

Relaxing Benevolence:

On the Undesirability of Socialist Calculation when Planners are Human¹

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Abstract

The Austrian calculation argument suggests that inability to engage in economic calculation worsened outcomes in socialist states. We suggest that this is hardly the case. When Austrian assumptions of benevolence are relaxed, inability to engage in economic calculation prevents the non-benevolent planner from fully extracting all available surplus from the citizenry. Consequently, when planners are non-benevolent, calculation ceases to be a relevant argument against the desirability of central planning; its normative force reverses absent benevolent planners.

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“The impracticability of Socialism is the result of intellectual, not moral, incapacity. Even angels, if they were endowed only with human reason, could not form a socialistic community. If a socialist community were capable of economic calculation, it could be set up without any change in men's moral character.” Ludwig von Mises 1932 [1981], 407.

“[I]f the purpose is one of drawing the constitutional limits on the taxing power, would it not be meaningful to utilize a worst-case scenario and to see model governments, anywhere and everywhere, as revenue-maximizing? That is, given any revenue source, would it not be best to assume maximal exploitation?” James M. Buchanan 1992, 105.

I. Introduction

During the socialist calculation debate, Austrian critics of socialist economic planning (Mises 1920; Hayek 1935; Steele 1992) argued that planner inability to engage in economic calculation was sufficient to prove the undesirability of socialism. Since the system could not allocate resources efficiently, it was inherently undesirable; the benevolence or lack thereof on the part of the planning authority was irrelevant to the question at hand. No matter what the character of the planners, the economic calculation problem makes socialism less desirable. We wish here not to revisit the socialist calculation debate, but rather to turn the tables on its normative force. We argue that the calculation problem serves to *augment* the welfare of those living in socialist states precisely because of the self-interestedness of real-world economic planners (or other public agents).² Mises abstracts from motivational problems and assumes strictly benevolent planners. We grant that in such a world, planner inability to engage in economic calculation serves to reduce the welfare of those living in a socialist state. Without the assumption of benevolent public agents, however, *planner inability to engage in economic calculation ceases to be a relevant argument against the desirability of economic planning.*

Section II provides background on the benevolence assumption in the socialist calculation debate. In Section III, we suggest that economic calculation is simply unlikely to pose socially relevant problems: when agents are benevolent, recognition of the economic calculation problem causes them to abandon economic planning; when they are non-benevolent, economic calculation problems constrain their rapacity. The desirability of planner ability to engage in

² While we will frequently make reference to the self-interestedness of planners, using the socialist calculation debate for expositional purposes, the argument is more general.

economic calculation, which we here term “calculative efficacy”, hinges then on the nature of the planner. Consequently, we propose “calculative efficacy” as a complement to the notion of “cooperative efficacy” advanced by Cowen and Sutter (1999). Section IV concludes.

II. Against a background of benevolence...

Mises’s (1920) argument concerning the undesirability of socialism rested on the grounds of its impracticability; specifically, even under the “best case” scenario of benevolent planners posited by proponents of socialist economic planning, their proposed system failed to deliver the promised goods. Market socialists of the 1930s characteristically supposed that planners could easily acquire all of the information requisite for the benevolent formulation of a first-best efficient plan. Dickinson (1939, 63) is typical:

On the basis of its experience with changing prices and quantities the statistical service of every sales agency would be able to draw up a demand schedule for each type of good sold ... Under capitalism, demand schedules are apt to exist in the realm of faith rather than in that of works, but with the greater publicity and fuller statistics of the socialistic economy they would become much easier to draw up.

Mises argued that relaxing the assumption of “perfect information” on the part of the planners devastated the case for socialism.

Of course, a second line of argument existed for those arguing against the desirability of socialism: the planners could not be trusted to run such a system for anything but their own benefit. Indeed, such an argument provides a strong counterargument against those proponents of central planning who identify the primary failing of capitalism as its tendency towards monopoly and the deadweight loss generating rapacity of the private monopolists.³ If private monopolists generate pervasive inefficiencies in pursuit of private rents, why should we expect public monopolists to achieve any better results?

