she may undertake, now without problems, the action which she did not begin due to the lack of the resource. B, on his part, becomes aware that the resource which he possessed in such abundance and upon which he placed no value is very much wanted or desired by other people and that, therefore, he can sell it at a good price. Moreover, part of the new practical information which originated in the mind of C on practising entrepreneurship and which later arises in the minds

of A and B, is included, in a very summarized form, in a series of *prices* or historical exchange *ratios* (i.e. B sold at 3 and A bought at 9).

Transmission of information

The entrepreneurial creation of information implies a simultaneous *transmission* thereof in the market. In fact, transmitting something to someone is to make that person generate or create in his own mind part of the information which we created or discovered previously. In our example, strictly speaking, not only the idea has been transmitted to B that his resource is important and should not be wasted, and to A the idea that he may go ahead with the pursuit of the end he desired but could not pursue in view of the lack of such resource, but also, through the respective prices, which are a potent transmission system, since they transmit a large amount of information at very low cost, it is communicated to the whole market or society that the resource in question should be kept and saved, as there is a demand for it and, simultaneously, that all those who do not undertake actions because they think the said resource does not exist can obtain it and go ahead with their respective plans of action. Logically, the relevant information is always subjective and only exists within the persons which are capable of interpreting or discovering it, meaning that it is always human beings who create, perceive and transmit information. The erroneous idea that information is objective originates from the fact that part of the entrepreneurial-created subjective information is set out 'objectively' in signals (prices, institutions, rules, 'firms', etc.) which may be discovered and subjectively interpreted by many people in the context of their specific actions, thus facilitating the creation of new subjective information, richer and more complex. However, in spite of appearances, the transmission of social information is basically tacit and subjective, i.e. it is not express and articulated, and takes a very summarized form (in fact, the minimum information indispensable to coordinate the social process is transmitted and subjectively captured), which, in addition, permits full advantage to be taken of the limited capacity of the human mind to constantly create, discover and create new knowledge.

Learning effect: coordination and adjustment

Finally, it is necessary to stress how agents A and B have learnt to act in accordance with each other. In other words, B, as a consequence of the entrepreneurial act originally undertaken by C, does not now squander or waste the resource he has at his disposal but, in his own interest, keeps and conserves it. A, as he has the resource at his disposal, can attain his end and undertake the action which he did not undertake previously. Both, therefore, learn to act in coordination, i.e. to modify and discipline their behaviour in accordance with the other human beings. Moreover, they learn in the best possible way: without realizing that they are learning and *motu proprio*, i.e.

voluntarily and within the context of a plan in which each of them pursues his own ends and interests. This, and nothing else, is the *nucleus* of the process, both marvellous, and simple and effective, which makes life in society possible. Finally, we observe that the practice of entrepreneurship by C makes possible not only a coordinated action between A and B which did not exist previously, but also that the latter two carry out an *economic calculation* in the context of their respective actions, with data or information which they did not have before and which permits them to attain, with a much greater chance of success, their respective ends. In short, the economic calculation by each actor is made possible thanks precisely to the information generated in the entrepreneurial process. Or, in other words, without the practice of entrepreneurship, the information necessary for each actor to calculate or estimate appropriately the value of each alternative course of action is not generated. That is, without entrepreneurship, economic calculation is not possible.¹¹

The above observations constitute the social science teachings which are, at the same time, the most important and the most elementary and which allow us to conclude that entrepreneurship is, without any doubt, the social function par excellence, given that it makes life in society possible, as it adjusts and coordinates the individual behaviour of its members. Without entrepreneurship, it is impossible to conceive of the existence of any society.

The essential principle

Now the really important point from a theoretical point of view is not who, specifically, practises entrepreneurship (although, in practice, this is precisely the most important point), but that, as there are no institutional or legal restrictions on the free practice of entrepreneurship, each person may put into practice his or her entrepreneurial activities as best s/he can, creating new information and taking advantage of the practical, exclusive information which s/he has discovered in the circumstances of any given moment.

