

BOOK REVIEWS

From Marx to Mises: Post-Capitalist Society and the Challenge of Economic Calculation

David Ramsay Steele

La Salle, Ill.: Open Court Publishing Co., 1992, 424 pp.

David Ramsay Steele, a former Marxist, shares with us his odyssey through the socialist “calculation problem”—how to know the value of goods and services, or whether outputs are more valuable than inputs, in the absence of a market system. That issue greatly interested me a quarter of a century ago. After examining it, I concluded in my book, *Alienation and the Soviet Economy*, that socialism expressed a passion for conviviality and that its inordinate aspirations had been defeated by a refractory reality.

Anyone who wades through Steele’s 424 pages will be convinced that belief in socialism was a pure leap of faith that jumped right over all of the theoretical and practical issues. In the scientific 20th century, governments set out to build socialism guided by nothing. The result was disastrous. As Steele puts it, “Marxism ensured that millions would perish before we could all agree that Marxian socialism was an impossibility.”

When one looks back at the socialist debate and accounts of Soviet experience, one is overwhelmed by the lack of perception on the part of so many intelligent people. As recently as 1989, Lester Thurow, dean of the business school at the Massachusetts Institute of Technology, wrote of the Soviet Union, “Today it is a country whose economic achievements bear comparison with those of the United States.” Thurow was convinced that Ronald Reagan’s pro-market policy would fail, but socialism had been vindicated by “the remarkable performance of the Soviet Union.”

Statements such as Thurow’s are interesting not merely for their absurdity. Factually incorrect claims of Soviet economic prowess were generally regarded by those who made them as statements of their moral honesty. To acknowledge the success of socialism simultaneously demonstrated one’s intellectual sophistication and vented one’s alienation from capitalism.

But as Steele shows in his book, “all arguments against capitalism fail unless there is some feasible alternative which can do better.” The

Marxists and socialists acted out of conviction alone. Steele argues that this conviction was based on misconceptions, misinterpretations, and a general lack of depth in thinking. For example, he shows how central planning seemed inescapable to people who believed that capitalism could not last because the number of firms must become ever smaller until the whole economy became a single dominant firm. That same kind of thinking prevented socialists from realizing that it was “the anarchy of production” that solved the economic calculation problem, something that “conscious planning” was never able to do. As F. A. Hayek, the student of Ludwig von Mises, who launched the calculation debate in 1920, stressed, information is decentralized in society, and Marxist attempts to eliminate “anarchy” made economic calculation impossible.

Steele’s revisit of the debate sets out the issues in it and shows how each one was avoided or fuzzed over in order to escape the conclusion that there was not even a theoretical alternative to the market for a modern society. A primitive native tribe might operate without “commodity production” (production for market), but not an industrial society. The possible combinations of inputs and outputs are simply too large to be controlled by anything but market demand.

Steele’s book would have gained in interest by suggesting why so many scholars gave socialism and the Soviet economy the benefit of the doubt while they wrote theoretical articles about “The Anatomy of Market Failure.” Market economies do not use more valuable inputs to produce less valuable outputs, but Soviet gross output planning did. Economists should have instantly perceived the inherent failure of the Marxist approach.

I remember from my graduate school days that when one left microeconomic topics and took up Soviet economics or comparative economic systems, the standards of evidence and argument changed dramatically. In the latter classes, emotion-based standards of truth existed. It was an intellectual arena in which truth rested upon images and feelings and not on knowledge born of experience. The attitude was that if socialism did not exist, we would have to invent it because capitalism was so awful.

The “socialist debate” was a politically correct one. Those critical of socialism in theory or practice demonstrated a moral backwardness that was unwelcome on academic faculties. The study of alternative economic systems became an inbred activity producing fantasy. Consequently, the experts were not prepared for the sudden collapse of communism.

In May 1981, President Reagan at Notre Dame University dismissed communism as “a sad, bizarre chapter in human history whose last pages are even now being written.” The experts went berserk. Columbia University professor Seweryn Bialer, for example, confidently contradicted Reagan in *Foreign Affairs*: “The Soviet Union is not now nor will it be during the next decade in the throes of a true systemic crisis, for it

boasts enormous unused reserves of political and social stability that suffice to endure the deepest difficulties.”

“Openness to argument,” Steele writes, “is a wonderful virtue,” but it did not characterize the academic study of socialism.

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**Universal Economics: Assessing the Achievements
of the Economic Approach**

Gerard Radnitzky, ed.

New York: Paragon House, 1992, xii + 446 pp.

The editor opens with a 68-page essay setting forth this book’s organizing thesis that economics offers a universally valid approach to all social phenomena. Gerard Radnitzky explains: “What gives economics this ‘imperialist’ power is the fact that its key concepts are universal in applicability The basic building blocks of economic theory, e.g., optimizing and equilibrium, are . . . readily applicable to almost all social phenomena.” In this respect, the editor remarks that this book “may be viewed as a sequel to the volume *Economic Imperialism*.”

What follows are essays on six substantive areas: biology, sociology, politics, law, history, and international relations, the point of which is to illustrate the universal validity of the economic approach to social phenomena. This book does a good job overall in making its case, even if the essays vary in the degree of support they give to its theme. Nonetheless, the claim that the economic approach provides a universally valid framework for social analysis is weakened, in my judgment, by linking that claim to economic imperialism. One can affirm the universal validity of the economic approach without embracing economic imperialism. The economic approach, which is a formal system for organizing thought about social processes and institutions, must not be confused with economics, which is a substantive inquiry into the coordination of economic activities and the nature and causes of the wealth of nations.

As a formal organizing principle, the economic approach is grounded on two fundamental presumptions, one concerning human action and one concerning human interaction. The former presumption is variously expressed by notions of rationality, maximizing, or optimizing, and in any event is formal and not substantive. It says that people seek to be effective in action, but does not inquire into the specific forms or objects of action. The latter presumption is usually expressed by some notion of equilibrium, which is an assertion that there is a rhyme and reason to all that happens under the sun. The apprehensible order in human affairs