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# CHAPTER 3

## THE SOCIALIST CALCULATION DEBATE AND ITS NORMATIVE IMPLICATIONS

Rosolino A. Candela

### ABSTRACT

*During the socialist calculation debate, Ludwig von Mises and F. A. Hayek made a positive argument regarding the impossibility of economic calculation under socialism. In this study, I argue that the arguments made by Mises and Hayek have normative implications for capitalism. I do so by drawing an analogy between an Austrian account of the market process and a neo-Aristotelian account of human flourishing. Neither economic calculation follows passively from implementing a set of profit-maximizing rules nor does human flourishing follow passively from following a set of universal moral norms (be they of utilitarian, deontological, or natural law inspiration). Both economic calculation and human flourishing are inherently based on individual acts of knowledge creation, actualized only by self-directed individuals. In both cases, the creation of such knowledge is both contextual and specific to the unique circumstances of each individual of a particular time and place. Therefore, to assume that such knowledge exists ex ante, and is objective and transpersonal across time, place, and institutional context renders both economic calculation and human flourishing into a technological problem of given means and given ends, in essence defining both activities out of existence. The possibility of economic calculation and human flourishing are therefore dependent upon a political/legal order that protects the possibility of self-directed knowledge*

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*creation in both the economic and moral realms, that is, to say an institutional framework of private property rights.*

**Keywords:** Austrian economics; economic calculation; entrepreneurship; eudaimonia; Ludwig von Mises; F.A. Hayek; Israel Kirzner

**JEL classification:** B53; H11; P16

Political economists stress the technical economic principles that one must understand in order to assess alternative arrangements for promoting peaceful cooperation and productive specialization among free men. *Yet political economists go further and frankly try to bring out into the open the philosophical issues that necessarily underlie all discussions of the appropriate functions of government and all proposed economic policy measures. They examine philosophical values for consistency among themselves and with the ideal of human freedom.*

James M. Buchanan (emphasis added, 1958, p. 5)

## 1. INTRODUCTION

What are the normative implications of the socialist calculation debate? As a by-product of their positive assessment of the impossibility of economic calculation under socialism, both Ludwig von Mises and F.A. Hayek learned to articulate and refine a unique understanding of the market as a process of entrepreneurial discovery rather than an end-state of equilibrium. The Austrian position that was crystallized during this debate was an exercise of positive economics. However, as Israel Kirzner has argued, a comprehensive understanding of the Mises–Hayek account of the market process cannot “avoid recognizing the *possible* implications these lessons hold for an ethical assessment of capitalism” (emphasis added, Kirzner, 1988b, p. 166).

Taking Kirzner’s claim as a starting point of analysis, the purpose of this study is to move this normative assessment one step further. Austrian economists are in a unique position to contribute to a deeper normative justification of the market process. This is best illustrated by drawing two analogies between an Austrian account of the market process and a neo-Aristotelian<sup>1</sup> account of *eudaimonia*, or human flourishing (Den Uyl & Rasmussen, 2016; Rasmussen & Den Uyl, 1991, 2005). First, just as a framework of private property rights is necessary for economic calculation, it is also essential for the moral calculation of one’s unique *eudaimonia*, or human flourishing. Absent the institutional prerequisite of private property rights, the individual is precluded not only from the economic knowledge required to “know how” to generate the gains from trade and innovation but also precludes the individual from the moral knowledge to “know how” to flourish as unique individuals in society. Second, entrepreneurial insight is not only the source of economic conduct but also the source of moral conduct, from which generalized norms emerge to guide social cooperation under the division of labor, not vice versa. In other

words, “[g]eneralized norms are the consequence, not the cause or source of moral action” (Den Uyl & Rasmussen, 2016, p. 318). The absence of private property, therefore, is morally abhorrent not only because it makes economic calculation impossible, but also because it makes the moral calculation of one’s human flourishing impossible as well.

In drawing these analogies, I argue that if one takes the positive implications of economic calculation seriously, there exist distinct, though not separate, types of normative theorizing regarding the moral superiority of capitalism over socialism. There exists an *incentive-based* framework to normative theorizing, which is based on rules that are transpersonal, general, and universal across time and place. Both utilitarianism and deontology fall under this framework. But there also exists a *knowledge-based* framework to normative theorizing, within which the Aristotelian account of human flourishing resides.<sup>2</sup>

The argument here is not that incentives do not matter in defining our relations between individuals. Rather, the point here is to argue that the positive and normative superiority of capitalism over socialism is only *proximately* based on constructing a set of incentives, whether they are derived from following a Kantian categorical imperative,<sup>3</sup> as Mises argued, or following set of profit-maximizing rules, as Hayek argued. To argue that this is all there is to economic calculation would purge capitalism of its moral content. If economic calculation were simply a matter of implementing objective knowledge that is already “out there” via a set of rules, then this would render economic calculation into a technological problem of efficiently applying given means to given ends. This in turn would also render human flourishing by self-directed individuals into a passive response to incentives by homogenous automatons. *Fundamentally*, the moral superiority of capitalism within an institutional framework of private property rights is that it protects the *possibility* for heterogeneous individuals to actualize the contextual and particularized knowledge that is integral not only to economic calculation but human flourishing as well.