It does not correspond to the economist, but rather to the psychologist, to study in detail humankind's innate force which moves people entrepreneurially in all their fields of action. Here and now, we are only interested in stressing the essential principle that people tend to discover the information which is of interest to them and, therefore, if there is freedom with regard to the attainment of ends and interests, these will act as an incentive and will make it possible for the person practising entrepreneurship, motivated by such incentive, to continuously perceive and discover the relevant practical information for the attainment of the proposed ends. And, *vice versa*, if for any reason the field in which entrepreneurship may be practised is limited or closed in a determined area of life in society (by legal, institutional or traditional restrictions), then human beings will not even consider the possibility of attaining or reaching ends in these forbidden or limited areas, and, therefore, as the end is not possible, it will not act as an incentive and, in

consequence, no practical relevant information for the attainment of such end will be perceived or discovered. What is more, not even the affected persons *will be conscious* under these circumstances of the enormous value and great number of ends which cannot be attained as a result of the situation of institutional restriction. That is, within the stick people scheme of Figures 4.1 and 4.2, we realize how, if there is freedom for human action to be carried out, the 'entrepreneurial bulb' can freely light up in any circumstance where there is lack of social adjustment or coordination, thus producing the process of creation and transmission of information which will lead to the coordination of the disorder, allowing and making possible life in society. On the other hand, if in a certain area the practice of entrepreneurship is prevented, it is never possible for the 'entrepreneurial bulb' to light up, i.e. it is not possible for the entrepreneur to discover the existing situation of discoordination, which, therefore, will be able to continue unaltered indefinitely or may even get worse.

Entrepreneurship and the concept of socialism

Our discussion of entrepreneurship in the first section was necessary because we propose a new definition of socialism which is based on the concept of entrepreneurship. In fact, we will define socialism as any *system of institutionalized aggression against the free practice of entrepreneurship*. *Aggression* or *coercion* must be understood to mean any physical violence or threat of physical violence which is originated towards and performed on an individual by another human being or group of human beings. As a consequence of this coercion, the individual, who would otherwise have freely carried on his or her entrepreneurship, is, in order to avoid a greater evil, forced to act differently to the way s/he would have acted under other circumstances, thus modifying his or her behaviour and adapting it to meet the ends of the person or persons who are coercing him or her.¹² We may consider aggression, thus defined, to be the anti-human action par excellence. This is so because coercion prevents a person from freely carrying on his or her entrepreneurship, i.e. from seeking the objectives s/he has set using the means which, according to his or her information and to the best of his or her knowledge, s/he believes or considers to be accessible to him or her for reaching these objectives. Aggression is, therefore, an evil because it prevents the human being from carrying on the activity which is most characteristic of him or her and which essentially and most intimately corresponds to him or her.

There are two types of aggression: systematic or institutionalized and non-systematic or non-institutionalized. The latter type of coercion, which is, in nature, dispersed, arbitrary and more unpredictable, affects the carrying on of entrepreneurship to the extent that the individual considers there to be a greater or lesser probability that, in the context of a specific action, force will be used upon him or her by a third party, who may even appropriate the

results of his or her entrepreneurial creativity. Although non-systematic outbreaks of aggression are more or less serious, depending on the circumstances, institutionalized or systematic aggression is far more serious as regards coordinated human interaction. As we have seen, this type of aggression constitutes the essence of our definition of socialism.¹³ In fact, institutionalized coercion is characterized by being highly predictable, repetitive, methodical and organized. The main consequence of this systematic aggression against entrepreneurship is to make largely impossible and perversely divert the carrying on of entrepreneurship in all the areas of society where said aggression is effective. In Figure 4.3, we show the typical situation resulting from the systematic practice of coercion.

In Figure 4.3 we assume that, in an organized and systematic way, the free human action of C in relation to A and B in a specific area of life in society is prevented by coercion. This is represented by the lines which separate C from A and B. As a consequence, it is not possible, as systematic coercion prevents it by the threat of serious evils, for C to discover and take advantage of the profit opportunity which he would have if he could interact freely with B and with A. It is very important to clearly understand that the aggression does not only prevent him from taking advantage of the profit opportunity, but even prevents the discovery of this opportunity. The possibility of obtaining gains or profits acts as an incentive to the discovery of these opportunities. Therefore, if a determined area of life in society is restricted by systematic coercion, the actors tend to adapt to said situation, they take it for granted and, therefore, do not even create, discover or

