

CAPITALISM OR BARBARISM: THE AUSTRIAN CRITIQUE OF SOCIALISM*

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1. The impossibility of socialism

In recent years there has been renewed interest in the debate about the feasibility of socialism. This has been prompted by reflection on the experience of the economies of 'actually existing' socialist societies, but also by the challenge to social democratic policies and institutions in advanced capitalist economies which has come from the New Right.

As evidence has accumulated about the inefficiencies and internal problems of the planned economies the idea of central planning has become discredited among socialists. Many socialists now advocate the use of markets and rejection of the 'utopian' elements in Marxism, especially the notion that a socialist economy can do without markets, without money, and without a specialised division of labour.' Other socialists have questioned the importance of public ownership as a key objective, arguing that control over enterprises can be achieved in a variety of ways.² Other socialists have pointed to the limited appeal of socialism to many workers and have questioned whether the working class has ever had an interest in replacing capitalism by socialism.³

Wracked by internal controversy over the feasibility of socialism socialists have also had to confront the arguments of an increasingly assertive and confident New Right. A central theme of New Right writing is that socialism as it is conceived by socialists is impossible in principle and totalitarian in practice. Many New Right ideologists also assert that there is no half-way house between freedom and totalitarianism. Social democracy and all other forms of government interference with market outcomes lead directly to full socialism and a return to barbarism or at least a retrogression to lower forms of civilisation. This idea was captured in the title of Hayek's best-known book *The Road to Serfdom*, published in 1944. Social democrats often took the lead in attacking this notion

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since it struck at the heart of their political practice and beliefs. Anthony Crosland could write confidently in 1956:⁴

No-one of any standing now believes the once popular Hayek thesis that any interference with the market mechanism **must** start us down the slippery slope that leads to totalitarianism. This was an implausible enough view, in a British context, even when it was first advanced; it has been thoroughly discredited now that we have experienced a decade of varying degrees of government control, with no sign of weakening of our democratic fibre.

In the same optimistic vein he claimed:'

It constitutes a major victory for the Left, the significance of which is grossly underestimated by those with short memories, that the majority of Conservatives today would probably concede the right, indeed the duty, of the State to hold itself responsible for (1) the level of employment, (2) the protection of the foreign balance by methods other than deflation, (3) the level of investment and the rate of growth, (4) the maintenance of a welfare minimum, and (5) the conditions under which monopolies should be allowed to operate. This is a far cry from the obscurantism of the Tory **party** twenty years ago.

These victories of the Left have been rapidly overturned in the last ten years and there has been a strong revival of the ideological case against all forms of socialism. *The Road to Serfdom* was suddenly in demand again and was reprinted twice in 1976. In the midst of the greatest world economic crisis since the 1930s it was the critics not the apologists of capitalism who were forced onto the defensive. In the 1970s the institutions and policies of social democracy were defined as the reasons why the capitalist economy was plunged into recession. In response socialists of all persuasions have been forced to re-examine their basic beliefs and to ask themselves, is socialism desirable and if so is it feasible? Is it possible to organise an industrial society on socialist lines?

These questions have revived interest in the earlier debate about the feasibility of socialism which raged in the 1920s and 1930s. The initial challenge was made by the Austrian economist, Ludwig von Mises, in a paper written in 1920.⁶ This was subsequently elaborated in two books.' Mises belonged to the Austrian school of Menger, Wieser, and Böhm-Bawerk; Hayek studied under him. Menger was one of the pioneers of marginalist analysis and subjective value theory, but the Austrian school had always been distinctive from marginalism elsewhere by the vigour of its prosecution of the ideological struggle against socialism.⁸ Bohm-Bawerk had attempted to demonstrate that *Capital* was logically flawed, and that Marxism had no scientific basis.⁹ Mises now attempted to extend this by demonstrating that socialism was impossible. Any attempt to establish a socialist economy would fail since it did not grasp the complex basis of modern society:¹⁰

Without economic calculation there can be no economy. Hence in a socialist state wherein the pursuit of economic calculation is impossible, there can be—in our sense of the term—no economy whatsoever.

Mises was influenced by Max Weber who also criticised socialists on the grounds that they misunderstood how a modern society based on market exchange and a specialised division of labour worked. Weber's 'proof' that direct democracy was impossible complemented the attempt by Mises to demonstrate that a socialist economy was impossible.

Hayek later emphasised that what Mises meant was not that socialism was literally impossible but that economic calculation as it was understood by economists was impossible in a socialist economy. A socialist state might be established but its organisation of production would be much more inefficient and wasteful than that of a capitalist economy. Mises always insisted that his book on *Socialism* was a scientific inquiry not a political polemic, but he never let this hinder the flow of his invective. He claimed that the masses had been duped by socialism because of their ignorance and their inability to follow difficult trains of thought, and bitterly attacked Marxism. This was a doctrine which denied logic and though it proclaimed the inevitability of socialism, prohibited enquiry into how a socialist society might be organised. Instead it encouraged dreams of 'bliss and revenge' amongst the ignorant and the poor. It was the most radical of all reactions against the reign of scientific thought over life and action established by rationalism. Indeed in his original paper Mises speculated that the disappearance of rational economic calculation under socialism would lead to the disappearance of rational conduct altogether as well as rationality and logic in thought itself. This was because historically, he claimed, human rationality had been a development of economic life and Mises doubted if it could survive if divorced from it.