## 2. ECONOMIC CALCULATION: AN OVERVIEW

Economic calculation, according to Boettke (1998), “refers to the decision-making ability to allocate scarce capital resources among competing uses” (p. 134). Economic calculation is a process by which entrepreneurs discover, as a by-product of rivalrous competition, the most economically efficient mode of production from those modes of production that are technologically feasible (Horwitz, 2008, p. 85; Mises, 1966, p. 207).

In order to understand how the normative implications of the Austrian account of the market process parallels the normative insights found in a neo-Aristotelian account of human flourishing, we must first develop, from a standpoint of positive economics, why economic calculation is *fundamentally* a knowledge-based process of discovery, and only *proximately* an incentive-based process of resource allocation. Among economists today, there still exists a misunderstanding of the argument made by Mises and Hayek directed against the

Marxists and market socialists, respectively. For example, Harold Demsetz has argued the following:

Mises and Hayek note that the price system is much better at using knowledge and improving calculation than is central planning, but they emphasize the price system too much. It is not the price system per se that improves knowledge utilization. If it were, a socialist society could implement a price system, and some economists have urged just that (Abba Lerner, *The Economics of Control*, 1947). A socialist price system would yield prices that differ from those that would arise if ownership were private. *The problem is not knowledge acquisition per se but motives to marshal and use particular kinds of information.* (Emphasis added, 2002, p. S664, fn. 18)

More recently, in an important work by Nobel Laureate Edmund Phelps, *Mass Flourishing* (2006), he draws a similar parallel between the importance of discovery in both the Austrian account of the entrepreneurial market process and human flourishing. As he argues, “the journey of life is not simply advances, one after the other, in self-realization. Rather it is a journey of *self-discovery*” (emphasis original, Phelps, 2006, p. 281). However, the parallel he draws is attributed only to Hayek, not Mises (2006): “The arguments of Hayek are knowledge-based, while those of Mises were incentive-based” (p. 125). Much of this confusion can be based on a failure to understand the intellectual context within which Mises and Hayek were arguing.

It was during the socialist calculation debate of the 1920s–1940s that economic theory evolved from what was previously a shared understanding<sup>4</sup> of the market among early neoclassical economists into two distinct paradigms of the market, perceived in terms of: (1) a static model of general competitive equilibrium; and (2) a dynamic process of entrepreneurial discovery (Kirzner, 1988a, p. 3; see also Boettke & Candela, 2017). Mises’ 1920 article, “Economic Calculation in the Socialist Commonwealth,” was the first salvo that was shot against the Marxian notion that socialism could deliver greater material prosperity than capitalism by (1) eliminating the wastes of competition inherent to production for exchange and (2) subsuming all production for direct use under a single, deliberate, unified plan (Lavoie, 1985, pp. 39–47). This required the abolition of private property rights in the means of production. Mises, however, responded that rational economic calculation under socialism was impossible precisely because it eliminated the institutional precondition required for the communication of *contextual* economic knowledge via money prices, which can only emerge through exchange. As Mises (1966) states, money prices “are the *only* vehicle of economic calculation” (emphasis added, p. 201). Outside the context of private property, the economic knowledge that is embodied in profit and loss signals are completely absent, without which economic planners would not be able to *learn* whether or not they have allocated capital goods to their most valued productive uses. Mises stated his argument as follows:

1. Without private property in the means of production, there will be no market for the means of production.
2. Without a market for a means of production, there will be no monetary prices established for the means of production.

3. Without monetary prices, reflecting the relative scarcity of capital goods, economic decision makers will be unable to rationally calculate the alternative use of capital goods (Boettke, 1998, p. 134; see also Mises, 1920/1975, p. 111).

