

5 The crisis of socialism¹

There is nothing more practical than a good theory. Therefore I intend to explain in theoretical terms what socialism is and why it is an intellectual error, a scientific impossibility. I will show why it (or at least real socialism) collapsed, and why the socialism which still exists in the form of economic intervention in Western countries is the main source of the tensions and conflicts we experience. We live in a world which is essentially socialist, despite the fall of the Berlin Wall, and we continue to suffer the effects which, according to theory, are typical of state intervention in social life.

To define 'socialism', we must first understand the concept of 'entrepreneurship'. Economic theorists conceive 'entrepreneurship' as an innate human ability. I am not referring to the typical entrepreneur who gets a business off the ground. I am referring to that innate ability all human beings have to discover, create and recognize the profit opportunities which arise in their environment, and to act accordingly to take advantage of them. In fact, etymologically speaking, the word 'entrepreneur' evokes the discoverer, someone who realizes something and grasps it. It is the light bulb which lights up.

Entrepreneurship is humankind's primary capacity. This ability to create and discover goals and means is what, by nature, most distinguishes us from the animals. In this general sense, humans are more *homo empresario* than *homo sapiens*. Who, then, is an entrepreneur? Mother Theresa of Calcutta, for instance. I am not talking merely about Henry Ford or Bill Gates, who have been most certainly great entrepreneurs in the area of business and economics. Every person with a creative, revolutionary vision is an entrepreneur. The mission of Mother Theresa was to help the most needy, and she sought the means to accomplish it creatively, by pushing and harmonizing the efforts and wishes of many different people. Hence, Mother Theresa of Calcutta was a paradigmatic example of an entrepreneur. Let us view entrepreneurship as the most intimate characteristic of our nature as human beings, a quality responsible for the emergence of society as an extremely complex network of interactions. These consist of exchange relationships between people, and we establish them because we somehow realize that they benefit us. And our entrepreneurial spirit is the driving force behind them all.

Every entrepreneurial act involves three stages. The first stage consists of the creation of information; when an entrepreneur discovers or creates a new idea, s/he generates in his or her mind information which did not exist before. Then, one way and another, this information is transmitted in successive waves, which leads to the second stage. Here I see a cheap resource which is poorly used, and there I discover an urgent need for the same resource. I buy cheap and sell dear. I transmit the information. Finally, in the third stage, economic agents who act in a discoordinated manner learn; they discover that they should save a resource because someone else needs it. Those are the three stages which complete the process: the creation of information, the transmission of information and, most importantly, the effect of coordination or adjustment. From the time we wake up in the morning until the time we go to bed at night, we discipline our behaviour in terms of the needs of others, of people we never even meet, and we do this *motu proprio*, because when we act in our own entrepreneurial self-interest, we realize that this is to our advantage. It was important to present this idea first, because now, in contrast, we will consider the nature of socialism.

Socialism must be defined as 'any system of institutional, methodical aggression against the free exercise of entrepreneurship'. It consists of a forcible imposition, via all the coercive means of the state. A socialist regime may place certain objectives in a positive light, but it will have to impose them and thus aggressively interfere with the process of social coordination which entrepreneurs spearhead. Therefore, in a socialist system, the state acts using coercion, and this is the main characteristic of socialism. It is very important to keep this in mind, because socialists invariably wish to conceal their coercive side, the essential feature of their system. Coercion consists of the use of violence to force someone to do something. There are two types of coercion: that of the criminal who robs people in the streets and that of the state, the sort of which characterizes socialism. In the case of asystematic coercion, the market has mechanisms to provide, as far as possible, a definition of property rights and a defence against crime. However, in the case of systematic, institutional coercion by a state with all the tools of power at its disposal, we have very little hope of avoiding it or defending ourselves against it. It is then that socialism reveals its true essence in all its harshness.

I am not defining socialism based on whether ownership of the means of production is public or private. That is an archaism. The essence of socialism is coercion, institutional state coercion, by which a governing body is meant to perform the tasks necessary to coordinate society. The responsibility passes from ordinary people, who are in charge of their entrepreneurship, seek ends and attempt to create the circumstances most favourable to achieving them, to a government body, which 'from above' strives forcibly to impose its particular view of the world or its particular objectives. Moreover, in this definition of socialism, the issue of whether or not the governing body has been democratically elected is irrelevant. The theorem of the impossibility of socialism remains intact and totally unchanged, regardless of

whether the governing body which tries to forcibly impose the coordination of society is of democratic origin.