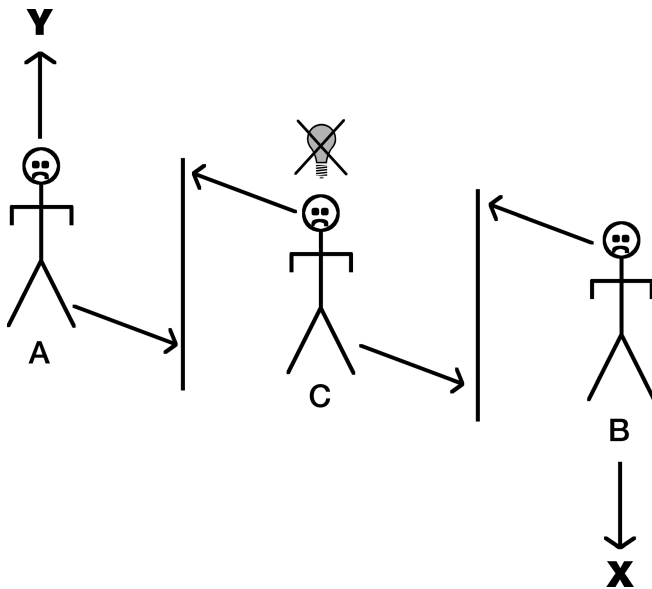


Figure 4.3

become aware of the opportunities which are latent. We represent this situation in the figure by crossing out the light bulb which, in accordance with our convention, indicates the creative act of pure entrepreneurial discovery.

If the aggression falls systematically upon one social area and, as a consequence, entrepreneurship cannot be carried out in that area, none of the other effects typical of the pure entrepreneurial act explained in the first section of the article will take place. In fact, in the first place, new information will not be created; nor will it be transmitted from actor to actor. Second, and this is a cause for even more concern, the adjustment necessary in cases of a lack of social coordination will not occur. As the discovery of opportunities for profit is not permitted, there will be no incentive for the actors to become aware of situations of lack of adjustment or coordination which arise. In short, information will not be created, it will not be transmitted from one agent to another and the different human beings will not learn to discipline their behaviour in accordance with that of their peers.

Thus, in Figure 4.3, we see how, as C cannot carry on entrepreneurship, the system is maintained continuously uncoordinated: A cannot pursue end Y due to lack of a resource which B has in abundance and does not know what to do with. He therefore squanders and misuses it, unaware that an A exists and needs it urgently. In accordance with our analysis, we can, therefore, conclude that the main effect of socialism, as we have defined it, is to prevent the action of the coordinating forces which make life in society possible. Does this mean that the proposers of socialism are advocating a chaotic or uncoordinated society? On the contrary, apart from a few exceptions, the proposers of the socialist ideal defend it because, tacitly or explicitly, they believe or suppose that the system of social coordination not only will be undisturbed by the existence of the institutionalized and systematic violence which they favour, but will be made much more effective by the fact that the systematic coercion is performed by a controlling organism which is supposed to possess knowledge (regarding both the ends and the means) and valuations which are better, both quantitatively and qualitatively, than those which the coerced actors may possess at a lower level. From this perspective, we may now complete the definition of socialism given at the beginning of this section, stating that *socialism is all systematic and institutionalized aggression which restricts the free performance of entrepreneurship in a determined social area and which is carried out by a controlling organism which is in charge of the tasks of social coordination necessary in said area.* Under the following heading we will analyse the point to which socialism, in the terms we have defined it, is or is not an intellectual error.

Socialism as an intellectual error

Life in society is possible thanks to the fact that individuals, spontaneously and without realizing it, learn to modify their behaviour, adapting it to the needs of other people. This unconscious learning process is the natural result

of the practice of entrepreneurship by human beings. This means that, upon interaction with his peers, each person spontaneously initiates a process of adjustment or coordination in which new information – tacit, practical and dispersed – is continually being created, discovered and transmitted from one mind to others. The problem posed by socialism is whether it is possible, by the coercive mechanism, to verify the processes of adjustment and coordination of the conduct of different human beings, which depend upon each other and which are indispensable if life in society is to function; all the foregoing taking place within a framework of constant discovery and new creation of practical information which makes it possible for civilization to advance and develop. The ideal put forward by socialism is, therefore, highly daring and ambitious,¹⁴ as it implies the belief that not only may the mechanism of coordination and social adjustment be made effective by the controlling organism which performs the institutionalized coercion in the social area in question but that, in addition, this adjustment may even be improved by the coercive procedure.

