

# INTRODUCTION

The book you hold in your hands was inspired by an article on Oskar Lange's proposition of a "market socialism" that I began writing in 2005, and later published in the *Quarterly Journal of Austrian Economics*. Lange argued that socialist planners could use a central calculation of profits and losses that would make economic projects as efficient as in the market framework. I aimed to show that such calculations were, in fact, economically meaningless, because the planners were to make them. By setting prices for the means of production, and subsequently by adjusting them, they decide, in effect, what should be produced, what should not, based on their own judgement. Prices do not affect their actions as they would an entrepreneur in a market. Such a simple observation led me to further reflect on the nature of monetary calculation, which eventually gave me a new perspective on the debate on whether socialist economies can function or not. Although a few thinkers have raised this argument, their voices have never gained serious influence on the debate about socialism.

The problems set forth in this book regard property laws in an *economic* context – a comparison between capitalism and socialism. Therefore I shall not discuss legal history, case studies or legal details arising in the relevant economic systems. The notion of property laws interests me as a theoretical category in light of *economics*, not law, anthropology, or history. Similarly, I talk about socialism and capitalism in the abstract. Capitalism is defined as a system built on the free exchange of property deeds, which is not present in socialism. These two categories do have their concrete and pure historic occurrences, but I shall regard them as purely theoretical. The same is true for the idea of ownership, which is an owner's capability to control, use and dispose of various real-world entities. Real ownership is therefore not necessarily equal to how legislators define "ownership" in legal systems.

Because the debate on the comparison between socialism and capitalism is already a part of the history of economic thought, this book builds on the

conclusions drawn from that debate, on economic calculation in socialism and the impossibility (or possibility, according to others) of its application.

The system of ownership is a basic trait distinguishing capitalism and socialism. In capitalism property is dispersed among competing controllers, independent in their decisions. Various forms of socialism propose to abolish this competitive distribution by dispossessing all private owners at once, and setting up a single owner, who would organize production (directly or indirectly). And so property laws are the heart of and starting point for the comparative analysis of capitalism and socialism; it is the only way to properly grasp their differences (this was not sufficiently emphasized in the historical debate).<sup>1</sup>

Although property laws found their way into the economic literature thanks to the institutional revolution of the 1960s, in terms of our inquiry this was not a significant change and did not seriously influence comparative macroanalysis. Firstly, the focus was placed only on certain aspects of granting deeds of ownership by government in situations of conflict between already existing owners, as well as on the forms of contracts between parties in a market. Secondly, entire systems and general economic efficiency were not discussed.<sup>2</sup> The purpose of this book is to fill this gap in the debate on whether rational economic calculation is possible in socialism.

During the debate on the functionality of socialism the two (or perhaps even more) sides differed in their views on competition, the mechanism of calculation, prices, salaries, and other economic variables existing in the respective systems. Anglo-Saxon contributions gave us the model of “market socialism”, which was meant to imitate the functional efficiency of capitalism by simulating a competitive economy. This model was the single strongest argument put forward by the proponents of socialism.

This book aims to show that the mechanism of efficiency in market socialism is unable to play the part ascribed to it by its theoreticians, chiefly because it disregards the fact that property rights are fundamental to the shaping of prices and to calculations. I shall show that the abolition of ownership in market socialism makes its mechanism of efficiency a fiction, unable to imitate capitalism. While praising the advantages of the socialist mechanism of trial and error, its Western proponents used much the same words as are used to describe capitalism: “price”, “pay”, “profit”, “interest rate”, etc. I show, however, that this is nothing but definitional confusion because prices, pay, and profits mean something entirely different in capitalism than in socialism. Both sides in the debate were arguing past each other because they used the same terms to describe different phenomena.

Following from this I further aim to show that the model of market socialism is virtually the same as a classic economic dictatorship proposed by naïve utopian movements and criticized by Ludwig von Mises in his first

publication. I aim to demonstrate that this dictatorship hides behind a veil of economic terms that do not change its essence. Economic terms used in the model of market capitalism copy only the *names* of real economic variables that cause capitalism to be efficient, they do not follow their vital *functions*. This statement, which I shall corroborate, will support my view that the last word has yet to be said on the topic, and that its further discussion is warranted. As I shall show, Mises and Hayek, the two greatest critics of the competitive solution to socialism, have not been conclusive in their arguments. I hope that my critique will bring new insights to the debate, and ultimately to other theoretical aspects of economic comparison.