Now that I have defined socialism, I will explain why it is an intellectual error. Socialism is an intellectual error because the governing body in charge of exercising coercion to coordinate society cannot possibly obtain the information it needs to give its commands a coordinating effect. That is the problem of socialism, its great paradox. It requires information, knowledge, data for its desired coercive outcome – the organization of society – to be successful. But the governing body can never obtain such information. Mises and Hayek, theorists of the Austrian School of Economics, formulated four basic arguments during their twentieth century debate with the theorists of neoclassical economics, who were never capable of fathoming the problem posed by socialism. Why were they incapable of fathoming it? The answer is that they believed the economy functioned as explained in first-year economic textbooks, yet what is explained in first-year economic textbooks concerning the functioning of a market economy is radically incorrect and false. The writers of these textbooks explain the market in terms of mathematics and perfect adjustment. That is, they portray the market as a sort of computer which automatically and perfectly adjusts the desires of consumers and the action of producers in such a way that the ideal model is that of perfect competition, which is described by Walras' system of simultaneous equations.

In my first economics class as a student, the professor began with a surprising statement: 'Let us suppose that all information is given'. He then began to fill the blackboard with functions, curves and formulae. That is the supposition neoclassicals use: that all information is given and unchanging. However, that supposition is wildly unrealistic. It contradicts the most typical characteristic of the market: information is never given.

Knowledge of data emerges continually as a result of the creative activity of entrepreneurs: new ends, new means. Thus, that supposition cannot provide the basis for a valid economic theory. Neoclassical economists deemed socialism possible because they assumed that all of the data necessary to formulate the system of equations and find the solution were 'given'. They were unable to perceive the real-world events they should have researched scientifically; they could not see what was really happening.

The Austrian School alone – led by Ludwig von Mises – followed a different paradigm. Austrians never assumed information to be given; they viewed the economic process as one driven by entrepreneurs who continually change and discover new information. Only members of the Austrian School managed to realize that socialism was an intellectual error. They grounded their position on four arguments, two 'static' and two 'dynamic'.

The first argument asserts that, for reasons of volume, the governing body cannot possibly obtain the information it needs to give its commands a coordinating effect. Human beings handle an immense volume of information, and what 7 billion people have in their minds cannot possibly be

managed. The neoclassicals might be able to understand this argument, but it is the weakest, the least important. After all, the computer capacity available to us nowadays permits us to process immense volumes of information.

The second argument is much more profound and convincing. The information people work with in the market is not objective; it is not like the information printed in the telephone book. Entrepreneurial information is of a radically different nature. It is subjective, not objective. It is tacit. In other words we know something, the *know how*, but we do not know in detail what it consists of, the *know that*. To put it another way, it is like information on how to ride a bicycle. A person could try to learn a bicycle by studying the formula of mathematical physics which expresses the equilibrium the cyclist maintains when he pedals. However, the knowledge necessary to ride a bicycle is not obtained in this way, but through a learning process which usually contains setbacks, but which eventually enables the rider to experience a sense of equilibrium on a bicycle and teaches him or her that s/he must lean to one side in the curves to avoid falling. In all probability, Lance Armstrong is unfamiliar with the laws which enabled him to win the Tour de France seven times, but he knows how to ride a bicycle. Tacit information cannot be expressed in a formalized, objective manner, nor can it be transferred anywhere, much less to a governing body. Only univocal information, which does not lend itself to misunderstandings, can be transmitted to a governing body, be assimilated and used by it in the coercion of society, and give coordinating quality to its commands. Nevertheless, most of the information upon which the success of our lives depends is not objective; it is not like the information printed in the telephone book, but is subjective, tacit information.

Still, these two arguments – that the information is huge in volume and also of a tacit nature – are not sufficient. Two other arguments exist, which are dynamic and much more convincing as well, and they highlight the impossibility of socialism.

Human beings are endowed with an innate creative capacity. We constantly discover ‘new’ things, ‘new’ ends, ‘new’ means. Information or knowledge that entrepreneurs have not yet ‘created’ can hardly be transmitted to a governing body. The governing body is determined to build ‘social nirvana’ through coercion and the Official State Gazette. However, to do so, it must know what will happen tomorrow. And what will happen tomorrow will depend on entrepreneurial information which has not yet been created today, and thus cannot be transmitted today so that our authorities can coordinate us effectively tomorrow. This is the paradox of socialism, the third argument.