Figure 4.4 is a schematic representation of the concept of socialism as we have defined it. On the 'lower level' are human beings, endowed with knowledge or practical information, who, for this reason, try to interact freely among themselves, although such interaction is not possible in some areas due to institutionalized coercion. This coercion is represented by the vertical lines which separate the figures forming each group. On the 'upper level', we show the controlling organism which, as an institution, practices coercion in determined areas of life in society. The vertical arrows in opposite directions, which come from the figures on the left and right of each

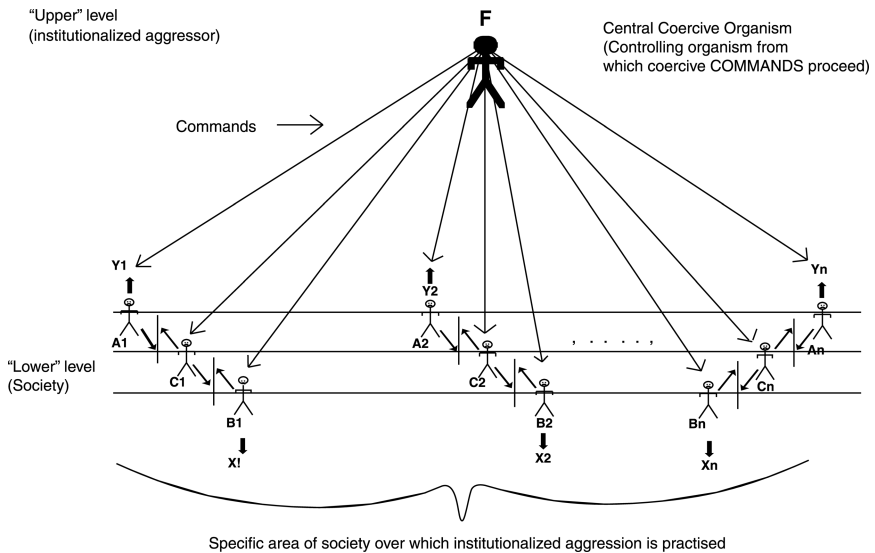


Figure 4.4

group, represent the existence of unadjusted personal plans which are typical of a situation where there is a lack of social coordination. Cases of lack of coordination cannot be discovered and eliminated by entrepreneurship because of the barriers imposed by the effect of institutionalized coercion on entrepreneurship. The arrows which go from the head of the controlling figure towards each human being on the lower level represent the coercive commands which comprise the aggression typical of socialism, aimed at compelling the citizens to act in a coordinated way and to pursue end F which is considered 'right' by the controlling organism.

The command may be defined as any specific instruction or stipulation, the contents of which are clearly defined, which, regardless of the legal form it takes, prohibits or compels determined actions to be taken under specific circumstances. The command is characterized by the fact that it does not allow the human being to freely carry on his or her entrepreneurship in the social area it refers to.

Commands are, moreover, deliberate decisions of the controlling organism practising institutionalized aggression and are aimed to force all the actors to fulfil or pursue, not their personal ends, but the ends of those who govern or control.

In view of the foregoing, socialism is an intellectual error because it is not theoretically possible that the organism in charge of practising institutionalized aggression possess sufficient information to endow its commands with contents of a coordinating nature. We will examine this simple argument in a certain amount of detail; it can be developed from two different, but complementary, points of view: first, from the overall perspective of the human beings who constitute society and who are coerced; second, from the standpoint of the coercive organization which practises aggression systematically. Below we analyse separately the problem posed by socialism from each of these viewpoints.