Boettke (2000) suggests that the sociology of the profession at the time prevented anything akin to a public choice type, incentives-based criticism of socialism. During the 1930s

³ Knight (1982 [1940], pp.170-171, italics added) is particularly trenchant: “Socialists themselves generally assume that there will be very much more monopoly under socialism, even in particular industries, to say nothing of the fact that all production would in the nature of the case be one gigantic monopoly in the hands of the government – but of course *all are assumed to be managed in the public interest*”. Knight, however, regarded motivational issues as outside the scope of economics (see Farrant 2004).

and 1940s, Boettke argues, such an argument “was interpreted by many scholars as making a “psychological” and “sociological” criticism and not an economic criticism. For a science grounded in interest-driven analysis, this is of course an ironic and quirky product of those times.” (Boettke 2000, 34). Mises, however, seems to go much further than simply assuming benevolence for rhetorical purpose,⁴ deeming calculation “the crucial and only problem of socialism” (1949, 693) and dismissing the “incentives” problem (1932 [1981], 407, italics added):

[T]he socialist economy is impracticable not because men are morally too base, but because the problems that a socialist order would have to solve present insuperable intellectual difficulties. The impracticability of Socialism is the result of *intellectual, not moral incapacity*. ... Even angels, if they were endowed only with human reason, could not form a socialistic community. *If a socialist community were capable of economic calculation, it could be set up without any change in men’s moral character.*

Hayek (1944 [1986], 44) agrees:

“For our problem it is of minor importance ... whether the ends for which any person cares comprehend only his own individual needs, or whether they include the needs of his closer or even those of his more distant fellows – that is, whether he is egoistic or altruistic in the ordinary senses of these words.”

Regarding the question as to whether “men in general could be trusted to have the moral and psychological qualities ... [which are] essential if a socialist system” (1935, 2) is to work, Hayek is adamant that “no scientist, and least of all the economist... [has] anything to say about the problems of Socialism” (Hayek 1935, 3). Hayek thought that any incentive-compatibility type objections to planning were purely of secondary importance relative to the economic calculation argument: any qualms regarding agent-type simply failed to “touch the heart of the problem” (2) with planning – namely, the impossibility of socialist economic calculation (Mises 1935).

Relaxing only the assumption of perfect information on the part of the planners, Mises showed them to be logically precluded from rationally organizing production to attain any semblance of first-best efficiency whatsoever; they could never assemble the information necessary for doing so. The calculation argument against socialism is well familiar to readers of

⁴ Note that Boettke (2001, 12) speaks of Mises’s “commitment to the assumption of public official benevolence” as being part of his commitment to *wertfreiheit*, which seems quite consistent with Mises’s dismissal of incentive-based problems in the socialist calculation debate. Mises writes that rather than being caused by self-interested agents, “[bad results] are on the contrary the result of well-intentioned but ill-advised government interference with the market” (1945, p.27). Caplan and Stringham (2003) suggest Mises saw politicians as faithful agents of a misguided public; consequently, agency problems do not enter the analysis.

this journal; we will not rehash it further here. We do emphasize, however, that Mises and Hayek seem to do more than simply dismiss any incentives-based arguments on rhetorical grounds; given the magnitude of the calculation problem, they find incentives rather irrelevant. So, then, what does the socialist planner actually do when the effects of calculational failure inevitably take hold? One might expect that a benevolent planner, seeing the famine and havoc resulting from the planning endeavor, might simply retreat. Rothbard hints that the planner's behavior in the face of the Mises critique will indicate planner agent-type:

“[H]ow could Mises know that some advocates of price control do not *want* shortages? They may, for example, ...favor price control, *even after learning of the shortages, because they or their political allies will enjoy well-paying jobs or power in a price-control bureaucracy.*” (Rothbard 1976, 102, italics added).

Though Rothbard speaks here of the price controller in a mixed economy, the argument carries through even more strongly to the central planner under socialism (Levy 1990; Shleifer and Vishny 1992). Faced with the Mises critique, the benevolent planner will retreat from planning; any failure to retreat, however, suggests a clearly demonstrated preference on the part of the planner for the achieved results (see, Stigler 1975, x).

