

On the Publication of “Economic Calculation”

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In 1920, Ludwig von Mises published what was to become his most significant essay, “Economic Calculation in the Socialist Commonwealth.” His lengthy essay challenged the logic of all forms of socialist economic planning. In what was to become a central pillar of the Austrian School of economics, he argued that it is impossible for socialist planners to calculate the value of both production goods and consumption goods apart from prices derived from a free market that is based on private ownership. Crucial in the production process are the prices of capital goods. Without a system of pricing that is based on the private ownership of capital, prices are irrational in terms of what consumers wish to buy, what resource owners are willing to sell, and how producers are willing to combine the factors of production.

The importance of that argument was acknowledged in the mid-1930s by a socialist economic theorist teaching at the University of Michigan, Oskar Lange. In what became his most famous essay, “On the Economic Theory of Socialism,” published in 1936, Lange opened his remarks with this bit of clever rhetoric.

Socialists have certainly good reason to be grateful to Professor Mises, the great *advocatus diaboli* [devil’s advocate] of their cause. For it was his powerful challenge that forced socialists to recognize the importance of an inadequate system of economic accounting to guide the allocation of resources in a socialist economy. Even more, it was chiefly due to Professor Mises’ challenge that many

socialists became aware of the very existence of such a problem Both as an expression of recognition for the great service rendered by him and as a memento of the prime importance of sound economic accounting, a statue of Professor Mises ought to occupy an honourable place in the great hall of the Ministry of Socialisation or of the Central Planning Board of the socialist state.¹

Lange argued that a central planning agency could establish a system of economic production equally as efficient as a decentralized planning system governed by competitive prices. The socialist planners would arbitrarily assign a price to every item offered for sale, and if there was either a shortage or a glut, they would then test a different price. The practical absurdity of this argument in a world of constantly changing prices and literally billions of goods and services should have been apparent to anyone, but it was not apparent to virtually all academic economists. Lange's argument continued to be quoted in monographs on central planning right up until the collapse of the Soviet Union on December 25, 1991. The vast majority of academic economists remembered Mises, if at all, only in terms of Lange's rhetorical putdown.

The economics department of the University of Chicago hired him in 1943. He left that post in 1945 when the Communist government of Poland appointed him Ambassador to the United States. In 1946, he became Poland's delegate to the United Nations. In 1947, he returned to Poland to take a position as an economic official and later as a professor at the University of

¹Oskar Lange, "On the Economic Theory of Socialism" (1936), reprinted in *On the Economic Theory of Socialism*, edited by Benjamin Lippincott (Minneapolis: University of Minnesota Press, 1938), pp. 57–58.

Warsaw. At no time did any socialist government adopt his hypothetical program of arbitrarily assigned test prices. Nevertheless, academic economists in the English-speaking world continued to cite his 1936 article as an unanswerable argument to Mises. Robert Heilbroner, a socialist economist and a multimillionaire from the royalties from his popular survey of the history of economic theory, *The Worldly Philosophers*, which has sold over four million copies, recounted in *The New Yorker* in September 1990 that he had grown up in an academic world in which he and his peers had believed that Lange had refuted Mises. Then he announced: “Mises was right.” Yet there is no reference to Mises in the seventh edition of *The Worldly Philosophers*, published in 1999, a silence that he had maintained in the previous six editions, beginning in 1953.

The Immediate Background of the Essay

The article was published in 1920 in a journal edited by Max Weber, *Archiv für Sozialwissenschaft und Sozialpolitik* [*Archives for Social Science and Social Welfare*]. It was in this journal in 1905/6 that Weber published the essays that became famous in book form, *The Protestant Ethic and the Spirit of Capitalism*. Weber was the most distinguished social scientist in Germany. He was 56 years old in 1920. He died that June. He and Mises had become friends in 1918. Weber had not given public lectures for a decade. But, in 1918, he began to speak publicly again. He spoke in Vienna, where he was enthusiastically received. He and Mises discussed the nature of social science. It was at this time that Mises persuaded Weber of his theory of socialist economic calculation.²

²Jörg Guido Hülsmann, *Mises: The Last Knight of Liberalism* (Auburn, Alabama: Mises Institute, 2007), p. 288.

The executive editor of the journal was Emil Lederer, a socialist. In late 1919, he had replaced Werner Sombart, a representative of the German historical school of economics. Mises informed Lederer in November 1919 that he would submit the essay.³ He had completed the manuscript for *Nation, State, and Economy* the previous July.