The impossibility of socialism from the perspective of society

The static argument

First, from the point of view of human beings who interact among themselves and constitute society (the so-called 'lower' level of Figure 4.4), it must be remembered that each of them possesses exclusive practical and dispersed information, the majority of which is tacit and, therefore, cannot be articulated. This means that it is logically impossible to conceive of its possible transmission to the controlling organism (the so-called 'upper' level in Figure 4.4). In fact, it is not only that the total volume of practical information sensed and handled by all human beings at an individual level is so enormous that its conscious acquisition by the controlling organism is inconceivable, but, above all, that this volume of information is disseminated among the minds of all men in the form of tacit information which cannot

be articulated and, therefore, cannot be formally expressed or explicitly transmitted to any controlling centre.

We already saw in the second section how information relevant to life in society is created and transmitted implicitly in a disseminated way, i.e. neither consciously nor deliberately. In this way the different social agents learn to discipline their behaviour in relation to that of other people but are not aware that they are the protagonists of this learning process or that, therefore, they are adapting their behaviour to that of other human beings: they are simply conscious that they are acting, i.e. trying to obtain their personal ends using the means they believe to be within their reach. Therefore, the knowledge we are discussing is a knowledge which is only possessed by human beings acting in society which, in view of its intrinsic nature, cannot be explicitly transmitted to any central controlling organism. As this knowledge is indispensable if different individual behaviours are to be coordinated socially, thus making society possible, and cannot be transmitted to the controlling organism given the fact that it cannot be articulated, it is logically absurd to think that a socialist system can work.

The dynamic argument

Socialism is impossible not only because the information possessed by the actors is intrinsically unable to be transmitted explicitly, but because, moreover, from a dynamic point of view, human beings, on carrying out entrepreneurship, i.e. on acting, constantly create and discover new information. It would be very difficult to transmit to the controlling organism information or knowledge which has not yet been created, but which is continually arising as a result of the social process itself to the extent that the latter is not attacked.

Figure 4.5 represents the actors who are continually creating and discovering new information throughout the social process. As time, in its subjective sense, elapses, those who perform their entrepreneurship in interaction with their peers are constantly becoming aware of new profit opportunities, of which they try to take advantage. Consequently, the information possessed by each of them is constantly undergoing modification. This is represented in the figure by the different bulbs which light up as time passes. It is clear not only that it will be impossible for the controlling organism to have all the information necessary to coordinate society by commands at its disposal, given that this information is, as we have seen, dispersed, exclusive and impossible to articulate, but also that, moreover, this information will be continually modified and will arise *ex nihilo* as time passes. It is highly unlikely that it is possible to transmit to the controlling organism information which is at each moment indispensable for the coordination of society but which has not yet even been created by the entrepreneurial process itself.

Thus, for example, when it looks rainy at dawn or there is any other series of meteorological circumstances, the farmer realizes that, as a result of the