Mises (1920/1975) also criticized socialists for having believed that “they can construct a socialist commonwealth on the basis of the Categorical Imperative alone” (p. 119). That is, even based on the best intentions and motivations bestowed to central planners, without bearing the costs of their decision making, they will never be able to *learn* and respond to the contingent and particular knowledge communicated through money prices, which only emerge through exchange between individuals. As he argued:

But even if we for the moment grant that these Utopian expectations can actually be realized, that each individual in a socialist society will exert himself with the same zeal as he does to-day in a society where he is subjected to the pressure of free competition, there still remains the problem of measuring the result of economic activity in a socialist commonwealth which does not permit of any economic calculation. We cannot act economically if we are not in a position to understand economizing. (1920/1975, p. 120)

It was Mises, and later Hayek, in arguing that economic calculation under socialism is impossible, that an explicit, Austrian knowledge-based framework of positive theorizing became articulated and explicit. Competition is regarded as a dynamic process of discovery, and relative prices emerge from entrepreneurial action to guide production in a future that is imaginable but uncertain. “What Mises and Hayek were doing, in making these contributions was, in their view, not at all revolutionary. They were simply carefully explaining the basis for their *earlier universally shared positions of the early twentieth century neoclassicals of all schools*” but in doing so, “Mises and Hayek were in fact deepening their own Austrian tradition in a way which, retrospectively, we can only describe as a quantum leap, a dramatic advance, in the history of the Austrian School” (emphasis added, Kirzner, 2017, p. 867).

There are two particular reasons why Mises and later Hayek responded to the claims of socialists as they did. The first reason can be regarded as one of the great ironies in the history of economic thought during the twentieth century. The tools of neoclassical economic theory, which had been used to analyze the allocative efficiency of capitalism, became utilized to demonstrate the superiority of socialism. A group of economists, known as market socialists, most notably Oskar Lange and Abba Lerner, adopted neoclassical marginal analysis to argue that rational economic calculation under socialism was possible and more efficient than under capitalism. What was most ironic about the response leveled against Mises by the market socialists, was the claim that Mises’ argument had been based upon a rejection of neoclassical economic theory. As Lange argued:

It has been maintained, indeed, by Marx and by the historical school (in so far as the latter recognised any economic laws at all), that all economic laws have only historico-relative validity. But it is most surprising to find this institutionalist view supported by a prominent member of the Austrian school, which did so much to emphasize the universal validity of the fundamental principles of economic theory. Thus Professor Mises’ denial of the possibility of economic calculation in a socialist system must be rejected. (Lange, 1936, p. 55)

The analysis of institutions, particularly private property rights, which had been a part of the shared understanding of economic science among early neo-classicals, became regarded as a rejection of the universal validity of rational choice across time and place.

The second reason can be explained by the fact that Mises and Hayek were precluded from discussing the role of incentives in a market economy. According to the market socialists, discussions of incentives were regarded as outside the scope of neoclassical theory because economists' discussions of incentives were analogous to an analysis of motivations, which was regarded as the realm of psychology and sociology, not that of economics. For example, Abba Lerner criticized a fellow market socialist, Evan F. M. Durbin, for having addressed the possibility of incentive incompatibilities under capitalism. As Lerner wrote:

In this comparison we must take the theoretical system in both cases i.e., leaving apart such *sociological questions as incentive*, etc. In general Mr. Durbin refuses to discuss these matters in the article considered and he is well justified in refusing to accept in the context of the problem of economic accounting such criticisms of socialism as depend upon these considerations. He is, however, guilty of a similar sin in the opposite direction when he declares it to be a disadvantage of capitalistic production that the managers of joint-stock companies will reinvest their quasi-rents in their own enterprise, even if the yield is greater elsewhere, because by so doing they safeguard their own jobs ... *This is not an accounting but a personal or sociological problem which may well be even more serious in some forms of socialist economy.* (emphasis added, Lerner, 1937, p. 267, fn. 1)

By the 1940s, both the utilization and rejection of mainstream neoclassical economic theory by its defenders<sup>5</sup> and critics, respectively, became based upon an analysis of the formal similarities of socialism and capitalism under conditions of static equilibrium. On this basis, Abba Lerner and Oskar Lange, in response to Mises, devised an economic theory of market socialism. Briefly stated, the model of market socialism postulates that a Central Planning Board would instruct the managers of state-owned enterprises to follow a set of profit-maximizing rules, namely to price according to marginal cost and produce at a level of output that minimizes average costs. By doing so, such managers would grope toward the conditions of perfectly competitive equilibrium through “trial and error,” or what Leon Walras referred to as a series of *tâtonnements* (Lange, 1936, p. 59), a process which they regarded as analogous to that which takes place under capitalism. During this *tâtonnement* process, the Central Planning Board would mimic the function of a “Walrasian auctioneer” in its role of sorting goods and services to their most valued uses to eliminate shortages and surpluses in the market. The implementation of market socialism, according to Lange and Lerner, would outperform capitalism by eliminating inefficiencies associated with monopoly power and business cycles.