Boettke (2001) disagrees, however, arguing instead that planner self-interest comes into play *only as a result* of the planner's inability to calculate. “Since the economic knowledge necessary to plan the economy rationally will not be available to planners, these decision-makers will be forced to rely on the forms of information that are readily available, which in this context comes in the form of incentives to exercise political power.” (2001:52; Boettke 2000, xviii reiterates the point). In more nuanced versions of the argument,⁵ Boettke argues that the initial planners do not become self-interested when confronted with their inability to calculate; rather, the economic failure resulting from planning causes a political vacuum into which malevolent agents quickly rise. This account fails to square with the empirical record, however. If Boettke's account were correct, we should expect the historical record to be replete with cases where benevolent agents institute economic planning but are soon supplanted by those with a comparative advantage in the use of force when planning begins to fail. Instead, in the cases

⁵ (personal correspondence)

where socialist planning was implemented in consequence of socialist revolution, those leading the revolution were rarely benevolent (unless one posits Lenin, Mao, Pol Pot or Ho Chi Min to be benevolent).⁶ In those cases where democratic governments embarked upon the road towards economic planning, as was seen in much of Western Europe in the middle part of the last century, the planners largely retreated from planning. Agent-type seems to have been set prior to the initiation of planning, rather than as a result of it.

Hayek (1944) suggests that “the worst get on top” in socialist systems because of the choices made necessary by the failure of socialist planning. Sooner or later, the planner must either assume complete dictatorial control over society or retreat from planning. After assuming dictatorial control, the planner must choose between the abandonment of normal morality and the failure of the plan. Consequently, Hayek makes an evolutionary argument that any real world socialist state will be ruled by tyrants; existing socialist states are those in which the “bad” path was chosen at each of the two junctions. If such a mechanism operated, however, we should expect a similarly malign selection process to occur if socialist calculation were feasible. Indeed, we would go so far as to argue that, contra Boettke (2000, 2001) and Hayek (1944), the worst are most likely to get on top not when economic calculation is impossible but rather when it is all too easy; non-benevolent agents quickly see the rents that can be accrued through control of an efficient and effective planning apparatus (Section III, below) and work hard to ensure that it is they, and not the benevolent, at the reins.

We argue that the benevolence of the planners proves of critical importance in assessing the weight of the calculation argument against socialist economic planning. Indeed, one may legitimately wonder whether Mises’ economic calculation problem can *ever* seriously reduce well-being. In the case in which the socialist planner is truly benevolent, the planner would quickly recognize the strength of the Mises critique, eagerly retreat from the debacle of planning, and

⁶ Caplan documents the decidedly non-benevolent nature of the leaders of communist revolutions at <http://www.gmu.edu/departments/economics/bcaplan/museum/musframe.htm>. While it is no mystery that “bad men do bad things”, that it is generally bad men who carry through with planning after having themselves initiated it, while “good” men generally retreat from planning after having seen its failure, suggests that Boettke’s “calculation problems cause incentive problems” theory is wanting. Agent type appears prior to calculational chaos.

institute a program of economic liberalization. In the case in which the socialist planner is self-interested, his inability to calculate will constrain his ability to extract surplus from the populace. Consequently, and in agreement with Caplan (2004), bad incentives conjunct with the operation of planner self-interest appear to lie at the heart of socialist failure, not any inability to engage in calculation (see Cowen 1995).

III. Economic Calculation with Non-Benevolent Agents

Mises suggests that, as a matter of simple positive economics, economic calculation is impossible regardless of planner agent-type. In a world populated by benevolent planners, the Mises critique against socialism is devastating; whatever one's normative position regarding the desirability of socialism, the Mises critique can only cut in one direction – the honest socialist must become less enamored with planning, and the anti-communist becomes more fervent in his denunciation of planning. Of course, the honest socialist need not abandon his advocacy of planning; the losses in national output resulting from the problems of economic calculation might be outweighed by gains on other margins; for example, socialism may yet be preferable if some disadvantaged group fares better under planning than markets even though total surplus falls considerably. Or, the more democratic distribution of economic power under socialism may outweigh the losses in overall wealth. Because of the impossibility of socialist economic calculation, the argument for socialism must rest on something other than the “efficiency” properties – or lack of such – of the socialist system.⁷

The normative force of the calculation argument against socialist planning was especially clear-cut because of the idyllic picture drawn by socialists of the socialist commonwealth ruled by benevolent and omniscient agents. Because the benevolence assumption was left untouched by all involved in the debate, however, the normative force of the argument in the real world was not seriously addressed; namely, what happens when instead of moving from benevolent and

⁷ “Whoever is prepared himself to enter upon socialism on ethical grounds on the supposition that the provision of goods of a lower order for human beings under a system of common ownership of the means of production is diminished, or whoever is guided by ascetic ideals in his desire for socialism, will not allow himself to be influenced in his endeavors by what we have said. Still less will those “culture” socialists be deterred who, like Muckle, expect from socialism primarily “the dissolution of the most frightful of all barbarisms--capitalist rationality”. (Mises 1935, 130)

omniscient planners to benevolent and informationally-constrained planners, we move instead from self-interested and omniscient planners to self-interested and informationally-constrained planners? If the calculation argument cuts against planning when Plato's Guardian serves as the planner, does it have the same force when Stalin is the agent in charge of the planning apparatus?