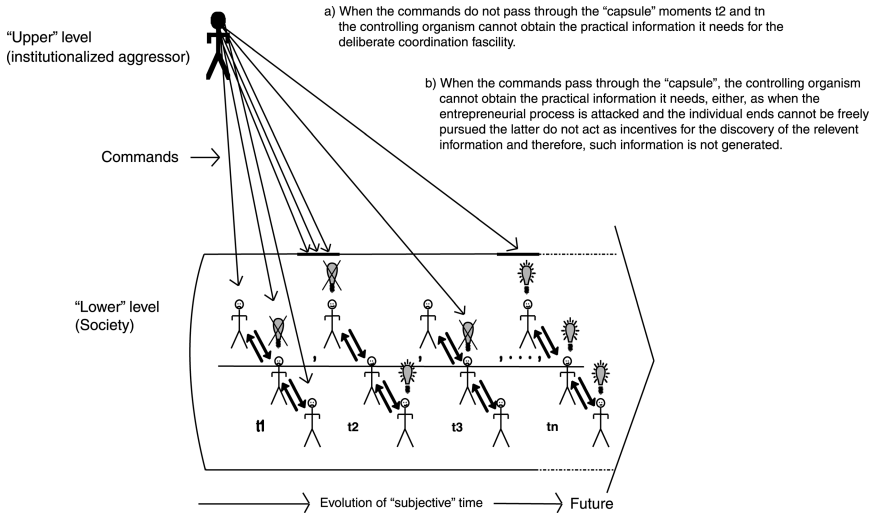


Figure 4.5

change in the situation, s/he will have to modify his or her decision on the different tasks that should be done on the farm on that day, without being able to articulate formally the reasons why s/he is taking such a decision. It is not possible, therefore, to transfer this information, which is the result of many years of experience and work on the farm, to a hypothetical controlling organism (for example a Ministry of Agriculture in the capital) and await instructions. The same may be said of any other person who carries on his or her entrepreneurship in a determined environment, be it a decision as to whether s/he should invest or otherwise in a certain company or sector, or whether s/he should buy or sell certain stocks or shares, or contract certain persons to collaborate in his or her work, etc., etc. We may, therefore, consider that the practical information not only is, as it were, in a capsule, in the sense that it is not accessible to the controlling organism which practises institutionalized aggression, but, in addition to being in a capsule, is continually being modified and regenerated in a new form, as the future is created and made step by step by the actors.

Lastly, let us remember that, to the same extent as the socialist coercion is practised on a more continual and effective basis, the free pursuit of individual ends will be made increasingly impossible and, therefore, the latter will not act as an incentive and it will not be possible to discover or generate the practical information necessary to coordinate society through entrepreneurship. The controlling organism is, therefore, faced with a dilemma impossible to eradicate, as it has an absolute need of the information generated in the social process, which it cannot obtain under any circumstance, as if it intervenes coercively in such process it will destroy the capacity to create information and if it does not intervene it will not obtain the information either.

In short, we may conclude that, from the perspective of the social process, socialism is an intellectual error, as, for the following reasons, it is not possible to conceive that the controlling organism in charge of intervening with commands can obtain the information necessary to coordinate society: first, because of the volume (it is impossible for the intervening organism to consciously assimilate the enormous volume of practical information which is spread over the minds of human beings); second, given the fact that the necessary information is essentially impossible to transfer to the central organism (as it is tacit and impossible to articulate); third, because, in addition, it is not possible to transfer information which has not yet been discovered or created by the actors and which only arises as a result of the free process of the practice of entrepreneurship; and, fourth, because the practice of coercion prevents the entrepreneurial process from discovering and creating the information necessary to coordinate society.

The impossibility of socialism from the perspective of the controlling organism

Second, now from the perspective of what we have called the 'upper' level in the figures, i.e. from the standpoint of the person or group of persons, organized to a greater or lesser extent, who, systematically and institutionally, carry out aggression against the free practice of entrepreneurship, we should make a series of considerations which confirm, even more, if that is possible, the conclusion that socialism is simply an intellectual error.

We will begin by accepting for dialectic purposes, as did Mises,¹⁵ that the controlling organism (regardless of whether it is a dictator or leader, an elite, a group of scientists or intellectuals, a ministerial department, a group of representatives elected democratically by 'the people' or, in short, any combination, of a greater or lesser complexity, of all or some of these elements) is endowed with the maximum technical and intellectual capacity, experience and wisdom, together with the best intentions, which is humanly conceivable (we will soon see that these hypotheses are not true in reality and the reason for this). However, what cannot be accepted is that the controlling organism is endowed with superhuman capacities or, specifically, that it has the gift of omniscience,¹⁶ i.e. that it is capable of assimilating, knowing and interpreting simultaneously all the scattered and exclusive information which is dispersed over the minds of all the beings who act in society and which is continually being generated and created *ex novo* by these beings. The reality is that the greater part of the controlling organism, sometimes also called the planning organism or organism of central or partial intervention, does not know or only has a very vague idea as to the knowledge which is available dispersed among the minds of all the actors who may be submitted to its orders. There is, therefore, a small or non-existent possibility that the planner may come to know, or discover where to look for and find, the elements of dispersed information which are being generated in the social process and

of which it has such a great need in order to control and coordinate such process.