Mises began lecturing on his theory of economic calculation in early January 1920 at a meeting of the *Nationalökonomische Gesellschaft*. Attending the meeting were Joseph Schumpeter, Alfred Amonn, Max Adler, and Helene Bauer.⁴ Hülsmann comments: “It was immediately clear to the audience that Mises was treading completely new ground. Socialism had been criticized from many angles, but hardly anyone had doubted that the central planners could achieve gains in efficiency. Mises’s thesis, if true, would strike at the heart of the socialist agenda. . . . In short, Mises’s paper was an all-out attack on the very foundation of the economic case for socialism—a refutation of its central tenet, which by the end of the war had become universally accepted.”⁵ I would like to believe that his assessment is correct: “The meeting of the *Nationalökonomische Gesellschaft* had ended in triumph for Mises. He had turned the obligatory rear-guard action that everybody expected him to deliver into a surprise attack against the very heart of socialism. Vienna’s Austro-Marxist elite was left speechless. They had believed that the intellectual war had long been won and that all that was left was the resistance of special interests and the unenlightened.” But the following is not correct with respect to the years 1936 to 1991: “His triumph would become ever more complete over the following weeks,

³*Ibid.*, p. 372.

⁴*Ibid.*, p. 373.

⁵*Ibid.*, pp. 376–77.

months, and years, when it became increasingly obvious that the objections of his opponents were spurious—and that he had already anticipated most of them.”⁶ This futility of objections to Mises’ theory may have been obvious to the shrinking number of Austrian School economists after the publication of Lange’s article, but it was not obvious to the vast majority of the academic guild of economists. Lange’s article, coupled that year with the publication of the Keynes’ *General Theory of Employment, Interest and Money*, dropped Mises’ essay down the academic memory hole.

Weber and Mises

I began reading Mises and Hayek in the summer of 1960. I ordered a copy of Hayek’s *Constitution of Liberty* and Mises’ *Human Action* from the Foundation for Economic Education in June 1960. I know this only because in those days, I recorded the date that I purchased a book on the front page. Many years later, I had both authors autograph these copies. By the mid-1960s, I had read the major works of Mises. I had read most of them in the summer of 1963, when I was a summer intern at the Center for American Studies, which was the short-lived successor to the William Volker Fund.

In the fall of 1968, I took a graduate seminar in sociology from Robert Nisbet. I began working on a paper on Weber soon after the seminar began. (I published it in a book I edited in 1976.⁷) I had read *The Protestant Ethic* as an undergraduate. I had read the 1946 collection of

⁶*Ibid.*, p. 379.

⁷Gary North, “Max Weber: Rationalism, Irrationalism, and the Bureaucratic Cage,” in North (ed.), *Foundations of Christian Scholarship: Essays in the Van Til Perspective* (Vallecito, California: Ross House, 1976).

Weber's works, *From Max Weber*, in the spring of 1967 in an upper division course taught by Nisbet. Now I began to dig more deeply into Weber's major works. I did not know at the time that a translation of his three-volume posthumously published work, *Economy and Society* [*Wirtschaft und Gesellschaft*] (1922), had been published earlier in 1968 by Bedminster Press. It sold for \$40, which in today's money is \$315. I bought the set several years later when I had steady income. This incomplete work had been Weber's projected magnum opus.

In September, I purchased a copy of *The Theory of Social and Economic Organization*, edited by Talcott Parsons. It had been published in 1947. It was a series of extracts from *Economy and Society*. Parsons wrote three introductory chapters. Weber's material begins on page 56 and continues through page 429. In contrast, the three-volume work is 1,460 pages. I must admit that reading Weber's dense prose takes time. I was learning to appreciate his insights, but the appreciation of Weber's prose is a developed taste. (Reading Talcott Parsons' prose is even more of a struggle) Part II begins in page 158: "Sociological Categories of Economic Action." Part III begins on page 324. On page 176, I read this: "Every new set of monetary regulations on the part of a corporate group must necessarily take account of the fact that certain means of payment have previously been used for the liquidation of debts. It must either legalize their use as means of payment, or impose new ones. In the latter case a ratio must be established between the old units, whether natural, by weight, or chattel, and the new." I wrote this in the margin: "Mises." I recognized this as Mises' regression theorem. I was even more astounded when I read the following in the next paragraph: "The formulation of monetary theory, which has been the most acceptable to the author, is that of Von Mises." He did not extend his remarks.