Mises set out to remedy the omission of the Marxists by asking whether socialism was possible and what principles of organisation it would establish. Underlying the bombast and the Spenglerian pessimism Mises deployed a closely reasoned argument against socialism. Like all the Austrian school he was a champion of subjectivist marginalist economics. He rejected the historical school in economics (in which he included Marxism) because it was unable to see any of the 'permanent economic problems' which are independent of the historical framework.

Austrian economics is an attempt to analyse these 'permanent economic problems'. The most important is scarcity. In every society there is an endless variety of wants but only a limited quantity of means available for satisfying them. Some way of ranking wants and allocating resources becomes necessary. The solution is found through the subjective theory of value. This asserts that the only value which a good has is the significance which it has for an individual. Individuals can be supposed to rank all

goods and services in terms of their own set of personal preferences. These subjective preferences of individuals are expressed through monetary valuations or prices, and this makes possible exchange. Central to Mises' argument is that the existence of money and exchange makes possible a specialised division of labour and rational economic calculation. Prices are established by economic agents making valuations of goods and services and calculating how best to spend their incomes so as to satisfy all their wants.

Economic calculation will be rational if economic agents are able to gain the greatest possible amount of satisfaction at the smallest possible cost to themselves. The economy as a whole will be efficient when the greatest possible amount of satisfaction is generated from the resources that are available. This sounds metaphysical, and it is, but the practical implications are extremely important. For rational economic calculation has been **defined** in terms of money and markets. Only if there is a system of flexible prices and free market exchange for all goods and services will individuals have any possibility of giving practical expression to their subjective preferences. The economic principle for the Austrians means economising resources—using resources in the most efficient way possible to satisfy human wants. The only way of knowing whether a resource is being used efficiently or wastefully is to see whether its price is determined by market forces of supply and demand, which means by numerous daily individual valuations.

A great edifice is constructed from these *a priori* reasonings. Mises argues that in a modern society based on a complex division of labour exchange is only possible using the medium of money. Calculations in kind rather than in money might be possible for consumption goods but not for capital goods. Without money and prices how could means of production be valued? There would be no means of knowing whether any particular piece of work was necessary and whether resources were not being wasted in producing it. This is capitalism's great **advantage**.¹¹

Under capitalism the economic principle is observed in both consumption and production. . . in this way arises the exactly graded system of prices which enables everyone to frame his demand on economic lines. The scale of values is the outcome of the actions of every independent member of society. Everyone plays a twofold part in its establishment, first as a consumer, secondly as producer.

Under capitalism says Mises decision-taking, economic calculation, and planning are all decentralised. Under socialism they are centralised; any prices if they exist are arbitrary and unrelated to individual preferences. Hence rational economic calculation is impossible. Only capitalism ensures that the economy is run on rational lines. Socialism aspires to carry humanity forward to a higher stage of civilisation; in practice it will lead

to a retrogression to barbarism. For Mises the choice was not socialism or barbarism but capitalism or barbarism. Socialism was unrealisable because capitalism is the only feasible system of social organisation based on an advanced division of labour:¹²

If capitalism has succeeded in maintaining itself in spite of the enmity it has always encountered from both governments and the masses, if it has not been obliged to make way for other forms of social cooperation that have enjoyed to a much greater extent the sympathies of theoreticians and of practical men of affairs, this is to be attributed only to the fact that no other system of social organisation is feasible.

Mises also gave no comfort to those socialists for whom markets no longer hold any terrors but who balk at endorsing private ownership of capital, and advocate some form of market socialism. This keeps the market as a method of allocating resources but abolishes most forms of private ownership of the means of production. This will not solve the problem says Mises. Private ownership of the means of production is absolutely necessary for rational calculation. This is because the market and its crucial function of forming the prices which allow every individual to make the calculations that in aggregate maximise human satisfactions, cannot be separated from the existence of private property. The principle enshrined in private property is the freedom of capitalists, landlords, and entrepreneurs to dispose of their property as they see fit. Only if they are free in this way will 'true' prices be formed for factors of production. For Mises capitalists seek to maximise their profits by serving consumers wishes and no adequate replacement for them exists.

2. The socialist riposte

Mises' challenge was certainly not ignored. The most common response to the Austrians was to dismiss their whole argument by rejecting the assumptions on which marginalist analysis was constructed—its doctrines of scarcity as the economic problem and value as subjective preferences. But some socialist economists chose to meet the challenge on the marginalists' own terrain. Accepting the definition of the economic problem as scarcity and therefore the marginalist definition of rational economic calculation, a number of economists set out to show that Mises was mistaken. Rational calculation was possible in a socialist economy.