However, that is not all. There is a fourth argument which is definitive. By its very nature, socialism – which, as we have stated, rests on coercion of civil society as a whole – blocks, hampers or renders impossible, precisely where it affects society and to the extent that it affects society, the entrepreneurial creation of information, which is precisely what the authorities need to issue coordinating commands.

This is the explanation of socialism's theoretical impossibility in scientific terms: the authorities cannot acquire the information they need to give their commands a coordinating quality. And this is a purely scientific and objective analysis. We should not think the problem of socialism is that 'bad people are in power'. Not even the best person in the world, with the best intentions and the greatest human knowledge, could organize a society according to the coercive socialist model; s/he would make it hell, since, *given human nature, it is impossible to achieve the socialist objective or ideal.*

All of these characteristics of socialism have consequences we can identify in our everyday lives. To begin with, socialism is attractive. In the most intimate part of our nature lies the risk of succumbing to socialism, because its ideal tempts us, because humans rebel against their own nature. To live in a world with an uncertain future disturbs us, and the possibility of controlling that future, of eradicating uncertainty, attracts us. In *The Fatal Conceit*, Hayek writes that socialism is actually the social, political and economic manifestation of humankind's original sin, pride. Humankind wants to be God, that is, omniscient. Therefore, generation after generation, we will have to persistently guard against socialism and accept that our nature is creative and entrepreneurial. Socialism is not a simple matter of acronyms or political parties in specific historical contexts. It will always seep furtively into communities, families, neighbourhoods, conservative and liberal parties ... We must resist that temptation towards statism, because it is the most original danger we face as human beings, our greatest temptation to believe we are God. The socialist considers him- or herself as overcoming this problem of radical ignorance which fundamentally discredits his (or her) social system. Hence, socialism is always a result of the sin of intellectual pride. Within every socialist there lies a pretentious person, a prideful intellectual.

Furthermore, socialism has some characteristics we could call 'peripheral': social discoordination and disorder. The pure entrepreneurial act coordinates, but socialism distorts it through coercion and causes discoordination. The entrepreneur realizes a profit opportunity. He buys cheap and sells dear. He transmits information and coordinates. Two people who initially acted against their respective interests now, without realizing it, act in a coordinated or adjusted manner. Because socialism forcibly prevents this exchange, it causes maladjustment to a greater or lesser extent. To top it all, when socialists observe the maladjustment they have caused, the discoordination, the conflict and the worsening of the problem, far from reaching the reasonable conclusions we have presented, they demand more socialism, more institutional coercion. And we enter a process in which problems, rather than being solved, worsen indefinitely and produce yet further increases in the weight of the state. The socialist ideal requires that the tentacles of the state reach every gap in society, and it triggers a process which leads to totalitarianism.

Another characteristic of socialism is its lack of rigour. Criteria are tried and changed, problems are observed to worsen, and a new political direction is taken, and thus coercion is erratic. Why? Because the effects of

interventionist measures usually bear little resemblance to the effects sought. The minimum wage, for instance, is intended to raise the standard of living. Its result? More unemployment and more poverty. The worst hit? Social groups which are entering the labour market for the first time, i.e. young people, women, ethnic minorities and immigrants. Another example: a community agricultural policy is designed, and the European Union (EU) is flooded with products via subsidies or political prices. The consumer pays higher prices, and poor countries are placed at a disadvantage because international markets fill with surplus products from the EU at prices with which they cannot compete.

In addition, socialism acts as a sort of drug, like an inhibitory opium. It generates poor investments, because it distorts the signs which indicate where investments should be made if the desires of consumers are to be satisfied. Socialism exacerbates problems of scarcity and provokes the systematic irresponsibility of governments, and because it is impossible to acquire the information necessary to act responsibly, costs cannot be known. The authorities can only act wilfully and leave a record of their mere wishes in the Official State Gazette. However, as Hayek asserts, that is not 'LAW' in capital letters, but 'legislation' or rules which are usually excessive and useless, even when they are claimed to be based on objective data. Lenin held that the entire economy should be organized like the postal service, and that the most important department in a socialist system is the National Institute of Statistics. The word 'statistics' derives etymologically from 'state'. Therefore it is a term we must be cautious of if we wish to avoid socialism, a suspicious concept. Jesus was born in Bethlehem because the emperor had ordered a statistical study concerning taxes. The first duty of every great libertarian should be to request the elimination of the National Institute of Statistics. Since we cannot keep the state from doing harm, let us at least blindfold it so that the damage will occur more at random when the state errs, as invariably it will.