On pages 210 to 211, Weber discussed the economic allocation problem. He contrasted

bureaucratic allocation versus entrepreneurial allocation. He then presented a brief discussion of economic allocation techniques. He wrote this: “Everywhere it has been money which has been the means in terms of which calculation has been developed. This explains the fact that calculation in kind has remained on an even lower technical level than the actual nature of its problems might have necessitated.” There is a footnote. “In this respect Otto Neurath appears to be right. While the above was in press, the essay of Ludwig von Mises, dealing with these problems, appeared, unfortunately it was impossible to comment on it. See the *Archiv für Sozialwissenschaft*, vol. xlvii.” Weber did not live to comment on it.

In the 1968 edition of *Economy and Society*, these references to Mises come early in the book. The reference to Mises’ monetary theory appears on page 78. The reference to the economic calculation article appears on page 107. It is slightly different from the footnote in Parsons’ volume. “During the printing of this work an essay by Ludwig von Mises dealing with these problems came out. See his ‘Die Wirtschaftsrechnung im sozialistischen Gemeinwesen,’ *Archiv für Sozialwissenschaft*, vol. 47 (1920).” I do not know whether the discrepancy between Parsons’ edition in the 1968 edition was a result of Parsons’ alteration of the original footnote or whether he was using a different edition of the posthumously published work. I suspect the former.

Weber’s wife edited *Economy and Society*. Part II appears early in the book. I suspect that Weber added his footnote reference to Mises’ 1920 essay after he had finished writing the bulk of the manuscript. He read the manuscript of Mises’ article too late for Mises’ insight on socialist economic calculation to have affected his magnum opus.

What became obvious to me in 1968 was that Mises had influenced the thinking of

Weber in the final stage of Weber's career. It was not until I read Hülsmann's account of the connection between Mises and Weber in 1918 that things became clearer to me. I have never seen any other reference to Mises' influence on Weber's thought.

Conclusion

Had Weber lived through the 1920s, he might have developed some of the insights of Mises. But I think not. Weber's references to Mises' theory of money and his theory of socialist economic calculation were too brief. Weber did not choose to develop either of these insights in any systematic way. He was not a theoretical economist, although he identified himself as a political economist in the opening sentence of his famous 1917 speech, "Science as a Vocation." He was a wide-ranging social theorist. The questions of monetary theory and economic calculation were peripheral to his general concerns.

There is another factor to consider. Economists understand this principle: "When the price of something rises, less is demanded." Weber had finished writing the bulk of his magnum opus in 1920. Having read Mises' essay, he faced this inescapable problem: "You can't change just one thing." Mises' essay shifted the argument against socialism from the historical failure of socialist economies to theory.⁸ To the extent that Weber recognized this fact, to that extent he would have been forced to revise portions of his manuscript to make this point clear. Making revisions in a manuscript was a lot more time-consuming before the advent of word processors. The price of revising a manuscript of over 2,000 pages was higher in 1920 than it is today . . . and

⁸Hülsmann, *Mises*, p. 373. Yet it was not Mises' theory that persuaded at least some of his former critics. Rather, it was the failure of the Soviet economy in the second half of the 1980s, which culminated in the dissolution of the USSR in late 1991. That was certainly true in the case of Heilbroner.

it is high today. The more profoundly the article would have affected Weber's thinking, the higher the price of revisions. I suspect that the marginal cost of re-thinking and then rewriting long portions of his magnum opus would have kept him from making the effort.

This cost kept Heilbroner from revising *The Worldly Philosophers* to include a discussion of the logic of Mises' argument that socialism is inherently impossible because it is conceptually irrational because of the absence of market pricing. The seventh edition appeared in 1999, nine years after his 1990 article. He did add a new chapter in which he lamented that "given the experience of socialism in its twentieth-century forms, it is difficult to expect its benign rebirth in the century to come."⁹ He had not advanced conceptually beyond the critiques of the performance of socialist economies, most notably the USSR, that non-socialist academic economists acknowledged in January 1920, when Mises delivered his lecture at the meeting of the *Nationalökonomische Gesellschaft*. That was 79 years before the seventh edition appeared. He had not been convinced by Mises' arguments until the Soviet economy was visible to all as being in a state of near-disintegration. It was then, and only then, that he lost heart in the future of democratic socialism. It was then that he announced: "Mises was right." Yet Mises had presented his case against socialism as an economic arrangement, not in terms of historical performance—"experience," as Heilbroner called it—but in terms of economic theory.

Weber's presence as the senior editor of the *Archiv* no doubt made it easier for Emil Lederer to decide to publish the essay. Perhaps Lederer would have published it anyway, but it is never hurts to get by with a little help from your friends.

⁹Robert Heilbroner, *The Worldly Philosophers*, revised seventh edition (New York: Touchstone, 1999), p. 319.