We argue that, at the margin, the calculation argument makes socialism *more* rather than less desirable when planners are not benevolent – when they are chosen from among members of the human race rather than simply given to us from the heavens. That is to say, anyone who worries about the potential harm that can be caused by a self-interested planner has less cause to worry when he knows that said planner is constrained by the calculation problem.⁸

Let us imagine a world characterized by Tullock-type assumptions regarding human nature and older socialist assumptions regarding the viability of socialist economic planning. Our economic planner is fully able to assess not only relative consumer valuations of all existing and potential goods and services, but also the most efficient allocations of capital goods and of investment directed towards the satisfaction of future wants. He is fully able to replicate that which the market would have done on its own, but without the inefficiencies caused by monopolies in the capitalist order. But will he do so? We argue that he will, but with a catch.

Standard economic theory specifies that, when a monopolist is able to segment consumers with differing willingness to pay for a product, and when the monopolist can prevent resale of goods among these consumers, the monopolist will engage in price discrimination; in

⁸ Vaughn (1981) notes Lerner's worry that "the political consequences of socialism could too easily be anti-individualistic and authoritarian" (xxxii) and Bergson's hint that those "who challenge socialist planning on the grounds that it limits freedom are engaging in a 'tactical maneuver, to bolster a cause which Mises' theories have been found inadequate to sustain'" (xxxiii). Neither Lerner nor Bergson considers what self-interested planning conjunct with full calculative efficacy might deliver. If Mises *were* wrong (as Lerner and Bergson thought), however, there is surely all the more reason to worry what policies 'bad' planners (Hayek 1944) who *can* calculate might pursue. Glaeser (2003, 19) is trenchant: "The real case for laissez-faire is not that the individual is perfect, but that the state will do worse than the private individual, and the strength of this case has always relied more on the fallibility of the state than on the perfection of markets. As an integral member of the Scottish enlightenment, Adam Smith's case for laissez-faire was grounded in the unarguable historical fact that governments often pursue policies that impoverish and slaughter their own citizenry. This is, after all, the central theme of Smith's Scottish historian contemporaries, David Hume and William Robertson. Human beings surely make mistakes about their own welfare, but the welfare losses created by these errors are surely second order relative to the welfare losses created by governments which not only make errors, but also pursue objectives far from welfare maximization. Individuals may procrastinate and foolishly invest, but they tend not to voluntarily enroll in concentration camps."

the limit, he will charge each consumer that consumer's reservation price for each unit of the good. In doing so, the monopolist ensures a first-best allocation of goods with no deadweight loss,⁹ and also ensures the transfer of the maximal amount of surplus from consumers to the monopolist. The perfectly price discriminating monopolist replicates the outcome of a purely competitive market, but with all consumer surplus transformed into producer surplus.

The central planner able to engage in perfect socialist planning – that is to say, planning that replicates the competitive equilibrium – is also able to engage in perfect price discrimination. In order to replicate the market outcome for consumer goods, he must know individual consumer valuations of produced goods; how else could he ensure that the correct mix of consumer goods is produced and distributed to the appropriate consumers? Similarly, he must know individual reservation wages; how else could he ensure that individuals are allocated to the appropriate jobs and for the amount of time that would replicate their labour/leisure tradeoffs in a competitive market?

Armed with the information necessary for central planning, our planner can offer bundles of goods to individuals in exchange for their provision of bundles of labour, the net effect of which effectively leaves the consumer with epsilon utility while transferring all surplus to the planner. Just as the perfectly price discriminating monopolist replicates the competitive outcome while transforming consumer surplus into producer surplus, our self-interested, well-informed central planner replicates the competitive outcome while transforming both consumer and producer surplus into planner surplus.