Moreover, the controlling organism will unavoidably have to be composed of human beings, with all their virtues and defects, who, like any other actor, will have their own personal ends which will act as incentives and lead them to discover the information relevant to their personal interests. Most probably, therefore, the men who constitute the controlling organism, if they use their entrepreneurial intuition correctly from the point of view of their own ends or interests, will generate the information and experience necessary to, for example, keep themselves in power indefinitely and justify and rationalize their acts to themselves and to third parties, practise coercion in an increasingly sophisticated and effective way, present their aggression to the citizens as something inevitable and attractive, etc., etc. To the contrary of the 'well-intentioned' hypothesis set out at the beginning of the preceding paragraph, these will generally be the most common incentives and will prevail over others, particularly over interest in discovering the practical, specific and relevant information which exists at each moment dispersed over society and which is necessary to make the coordinated functioning of the latter possible through commands. This lack of motivation will determine, moreover, that the controlling organism does not even realize, i.e. become conscious, of the degree of its own ineradicable ignorance, sinking into a process which distances it more and more from the social realities which it is trying to control.

In addition, the controlling organism will become incapable of making any kind of economic calculation, inasmuch as, regardless of its ends (and we may again imagine that they are the most 'human' and 'morally elevated' ones), it cannot know whether the costs incurred in pursuing such ends have, for itself, a value even greater than the value which it attributes subjectively to the ends pursued. The cost is merely the subjective value which the actor attributes to what s/he must renounce in pursuit of a determined end. It is obvious that the controlling organism cannot obtain the knowledge or information necessary to become aware of the true cost incurred in accordance with its own scale of values, as the information necessary to estimate costs is spread over the minds of all the human beings or actors who make up the social process and who are coerced by the controlling organism (democratically elected or otherwise) in charge of systematically practising aggression against the body of society.

In this respect, if we define the concept of responsibility as the quality of the action which is executed once the actor has come to know the cost thereof and takes such cost into account by the corresponding estimated economic calculation, we may conclude that the controlling organism, regardless of its composition, system of choice and value judgements, as it is unable to see and appreciate the costs incurred, will always tend to act irresponsibly. There exists, therefore, the unresolvable paradox that the more the controlling organism tries to plan or control a determined area of life in society, the fewer possibilities it will have of reaching its objectives, as it

cannot obtain the information necessary to organize society, creating, moreover, new, serious imbalances and distortions to the precise degree that its coercion is carried out more effectively and limits the entrepreneurship of human beings. We must, therefore, draw the conclusion that it is a serious error to think that the controlling organism can make economic calculations in the same way as the individual entrepreneur. On the contrary, the more developed the socialist organization, the more practical first-hand information which is indispensable for economic calculation will be lost, making economic calculation completely impossible to the precise degree to which obstacles to free human action are placed by the organism practising institutionalized coercion.

Criticism of the alternative concepts of socialism

Traditionally, socialism has been defined as the system of social organization based on state ownership of the means of production. This definition has for a long time been the most generalized definition for historical and political reasons. It was the original definition used by Mises in his critical treatise on socialism in 1922¹⁷ and was later considered by Mises and the rest of his school as a reference point throughout the subsequent controversy as to the impossibility of socialist economic calculation.

However, since its origin, this traditional definition of socialism could be seen to be unsatisfactory. First, it was of an evidently static nature, as it depended on the existence or otherwise of a determined legal institution (property rights) in relation to a specific economic category (the means of production). Therefore, the use of this definition of socialism required a prior explanation of what was understood by property rights and the implications of such concept in the economic area. Moreover, the controversy on the impossibility of socialism showed how the different scientists involved had serious communication difficulties among themselves, precisely due to the different meaning and contents they considered implicit in their concept of property rights. Finally, the traditional definition appeared to exclude interventionism and economic control from its scope. However, notwithstanding the fact that it did not demand full state ownership of the means of production, interventionism produced effects of lack of coordination which were qualitatively very similar. For all these reasons, it seemed advisable to continue searching to find a definition of socialism which went to the very root of its essence, was as free as possible of concepts liable to ambiguous interpretation and which, as was the case with the social processes to which it would be applied, had a markedly dynamic nature.

Second, one of the most important consequences of the controversy on the impossibility of socialist economic calculation was the development and refinement by the economists of the Austrian School (Mises, Hayek and, above all, Kirzner) of a theory in which entrepreneurship appeared as the protagonizing and creative force of all social processes. The discovery that it

was precisely the innate entrepreneurial capacity of humankind, visible through humans' own creative action, which made life in society possible, as it discovered social imbalances and created and transmitted the information necessary for each actor to learn to discipline their own behaviour in accordance with that of their peers, indicated definitively the path along which the preparation of a truly scientific concept of socialism should travel.

