

Why I am Not a Socialist

I share a lot of the concerns and goals of those who describe themselves as “socialists.” More health care and housing for poor people? Great. More educational opportunities for the least well-off? Absolutely. [A cleaner environment](#)? Sure thing. Gender and racial equality? Immediately, please.

Why, then, am I not a socialist? As political and economic ideas go it’s So Hot Right Now. It’s also cross-generational as political superstars Bernie Sanders and Alexandria Ocasio-Cortez refer to themselves as “democratic socialists.”

I think, though, that they are making serious mistakes. To put it simply, people too often mistake the ends for the means and define economic and political systems in terms of their advocates’ stated goals rather than the actual characteristics of those systems. With respect to a lot of the goals of the self-described socialists, there is a lot more standing between them and their vision than a failure of political will.

We saw in the early 20th century that [socialism](#) doesn’t work in theory, and the fall of the Berlin Wall and the collapse of the Soviet Union provided decisive evidence in the late 20th century that it doesn’t work in practice. If there are any questions remaining to be resolved the further the USSR fades into the historical distance, resource-rich Venezuela’s freefall into chaos, poverty, and widespread government repression should answer them.

To borrow from [Thomas Sowell](#), I think we should define economic systems in terms of the social processes they set in motion. It isn’t enough to speak and write in terms of intentions. This is especially true when we find ourselves empty and airily advocating things no decent person would oppose. [Robert Heilbroner defines socialism](#) as “a centrally

planned economy in which the government controls all means of production.” According to [Ludwig von Mises](#), “The essential mark of socialism is that one will alone acts.”

That “one will” might be a dictator or the chair of an elected committee of central planners (for short, let’s just call it “the state”). Rather than a multitude of wills enacting a multitude of disparate plans, socialism features a single will enacting a single, all-encompassing plan.

At first glance, it seems reasonable. Why not replace the chaos of the unfettered [market](#) in which people regularly make poor decisions, entrepreneurs often screw up, and more money means more votes with something far more just, orderly, and scientific? Mises answers by asking the fundamental question: “Can a socialist system operate as a system of the division of labor?”

His answer: no, it cannot.

He originally made the argument in 1920 in an article called “[Economic Calculation in the Socialist Commonwealth](#),” expanded the argument to book length in [Socialism: An Economic and Sociological Analysis](#), and restated it in a section on non-market cooperation in [Human Action](#), his magnum opus. Socialists tried and failed to rescue their system from his critique, and, for a long time, people (many economists included) mistakenly believed that Mises and [Friedrich Hayek](#), who had discarded his youthful socialism on encountering Mises’s arguments, had lost the debate. Ultimately, however, they were vindicated both in theory and in practice.

What, exactly, was their argument? Here’s how I read it.

To begin, Mises stacked the deck against himself by assuming that all the easy objections to socialism had somehow been answered. He assumed that the central planner was utterly uncorrupted by any consideration other than the well-being of society. He assumed further that the central planner had a

menu of technological possibilities, available resources, and the people's preferences. The central planner knew exactly the pattern of consumers' goods that would maximize welfare. His only job, then, was to arrange society's factors of production so as to produce everything with maximal efficiency. He only has to do so without using market prices determined by the voluntary exchange of privately owned means of production.

It is literally an impossible task. Note that Mises (and Hayek after him) doesn't say, "It's a difficult task." He claims that it is impossible for the central planner to compare the costs and benefits of different ways of producing society's array of consumers' goods without private ownership and prices generated by market exchange. There are a few steps from private ownership to [rational economic calculation](#):

1. **Private ownership.** Individual owners have the right to use, alienate, or derive income from the means of production like land and capital. As residual claimants to the income the means of production generates, they therefore have stronger incentives to use them wisely than does a member of a central-planning board or larger polity who bears no personal cost from choosing poorly.

2. **Exchange.** If the means of production are privately owned, then they can be exchanged. Exchange gives a practical outlet to disagreement, which is an unavoidable fact of the human condition. Imagine your neighbor owns a farm on the outskirts of town. You disagree with her use of the land and think the farm could be put to better use if it were converted into a shopping center. When the means of production are privately owned, you can act on your conviction by finding someone who is willing to finance your venture, buying the farm from her, and converting it into a shopping center.

3. **Prices.** Prices emerge from market exchange and provide, at any point in time, people's best estimate of the value of a tool, tractor, ounce of copper, or plot of land in its best

available use. The information is crucial, and once again, if you're convinced that the pattern of prices is wrong then you can go into the market and buy what you think is undervalued or sell short what you think is overvalued. Your action contributes valuable knowledge that helps future buyers and sellers compare their estimate of the value of the means of production to everyone else's.

4. **Profits and Losses.** It's said that the proof of the pudding is in the eating. The proof of the plan is in the profits and losses. If you have chosen wisely, you are rewarded with a profit, which is an increment above everyone else's assessment of the best possible uses of the means of production. It's a pat on the back from the invisible hand, and it's the market's way of rewarding your judgment by increasing the means at your disposal. If you have chosen poorly, you are punished with a loss. It's a slap in the face from the invisible hand, and it's the market's way of punishing you for wasting resources by decreasing the means at your disposal.

As Mises argues, prices, profits, and losses are crucial, and in turn, the institutional structure of the market is crucial as well. The planning board's instruction to mimic what the market does but do it more efficiently is curious. As Mises puts it, "They want people to play market as children play war, railroad, or school. They do not comprehend how such childish play differs from the real thing it tries to imitate." Later, he describes the importance of the market process in revolutionizing the means and methods of production: "The capitalist system is not a managerial system; it is an entrepreneurial system."

Mises's critics responded that he was owed a debt of gratitude for showing that prices are essential to economic calculation, but they argued that market exchange of private property was not necessary, because prices of the means of production could be derived from a mathematical model of the economy. In 1945,

however, Friedrich Hayek argued in his classic essay "The Use of Knowledge in Society" that this is true if we define the economic problem as one of solving known equations subject to known inventories of inputs and known constraints. Unfortunately, some interpreted this as a concession on Hayek's part: central planning could calculate, after all – it was just inefficient relative to the price mechanism.

This wasn't Hayek's argument, though. Hayek argued that the economic problem is of a very different kind – of a kind that cannot be solved by a planner with a big-enough computer. It is a problem, he argues, of assembling, combining, and deploying knowledge distributed across many minds and available to no single mind. Just as Mises argued earlier, it is a problem that cannot be solved by a central planner, no matter what the computational resources at his disposal. The information needed to solve it (prices, profits, and losses) emerges from individual, purposive action – in this case, buying and selling ownership of the means of production in markets. The knowledge that emerges is unavailable to any planner or anyone else through any other mechanism (and indeed, as he and others pointed out, to the extent that the Soviet Union was able to "calculate" it was able to do so by observing prices in places with markets for the means of production).

Empirically, the socialist record is one of dismal and at times murderous failure. Why, then, do intellectuals, scholars, and commentators continue in their romantic attachment to it? In a summary of Hayek's contributions, Peter Saunders puts it thusly: "Hayek understood that capitalism offends intellectual pride, while socialism flatters it." Mises understood this, too, and he worked tirelessly to answer those who thought themselves fit to plan for others, or at least to select those who would plan for others. Even though I agree with a lot of socialists on social goals, I think the record of theory and history shows that socialist planning is

an impossible task.

—

This [article](#) has been republished with permission from American Institute for Economic Research

Image Credit: Wikimedia Commons