From the outset 'socialist economy' was defined in a particular (and extremely narrow) way. As Schumpeter later summarised it,¹³ the term meant an economy in which control over means of production and over production itself was invested with a central authority. Whether this authority was organised as a democracy or as a despotism was immaterial. The question with which the debate was concerned was simply whether such an economy, in which private ownership of the means of production

and direction of the production process had been replaced by state ownership and state direction, could be organised on rational lines. Could it set prices in Mises' sense?

In attempting to show that it could the socialist economists were able to draw on work by two leading anti-socialists, **Barone** and Pareto. **Barone** had demonstrated in work done before Mises' essay that the different institutional character of capitalism and socialism made no difference to the fundamental logic of economic **behaviour**.¹⁴ That remained the same. Provided individuals were still given incomes, and allowed to spend them freely, and prices were set by the resulting forces of supply and demand, rational economic calculation and allocation of resources could be shown to be feasible.

Mises had conceded that consumption might be organised rationally under socialism by this means, but had vehemently denied that production could be. This was because centralised ownership of all productive enterprises would prevent the establishment of genuine, i.e. market-determined, prices for factors of production. Socialist economists such as Oscar Lange, H.D. Dickinson, F. Taylor, and A.B. Lerner, set out to show that he was mistaken." Lange in particular developed a powerful argument that just as a central **authority** in a socialist economy could create a market for consumer goods by crediting all citizens with independent incomes which they were allowed to spend freely, so the central authority could establish a central board to set prices for capital goods to which enterprises would then be obliged to respond. The prices that cleared the market and promoted economic development would be discovered through practical experience of planning, a process of trial and error.

Socialist economists were able to show that just because a socialist economy had abolished private ownership of the means of production this did not prevent it organising the economy by means of prices and markets so as to permit rational economic calculation at all levels, and to ensure efficient allocation of resources between competing uses. Most of those who have commented on the debate have concluded that the socialists overwhelmed their **opponents**.¹⁶ Schumpeter, who was trained in the Austrian school, had no doubt in the 1940s that socialism was feasible. He even thought it was inevitable. What he doubted was whether it was desirable.

The socialists' victory in this debate, however, was a strange one. As Mario **Nuti** has noted, " what they showed was that capitalism was possible without capitalists. For the proof that rational economic calculation was possible under socialism meant accepting that the only institutional change socialism introduced was change in the legal ownership of enterprises and the degree of centralisation of economic power. But in order to ensure economic efficiency such a socialist economy had to retain or reintroduce money, prices, and markets, hence commodity production.

In this way a greater part of the Austrian case had to be conceded. A modern industrial society was impossible to organise without specialised division of labour and commodity production. Many Marxists like Maurice Dobb strongly criticised the approach of Lange and others on the grounds that socialism meant the abolition of wage labour and commodity production not their indefinite **continuation**.¹⁸ Max Weber's iron cage was not the inescapable future of all individual societies.

3. *The road to serfdom*

With the enlargement of public sectors and public responsibilities in many countries after 1945, the old argument about capitalism and socialism was relegated to the 'end of ideology'. The reality many argued was mixed economies, cooperation between government and industry, and considerable interpenetration of state and economy, and the use of markets and planning not as rival but as complementary mechanisms of coordination.¹⁹

The Austrian school was unimpressed, however, by the claims of Keynesians and social democrats that it was state involvement in modifying the workings of markets that was responsible for the great surge of capitalist growth in the 1950s and 1960s. Mises never recanted his hostility to all forms of state intervention, and the neo-Austrian school inspired by him in the United States became more and more extreme in its view of all forms of taxation and state **regulation**.²⁰

It was, however, Hayek who was most important in developing the Austrian critique of socialism and whose work became so influential during the great new surge of anti-socialist and anti-interventionist doctrines when the moment was right for them again—in the 1970s.

Hayek made an important contribution to the debate on socialism in the 1930s when he edited *Collectivist Economic Planning*. From the start he struck a different note from Mises by arguing that the main objection to socialism was not that it was impossible but that it was impractical. Hayek wanted to demonstrate that on theoretical grounds socialism must be less efficient than capitalism; less efficient both in terms of maximising 'welfare' and in increasing productivity and social wealth. He therefore argued that 'in a society which is to preserve freedom of choice of the consumer and free choice of occupation central direction of all economic activity presents a task which cannot be rationally solved under the complex conditions of modern life'.²¹

Hayek has greatly expanded on this theme in his writings since 1945, but until recently his arguments were not widely understood or discussed. Hayek no less than Mises has enjoyed polemic and has been an extremely active propagandist for the New Right. From the beginning he saw himself as a crusader against socialism: 'Insight into the economic problems of society turned me into a radical **anti-socialist**'.²² The central theme of all

his writings is that socialism is a tissue of illusions: 'Surely it is high time for us to cry from the house tops that the intellectual foundations of socialism have all collapsed.'³³

