

# COLLECTIVIST ECONOMIC PLANNING

Critical Studies on the Possibilities of Socialism  
by N. G. PIERSON, LUDWIG VON MISES,  
GEORG HALM, and ENRICO BARONE

*Edited, with an Introduction  
and a Concluding Essay*

*by*

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# CONTENTS

	PAGE
I THE NATURE AND HISTORY OF THE PROBLEM. <i>By the EDITOR</i>	I
II THE PROBLEM OF VALUE IN THE SOCIALIST SOCIETY. <i>By the late PROFESSOR N. G. PIERSON, Amsterdam</i>	41
III ECONOMIC CALCULATION IN THE SOCIALIST COMMON-WEALTH. <i>By PROFESSOR LUDWIG VON MISES, Vienna</i>	87
IV FURTHER CONSIDERATIONS ON THE POSSIBILITY OF ADEQUATE CALCULATION IN A SOCIALIST COMMUNITY. <i>By PROFESSOR GEORG HALM, Würzburg</i>	131
V THE PRESENT STATE OF THE DEBATE. <i>By the EDITOR</i>	201

## APPENDICES

A THE MINISTRY OF PRODUCTION IN THE COLLECTIVIST STATE. <i>By the late PROFESSOR ENRICO BARONE, Padua</i>	245
B BIBLIOGRAPHY	291



# I

## THE NATURE AND HISTORY OF THE PROBLEM

By F. A. HAYEK

1. THE UNSEEN PROBLEM.
2. ECONOMIC AND TECHNOLOGICAL PROBLEMS.
3. THE DECAY OF ECONOMIC INSIGHT.
4. THE ATTITUDE OF MARXISM.
5. SOCIALISM AND PLANNING.
6. THE TYPES OF SOCIALISM.
7. PLANNING AND CAPITALISM.
8. THE BASIS OF MODERN CRITICISM.
9. THE WAR AND ITS EFFECTS ON CONTINENTAL SOCIALISM.
10. MISES, MAX WEBER AND BRUTZKUS.
11. MORE RECENT CONTINENTAL DISCUSSION.
12. THE PURPOSE OF THE PRESENT VOLUME.

### I. THE UNSEEN PROBLEM

THERE is reason to believe that we are at last entering an era of reasoned discussion of what has long uncritically been assumed to be a reconstruction of society on rational lines. For more than half a century, the belief that deliberate regulation of all social affairs must necessarily be more successful than the apparent haphazard interplay of independent individuals has continuously gained ground until to-day there is hardly a political group anywhere in the world which does not want central direction of most human activities in the service of one aim or another. It seemed so easy to improve upon the

institutions of a free society which had come more and more to be considered as the result of mere accident, the product of a peculiar historical growth which might as well have taken a different direction. To bring order to such a chaos, to apply reason to the organization of society, and to shape it deliberately in every detail according to human wishes and the common ideas of justice seemed the only course of action worthy of a reasonable being.

But at the present day it is clear—it would probably be admitted by all sides—that during the greater part of the growth of this belief, some of the most serious problems of such a reconstruction have not even been recognized, much less successfully answered. For many years discussion of socialism—and for the greater part of the period it was only from socialism proper that the movement sprang—turned almost exclusively on ethical and psychological issues. On the one hand there was the general question whether justice required a reorganization of society on socialist lines and what principles of the distribution of income were to be regarded as just. On the other hand there was the question whether men in general could be trusted to have the moral and psychological qualities which were dimly seen to be essential if a socialist system was to work. But although this latter question does raise some of the real difficulties, it does not really touch the heart of the problem. What was questioned was only whether the authorities in the new state would be in a position to make people carry out their plans properly. Only the practical possibility of the execution of the plans was called in question, not whether planning, even in the ideal case where these difficulties were absent, would

achieve the desired end. The problem seemed therefore to be "only" one of psychology or education, the "only" meaning that after initial difficulties these obstacles would certainly be overcome.