Hayek's primary response to the Lange–Lerner approach to market socialism was *not* one about the complexity of “solving” a computation problem, in which the information regarding the availability of means and ends of resource allocation is already given. To do so is to render economic calculation into a technological problem, one in which the “market” already is in general equilibrium, a static outcome in which, by definition, costs cease to be reciprocals of choice,

and therefore cease to be guides to future action. Instead, cost curves become parameters to which individuals passively and mechanically respond as automations. In essence, the market socialists were assuming away the very problem for which they claimed to be providing a “solution.” Moreover, the market socialist model rules out *ex ante* the discovery procedure actualized by entrepreneurs in the market process and the price formation process that follows as by-product of that discovery procedure.

For Hayek, the main issue for economic calculation was one about discovering the *contextual knowledge* that is contingent and particularized to different individuals of a particular time and place. Outside the context of a framework of exchangeable private property rights, such knowledge would not even exist, and therefore would be inaccessible to central planners. As Hayek argued:

In the discussion of this sort of problem, as in the discussion of so much of economic theory at the present time, the question is frequently treated as if the cost curves were objectively given facts. What is forgotten is that the method which under given conditions is the cheapest is a thing which has to be discovered, *and to be discovered anew*, sometimes almost from day to day, *by the entrepreneur*, and that, in spite of the strong inducement, it is by no means regularly the established entrepreneur, the man in charge of the existing plant, who will discover what is the best method. The force which in a competitive society brings about the reduction of price to the lowest cost at which the quantity salable at that cost can be produced is the opportunity for anybody who knows a cheaper method to come in at his own risk and to attract customers by underbidding the other producers. But, if prices are fixed by the authority, this method is excluded. (emphasis added, Hayek, 1948, p. 196)

To conclude, the socialist calculation debate reveals that it is one thing to define a set of general norms that structure the form of economizing action. Rules structure the set of incentives that are transpersonal and universally applicable across time and place, and such general norms are important in any society to set the guidelines for social interaction. Such incentive-based general norms may take the form of a categorical imperative or a profit-maximizing rule, as was the case with the socialists. However, it is quite another thing to understand how such economizing action is *substantiated* through the market process. The substantiation of such general rules are a consequence, or a by-product, of knowledge-based norms of conduct, which are never generated independently of entrepreneurial human choice as it manifests itself under particular circumstances of time, place, and context. “Choice exercised by an individual,” as Buchanan puts it, “involves self-creation along with the creation of constraints imposed on the choices of others. This reciprocal interaction takes place over a whole temporal sequence” (Buchanan, 1991, p. 226). What this implies, as I argue further below in the greater detail, is that normative theorizing that informs the structure of rules is distinct, though not separate, from normative theorizing that informs human conduct within a set of rules.

### 3. ECONOMIC CALCULATION, HUMAN FLOURISHING, AND DISCOVERY

According to Den Uyl and Rasmussen (2016), “successful actors in ethics and markets are those who consider all the available alternatives and find ways either to either eliminate or lessen conflict among existing forces or principles”



(p. 302). Building on this parallel insight, we shall develop the nature of entrepreneurial discovery as it pertains to economic calculation in the market process and to human flourishing in the Aristotelian tradition of ethics.

Both the Austrian school and the Aristotelian ethical tradition emphasize that knowledge is both particular and contingent, and that social cooperation manifests itself within a framework in which individuals are free to act on such knowledge, both for moral self-direction and wealth creation. “*The entrepreneurial market process,*” according to Kirzner (2017), “*consists of systematic market steps through which such sheer ignorance, irrational suboptimality, may tend spontaneously to dissipate*” (emphasis original, p. 857). The basis of the entrepreneurial market process is the pervasiveness of disequilibrium, within which the entrepreneur creates a systematic, equilibrating tendency.

The central concept in Kirzner’s notion of entrepreneurship is the “alertness” to opportunities that were previously unknown. The entrepreneur creates economic knowledge of unexploited opportunities through trade and innovation, namely by being alert to price discrepancies between existing commodities. Kirzner (1973) notes that

the discovery of a profit opportunity means the discovery of something obtainable for nothing at all. No investment at all is required; the free ten-dollar bill is discovered to be already within one’s grasp. (p. 48)

This equilibrating tendency in the market process is facilitated by entrepreneurs identifying existing miscoordinations of resources, the discovery of which presents previously unnoticed pure profit opportunities for entrepreneurs by facilitating greater plan coordination between individuals, namely through arbitrage. The entrepreneur is one that creates gains from trade and innovation by acquiring assets at a low price and securing from their subsequent sale a portion of the revenue that exceeds the costs of acquiring such assets, this difference being pure entrepreneurial profit. Therefore, the entrepreneur plays a dual role of correcting previous entrepreneurial mistakes, a by-product of which is to further expand the scope of imaginable, but not yet known, profit opportunities in the future. “In short, yesterday’s inefficiencies are today’s profit opportunities and, in exploiting those opportunities, entrepreneurs serve as the catalyst of economic change” (Coyne, Isaacs, Schwartz, & Carilli, 2007, p. 239).