This rallying call is accompanied by a series of sweeping assertions in the grand Austrian manner. On the moral side, claims Hayek, it has been shown that socialism destroys the basis of all morals, personal freedom and responsibility; on the political side it leads 'sooner or later' to totalitarian government; on the material side it greatly impedes the production of wealth and may actually cause impoverishment. Socialist hopes he says have now all been shown to be illusions; hopes for a great leap in productivity under socialism; hopes for a just distribution of income; hopes for the abolition of the wage system; hopes for a new managerial ethic. All have been revealed says Hayek to be without foundation because they run counter to the 'complex conditions of modern life'.³⁴

All these unsupported assertions echo the themes of *The Road to Serfdom* but in the forty years that have elapsed since it was published Hayek has become much more optimistic about the future of capitalism. Socialism he now believes reached its high tide in 1948. Since then it has steadily lost its intellectual appeal and has been abandoned by the masses. The main reason for this is the example of socialism in action presented by the Soviet Union. This has opened many intellectuals' eyes, argues Hayek, to what socialism must mean in practice; an organisation of production not more but much less productive than private enterprise; instead of greater social justice a new arbitrary order of rank; and instead of political emancipation a new political despotism.

Hayek in this kind of polemical vein is dismissed by many socialists as just another Cold War rant. But this can lead to the substance of his critique of socialism or more accurately, collectivism, being overlooked. This critique is based on the way in which knowledge arises and is used in society.³⁵ In a highly interdependent industrialised society knowledge is dispersed because possession of it everywhere depends on special circumstances of time and place. One implication is that knowledge is always imperfect, while another is that only a market system can hope to utilise the knowledge that is dispersed throughout society efficiently. Markets are necessarily imperfect, however, because the distribution of knowledge and therefore the calculations of individual agents are imperfect. But, argues Hayek, however imperfect the market may be it must be more efficient than any attempt to centralise knowledge through a central planning board as envisaged by Lange. Knowledge cannot be gathered in that way without loss. No body of planners can ever have the same degree of knowledge as the mass of economic agents in their wide variety of locations and circumstances.

This conception of the role of knowledge in markets allows Hayek to

reformulate Mises' objection to socialism:

Rational calculation in a complex economy is possible only in terms of values or prices. . . these values will be adequate guides only if they are the joint efforts, such as the values formed on the market, of all the knowledge of potential suppliers or consumers about their possible uses and availability.²⁶

What is novel about Hayek's critique of socialism is that it cuts away the ground from the elegant formal demonstration by Barone, Lange, Lerner and others of the possibility of rational economic calculation under socialism. Hayek has little time for neo-classical equilibrium models because they assume that perfect information about past, present, and future economic conditions is available to all economic agents. With such an assumption it is possible to demonstrate that a socialist organisation might be superior to a capitalist economy in creating the conditions for perfect competition. Hayek argues however that the assumptions made in equilibrium models are only analytical devices and are seriously misleading if taken as conditions which are realisable in actual economies. Uncertainty and imperfect knowledge are necessary features of all economies and this makes markets role as a discovery process far more important than their contribution to the achievement of general equilibrium in an abstract model of the economic process.²⁷ The great strength of the Austrian tradition in economics is the strength it gives to some at least of the actual institutional characteristics of capitalism. Hayek's case against socialism is that a command economy will always be less efficient than a market economy in using information about wants, costs, and the availability of resources to produce the goods and services that the society needs.

4. Actually existing socialism

Hayek's case against socialism is theoretical rather than empirical but he believes that the experience of the Soviet Union confirms his theory. Recent writing on the feasibility of socialism is focused directly on interpreting the experience of actually existing socialist societies. The judgment has been overwhelmingly adverse. A host of writers including western analysts of the Soviet economy like Nove and Wiles as well as leading intellectuals and dissidents from Eastern Europe such as Brus, Bahro, and Selucky, have amassed evidence about the waste, inefficiency and low productivity of Soviet type economies compared with their capitalist rivals.²⁸ They have shown how shortages, bottlenecks, and misallocation of resources are persistent features.

This literature has buried the old assumption, still commonplace in the 1950s, that the Soviet economy would eventually outperform western capitalism. In the 1980s it is the dependence of the Soviet economy on capitalist countries for much of its new technology, its inability to grow

enough food for its own needs, and the well-publicised imbalances between production and consumption, which have helped form the dominant contemporary image of the Soviet economy and by extension of socialism itself, as a relatively backward, and relatively inefficient mode of socio-economic organisation.

The character of the Soviet type of economy is now much better understood; so too are its strengths and limitations. From the commencement of the First Five Year Plan the Soviet economy was transformed into a command economy geared to rapid industrialisation. All decisions on investment, output, employment, and resource allocation were determined centrally with a limited use of the price mechanism in the distribution of consumer goods and in labour markets. A command economy was successful in promoting industrialisation and remains successful in preempting resources for the defence sector, but it has been much less successful in pursuing a wide variety of goals and developing a balanced, flexible and efficient economy.