If this were true, then the economist would have nothing to say on the feasibility of such proposals, and indeed it is improbable that any scientific discussion of their merits would be possible. It would be a problem of ethics, or rather of individual judgments of value, on which different people might agree or disagree, but on which no reasoned arguments would be possible. Some of the questions might be left to the psychologist to decide, if he has really any means of saying what men would be like under entirely different circumstances. Apart from this no scientist, and least of all the economist, would have anything to say about the problems of Socialism. And many people believing that the knowledge of the economist is only applicable to the problems of a capitalist society (i.e. to problems arising out of peculiar human institutions which would be absent in a world organized on different lines), still think this to be the case.

## 2. ECONOMIC AND TECHNOLOGICAL PROBLEMS

Whether this widespread belief is based on a clear conviction that there would be no economic problems in a socialist world, or whether it simply proves that the people who hold it do not know what economic problems are, is not always evident. Probably usually the latter. This is not at all surprising. The big economic problems which the economist sees and which he contends will also have to be solved in a collectivist

society, are not problems which at present are solved deliberately by anybody in the sense in which the economic problems of a household reach solution. In a purely competitive society nobody bothers about any but his own economic problems. There is therefore no reason why the existence of economic problems, in the sense in which the economist uses the term, should be known to others. But the distribution of available resources between different uses which is the economic problem is no less a problem for society than for the individual, and although the decision is not consciously made by anybody, the competitive mechanism does bring about some sort of solution.

No doubt if it were put in this general way everybody would be ready to admit that such a problem exists. But few realize that it is fundamentally different not only in difficulty but also in character from the problems of engineering. The increasing preoccupation of the modern world with problems of an engineering character tends to blind people to the totally different character of the economic problem, and is probably the main cause why the nature of the latter was less and less understood. At the same time everyday terminology used in discussing either sort of problem has greatly enhanced the confusion. The familiar phrase of "trying to get the greatest results from the given means" covers both problems. The metallurgist who seeks for a method which will enable him to extract a maximum amount of metal from a given quantity of ore, the military engineer who tries to build a bridge with a given number of men in the shortest possible time, or the optician who endeavours to construct a telescope which will enable the astronomer to penetrate to still



more distant stars, all are concerned solely with technological problems. The common character of these problems is determined by the singleness of their purpose in every case, the absolutely determined nature of the ends to which the available means are to be devoted. Nor does it alter the fundamental character of the problem if the means available for a definite purpose is a fixed amount of money to be spent on factors of production with given prices. From this point of view the industrial engineer who decides on the best method of production of a given commodity on the basis of given prices is concerned only with technological problems although he may speak of his trying to find the most economical method. But the only element which makes his decision *in its effects* an economic one is not any part of his calculations but only the fact that he uses, as a basis for these calculations, prices as he finds them on the market.

The problems which the director of all economic activities of a community would have to face would only be similar to those solved by an engineer if the order of importance of the different needs of the community were fixed in such a definite and absolute way that provision for one could always be made irrespective of cost. If it were possible for him first to decide on the best way to produce the necessary supply of, say, food as the most important need, as if it were the only need, and would think about the supply, say of clothing, only if and when some means were left over after the demand for food had been fully satisfied, then there would be no economic problem. For in such a case nothing would be left over except what could not possibly be used for the first purpose, either because it could

not be turned into food or because there was no further demand for food. The criterion would simply be whether the possible maximum of foodstuffs had been produced or whether the application of different methods might not lead to a greater output. But the task would cease to be merely technological in character and would assume an entirely different nature if it were further postulated that as many resources as possible should be left over for other purposes. Then the question arises what is a greater quantity of resources. If one engineer proposed a method which would leave a great deal of land but only little labour for other purposes, while another would leave much labour and little land, how in the absence of any standard of value could it be decided which was the greater quantity? If there were only one factor of production this could be decided unequivocally on merely technical grounds, for then the main problem in every line of production would again be reduced to one of getting the maximum quantity of product out of any given amount of the same resources. The remaining economic problem of how much to produce in every line of production would in this case be of a very simple and almost negligible nature. As soon as there are two or more factors, however, this possibility is not present.

