

**SOCIALISM,
ECONOMIC CALCULATION
AND
ENTREPRENEURSHIP**

BY

Jesús Huerta de Soto

TABLE OF CONTENTS

CHAPTER I: INTRODUCTION	1
1. SOCIALISM AND ECONOMIC ANALYSIS	1
The Historic Failure of Socialism	1
The Subjective Perspective in the Economic Analysis of Socialism	3
Our Definition of Socialism	4
Entrepreneurship and Socialism	5
Socialism as an Intellectual Error	6
2. THE DEBATE ON THE IMPOSSIBILITY OF SOCIALIST ECONOMIC CALCULATION	7
Ludwig von Mises and the Start of the Socialism Debate	7
The Unjustified Shift in the Debate toward Statics	8
Oskar Lange and the “Competitive Solution”	9
“Market Socialism” as the Impossible Squaring of the Circle	9
3. OTHER POSSIBLE LINES OF RESEARCH	10
1. The Analysis of So-called “Self-Management Socialism”	10
2. “Indicative Planning”	10
3. The Healthy Acknowledgement of “Scientific Accountability”	11
4. Consequences of the Debate with Respect to the Future Development of Economics	12
5. The Reinterpretation and Historical Analysis of the Different Real Types of Socialism	16
6. The Formulation of a Theory on the Ethical Inadmissibility of Socialism	16
7. The Development of a Theory on the Prevention and Dismantling of Socialism	16
4. CONCLUSION	17
CHAPTER II: ENTREPRENEURSHIP	18
1. THE DEFINITION OF ENTREPRENEURSHIP	18
Human Action: Ends, Value, Means, and Utility	20
Scarcity, Plans of Action, and Acts of Will	20
The Subjective Conception of Time: Past, Present, and Future	21
Creativity, Surprise, and Uncertainty	22
Cost as a Subjective Concept. Entrepreneurial Profit	23
Rationality and Irrationality. Entrepreneurial Error and Loss	24
Marginal Utility and Time Preference	25
2. CHARACTERISTICS OF ENTREPRENEURSHIP	25
Entrepreneurship and Alertness	25
Information, Knowledge, and Entrepreneurship	26
Subjective and Practical, Rather than Scientific, Knowledge	27
Exclusive and Dispersed Knowledge	29
Tacit Knowledge Which Cannot Be Articulated	31
The Fundamentally Creative Nature of Entrepreneurship	32
The Creation of Information	36

The Transmission of Information	36
The Learning Effect: Coordination and Adjustment	37
Arbitration and Speculation	39
Law, Money, and Economic Calculation	40
The Ubiquity of Entrepreneurship	43
The Essential Principle	44
Competition and Entrepreneurship	47
The Division of Knowledge and the “Extensive” Order of Social Cooperation	49
Creativity <i>versus</i> Maximization	51
Conclusion: Our Concept of Society	52
 3. ENTREPRENEURSHIP AND THE CONCEPT OF SOCIALISM	 53
 CHAPTER III: SOCIALISM	 55
1. THE DEFINITION OF SOCIALISM	55
2. SOCIALISM AS AN INTELLECTUAL ERROR	59
3. THE IMPOSSIBILITY OF SOCIALISM FROM THE STANDPOINT OF SOCIETY	62
The “Static” Argument	62
The “Dynamic” Argument	63
4. THE IMPOSSIBILITY OF SOCIALISM FROM THE PERSPECTIVE OF THE GOVERNING BODY	65
5. WHY THE DEVELOPMENT OF COMPUTERS MAKES THE IMPOSSIBILITY OF SOCIALISM EVEN MORE CERTAIN	69
6. OTHER THEORETICAL CONSEQUENCES OF SOCIALISM	74
Discoordination and Social Disorder	74
Erroneous Information and Irresponsible Behaviors	79
The Corruption Effect	81
The Underground or “Irregular” Economy	85
A Lag in Social (Economic, Technological, Cultural) Development	85
The Prostitution of the Traditional Concepts of Law and Justice. The Moral Perversion Socialism Creates	87
Socialism as the “Opium of the People”	93
Conclusion: The Essentially Antisocial Nature of Socialism	94
7. DIFFERENT TYPES OF SOCIALISM	95
Real Socialism, or that of Soviet-Type Economies	95
Democratic Socialism, or Social Democracy	96
Conservative or “Right-Wing” Socialism	98
Social Engineering, or Scientistic Socialism	100
Other Types of Socialism (Christian or Solidarity-Based, Syndicalist, Etc.)	104
8. CRITICISM OF THE ALTERNATIVE CONCEPTS OF SOCIALISM	105
The Traditional Concept and the Process by which the New Concept Developed	105
Socialism and Interventionism	108
The Inanity of the “Idyllic” Concepts of Socialism	109
Could the Term “Socialism” Someday be Restored?	110