The most widely canvassed solution to the problem of the centrally planned economies has been greater decentralisation. In the Soviet Union and several Eastern European countries and currently in China there have been experiments aimed at giving greater autonomy to enterprises by introducing incentives for managers and workers, and relying more on prices and markets to coordinate and monitor the behaviour of enterprises. The literature on command economies of the Soviet type tends to support Hayek's view that a centralised system will only be more efficient than a decentralised one if it has a single objective to which all others can be subordinated.

The socialist project has not emerged unscathed from these debates. The earlier debate between Mises and Lange became focused on whether capitalism was possible without capitalists. The socialists may have 'won' that debate but only by accepting that very little would be changed in a socialist society except the legal form of ownership. Many socialists at the time were sympathetic to those Marxists, such as Maurice Dobb, who refused to accept the terms of this debate and who argued that socialism was a genuine and higher mode of production not just a modification of capitalism, and that its essence was central planning.

It is this claim that Hayek's theory of markets and the dispersion of knowledge seeks to destroy, while the evidence on the actual performance of command economies appears to confirm that central planning does have serious flaws and can offer no easy solution to the problems of resource allocation. The lesson which many socialists have drawn is that the only feasible socialism is a socialism which accepts that scarcity is the economic problem and therefore accepts the need for rational economic calculation as neo-classical economists understand it. This makes markets indispensable.

This conclusion is buttressed by the view that there are a limited number of ways of organising an economy. For Nove the choices are between central planning, markets, and self-sufficient communes. Lindblom offers a longer and more interesting list,²⁹ but the point is the same. There are a limited number of modes of social organisation, and therefore definite limits to the kind of socialist economy that can be envisaged.

5. Full Communism and feasible socialism

Many socialists have become unsure about the feasibility of socialism. This has been noted by socialism's critics. Norman Barry has written:³⁰

What is disturbing about contemporary socialists is that they seem to reject both central planning and the market mechanism yet suggest no alternative that meets the minimum demands of economic rationality.

Assar Lindbeck in his critique of the economics of the New Left has also argued that socialists have to choose between markets and bureaucracy: 'The more strongly we are against bureaucracy the more we should be in favour of markets.'³⁰

Many socialists find the choice unappetising. This would not surprise the Austrians who always accused socialists of being impractical utopian dreamers, unable to confront the realities of modern social organisation and the difficulties they posed for implementing socialism. The dilemma for socialists is a real one. If the earlier debate was about whether it was possible to conceive of capitalism without capitalists the new debate is whether it is possible to conceive of socialism without markets.

Central planning no longer commands the support it once did among socialists. The identification of socialism with central planning which was so encouraged by the Soviet experiment in the 1930s is now sustained more by the writings of anti-socialists than by socialists themselves. The superior productivity and prospects for growth of capitalist economies compared to those in the Soviet sector has been conceded. In world historical terms capitalism remains the most advanced mode of production. No other mode of production has yet managed to surpass it.

This has led many socialists to reconcile themselves with the market on the grounds that it is preferable to central planning. The market has been rehabilitated as a neutral tool of coordination. It is pointed out that market systems need not always be private enterprise systems. Markets can be separated from capitalist institutions as Lange and Dickinson always maintained and used as instruments of planning. In this way a balance can be struck between market and plan. But there is little doubt that it is markets and market relations which predominate. This is now identified by many socialists as more socialist than the alternative. As

Selucky summarises it, any consistently non-market economy must by definition be 1) centralised, 2) run by the command plan, 3) controlled by a handful of planners rather than by workers themselves, 4) based on manipulation of producers by the planning board.³¹ Many socialists agree with Selucky. A non-market economy is non-socialist because it is not decentralised. Only a decentralised economy can sustain a democratic polity, and only markets can secure decentralisation.

Such views are rejected by some socialists because they appear to conflict with an ideal of 'full communism', an economy in which commodity production, wage labour, money and the state, have all been abolished. Marx and Engels consistently refused to draw up 'utopian' blueprints of how socialist societies might be organised, but there are certainly many hints in their writings as to the kind of society they hoped might one day emerge.³² They never suggested, however, that the conquest of scarcity or the overcoming of the division of labour would be practical options for a new socialist regime. Marx also argued in *Capital* that the 'realm of necessity' could not be abolished under any mode of production.

Socialists have sometimes got themselves into an unnecessary tangle by supposing that because one of the conditions for capitalism is commodity production their duty as socialists is to oppose every manifestation of it. But commodity production can take numerous forms and play quite different roles in different social formations. There is no reason why socialists should resist the use of markets *in a socialist society* to solve many of the economic problems of resource allocation which arise from scarcity. Failure to acknowledge the role markets can legitimately play leads to proposals for the curtailment of demand by placing direct controls on the range and variety of goods and services to be made available for consumption.