The economic problem arises therefore as soon as different purposes compete for the available resources. And the criterion of its presence is that costs have to be taken into account. Cost here, as anywhere, means nothing but the advantages to be derived from the use of given resources in other directions. Whether this is simply the use of part of the possible working day for recreation, or the use of material resources in an alter-

native line of production, makes little difference. It is clear that decisions of this sort will have to be made in any conceivable kind of economic system, wherever one has to choose between alternative employments of given resources. But the decisions between two possible alternative uses cannot be made in the absolute way which was possible in our earlier example. Even if the director of the economic system were quite clear in his mind that the food of one person is always more important than the clothing of another, that would by no means necessarily imply that it is also more important than the clothing of two or ten others. How critical the question is becomes clearer if we look at the less elementary wants. It may well be that although the need for one additional doctor is greater than the need for one additional school teacher, yet under conditions where it costs three times as much to train an additional doctor as it costs to train an additional school teacher, three additional school teachers may appear preferable to one doctor.

As has been said before, the fact that in the present order of things such economic problems are not solved by the conscious decision of anybody has the effect that most people are not conscious of their existence. Decisions whether and how much to produce a thing are economic decisions in this sense. But the making of such a decision by a single individual is only part of the solution of the economic problem involved. The person making such a decision makes it on the basis of given prices. The fact that by this decision he influences these prices to a certain, probably very small, extent will not influence his choice. The other part of the problem is solved by the functioning of the price

system. But it is solved in a way which only a systematic study of the working of this system reveals. It has been already suggested that it is not necessary for the working of this system, that anybody should understand it. But people are not likely to let it work if they do not understand it.

The real situation in this respect is very well reflected in the popular estimate of the relative merits of the economists and the engineer. It is probably no exaggeration to say that to most people the engineer is the person who actually does things and the economist the odious individual who sits back in his armchair and explains why the well-meaning efforts of the former are frustrated. In a sense this is not untrue. But the implication that the forces which the economist studies and the engineer is likely to disregard are unimportant and ought to be disregarded is absurd. It needs the special training of the economist to see that the spontaneous forces which limit the ambitions of the engineer themselves provide a way of solving a problem which otherwise would have to be solved deliberately.

### 3. THE DECAY OF ECONOMIC INSIGHT

There are, however, other reasons besides the increasing conspicuousness of the elaborate modern technique of production which are responsible for our contemporary failure to see the existence of economic problems. It was not always so. For a comparatively short period in the middle of last century, the degree to which the economic problems were seen and understood by the general public was undoubtedly much higher than it is at present. But the classical system of political economy

whose extraordinary influence facilitated this understanding had been based on insecure and in parts definitely faulty foundations, and its popularity had been achieved at the price of a degree of over-simplification which proved to be its undoing. It was only much later, after its teaching had lost influence, that the gradual reconstruction of economic theory showed that what defects there were in its basic concepts had invalidated its explanation of the working of the economic system to a much smaller degree than had at first seemed probable. But in the interval irreparable harm had been done. The downfall of the classical system tended to discredit the very idea of theoretical analysis, and it was attempted to substitute for an understanding of the why of economic phenomena a mere description of their occurrence. In consequence, the comprehension of the nature of the economic problem, the achievement of generations of teaching, was lost. The economists who were still interested in general analysis were far too much concerned with the reconstructing of the purely abstract foundations of economic science to exert a noticeable influence on opinion regarding policy.

It was largely owing to this temporary eclipse of analytical economics that the real problems connected with the suggestions of a planned economy have received so surprisingly little careful examination. But this eclipse itself was by no means only due to the inherent weaknesses and the consequent need for reconstruction of the old economics. Nor would it have had the same effect if it had not coincided with the rise of another movement definitely hostile to rational methods in economics. The common cause which at the same time undermined the position of economic theory and

furthered the growth of a school of socialism, which positively discouraged any speculation of the actual working of the society of the future, was the rise of the so-called historical school in economics.<sup>1</sup> For it was the essence of the standpoint of this school, that the laws of economics could only be established by the application to the material of history of the methods of the natural sciences. And the nature of this material is such that any such attempt is bound to degenerate into mere record and description and a total scepticism concerning the existence of any laws at all.

It is not difficult to see why this should happen. In all sciences except those which deal with social phenomena all that experience shows us is the result of processes which we cannot directly observe and which it is our task to reconstruct. All our conclusions concerning the nature of these processes are of necessity hypothetical, and the only test of the validity of these hypotheses is that they prove equally applicable to the explanation of other phenomena. And what enables us to arrive by this process of induction at the formulation of general laws or hypotheses regarding the process of causation is the fact that the possibility of experimenting, of observing the repetition of the same phenomena under identical conditions, shows the existence of definite regularities in the observed phenomena.