Entrepreneurship is not manifested as an endowment in a particular group of individuals, but as an innate potentiality embodied in all individuals. As Mises put it, “in any real and living economy every actor is always an entrepreneur” (Mises, 1966, p. 252). It is the entrepreneurial element in each individual “that is responsible for our understanding of human action as active, creative, and human rather than as passive, automatic, and mechanical” (Kirzner, 1973, p. 35). The entrepreneur does not mechanically respond to profit opportunities as a calculative, maximizing *homo economicus*.

The counterpart to the Kirznerian conception of entrepreneurship is the neo-Aristotelian conception of human flourishing. *Eudaimonia*, the ancient Greek term for “happiness” or “human flourishing,” is the ultimate good or value and that virtue ought to characterize how individuals conduct their lives (Rasmussen & Den Uyl, 2005, p. 111). Human flourishing is not merely a state

of well-being. Rather, it is an activity, an actuality, and an end in itself, realized through self-direction or choice, which is aimed at the fulfillment of an individual's telos, or end (Rasmussen & Den Uyl, 2005, p. 129). Human flourishing is an open-ended, *contextual* act of discovery that requires virtue<sup>6</sup> in action; it is an act of entrepreneurial discovery of one's potential self, to render explicit what is implicitly unique to each individual (Norton, 1976, p. 7).

In addition, the notion of alertness in the Kirznerian entrepreneur corresponds to practical wisdom in the neo-Aristotelian tradition. As was the case with economic calculation, the object of human flourishing is not to "optimize" with respect to already given means and given ends, but rather to integrate or synthesize a set of competing ends in one's life. This process is realized through practical wisdom, or the appropriate use of practical reason. Rasmussen and Den Uyl (2005) best define practical wisdom as

*the intelligent management of one's life so that all the necessary goods and virtues are coherently achieved, maintained, and enjoyed in a manner that is appropriate for the individual human being.* (emphasis original, p. 147)

Practical wisdom constitutes the "the ability of the individual at the time of action to discern in particular and contingent circumstances what is morally required" (Rasmussen & Den Uyl, 2005, p. 146), and this requires that the individual also demonstrate excellent dispositions to act, or moral virtue, in such circumstances. Practical wisdom is not only pursued for its own sake, but is also a self-directed process required for "achieving, maintaining, and integrating the goods needed for eudaimonia" (Den Uyl, 1991, p. 208). Just as entrepreneurs engage in error correction through his alertness in the market process, namely by integrating resources toward ends that were previously unnoticed, practical wisdom synthesizes the various goals and purposes integral to one's life.

Human flourishing, however, does not occur in isolation. Human flourishing is a radically social yet radically individualized activity, in that trade contributes to one's own self-actualization, and as a by-product, contributing to that of others. "Trading is an objective good" not only because inherent nature to truck, barter, and exchange, but also because "it serves our biocentric need for physical survival that is fundamentally human" (Kline, 2008, p. 152). Not only does human cooperation under the division of labor expand the possibility of human flourishing; it is ultimately an expression of human flourishing as well (Kline, 2008, p. 152). Human flourishing is not reduced to a single end, but is also inclusive and constitutive of a series of intermediate ends spread over one's lifetime (Rasmussen & Den Uyl, 2005, pp. 129–132). From an economic perspective, trade is simply an alternative form of production, an intermediate step in a larger structure of production. Taken from a bird's eye view, what is regarded as a means to an end – exchange activity – at a snapshot in time is simply an intermediate end integral to the exercise of one's practical wisdom during their lifetime.

Moreover, the fundamental importance of economic growth that is promulgated by human cooperation under the division and labor is not merely an increased level of material prosperity. As Phelps (2013) adds,

an increased general level of wages is liberating: it enables persons confined to the lower reaches of the available wages – unskilled workers, in the usual terminology – to move from work they previously could not afford to reject work that is more desirable. (p. 47)

Therefore, trade also allows individuals the possibility to pursue enterprises that otherwise might not have been afforded to them.