Recent Green critiques of industrialism have helped to discredit the notion that 'abundance' is either a possible or a desirable goal,³³ but they have also unintentionally breathed new life into some of the ascetic and puritan traditions in socialism, which have always disapproved of many of the contemporary forms of mass consumption and popular culture.³⁴ This new emphasis on scarcity rather than abundance as the setting for socialism also strikes a deep chord in the revolutionary tradition.

War communism between 1919-20 was supported with real enthusiasm by many of the Bolsheviks because it offered a speedy transition to an economy without money and without commodities. The ideal of a revolutionary regime preaching egalitarianism and practising austerity, presiding over a centralised economy and placing revolutionary virtue above material rewards, has many echoes in revolutionary societies, from the Committee of Public Safety to the Cultural Revolution.

Alec Nove ridicules the idea that these short-lived regimes offer any prospect of a transition to a new and higher mode of production. His

feasible socialism has no such end in view. It is simply a socialism which could be achieved 'within the lifetime of one generation'. Implicitly he takes his stand with the Austrians. Full communism or anything approaching it that tries to get rid of markets is doomed to failure because it disregards important and permanent features of reality—that there is scarcity; that human beings are acquisitive and aggressive, and that knowledge cannot be centralised. Like the Austrians Nove believes that markets are the inevitable and permanent feature of any industrial society. Any attempt to do without them completely will end in ruin.

Yet Nove's conclusion—that there is nevertheless a 'feasible socialism' would be quite unacceptable to the Austrians. His book is a persuasive restatement of the argument that capitalism is possible without capitalists. He envisages a legal structure for 'feasible socialism' that recognises the following economic agents: centralised state corporations such as banks and utilities; socialised, i.e. self-managed enterprises; cooperative enterprises; small-scale private enterprises; and individuals. The reason why private ownership of larger enterprises should be ruled illegal in this type of socialism is left vague. The Austrian case is that any form of market socialism will be inferior to capitalism because it will undervalue the role of 'entrepreneurs' in making markets function properly as processes of discovery of new needs, new products, new jobs and new technologies.³⁵

6. *The impossibility of capitalism*

There does not yet exist a detailed critique of the arguments of either Nove or Hayek. There are many *a priori* rebuttals which simply take elements of full communism as the standard by which existing societies can be assessed. Full communism however is as unattainable as perfect competition and seriously misleading as to the kind of problems that would dominate economic organisation in a socialist society. But important though Nove's and Hayek's critiques of socialism are, and necessary though it is for socialists to treat these arguments seriously and to learn from them, the debate on socialism need not be confined to the ground chosen by its opponents—whether capitalism is possible without capitalists.

Three strands in socialist thinking about socialism need developing.

i. Economic calculation

Socialists have always objected to a model of 'rational' economic calculation that finds nothing wrong with such 'irrational' outcomes as poverty in the midst of wealth, famine in the midst of plenty, and unemployment in the midst of need. But they have often underestimated the difficulties of defining alternative methods of economic calculation which would permit wider social needs to be met while still economising resources. Socialists object to money and commodity production for two main reasons; firstly because they distort and conceal the process of exchange,

resulting in structural and cumulative inequalities; and secondly because there are important needs that cannot be identified or satisfied through choices made by individuals in markets. In the first case under a regime of commodity production exchange takes place behind the backs of the producers. Michael Barratt Brown has suggested that in a socialist economy it might be possible for dated labour inputs to be used alongside money prices to create a standard for assessing the fairness of exchange and public and open criteria for determining distribution and investment.³⁶ Such a system would involve a considerable extension of popular participation in decision-making. Extending democracy in this way would not replace markets or money for the bulk of economic coordination but would be intended to create a mechanism for settling some of the major questions about the direction of the economy.

A second socialist argument against commodity production focuses on the way needs are defined and expressed. Socialists have long argued that social forms of satisfying needs that do not take the form of commodities such as health care are possible and desirable in many fields. The socialist idea of community means finding ways to institutionalise popular control over the economy in order to create a fairer society and one based on the more active consent and participation of its members. Commodity production tends to destroy whatever communities exist because it intensifies individual, regional, national, and international competition. The more commodity production has expanded, the more individuals' need for sociability, emotional intimacy, and personal integration has been frustrated. The psychological and social costs of unrestrained commodity production require the imposition of limits on markets and the development of non-commodity forms of production and distribution.³⁷

ii. The concept of mode of production

Central to the socialist critique of all theories that justify the capitalist economy is that implicit in commodity production itself is the possibility of an alternative rationality and an alternative way of organising the economy. This is denied by the Austrians and the market socialist critics of planning because they employ such an abstract and ahistorical analysis. Central planning is an easy target to demolish, but they go on from there to assert that there is an inescapable choice between 'bureaucracy' and 'the market', and that choice of the market option necessarily involves accepting money and prices and commodity production, in short capitalism without capitalists. This is nonsense. Markets and bureaucracies are not permanent universals which remain unchanged through history. They have always to be understood through the roles and functions they perform in particular societies and different modes of production. A better distinction than between markets and bureaucracies is between centralised and decentralised systems. Many capitalist market societies

turn out to be highly centralised. One major current of opinion on the Left has always held that socialism can only be achieved if it can bring about a real decentralisation of power. On this view the problem is not the choice of the method of allocating resources but how to empower the poor, the disadvantaged, and the oppressed and the propertyless in a world economy which increasingly denies the possibility of local autonomy and in which the logic of capital accumulation is the major constraint on all political decision-making and choices.