In the social sciences, however, the situation is the exact reverse. On the one hand, experiment is impossible, and we have therefore no knowledge of definite regularities in the complex phenomena in the same

<sup>1</sup> Some of the points on which I can only touch here I have developed at somewhat greater length in my inaugural address on the Trend of Economic Thinking, *Economica*, May, 1933.

sense as we have in the natural sciences. But on the other hand the position of man, midway between natural and social phenomena—of the one of which he is an effect and of the other a cause—brings it about that the essential basic facts which we need for the explanation of social phenomena are part of common experience, part of the stuff of our thinking. In the social sciences it is the elements of the complex phenomena which are known beyond the possibility of dispute. In the natural sciences they can only be at best surmised. The existence of these elements is so much more certain than any regularities in the complex phenomena to which they give rise, that it is they which constitute the truly empirical factor in the social sciences. There can be little doubt that it is this different position of the empirical factor in the process of reasoning in the two groups of disciplines which is at the root of much of the confusion with regard to their logical character. There can be no doubt, the social as well as natural sciences have to employ deductive reasoning. The essential difference is that in the natural sciences the process of deduction has to start from some hypothesis which is the result of inductive generalizations, while in the social sciences it starts directly from known empirical elements and uses them to find the regularities in the complex phenomena which direct observations cannot establish. They are, so to speak, empirically deductive sciences, proceeding from the known elements to the regularities in the complex phenomena which cannot be directly established. But this is not the place to discuss questions of methodology for their own sake. Our concern is only to show how it came that in the era of the great triumphs of empiricism in the natural

sciences the attempt to force the same empirical methods on the social sciences was bound to lead to disaster. To start here at the wrong end, to seek for regularities of complex phenomena which could never be observed twice under identical conditions, could not but lead to the conclusion that there were no general laws, no inherent necessities determined by the permanent nature of the constituting elements, and that the only task of economic science in particular was a description of historical change. It was only with this abandonment of the appropriate methods of procedure, well established in the classical period, that it began to be thought that there were no other laws of social life than those made by men, that all observed phenomena were all only the product of social or legal institutions, merely "historical categories" and not in any way arising out of the basic economic problems which humanity has to face.

### 4. THE ATTITUDE OF MARXISM

In many respects the most powerful school of socialism the world has so far seen is essentially a product of this kind of "Historismus". Although in some points Karl Marx adopted the tools of the classical economists, he made little use of their main permanent contribution, their analysis of competition. But he did wholeheartedly accept the central contention of the historical school that most of the phenomena of economic life were not the result of permanent causes but only the product of a special historical development. It is no accident that the country where the historical school had had the greatest vogue, Germany, was also the country where Marxism was most readily accepted.



The fact that this most influential school of socialism was so closely related to the general antitheoretical tendencies in the social sciences of the time had a most profound effect on all further discussion of the real problems of socialism. Not only did the whole outlook create a peculiar inability to see any of the permanent economic problems which are independent of the historical framework, but Marx and the Marxians also proceeded, quite consistently, positively to discourage any inquiry into the actual organization and working of the socialist society of the future. If the change was to be brought about by the inexorable logic of history, if it was the inevitable result of evolution, there was little need for knowing in detail what exactly the new society would be like. And if nearly all the factors which determined economic activity in the present society would be absent, if there would be no problems in the new society except those determined by the new institutions which the process of historical change would have created, then there was indeed little possibility of solving any of its problems beforehand. Marx himself had only scorn and ridicule for any such attempt deliberately to construct a working plan of such an "utopia". Only occasionally, and then in this negative form, do we find in his works statements about what the new society would *not* be like. One may search his writings in vain for any definite statement of the general principles on which the economic activity in the socialist community would be directed.<sup>1</sup>

<sup>1</sup> A useful collection of the different allusions to this problem in Marx's works, particularly in the *Randglossen zum Gothaer Programm* (1875), will be found in K. Tisch, *Wirtschaftsrechnung und Verteilung im zentralistisch organisierten sozialistischen Gemeinwesen*, 1932, pp. 110-15.