We can easily envisage our central planner acting as though he occupied a central clearing desk through which all transactions must flow. Indeed, Dickinson (1939, 191 italics added) envisaged just such an institution:

One reason why many socialist writers object to the use of current money in their ideal commonwealth, but permit the use of book-entry money, is their fear of the anonymity of the former. If all transactions went through the medium of a single banking institution, it would be easier to trace and control transactions between individuals of an anti-social nature. Bribery, gambling, and *private trading for a profit* would certainly have a much greater chance of flourishing where notes and

⁹ More generally, price discrimination typically leads to efficiency gains over single-price monopoly when it raises total output, when rent dissipation is not a factor, and when income effects are negligible. See Varian (1985) and Edlin et. al. (1998).

coins were in general use, transferable without formality and without record, than *where all payments went through the books of an omnipresent, omniscient organ of the collective economy.*

The planner centrally coordinates all transactions: Firms seeking inputs, consumers seeking goods, and workers seeking employment all have to negotiate through the central planner. While making sure that all goods flow to their highest-valued uses, the planner only pays sellers their reservation price, while charging buyers their willingness to pay; the spread between the two values is captured by the central planner for his own use. And, of course, the central planner pays only reservation price for any goods purchased for his own consumption. The non-benevolent socialist planner, armed with the ability to engage in economic calculation, effectively replicates Brennan and Buchanan's (1980) Leviathan model of government: - all surplus is transferred to the planner. But, why should we care about the transfer? Standard theory suggests that transfers are of no efficiency consequence. Since the planner acts as a perfectly price discriminating monopolist, the economy operates at the efficiency frontier and no surplus is lost; the planner appropriates surplus without destroying any of it.

There are, however, several reasons why we should care about the transfer. First, and most obviously, diminishing marginal utility of income suggests that the massive wealth transfer from citizens to planner will markedly reduce total utility in the system even though the economy operates efficiently. While GDP is unaffected, utility drops significantly. Second, even if we deem output the relevant norm rather than utility per se, we have reason to question the use of a mean output norm in this context. Levy (2001, 240-2) warns of the dangers of using "any nonrobust estimate of well-being". Where a polity is divided between one 'master' enjoying the fruits of the labours of many 'slaves', total or average output measures provide a highly nonrobust picture of the position of the representative citizen. Instead, median welfare provides the more robust estimator; in our case, the median citizen enjoys only epsilon utility under perfect socialist planning (Levy 2000). Finally, several philosophical objections can be raised against the resulting distribution – the result would be deemed unjust under a wide range of ethical standards.

Taking our fully-extracting socialist Leviathan as starting point radically changes the nature of the socialist calculation debate. Keeping our self-interested planner, what happens

when we introduce the Mises critique? Leviathan changes from a ruthlessly efficient machine for transferring surplus from citizens to planners into the more familiar, somewhat bumbling, venal kleptocracy. Absent the knowledge necessary to engage in economic calculation, the planner is clearly restricted in his pursuit of wealth. Simply put, he is restricted in his taxation instruments because of the incentive effects created by many forms of taxation. Without knowledge of individual utility functions, the despot (benevolent or otherwise) cannot tell which taxes will affect people only inframarginally (and hence will increase government revenue without hurting aggregate output) and which taxes will have effects at the margin (and thereby cause people to change or alter their behavior and reduce the size of the tax base). The planner cannot transfer all surplus to himself and so instead engages in less efficient forms of taxation, which do create deadweight losses but also leave room for individual citizens to enjoy non-trivial levels of utility. Total output declines, but the median citizen's lot improves. In short, socialism does not look quite so bad once we incorporate the Mises critique.

We here term the ability to engage in economic calculation "calculative efficacy" and specify that the degree of calculative efficacy can range from nil to full; the degree of calculative efficacy is reflected in the inverse of the amount of calculational chaos in the planned economy. Prior to the Mises critique, socialists typically assumed full calculative efficacy in their analyses; we now know that planning operates with far less calculative efficacy than such analyses assumed (see, e.g., Boettke 1990). With less than full calculative efficacy, the non-benevolent would-be planner's best strategy may lie in reading Olson: the permanent bandit who ensures a stable property structure and levies reasonable taxes earns higher tax revenues in the long run than the temporary bandit who extracts maximally in any given period. The representative citizen can expect no better outcome under a non-benevolent dictatorship. As calculative efficacy rises beyond a certain threshold, the dictator may improve his extraction technology by implementing limited planning and using the information so-derived to improve his methods of taxation. Olson (2000, 125-6) points out that Stalin taxed inframarginal wages very highly while leaving marginal earnings lightly taxed or untaxed, thereby extracting "a larger proportion of the national output for his own purposes than any other government in history". Had Stalin fuller calculative efficacy, the

degree of extraction surely would have risen as Stalin could have made finer distinctions between the marginal and inframarginal.¹⁰ Given non-benevolence, planner utility is increasing, and citizen utility decreasing, in the degree of calculative efficacy.

