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Where Are You Going, Thomas?

Peter: Thomas, did you know it's been proven recently that it is completely impossible to establish socialism, and that no one has ever even described it as a complete system? That it's only been proposed in a very vague way, without specifying just how it would function?

Thomas: I don't get it. Either you're talking nonsense or trying to convince me of a truth I can't begin to comprehend, because we all know that socialist countries exist.

Peter: The truth I want to communicate to you is an important one. I hope I can make you see that the so-called socialist countries are really not socialist; that not only do they not exist, but they *could not* exist.

Thomas: Do you know what you're saying? I think you're wrong. You're trying to deny something the whole world knows; that socialist countries exist. Not only do they exist but they're bent on the rest of the world adopting their socio-economic system because they're convinced it's superior to the capitalist system. Clearly you want to bury your capitalist head in socialist sand. You're overreaching. Not only do you want to deny the existence of socialist countries, but the very possibility of their existence. I can understand how your capitalist prejudice won't let you accept the existence of the enemies of your system, but it's quite outlandish that you would have me believe that socialist countries don't exist—and on top of that that they can't exist.

Peter: I see you've understood me perfectly. That's exactly what I intend to do. But before we start, we have to agree on the terminology we're going to use. If not, our conversation won't bear fruit. By the way, as to the question of whether socialist countries exist or not, some argue that socialist countries need capitalism to survive, that their "machine" contains a part borrowed from capitalism (the price system), that they are parasites, that socialism on its own is impossible, and that no one could explain to you how socialism works—not even in theory.

Thomas: Don't be silly! There's a lot of literature out there that explains how the economy works. How about Russia, just to give you one example.

Peter: Sure, they can explain how the economy works in Russia, but they can't tell you how Russia would survive if socialism were the *only* system in existence. That is, if there were no free market, at least to some degree, outside of Russia. You *can* explain how a free market economy functions, but you *cannot* explain how a socialist economy would function.

Thomas: But the free market causes so many injustices!

Peter: That has nothing to do with it. It's one thing to avoid injustices and another to determine what system we're to adopt. Under socialism, justice isn't guaranteed either. You still have to depend on good will and adequate laws so that some people won't take advantage of others.

Thomas: Okay, I got sidetracked. But can we come back to justice later and not bury it under a rock, because for me it's the most important issue? So then, just what do you understand by socialism?

Peter: Well, briefly and in general: under the label of socialism I include any system in which the "state" owns the means of production or where it directs the economy as if it were the owner. In other words, it's a system where the state decides what is produced, where each thing is produced and how much of it. Therefore, trade is not free. For example, Nazism.

Thomas: But Nazism is right-wing!

Peter: "Right-wing" is meaningless, because everyone understands it as they please. Socialism, on the other hand, is well-defined. The opposite of socialism is liberalism. Nazism, by the way, means national-*socialism*!

Thomas: All right, Peter, no more semantics. Don't you believe it's ludicrous for someone to deny socialism nowadays? Read any book on comparative economics, and it will compare the different systems. Do you expect me to believe that the professors and consultants of the Russian government and other socialist countries, and even of the U.S. or any country, whether against or in favor, are all wrong? No matter what reasons you give me, I simply find your argument hard to believe! Someone is pulling the wool over your eyes! If it's impossible, why would anyone bother to oppose it? In order to disagree with something, you have to believe it's feasible; if not, what are you opposing? Do you believe there would be a war in Vietnam if there weren't serious thinkers for and against socialism? Do you believe that, with modern knowledge, computers, and scientific research centers, such a "small detail" like the nonfeasibility of socialism would escape the attention of the whole world? I'm not denying that socialist countries have tremendous problems with their planning, and they admit this. But it's one thing to say they haven't perfected the system and another to say it's simply impossible. I accept that it's difficult, but I don't believe it's impossible! It's a matter of making scientific headway, and you know that takes time. Everything evolves, and I'm sure that with the advance of science they will become better at solving things over time. Progress can't be stopped!

Peter: Listen, Thomas, let's be reasonable. In the first place, there are many impossible things that exist, and I don't need to give you examples. In the second place, everything that takes place isn't progress simply because it happens. People are fallible. When they get it right, there's progress; when they don't, there's regression. Furthermore, the truth is that people can only choose between feasible alternatives. I admit that some consider what others choose to be unfeasible.