Socialism also plainly exerts a terrible effect on the environment. The only way to protect the environment is to define property rights clearly and to defend them effectively. No one rings someone else's doorbell and then throws garbage in his face. This only happens in 'common areas'. An old Spanish saying goes '*lo que es del común es del ningún*', or 'what belongs to everyone belongs to no one'. The tragedy of the commons – first described by Ludwig von Mises in 1940 – whether it be polluted water, disappearing schools of fish or the extinction of the rhinoceros, is always the result of a state restriction on the property rights required by a market economy. For instance, there is hunting where mountain land is privatized, but not where it is publicly owned. And elephants survive where they have been privatized. Fighting bulls still exist because bullfighting entrepreneurs look after them. The only way to preserve the environment is through a market economy, a capitalist system which implies well-defined property rights. Where these principles disappear, the environment suffers. English rivers are privatized,

for example. They are clean and there is fishing in them: members of different fishing clubs, cheap, expensive and moderately priced, fish in them. But try to find fish in Spanish rivers ...

And then there is corruption. Socialism corrupts. Those who experienced the socialist economies which hid behind the Berlin Wall became aware of the huge lie that whole world represented. And let us not rest on our laurels and think that we have overcome it, that the huge lie has no power here. It is still present, though in varying degrees. Why does socialism corrupt? For several reasons. Coerced people in a socialist system quickly realize that, in order to reach their goals, it is more effective for them to devote their effort and ingenuity to influencing the authorities, rather than seeking opportunities to make a profit and to serve others. This is the origin of special interest groups, which strive to influence the decisions of the governing body. The socialist governing body attracts all sorts of perverse, corrupting influences like a magnet. It also sets in motion a struggle for power. When the socialist model predominates, the issue of who is in power, whether it is someone from 'my group' or not, is vital. A socialist society is always very politicized, unlike Switzerland, for instance, where people most likely do not know the name of their defence minister or even of the president. In fact, it does not even matter to them, because the question of who is in power is not crucial.

Human beings should dedicate most of their efforts to living successful lives, without this sort of intervention. This process of struggle for power, of interventionism, provokes a gradual change in man's habits of moral behaviour. People manifest behaviour that is increasingly amoral and less subject to principles. Our behaviour becomes more and more aggressive. The goal is to gain power so we can impose our wishes on others. This also applies mimetically to the behaviour of individuals and, consequently, we discipline our behaviour less and less and disregard the customary framework of moral laws. Morality is the automatic pilot of freedom. Thus, the above serves as another example of the corrupting influence of socialism.

Furthermore, the more prevalent socialism is, the more the underground economy or black market develops. However, as people in the countries of Eastern Europe used to say, in a socialist setting, the underground economy is not the problem but the solution. For instance, in Soviet Moscow there was no gasoline, but everyone knew that in a certain tunnel gasoline was sold on the black market. As a result, people were able to drive.

Still, obviously, socialist governments cannot simply accept all of these criticisms, so they resort to political propaganda. It is claimed that the state detects every problem in time and solves it immediately. Again and again, political propaganda is systematically disseminated in all spheres in an attempt to deflect criticism and, as a consequence, a culture of the state is created, a culture which bewilders and disorients the citizenry, who come to believe that, when faced with any problem, the state will take care of everything. And this strictly socialist way of thinking is passed down from

generation to generation through the education system, which is always controlled by the state.

Propaganda leads to megalomania. Bureaucratic organizations, public officials, politicians, etc., are not subject to a profit and loss statement. For them, poor management does not mean expulsion from the market. Authorities and public officials are only accountable to a budget and a set of regulations. There is no personal malice involved. At least, not necessarily. They are like any one of us, but in the institutional environment in which they live, their actions are perverse. Their activity within the state leads them to request more public officials and a larger budget, and to assert that their work is vital. Can you think of a single public official, politician or bureaucrat who, after a profound analysis, has arrived at the conclusion that the agency for which s/he works is useless or entails costs which exceed the benefit it provides society, a single individual who has proposed that his or her government superior and minister eliminate the corresponding budget item? Not one. On the contrary, in all contexts and governments, each official invariably considers his or her own role in the state 'vital'. Socialism is megalomaniac and infects all of society with this quality. Culture, transformed into cultural policy, is one example, and it was defined by a very distinguished representative of the European Union, when speaking with a fellow party member who was head of the Ministry of Culture, as follows: 'Lots of public money, lots of parties for the young people and awards for the pals'.