Essentially, trade is essential to a notion of markets as “a social and moral space” (Storr, 2008, 2009). Trading in the marketplace is inherently a moral activity, given that before individuals choose what to exchange, they must first choose to respect the private property rights of individuals and acknowledge the potential opportunity that trade can contribute to one’s human flourishing. The beneficial consequences that flow from trade, including generalized norms of peace, trustful relations, and toleration among diverse groups, are a by-product, or consequence from the initial act of choosing to trade. Trade has a universal moral attribute conducive to one’s flourishing, namely the respect of one’s private property, but more importantly, it also makes possible the expression and revelation of one’s individual valuations through exchange, which is fundamentally the basis for economic calculation. Without monetary calculation through the use of money prices, the inability to translate the individual valuations of anonymous others into mutually beneficial knowledge would limit our ability to exercise practical wisdom contingent to time and circumstance (see Horwitz, 2008).

To summarize, both economic calculation and human flourishing are inherently based on individual acts of knowledge creation, actualized only by self-directed individuals. They each require the creation of such knowledge that is both contextual and specific to the unique circumstances of each individual of a particular time and place. The *possibility* of economic calculation and human flourishing are, therefore, dependent upon a political/legal order that protects the possibility of self-directed knowledge creation in both the economic and moral realms, that is to say, an institutional framework of private property rights

#### 4. THE NORMATIVE IMPLICATIONS OF ECONOMIC CALCULATION FOR CAPITALISM

Having described the parallel insights between economic calculation and human flourishing in the market process, the question still remains: why can’t the justification for a political/legal order based on the protection private property rights be fundamentally based on incentive-based norms, such as following a categorical imperative or a consequentialist rule? Why can’t individual rights be justified on the basis of rules that are general, transpersonal, and universally applicable? What do the parallel insights between the Austrian tradition and Aristotelian tradition reveal to us about the normative implications of the socialist calculation debate? The answer, which we develop below in more detail, is that the socialist calculation debate demonstrates the need to develop a deeper normative justification for capitalism that is distinct, though not separate, from incentive-based norms that are deontological or consequentialist in nature.

One way of seeing the difference between the two norms is to recall our discussion in Section II regarding the Lange–Lerner approach to market socialism. The model Lange and Lerner wished to implement would mimic the outcome of the market process as if the information required to mimic such an outcome were already given. What would be needed to achieve an efficient allocation of resources is simply to instruct managers of state-owned firms to follow a set of profit-maximizing rules, namely pricing according to marginal cost and producing at a level of output that minimizes average costs. Through a “trial and error” process, surpluses and shortages would be eliminated simply by adjusting decreasing or raising prices, respectively. But the achievement of such an outcome implies that the market already be in a state of equilibrium, assuming the epistemic problem of economic calculation away, and rendering it as a technological problem of given means and given ends. Under such a framework, the efficient allocation of resources is simply a matter of making sure that the correct incentives are in place for central planners to acquire the economic knowledge that is already objective and “out there” to achieve a perfectly competitive outcome.

Central to the idea that economic calculation under socialism is possible is the notion that prices are equilibrium parameters, reflecting the full opportunity costs of producing a good, and that such costs are objective. However, *prices and costs are never sufficient parameters for an allocative problem; rather, they are guides to future production that emerge from the entrepreneurial market process.* The formation of prices is not simply a matter of legislating a set of universalizable, general, or transpersonal incentives, which are independent of human choice and to which individuals passively respond. Rather, the *emergence and adjustment* of prices as guides to production, in response to changing market conditions, are a function of applying knowledge-based norms, namely the application of one’s unique entrepreneurial insight to a particular context of time and place. A rule that instructs entrepreneurs to follow an impersonal categorical imperative or profit-maximizing command, such as “price according to marginal cost,” can never encompass the habits and dispositions that must be learned and applied to the reality of a market situation at a particular time and place. As Henry Veatch (1962/2003) describes the point:

The reason is that the particular concrete situations which are the actual points of application of any art or skill are always so complex and intricate that no set of general rules and principles ever suffices to cover them completely. We do not, for example, consider that a surgeon is not skilled merely because he cannot draw up a set of instructions so complete and detailed that all one need do is to follow them automatically and the success of a certain type of operation will thereby be guaranteed. On the contrary, each particular case being different from every other, no one will ever be a skilled surgeon merely by following rules, or by applying a technique automatically. *Instead, true skill must involve the adaptation of a technique to the immediate and the particular circumstances at hand.* (Emphasis added, p. 70)

Once we pay attention, however, to the fact that price formation, entrepreneurial alertness, and economic calculation are based on heterogeneous agents that embody unique potentialities, then normative theorizing must be regarded in terms of an open-ended discovery process, not merely following commands of interpersonal obligation. Self-actualization is a heterogeneous and multi-specific

endeavor among individuals. The exercise of practical wisdom is different to each individual, given the time and circumstances in which they are acting, and yet multispecific because it embodies a nexus of ends, not the maximization of one final end. To incorporate economic calculation and human flourishing exclusively into a deontological or consequentialist framework would misleadingly imply that entrepreneurship and practical wisdom are merely a response to universal and transpersonal incentives. Rather, it is vice versa. Universalizable incentive-based norms, such as following a  $P=MC$  heuristic, are a by-product of human cognition and effort, which is only substantiated in a context where individuals are free to exchange and act in accordance with entrepreneurial alertness and practical wisdom.