What, then, of the case in which calculative inefficacy is so severe that planning would result in widespread famine? One might posit that a state of the world characterized by pervasive calculational chaos and mass starvation is certainly worse than one in which all but the planning authority enjoy epsilon utility. And, of course, calculational chaos would indeed prove the case, if we were to posit that the non-benevolent planner was wholly lacking in calculative efficacy. Surely in the case where calculative efficacy is so low as to cause generalized starvation on the implementation of any plan, the planner, even if non-benevolent, would quickly retreat from wholesale planning and liberalize the economy to the extent compatible with secure planner tenure as the classic Olson-type permanent bandit.

A rational, wealth-maximizing despot will never pursue general economic planning, or at least not for very long, when he is in a position characterized by very low calculative efficacy.¹¹

¹⁰ See also Olson, 1993. Olson there discusses “the “implicit tax-price discrimination” pioneered by Joseph Stalin. This innovation enabled Stalinist regimes to obtain a larger proportion of social output for their own purposes than any other regimes had been able to do. This explained Stalin’s success in making the Soviet Union a superpower and the great military capacity of many communist regimes.” (1993, 575).

¹¹ An anonymous referee suggests that, given that so many western economists were misguided as to the stability and efficiency of the communist system, benevolent socialist planners may similarly err and might then not retreat from planning. D’Souza (2004) reminds us of western academic opinion in the 1980s:

“John Kenneth Galbraith, the distinguished Harvard economist, wrote in 1984: “That the Soviet system has made great material progress in recent years is evident both from the statistics and from the general urban scene. One sees it in the appearance of solid well-being of the people on the streets and the general aspect of restaurants, theaters, and shops. Partly, the Russian system succeeds because, in contrast with the Western industrial economies, it makes full use of its manpower.” Equally imaginative was the assessment of Paul Samuelson of the Massachusetts Institute of Technology, a Nobel laureate in economics, writing in the 1985 edition of his widely-used textbook. “What counts is results, and there can be no doubt that the Soviet planning system has been a powerful engine for economic growth. The Soviet model has surely demonstrated that a command economy is capable of mobilizing resources for rapid growth.” But the genius award undoubtedly goes to Lester Thurow, another MIT economist and well-known author who, as late as 1989, wrote, “Can economic command significantly accelerate the growth process? The remarkable performance of the Soviet Union suggests that it can. Today the Soviet Union is a country whose economic achievements bear comparison with those of the United States.””

Of course, any central planner as misguided as these poor souls would certainly bear the costs of his delusions; the benevolent planner would have a difficult time maintaining his belief in the desirability of planning as the economy begins to crumble. As Boudreaux and Crampton (2003) point out, academics like Galbraith, Samuelson and Thurow were in a position characterized by very low personal stakes and low decisiveness. Thus facing very low personal costs (close to zero) for being very severely wrong, they could afford to indulge whatever preconceptions they wished regarding the viability of socialism. The self-interested dictator, on the other hand, can less afford the indulgence. The benevolent planner, unless extremely stupid, sees the costs of his calculative error being borne by those he wishes to help and retreats from planning; the self-interested planner sees that he is not extracting maximally and retreats from planning, implementing an Olson-type taxation scheme.

Unless, of course, the dictator is not strictly wealth maximizing and starvation serves political ends. As Caplan writes, “When the famine finally threatened to destroy his regime, Lenin dropped requisitioning and price controls - indicating that he knew that these were the cause rather than the cure for hunger.”¹² Lenin knew full well what ends his policies were serving; they helped in his war against the kulaks. When genocide is a likely policy option, rather than an unfortunate accident, restrictions on the set of tools available to the policy-maker are quite desirable (Glaeser 2003, 19).

It is difficult to imagine a case in which the welfare of a representative individual living under a non-benevolent planner is made better off by granting the planner the ability to engage in economic calculation. If the planner is wealth-maximizing, he will switch from Olsonian permanent banditry to perfect extraction, transferring surplus from the citizenry to himself. If the planner seeks to maximize personal power, he will obtain another tool to that end; if famines serve the political ends of the despot, he will be able to implement them even more effectively, and with fewer repercussions on other parts of the economy, when he has greater calculative efficacy.¹³ We can conceive of only one case in which the representative citizen is made better off by increasing planner calculative efficacy: The planner is too stupid to retreat from planning when calculative efficacy is low but is also smart enough to implement an efficiency-improving economic plan when such a plan can be developed. This condition seems unlikely to obtain as the intelligence requirements for the first condition seem lower than for the second.