Nove asks us to imagine a 'feasible' socialism in which the crucial element in existing power relations, namely the power of the owners of private capital has been removed. He is silent as to how **that** might be brought about. Given the power of private capital in existing capitalist societies the issue of the role of the market and planning are quite different from what they would be in a society in which this class of owners had been dispossessed. **Alec** Nove's feasible socialism is like an airship that has escaped its moorings. It looks very elegant up in the sky but there is no way its intended passengers can clamber aboard. Nove makes strong criticisms of the Labour party's alternative economic strategy, yet his own blueprint would involve more radical changes than anything the Labour Left has ever proposed. He never discusses the feasible means by which his feasible socialism might be achieved.

The value of the Marxist concept of the mode of production is that the relative merits of markets and bureaucracy cannot be discussed independently of particular social formations with their own distinctive configurations of class power and political organisation and their own set of problems and contradictions.

The variety of markets and bureaucratic behaviour even within one social formation is, in any case immense. In any conceivable socialist economy there are certain to be commodity forms and markets and money. Though they have drawbacks they have undeniable advantages over bureaucratic forms in many areas. The key question is not whether markets can be dispensed with but the social and political context which defines how they are used and whether they contribute to a centralised or decentralised structure of power. Existing 'command' economies and 'market' economies both tend to centralise power rather than to diffuse it.

iii. The feasibility of capitalism

There is a third objection to the Austrian critique of socialism. Some of the Austrians voice it themselves. Schumpeter asked, 'Can Capitalism survive?' and answered his own question. 'No, I do not think it **can**'.³⁸ On closer examination it is not socialism that may be 'impossible' but capitalism. When 'actually existing capitalism' rather than the 'full capitalism' of the economics textbooks is analysed what is apparent is how dependent markets are on non-market conditions to survive at all. Free economies

are discovered to need strong states, stable families, and adaptive and intergrative cultures. Bureaucracy and 'politicisation' are inseparable from modern capitalism because of the expansion of the state's many roles and responsibilities. Lindblom has pointed out that even in developed capitalist economies the bulk of social **activities** are not organised through **markets**.³⁹ There exist many areas of experience and exchange outside markets and rational economic calculation.

One of the paradoxical contributions of the Austrian tradition is a recognition of the limits and frailty of markets and therefore implicitly of the possibility of alternative forms of calculation and economic **organisation**. Within the capitalist economy new sectors are constantly emerging that are not subject to the market. There is a double process at work in capitalism; constant pressure to expand markets and commodity production, hence ever greater individualisation of needs and penetration of capital into new areas; but at the same time constant pressure for non-market agencies to support and sustain the process of capital accumulation by carrying the political, ideological administrative, as well as ideological 'deficits' it constantly generates.

The New Right project starts from the assumption that capitalism has never properly been tried as a means of organising the economy. While many socialists wish to see actually existing socialism rid of commodity forms many New Right adherents wish to see actually existing capitalism rid of non-commodity forms. This sets up serious tensions within New Right thinking, in particular between neo-liberal and neo-conservative **strands**.⁴⁰

Few socialists any longer reject markets absolutely. The positive aspects of markets, particularly their role in helping to decentralise power and place controls on bureaucracies has become more widely recognised. But socialists have no need to capitulate to the Austrian critique. The acknowledgement that markets have limits and that there are many ways in which exchange is organised apart from commodity production remains a crucial starting point for thinking about socialism. The existence of **non-commodity** forms of exchange despite their many problems and imperfections means the existence of institutions which routinely determine needs and allocate resources other than through commodity production and the atomisation of producers and consumers. One implication is that socialism would only become truly 'impossible' if the New Right project were ever to be fully realised. For if all non-commodity forms within existing capitalist societies were abolished, socialism would become inconceivable even as utopia. Even utopias are constructed from elements of practical experience. Since capitalism is unable to universalise the market and commodity exchange, socialism continually reappears as a possibility within capitalist forms. Capitalism itself makes socialism feasible. But it does not bring it any nearer.