Economic calculation, therefore, implies that the exercise of practical wisdom is the basic foundation for ethical theorizing and economic calculation under capitalism. It renders foundational priority to the contingent and particular knowledge that is substantiated by the exercise of practical wisdom. Exercising practical wisdom in the marketplace is the source of the contextual knowledge required for economic calculation, which in turn guides the human flourishing of each individual. The coordination of each individual's self-actualization in an ecology of plans requires the harnessing of the unique and particular knowledge expressed by individuals via money prices. Such knowledge can only be harnessed within an institutional context of private property. If this is the case, then deontological and consequentialist defenses of the liberal market order must be regarded as *proximate* defenses, derived from a deeper, more *fundamental* ethical foundation. Such a fundamental foundation must give ethical priority to practical wisdom, which requires consideration of moral obligations that are personal to the individual and independent of whether or not they contribute to social welfare or some total good (Rasmussen & Den Uyl, 2005, p. 114).

Defining ethical theorizing merely in terms of rule specification of one's duties and obligations or maximizing social welfare implies that ethical theorizing is merely a passive-computational problem. If incentive-based normative theorizing constitutes the entirety of normative theorizing, exhibiting a one-to-one relationship with knowledge-based norms, then economic calculation and entrepreneurial action have no moral content to contribute to a deeper ethical foundation of a liberal market order. The flaw in this conclusion is that it converts the derivation of rules from a set of guides to individual action to a set of computational parameters within which individuals maximize (Buchanan, 1964), something which classical liberals should avoid in their case for the economic and moral superiority of capitalism.

## 5. CONCLUSION

The central contribution of Austrian economics to the discipline of political economy is economic calculation. In other words, *all* the unique contributions of the Austrian school of economics to substantive economics can be traced back to the central importance of economic calculation for human cooperation (emphasis original, Boettke, 1998, p. 133).

As a by-product of the socialist calculation debate, both Ludwig von Mises and F.A. Hayek learned to articulate and refine a unique understanding of the importance of economic calculation for the coordination of economic plans in a market economy (Kirzner, 1988a). However, as Israel Kirzner has argued, “it is possible that yet another byproduct – one still to be carefully articulated – is the crystallization of a novel approach to capitalist morality” (Kirzner, 1988b, p. 182). Economic calculation has not only positive implications for understanding the productive superiority of capitalism over socialism but also for understanding its moral superiority.

Building on Kirzner’s claim, I have attempted to go further and explicate the normative implications for capitalism from the socialist calculation debate. I have based this explication on parallel insights between the Austrian tradition of economics and Aristotelian tradition of ethics. In both traditions, the application of contingent, particular, and contextual knowledge is crucial not only for economic calculation but also for human flourishing, respectively.

In drawing such an analogy, I’ve argued that there are two important lessons to be learned from the socialist calculation debate regarding normative theorizing. First, that there are two distinct, though not separate, ways of framing of normative theorizing. There exists an incentive-based framework to normative theorizing, which is based on rules that are transpersonal, general, and universal across time and place. Such rules may be utilitarian or deontological in nature. But there also exists a knowledge-based framework to normative theorizing, within which a particular Aristotelian account of human flourishing resides. Such normative theorizing renders foundational priority to the unique and individualized human flourishing of each individual.

Second, and more importantly, to conflate universalizable, incentive-based norms of conduct, which create the conditions that make economic calculation and human flourishing *possible*, with economic calculation and human flourishing itself, presumes the existence of economic and moral knowledge independent of human choice. If economic calculation and human flourishing were simply a matter of following a categorical imperative or profit-maximizing rule, to do so would render one’s human flourishing completely interchangeable with another, turning it into a technological problem of given means and given ends. In such a case, there is no difference between the human flourishing of a particular individual with that of other individuals in society.

The very basis for economic calculation and human flourishing is the expression of unique, particular, and contingent knowledge by individuals, which is manifested in their interaction with others. The tendency toward mutual coordination not only of economic plans but also moral plans, among individuals under a framework of exchangeable private property rights arises from individual discovery. Coordination is *not the antecedent* of human flourishing, for, if it were, knowledge of each individual’s flourishing would be independent of their own discovery, rendering human flourishing simply a “problem” of implementing general and transpersonal incentives.