Thomas: So, there's your answer. If some believe that socialism is not feasible, that doesn't mean that it's not feasible for others.

Peter: Maybe, Thomas. But don't you agree that if someone believes a system is feasible, he should have some idea what that system consists of? Or do you think it's logical for someone to say, "I agree to do such and such, but I don't know what it is?"

Thomas: Don't be ridiculous!

Peter: Precisely! It is ridiculous!

Thomas: Do you think it would have been possible for socialism to have become such an influence in the modern world if no one had ever explained how it works?

Peter: Incredible as it may seem, that's right! I know you think that's impossible. What's more, since everyone thinks like you and simply takes for granted that "there must be" some way for socialism to function ("if not, it wouldn't be the world force that it is"), they don't even worry about it, nor are they interested in whether it's true or not. That's why socialism still exists.

Thomas: So, everything boils down to the question: Why isn't socialism possible?

Peter: It boils down exactly to that. And the answer is this: For civilization to exist, the division of labor must be feasible, which is possible only if everything has a price that is relative to all other goods and services. Because under socialism the means of production are not private, and free trade is nonexistent, there is no objective way to assign value and, consequently, no price structure. Therefore, they don't know what value to assign to each thing they produce, nor to the resources they use to produce it. They can't know what anything is worth. They're blind. They can't calculate anything because there is no value to add to or subtract from. They can't measure efficiency. They can't figure out whether what they spend is worth more than what they produce, nor what to do to satisfy their priorities (if they could be established), nor how to distribute objectively the social product.

Thomas: As the saying goes, "seeing is believing." It looks to me like it's easy for a central government to put a price on everything, distribute the product as it sees fit, and decide how and what to produce.

Peter: That is precisely what all of us have mistakenly assumed all along, that such a thing can be done rationally in a socialist system.

Thomas: But if the Russians use prices from the West (from capitalists), the system can function from that point on.

Peter: But then it's not socialism. It's as if I were to tell you I'm going to speak to you in English, but I use Spanish words. Plus, they'll have to copy price changes continuously because they don't have the criteria to determine the changes on their own, for the same reasons they can't establish them in the first place. And you'll agree that progress means change.

Thomas: All right, tell me, Peter: Why can't the government assign whatever price it wants to each thing?

Peter: In a way, it can. But, what's the point if the government can change prices willy-nilly? It's as if we were "playing house." Nothing is real. If we want the value of any two things to add up to five, and we have the power, we just say one thing is worth four and the other one; or we change it and say the first is worth three and the other two; or we change it again and say the first is two and the other three; and so it goes as we continue to "play house." Who are we fooling? I can play or dream that food falls from the sky until I wake up, and I have to go out and get it for myself. Then, I'll discover that if I want corn, I have to plant it and wait for it to grow. It's not enough to dream. The world is real, and everything costs something; everything is in short supply. We even have to ration time. That is precisely the problem: each thing or satisfaction that we obtain presupposes some sacrifice. And progress means that what we sacrifice is less than we receive in return. Therefore, we need a system to be able to evaluate everything that goes into producing something, not just the thing itself.

Thomas: That's true if you're going to measure everything in terms of money, but money isn't everything.

Peter: Money would be worthless if you couldn't use it to trade and compare the relative value of things. This lets you evaluate immediately how beneficial the trade is—in other words the difference in value between what you get and what you give. I agree that in and of itself money is nothing. But money is what allows for division of labor, the cornerstone of society. And division of labor is what allows the increase in productivity (production per capita). Division of labor would be impossible if what a person produced couldn't be traded. No one would make just one product if, in exchange for it, he couldn't get the other things he needed. And abundance is derived from subsequent specialization and trade. None of this can be accomplished without a means of exchange to facilitate division of labor to a superlative degree!

Thomas: Don't go trying to get me into monetary theory. Just tell me why prices can't be determined without private ownership of the means of production and resources.

Peter: Let's agree on something first: what we're looking for is a logical and *objective* system to determine prices. Any system, as long as it's objective. And by that I mean systematic, in the strict sense of the word. Let's agree that a haphazard price structure imposed with brute force isn't rational, much less objective.