In addition, socialism leads to the prostitution of the concepts of law and justice. Law, in the classical view, is simply a set of abstract, substantive rules or laws which are generally applied equally to all. Justice consists of judging whether or not individual behaviours have been in keeping with this framework of objective and abstract laws. These are blind laws. Thus, justice has traditionally been portrayed blindfolded. In Leviticus 19,15 we read: 'Do not pervert justice; do not show partiality to the poor nor favouritism to the great, but judge your neighbour fairly'. The moment we violate general legal principles, even if we do so 'for a good cause' (because we are moved by an eviction for unpaid rent, or because a minor theft in a large department store will have no significant effect on the income of the company involved), we do terrible damage to justice. Judges who act in this way, who neglect to apply the law, fall prey to the fatal error of intellectual conceit, of believing themselves gods. They replace the law with their impression of the particular circumstances of the case and they open the door to those whose goal it is for the judged to be moved, not to administer justice. Each suit becomes a lottery ticket which may be a winner if one is lucky in court, and a snowball effect is triggered and overloads judges, who issue increasingly flawed rulings and encourage the process with their arbitrariness. Legal certainty disappears and justice is corrupted.

Of course, the solution is not to provide the judicial system with more resources, but that is precisely what will be required by public officials.

Ultimately, the most perverse effect of socialist corruption is the mimetic influence it exerts on the sphere of individual moral actions. To people of good faith, socialism is very attractive: if there are problems, the state will provide the necessary resources and impose a solution. Who could oppose the achievement of such a worthwhile, praiseworthy objective? The problem is the ignorance which lies at the heart of this argument. The state cannot know what it would need to know to act in this manner; it is not God, even if some people believe it is. This belief disturbs the entrepreneurial process and aggravates problems. Instead of acting automatically and according to dogmatic principles which are subject to law, the state acts arbitrarily, and that is what most demoralizes and corrupts society. The illegal battle fought against terrorists in Spain while the Spanish Socialist Workers' Party (PSOE) was in power provides the perfect example. It was a colossal mistake. Principles are not an obstacle which prevents us from achieving desired results, but the only road which can lead us to them. As the English proverb teaches, 'honesty is the best policy', i.e. honesty is a principle which should always be followed. This is precisely where socialism fails, for in the socialist model for choosing the best combination of means and ends, the leaders play God and it is thought that the 'optimal' course of action is to violate moral principles.

Socialism is not only an intellectual error, but is also a truly antisocial force, because its most intimate characteristic consists of its coercive restriction, to a varying degree, of people's entrepreneurial freedom, in its creative and coordinating capacity. As this freedom is humanity's distinguishing attribute, socialism is an unnatural social system which conflicts with man's true nature and aspirations.

In his encyclical letter 'Centesimus Annus (IV, 42)', Pope John Paul II, when considering whether capitalism is the social system most compatible with human nature, writes:

If by 'capitalism' is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative.

Nevertheless, he immediately adds 'But ...' Why? Because Pope John Paul II spent his life warning of the effects of an unbridled 'capitalism' detached from moral, ethical and legal principles. But if we take into account that what is reprehensible is egoism, immorality, etc., true capitalism as a social system is neutral at worst. In fact, a system of voluntary exchanges promotes morality, the distinction between good and evil, as opposed to the moral corruption which *always* accompanies socialism.

Finally, whatever happened to socialism? Has it failed? Has it disappeared? Has it vanished into thin air? Yes and no. That certainly has been the fate of 'real socialism', but our societies are still deeply imbued with

socialism. The differences between so-called left-wing and right-wing parties are differences of degree, although Spain did make some progress between 1996 and 2004 in the area of freedom under the leadership of the right-wing Popular Party. First came the abolition of that twentieth century form of slavery, compulsory military service. Military service became voluntary, and that is of vital importance – incidentally, may I mention that the socialists opposed this? Second, there was a timid tax cut, and then the principle of a balanced budget was adopted, and some liberalization and privatization occurred. It was not really much to get excited about, but we must remember that the vast majority of those 11 or 12 million people who voted for the Popular Party then in power were, in fact, also socialists according to the definition we have offered here. Not much else could be done.

Now the mission falls to us, the university professors, the intellectuals and the ‘second-hand dealers of ideas’. We are responsible for gradually changing the spirit of the times, especially among the young, who are willing to take to the streets boldly to defend their ideals. Today socialism continues to prevail: between 40 and 50 per cent of the gross domestic product of the countries in the modern Western world is in the hands of government. Our only hope lies, as always, in the power of ideas and in the intellectual honesty of the young.