The following most important step in the process of the formation of a definition of socialism was given by Hans-Hermann Hoppe in 1989.¹⁸ Hoppe has shown that the essential characteristic of socialism is that it is based on an aggression or institutionalized interference against property rights. His definition is more dynamic and, therefore, much more operative than the traditional definition. He does not talk about the existence or otherwise of something called property rights, but about whether institutionally, i.e. in a repetitive and organized way, coercion or physical violence is practised against property rights. Although we consider Hoppe's definition to be an important advance, it does not seem completely satisfactory as, first, it requires that what is understood by property rights be explained or defined *ab initio* and, second, it does not make any mention of the practise of entrepreneurship as the essential protagonist of all social processes.

Combining Hoppe's definition, in the sense that all socialism implies the systematic use of coercion, with the contributions in the field of the theory of entrepreneurship of Professor Kirzner, we reach the conclusion that the most appropriate definition of socialism is that which has been proposed and used in this article, according to which socialism is any organized system of institutionalized aggression against entrepreneurship and human action. This definition has, in the first place, the advantage of being easily understood by anybody, without the need for an *a priori* detailed explanation of what is understood by property rights and what their contents should be. Anybody can understand that human action may or may not be aggressive and that, when it is not so, except in the specific case of a person defending himself from arbitrary non-systematic external aggression, such action is the most intimate and typical manifestation of the human being and, therefore, is something completely legitimate which must be respected.

In other words, we consider our definition of socialism to be the most appropriate because it is established in terms of the concept of human action and, therefore, in terms of the most intimate essence of humankind. Moreover, socialism is conceived as an institutionalized aggression against the precise forces which make life in society possible and, in this respect, it is only apparently paradoxical to state that there is nothing more anti-social than the socialist system itself. Bringing this reality to light is one of the greatest virtues of the definition of socialism we propose. Without any doubt, the process of social interaction free from aggression requires compliance with a whole series of rules, guidelines or behaviour habits. All of these together constitute law in the traditional sense, i.e. the framework within which human actions may pacifically be carried out. Law, however, is not

something which arises prior to the practise of human action, but a result of the evolution and customs of the social process of interaction itself. Therefore, according to our definition, socialism is not a system of institutionalized aggression against an evolutionary consequence of entrepreneurship (property rights), but a system of aggression against human action or entrepreneurship itself. Our definition of socialism allows the theory of society to relate directly to a theory on law, its origins, development and evolution. Moreover, it is perfectly compatible with our posing the questions, on a theoretical level, of what property rights arise from a non-coercive social process, what the just property rights are, and to what point socialism is ethically admissible or otherwise.

Socialism and interventionism

Another advantage of the definition of socialism we have proposed is that it includes or incorporates within its scope the social system based on interventionism. In fact, whether interventionism is considered as one of the typical features of socialism or, as is more usual, as an intermediate system between 'real socialism' and the free social process, it is evident that, as any interventionist measure consists of an institutional aggression coercively practised in a certain social area, interventionism, regardless of its degree, type or cause, is socialism from the standpoint of our definition.

The use of the terms socialism and interventionism as synonyms, far from being an unjustified broadening of the sense which they normally have, is an analytic requirement for the theory of social processes. In fact, although originally the first Austrian School theorists who dealt with interventionism considered it to be a different conceptual category from socialism,¹⁹ as the controversy on the impossibility of socialist economic calculation advanced the borderlines between the two concepts were erased and this definition process has continued up to the present day, when it has become evident to those who cultivate the theory of entrepreneurship that there is no qualitative difference between socialism and interventionism,²⁰ although it may be admitted that, in colloquial usage, one term or the other is sometimes used to refer to the different degrees to which the same reality becomes manifest.

In addition, the proposed definition of socialism permits science to play the important role of revealing the attempts, very habitual nowadays in many political, social and cultural spheres, to immunize interventionism against the natural and inevitable effects of the economic, social and political decay of 'real socialism', which is, in fact, its predecessor and intellectual inspiration. Real socialism and interventionism are, at most, only two manifestations of different degrees of intensity of the same coercive and institutionalized reality and they fully share the same essential intellectual error and the same pernicious social consequences.