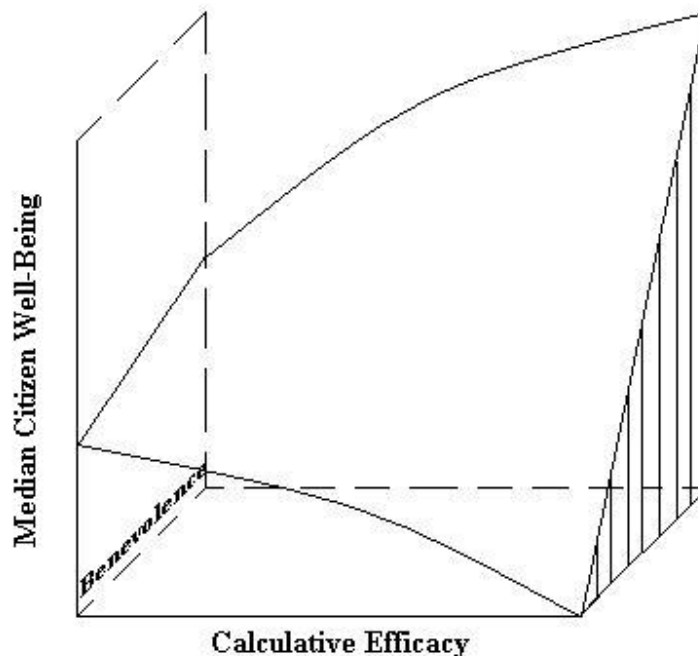
Hayek’s (1944) evolutionary tale demonstrating the rise of the worst under socialism when economic calculation is impossible does not imply that the benevolent will rule when calculative efficacy is high. We hold that a similar dynamic will here be at play. In a world where calculative efficacy is high and the position of planner is contestable, only the planner willing to operate as perfectly price discriminating monopolist will win. In the competition to become

¹² Museum of Communism at <http://www.bcaplan.com>

¹³ “The consumption of an autocratic ruler is, moreover, not limited by his personal capacities to use food, shelter, or clothing. Though the pyramids, the palace of Versailles, the Taj Mahal, and even Imelda Marcos’s three thousand pairs of shoes were expensive, the social costs of autocratic leaders arise mostly out of their appetites for military power, international prestige, and larger domains. It took a large proportion of the total output of the Soviet Union, for example, to satisfy the preferences of its dictators.” Olson, 1993, 569.

planner, every entrant submits a bid for the position. Of course, “bids” here are metaphorical – they refer to the resources that an entrant is willing to expend in order to win the competition. Suppose Plato’s Guardian and Stalin enter the competition. Stalin is, in the limit, willing to bid up to the present discounted value of all future economic surplus in order to win the position. Plato’s Guardian, who would never extract that level of resources from the economy, simply can’t compete with Stalin’s bid. Suppose instead that we begin from a position in which Plato’s Guardian is the incumbent. In order to maintain his position, he will need to extract resources from the economy sufficient to defeat the challenge to the position offered by Stalin. Since Stalin is willing, in the limit, to expend the present discounted value of all future surplus to topple the Guardian, the Guardian cannot extract less than all surplus if he wishes to keep Stalin from ascending to his position. Surely the bigger the prize available to the planner, the stronger the competition for the position. And, the prize is certainly larger when the planner can engage in economic calculation.

Figure 1: Welfare, Benevolence and Calculative Efficacy



IV. Conclusion

Our argument provides the “economic calculation” complement to Cowen and Sutter’s (1999) agent-type critique of standard public goods theory. Cowen and Sutter suggest that any increase in what they term “cooperative efficacy” (161) will generate welfare gains *and* losses. When private or public choosers find it easier to engage in the cooperation necessary to make optimal (or near-optimal) private or public provision of public goods more readily feasible, they can also more easily collude to extract rents or to produce a variety of goods, which, although private goods to themselves, are, in fact, socially inefficient (see Cowen and Sutter 1999, 163). Similarly, any increase in calculative efficacy proves a public bad where agent-type is self-interested. Cowen and Sutter’s account complements the general thrust of our argument: any posited increase in “cooperative efficacy” (given self-interested agents) will necessarily facilitate greater collusion among upstream and downstream monopolist-planners (thus mitigating the potential defection inherent to any agency relationship), not to mention facilitating more efficient joint bargaining over the distribution of the surplus extracted from the citizenry (Shleifer and Vishny 1992).¹⁴