Thomas: Sure, that's clear. If everything were subjective it wouldn't make any difference whether you assigned prices randomly or you asked a child to assign them as she pleased. But, why can't we measure the value of things according to the time it takes to make them?

Peter: Because the value to you of what you produce doesn't increase just because you had to use more labor to bring it to fruition. What if you invent a better machine than the old one; one that takes you less time to make? You're not going to value the new one less than the old one. If the criterion were that the value of something is based on how much labor went into it, objectively speaking you'd have to place a higher value on the old machine than on the new one! You do agree, don't you, that nothing has intrinsic value? That all value depends on the level of satisfaction (spiritual or material) that the person obtains from any action or thing? That is to say,

every one of us assigns value to things *subjectively*, according to what we need, what we already have, and the other options we have.

Thomas: So you see, value has to be subjective in the end!

Peter: Value, yes; but prices, no. Here's an example: You might be willing to buy a movie for up to \$10, but its price in the store is \$5. Or maybe for you, it's only worth \$2; in which case, you won't buy it. That's the difference between value and price. *Value* is what you give it. *Price* is based on the choices and capacity to act of two or more people; or, as they say, on the interaction among those who supply and those who demand. So, since everything is scarce and therefore must be rationed; since multiple alternatives are almost always available to satisfy needs (for example, even food); since everyone has to choose what they will use to produce the things that others want, then everyone is influencing prices according to their own subjective value judgments. In the end, what you get is an objective price structure, reflecting a multitude of valorizations based on many factors in each location, which no one person can modify to suit their fancy. So, we all plan our actions according to a price structure that, certainly, we can influence as individuals, but only slightly. That is, we have to bind our decisions to a given price structure. We are forced to choose between alternatives in production and consumption, based *objectively* on the existing price structure.

Thomas: Okay. That explains how the capitalist market works, but it doesn't prove that it's the only way!

Peter: Have you noticed that, thanks to the system of profit and loss, people stop producing things that lead to a loss, and they increase the production of things that make a profit? It's something that happens automatically when we have private property, because it affects people's assets. The point is that they are able to figure it out. And they figure it out through calculations based on the price of the production inputs and the price of the thing itself. It gives them a way of figuring out the best combination of factors to produce something and what the quality and quantity should be. In other words, what will cause a loss and what will make a profit.

Thomas: You keep explaining how the capitalist market works, but you don't explain why a socialist one can't have prices!

Peter: Okay. Suppose a person or authority is going to assign prices, and they start by assigning prices to machinery. What criteria do they use? Each machine can be made in infinite ways and with innumerable materials. Any way you slice it, the price depends on the value the machine generates indirectly through the value of the product it produces. And the machinery will be manufactured only if the combined resources used to make it (material, capital, and labor) are worth less or the same as the price of the machine. However, the materials used to make the machine come from natural resources. In a socialist country these are not traded freely because they are not private (the State decides what it will produce with natural resources; for this reason, free supply and demand is impossible). Thus, they have no way to calculate how much is spent on making the machine. The cost or price is impossible to determine, so the State has to assign it arbitrarily because it has no objective criteria. Do you understand why the State is impotent?

Thomas: I see it's difficult and complicated. And that maybe you couldn't start without any prices. You should probably have an initial price base, and from that point on the State could modify prices according to its own criteria.

Peter: What objective criteria could make that possible? Don't you see that prices change every day due to accidents of nature, new inventions, and discoveries? Every event changes the interrelation among all other prices, some in direct relation others, and to a different degree according to location. We're talking trillions of combinations! When the quantity or quality of a product changes—say, due to an invention or better crops—everything has to be adjusted all over again so that the changes are reflected as an economizing of resources for the society.

Without objective means to avoid waste and overuse of resources, the human race would tend toward extinction. All progress implies savings: unspent resources or labor. These become available to meet new needs, which prior to the act of saving couldn't have been satisfied. Imagine the problem of how to distribute that savings objectively if you yourself had the power to fix prices at the beginning and end of each day. How would you know if the prices were right if you (or the government) were the one to establish or change them—thereby indirectly altering supply and demand? And, when you change supply and demand, you alter the relative scarcity of everything with respect to everything else. There's no way to avoid the problem of continuous price change, simply because progress is neither rigid nor static; by definition, it means continuous change.