While rules that are general, transpersonal, and universally applicable across time and place are necessary for social order, this is only a *proximate* foundation

of the morality of capitalism. A fundamental, or basic, normative justification of capitalism must be grounded in protecting the expression of particular and contingent knowledge unique to each individual that results from the exercise of practical wisdom. Such expression can only be made possible through the implementation of private property rights. If we can clarify the moral superiority of capitalism by contrasting with its antithesis, socialism, then socialism is morally abhorrent not only because it precludes the institutional conditions, namely private property rights, for the protection of individual liberty, but fundamentally because the absence of individual liberty precludes the possibility for individuals from *becoming* or *discovering* who they are, namely creative actors in an open-ended world. To conclude with the words of James Buchanan, “*Man wants liberty to become the man that he wants to become*” (emphasis original, Buchanan, 1979/1999, p. 259).

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### NOTES

1. My discussion in this paper builds directly from the works of philosophers Douglas Rasmussen and Douglas Den Uyl, particularly *Norms of Liberty* (2005) and *The Perfectionist Turn* (2016). What should also be noted here that to use term “Aristotelian” in philosophical theorizing falls into three paradigms (Rasmussen & Den Uyl, 1991, p. xv; Miller, 1995, pp. 21–22). The first evaluates the political and ethical thought of Aristotle as expressed in his work, based in the terms and context within which Aristotle was writing. The second paradigm attempts to evaluate the work of Aristotle not only on his own terms, but also to clarify and defend his entire political-ethical framework by method of contrast with other political-legal traditions, such as liberalism. For example, as philosopher Alasdair MacIntyre argued in chapter 9 of *After Virtue* (1981/1984), entitled “Nietzche or Aristotle?” that applying Aristotelian ethical principles to the political tradition of liberalism is inconsistent, since human flourishing is a function of cultural traditions and values of a larger social whole, namely the *polis*. In other words, MacIntyre believes that human flourishing can only be actualized within a communitarian

social doctrine. The third approach, referred to as “neo-Aristotelian,” adopts ideas and principles from the Aristotelian tradition as theoretical points of departure in providing an alternative ethical justification of the liberal political-legal framework. It is this third paradigm that I adopt in this paper.

2. In the work of [Rasmussen and Den Uyl \(1991, 2005\)](#) and [Den Uyl and Rasmussen \(2016\)](#), they also argue that it is possible for transpersonal principles to be the result of such a knowledge based framework.

3. The categorical imperative is philosophical maxim in the deontological normative theory of Immanuel Kant, which is an unconditional moral obligation that is binding in all circumstances and is not dependent on a person’s inclination or purpose. The categorical imperative can be best explained by the following statement: “Regardless of what ends you may seek, you must take the following steps” (emphasis added, [Long, 2000](#), p. 61, fn. 65).

4. In *Epistemological Problems of Economics*, Mises remarked the following: “Within modern subjectivist economics it has become customary to distinguish several schools. We usually speak of the Austrian and the Anglo-American Schools and the School of Lausanne. . . . [The fact is] that these three schools of thought differ only in their mode of expressing the same fundamental idea and that they are divided more by their terminology and by peculiarities of presentation than by the substance of their teachings (1933, p. 214). Interestingly enough, Chicago economist Jacob Viner stated the same thing:

Neoclassical economics is a sympathetic evolution of the English Classical School. Included under neoclassical economics is the English-American version in Taussig and Marshall and also the Austrian school, whose differences are not as important as the resemblances to the Anglo-American type. Included also is the Continental Equilibrium School or the Mathematical School, such as Walras, Pareto, and their followers. They have much more in common with the neoclassicists than in dispute. ([Viner, 2013](#), p. 19; see also [Boettke & Candela, 2017](#))

5. Surprisingly, Frank Knight and Joseph Schumpeter, both market-oriented economists of a Marshallian and Walrasian stripe, respectively, also agreed with Lange’s analytical assessment. Knight’s argument was that there was no economic problem of socialism because economic science is limited to applying marginalist principles to economic decision making in circumstances of perfect knowledge and perfect competition ([Knight, 1936](#); see [Boettke & Vaughn, 2002](#), p. 159). Schumpeter’s argument was that, assuming the conditions of general competitive equilibrium, the valuation of the factors of production can be logically imputed ‘ipso facto’ directly from the valuation of consumers’ goods (see [Hayek, 1945](#), pp. 529–530).

6. According to philosopher Henry [Veatch \(1962/2003\)](#), moral virtues

are to be regarded simply as learned habits and dispositions that are directly solely at letting reason and intelligence come into play in the determination of our choices of what to do and what not to do. (p. 75)

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