When Plato’s Guardian will serve as economic planner, any reduction in his calculative efficacy makes the representative citizen worse off. If calculative efficacy is sufficiently low, the Guardian will step aside, preferring whatever inefficiencies arise in the free market to the calculational chaos his planning endeavors would engender. Consequently, Mises’s demonstration of the impossibility of economic calculation in the socialist commonwealth dealt a heavy blow against idealized pictures of socialism. However, even if the Guardian existed, it is doubtful that he would ascend to the head of any economic planning agency. Rather, those seeing the greatest potential for personal enrichment will enter the highest bid for the job. In the second-best world of self-interested agents, neither full cooperative nor calculative efficacy is desirable. Both are powerful tools for the dictator; when the socialist planner is not benevolent,

¹⁴ A “realistic supposition is that governments pursue their own interests rather than the public interest ... It is not obvious that we wish to increase cooperative efficacy in governments of this kind.” (Cowen and Sutter 1999, 168-9). Moreover, increasing “cooperative efficacy for selfish governments may bring very high costs and also induce knavish politicians to pursue power.” (169) So too for “calculative efficacy”.

arguments showing his power to be limited serve to improve the expected lot of those under his rule.

If we begin from an assumption of self-interested agents, the calculation argument implies that citizens will not be as poorly off as they would be if the planner had access to efficient calculation mechanisms. Benson (2003, 253) speculates that relaxing the benevolence assumption may overturn many conclusions of Austrian political economy. We provide a concrete example demonstrating the force of his speculation; economic calculation stands as *the* Austrian contribution to political economy (Boettke, 1998), but its normative force reverses when the benevolence assumption is relaxed.

The intuition for our claim that calculative efficacy is a bad where planner agent-type is self-interested is simple: would you – the representative consumer – rather purchase goods from a single price or perfectly price discriminating monopolist, given that you would be making the purchase in either case?¹⁵ By that standard, states of the world can be ranked as follows (from worst to best).

- 1) Self-interested planners conjunct with calculative efficacy: The perfectly surplus extracting Leviathan (see, e.g., Brennan and Buchanan 1980; Olson 2000).
- 2) Self-interested planners with less than full calculative efficacy: Akin to the single-price monopolist – the public choice model of the Soviet Union (Levy 1990); or, if calculative efficacy is sufficiently low, Olson's permanent bandit.
- 3) Benevolent planners conjunct with calculative inefficacy: Benevolent planners pay heed to the Mises-Hayek critique of planning – deadweight losses are anathema to such planners. They readily abandon planning and reinstate the market.
- 4) Benevolent planners conjunct with full calculative efficacy: First-best efficiency obtains. Consumer well-being is maximized.

¹⁵ "Let there be N consumers but only K firm owners [planners], where $N/2 > K \geq 1$. Thus, the median member of society is a consumer, and, to find a social rank, we look only at the consumer's surplus. The ranking is obvious: competition, single-price monopoly, perfect [price] discrimination [efficient planning with self-interested planners] ... the perfect discrimination case would move from a tie for first to dead last." (Levy 2000, 370).

Even leaving aside the second-best efficiency implications that we suggest result from positing calculational inefficacy where government officials are narrowly self-interested, however, informational explanations of socialist failure appear of purely secondary importance to motivational considerations when explaining the economic performance of the Soviet Union: Soviet planners had no interest in the attainment of social efficiency per se, their goal was rather to maximize their own rents (Levy 1990; Shleifer and Vishny 1992; Boettke and Anderson 1997). Moreover, planner inability to engage in socialist calculation fails to provide adequate explanation for the pervasive shortages characteristic of Soviet-type economies (Levy 1990; Cowen 1995). Homo economicus or Tullock-type motivational suppositions, however, make the prevalence of such shortages readily intelligible: planners will clearly use their political monopoly to make themselves arbitrarily rich (Levy 1990, 2000). When planners are bad, Austrian information considerations only serve to improve outcomes under planning.

V. Bibliography

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