Thomas: Tell me, Peter, what if a socialist country copies free world prices and accepts the continuous modifications of prices in the free world? Can you assure that this will also produce losses just because prices are copied?

Peter: In the first place, it would be inaccurate to call that country socialist. But, I'll give you an example so you can see how merely copying someone else's prices produces loss.

Suppose we hire the same architect to build two houses—exactly alike—in the same place (where *real local prices* exist because there is a real market). For the first house, he has to decide on a combination of materials based on the *real prices of that place*. For the second house, he has to select a combination of materials imported from elsewhere, based on the price structure of elsewhere. When the experiment is over, in each case we calculate how much the house is worth by totaling what he paid for the resources used. We find that the second house is more expensive because the architect was forced to use a combination of resources *different* from the most economical one. (In both cases we assume he selected the cheapest combination of resources, otherwise he simply would have been making a mistake.) The difference in cost represents the loss (or economic inefficiency) due to overspending and waste.

Thomas: If you could guarantee that the market prices are optimum and that people have perfect knowledge of the prices, then I would agree. But that's impossible, for lots of reasons.

Peter: The system is imperfect, I agree. Distortions exist, I agree. But to the degree that the economy is kept free through State intervention to prevent coercion, monopoly, fraud, etc., to that degree distortions will be minor and, therefore, the economy more efficient. In this situation,

a tendency toward the efficient assignment of resources will always be present. However, under socialism or a controlled economy, not the slightest possibility of rational behavior exists. Nothing perfect arises from human behavior, and in the market people make mistakes. But *only there can they discover they made them*, because of the profit and loss system that exists thanks to prices. Under socialism, without prices, that's not even possible. And when so-called socialists copy prices, in fact they are not socialists. Instead, they are very irrational, because they are adopting a very inefficient *sui generis* system that is itself based on private property.

Thomas: But, what if they don't care about inefficiency?

Peter: It's not that they don't care; they do. But as I said, they're not aware that the problem exists. Just as there are socialists who care about society, there are also opportunists who don't care about the well-being or progress of others. Their numbers and the influence they can wield are important and shouldn't be downplayed. However, their influence *is not enough* to determine whether socialist ideas survive or disappear. Since opportunists aren't motivated by the human condition, they simply adopt a posture along with the ideas they expect to prevail. The ideas are those they deem to be most prestigious and popular in academic, political, and media circles, most of whose members are well-intentioned but misguided. Opportunists depend on the support they get for their stance from intellectuals. Intellectuals (the well-intentioned ones) determine whether socialism exists because of their influence on consensus in the media and political circles. Were they to realize the absurdity of their position and be honest in recognizing it, opportunists would realize that their opportunity lies in eventually changing sides. If socialism and the controlled economy were to lose their undeserved prestige and be recognized for what they are—ridiculous and absurd—no one would take them seriously. Socialist governments would no longer deserve respect; indeed, ridicule would render their power unsustainable and, undoubtedly, socialism would vanish from the face of the Earth. The great conflict of this century (the twentieth century) would have ended.

"We knew, when we took power into our hands, that there was no real way to reorganize from capitalism to socialism . . . I know of no socialist who has dealt with these problems." **V. I.**

Lenin

Socialist historians Sydney and Beatrice Webb tell how Lenin himself consulted "these problems" with Krzhizhanovsky thus: "Could you not lay out a plan (not a technical but a political project) that the proletariat could understand? For example, in 10 years (or 5?) we will build 20 (or 30 or 50?) electric power plants in a network that reaches throughout the country, each with a coverage, let's say, of 400 versts (or 200 if we can't achieve more) . . . We need such a plan immediately to provide the masses with a prosperous, reachable vision of the future, something they can work for. And in 10 (or 20?) years, we will provide electricity to all of Russia, industrial as well as agricultural. We will work until we have God knows how many—very many—kilowatts or energy units."

The famous socialist Oskar Lange, in his treatise “On the Economic Theory of Socialism,” states: “socialists certainly have good reason to be grateful to Professor Mises,¹ the great devil’s advocate of their cause. For it was his powerful challenge that forced the socialists to recognize the importance of an adequate system of accounting to guide the allocation of funds in a socialist economy.”

Translated from the original Spanish

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¹ Ludwig von Mises, professor and writer on the subject of liberalism, or free market economy.