CHAPTER IV: LUDWIG VON MISES AND THE START OF THE DEBATE ON ECONOMIC CALCULATION	112
1. BACKGROUND	112
2. THE ESSENTIAL CONTRIBUTION OF LUDWIG VON MISES	121
The Nature and Basic Content of Mises's Contribution	123
3. THE FUNCTIONING OF SOCIALISM, ACCORDING TO MARX	130
4. ADDITIONAL CONSIDERATIONS ON MISES'S CONTRIBUTION	135
Mises's Refutation of Marx's Analysis	135
The Monetary Calculation of Profits and Losses.....	138
The Practical Sufficiency of Economic Calculation	139
Calculation as a Fundamentally Economic (and not Technical) Problem.....	141
Business Consolidation and Economic Calculation	142
5. THE FIRST SOCIALIST PROPOSALS OF A SOLUTION TO THE PROBLEM OF ECONOMIC CALCULATION.....	145
Economic Calculation in Kind	146
Economic Calculation in Labor Hours	148
Economic Calculation in Units of Utility	150
CHAPTER V: THE UNJUSTIFIED SHIFT IN THE DEBATE TOWARD STATICS: THE ARGUMENTS OF FORMAL SIMILARITY AND THE SO- CALLED "MATHEMATICAL SOLUTION"	153
1. THE ARGUMENTS OF FORMAL SIMILARITY.....	153
The Formal Similarity Arguments Advanced by Eugen von Böhm-Bawerk and Friedrich von Wieser	155
Enrico Barone's Contribution as a Formal Similarity Argument	157
Other Formal Similarity Theorists: Cassel and Lindahl	159
2. ANALYSIS OF THE "MATHEMATICAL" SOLUTION	160
The Article by Fred M. Taylor	161
The Contribution of H. D. Dickinson	163
The Mathematical Solution in the German Literature	166
3. THE "MATHEMATICAL SOLUTION" AND ITS ADVERSE CONSEQUENCES FOR THE DEBATE.....	167
4. THE "TRIAL AND ERROR" METHOD	172
Criticism of the Trial and Error Method	174
5. THE THEORETICAL IMPOSSIBILITY OF PLANOMETRICS.....	182
CHAPTER VI: OSKAR LANGE AND THE "COMPETITIVE SOLUTION"	198
1. INTRODUCTORY CONSIDERATIONS	198

2. HISTORICAL PRECEDENTS FOR THE “COMPETITIVE SOLUTION”	202
The Contributions of Eduard Heimann and Karl Polanyi	202
Early Criticism Leveled by Mises, Hayek, and Robbins against the “Competitive Solution”	206
3. THE CONTRIBUTION OF OSKAR LANGE: INTRODUCTORY CONSIDERATIONS	214
The Lange-Breit Model	215
4. OSKAR LANGE AND HIS CLASSIC MODEL OF “MARKET SOCIALISM”	217
Market Prices <i>versus</i> “Parametric Prices”	218
Lange’s First Paragraph	219
Lange’s Second Paragraph	222
Lange’s Third Paragraph	224
Lange’s Fourth Paragraph	231
5. CRITICAL ANALYSIS OF LANGE’S CLASSIC MODEL	234
A Preliminary Clarification of Terminology	234
A Description of the Model	235
Two Interpretations of Lange’s Model	237
Critical Analysis of the Broadest Interpretation of Lange’s Model	238
1. The Impossibility of Assembling the List of Capital Goods	239
2. The Complete Arbitrariness of the Time Period for which Parametric Prices are Fixed	241
3. The Lack of a True Market for Labor and Consumer Goods and Services	241
4. The Inanity of the “Rules” Proposed by Lange	243
5. The Theoretical Impossibility of the “Trial-and-Error Method”	248
6. The Arbitrary Fixing of the Interest Rate	251
7. Ignorance of the Typical Behavior of Bureaucratic Agencies	252
Other Comments on Lange’s Classic Model	257
6. THE THIRD AND FOURTH STAGES IN LANGE’S SCIENTIFIC LIFE	260
The Third Stage: The 1940s	260
The Fourth Stage: From the Second World War until His Death. The Abandonment of the Market, and Praise and Justification of the Stalinist System	263
Langan Epilogue	267
CHAPTER VII: FINAL CONSIDERATIONS	269
1. OTHER “MARKET SOCIALISM” THEORISTS	269
Evan Frank Mottram Durbin	270
Henry Douglas Dickinson’s Book, <i>The Economics of Socialism</i>	275
The Contribution of Abba Ptachya Lerner to the Debate	284
2. “MARKET SOCIALISM”: THE IMPOSSIBLE SQUARING OF THE CIRCLE	291
3. MAURICE H. DOBB AND THE COMPLETE SUPPRESSION OF INDIVIDUAL FREEDOM	296
4. IN WHAT SENSE IS SOCIALISM IMPOSSIBLE?	304

5. FINAL CONCLUSIONS	313
BIBLIOGRAPHY	316
INDEX	350
INDEX OF NAMES	358