NOTES

1. Two influential recent works are A. Nove, *The Economics of Feasible Socialism*, Allen & Unwin, **1983**; and G. Hodgson, *The Democratic Economy*, Penguin Books, **1984**.
2. J. Tomlinson, *The Unequal Struggle? British Socialism and the Capitalist Enterprise*, Methuen, **1983**.
3. David Selbourne, *Against Socialist Illusion*, Macmillan, **1985**.
4. Anthony Crosland, *The Future of Socialism*, Cape, **1956**, p. **343**.
5. Crosland, *ibid.*, p. **342**.
6. Ludwig von Mises 'Economic Calculation in the Socialist Commonwealth', reprinted in F.A. Hayek, (ed.), *Collectivist Economic Planning*, Augustus Kelley, New York, **1935**.
7. Ludwig von Mises, *Socialism: an Economic and Sociological Analysis*, Cape, **1936**. His book on Liberalism, first published in **1927** was translated and re-published as *The Free and Prosperous Commonwealth*, von Nostrand, **1962**.
8. This was particularly **true** of the second generation Austrians who were confronted by the rise of mass socialist movements.
9. E. Bohm-Bawerk, *Karl Marx and the Close of his System*, Orion, New York, **1949**.
10. Mises, 'Economic Calculation in the Socialist Commonwealth', p. **105**.
11. Mises, *Socialism*, p. **120**.
12. Mises, *The Free and Prosperous Commonwealth*, p. **85**.
13. J.A. Schumpeter, *Capitalism, Socialism, and Democracy*, Allen & Unwin, **1950**.
14. E. Barone, 'The Ministry of Production in the Collectivist State', in Hayek (ed.), *Collectivist Economic Planning*, Augustus Kelley, New York, **1935**.
15. Among the many contributions to the debate see in particular, B.E. Lippincott (ed.), *On the Economic Theory of Socialism*, University of Minnesota Press, **1938**; H.D. Dickinson, *The Economics of Socialism*, OUP **1939**. A review of the debate from an Austrian perspective is provided by K.I. Vaughn, 'Economic Calculation under Socialism: the Austrian contribution', *Economic Inquiry*, October **1980**, pp. **535-554**. This contains a useful bibliography of books and articles.
16. See the judgments by Schumpeter in *Capitalism, Socialism and Democracy*, and C. Lindblom, *Politics and Markets*, Basic Books, **1977**.
17. Mario Nuti, 'The Contradictions of socialist economies: a Marxian interpretation', *Socialist Register* **1979**.
18. Maurice Dobb, *Political Economy and Capitalism*, Routledge & Kegan Paul, **1937**. *On Welfare Economics and the Economic Theory of Socialism*, CUP, **1969**.
19. Crosland, *The Future of Socialism*; A. Shonfield, *Modern Capitalism*, OUP, **1965**.
20. See the writings of Murray Rothbard. A survey of **neo-Austrian** economics can be found in A.H. Shand, *The Capitalist Alternative*, Wheatsheaf, **1984**.
21. F.A. Hayek, *Collectivist Economic Planning*, p. **202**.
22. F.A. Hayek, *New Studies in Philosophy, Politics, Economics, and the History of Ideas*, Routledge & Kegan Paul, **1978**, p. **306**.
23. *Ibid.*, p. **305**.
24. A survey of Hayek's ideas is provided by Norman Barry, *Hayek's Social and Economic Philosophy*, Macmillan, **1979**.
25. F.A. Hayek, 'The Use of Knowledge in Society', in *Individualism and Economic Order*, Routledge & Kegan Paul, **1948**.
26. F.A. Hayek, *New Studies in Philosophy*, p. **303**.

27. See the discussion by Barry and by Vaughn.
28. Nove, *The Economics of Feasible Socialism*; P. Wiles, *Economic Institutions Compared*, Blackwell, 1977; W. Brus, *The Economics and Politics of Socialism*, Routledge & Kegan Paul, 1973. R. Bahro, *The Alternative in Eastern Europe*, Verso, 1978; R. Selucky, *Marxism, Socialism, and Freedom*, Macmillan, 1979.
29. Lindblom, *Politics and Markets*, pp. 105-6.
30. Barry, *Hayek's Social and Economic Philosophy*, p. 182.
31. R. Selucky, 'Marxism and Self-management', *Critique*, 3, Autumn 1974.
32. See Bertell Ollman, 'Marx's vision of communism', *Critique*, 8, Summer 1977, pp. 441.
33. Most trenchantly by Hans Magnus Enzensberger, 'A Critique of Political Ecology', in *Raids and Reconstructions*. Pluto, 1976.
34. See Bahro and also P. Baran and P. Sweezy, *Monopoly Capital*, Penguin Books, 1968, Ch. 10.
35. See I.M. Kirzner, (ed.), *Method, Process, and Austrian Economics*, Lexington Books, 1982.
36. M. Barratt Brown, *Models in Political Economy*, Penguin Books, 1984.
37. James O'Connor, *Accumulation Crisis*, Blackwell, 1984.
38. Schumpeter, *Capitalism, Socialism and Democracy*, p. 61.
39. Lindblom, *Politics and Markets*, Ch. 8.
40. This theme is taken up by several contributors to Ruth Levitas (ed.), *The Ideology of the New Right*, Polity, 1985.