

The Poverty of the “Economic Calculation Problem” - Postliterate - Medium

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Source: <https://medium.com/@postliterate/the-poverty-of-the-economic-calculation-problem-599daf155090>

The “Economic Calculation Problem” (shortened “ECP” hereafter), first posited by Austrian economist Ludwig von Mises in his 1920 book, *Economic Calculation in the Socialist Commonwealth*, has generally remained a point of contention in ongoing discussions about socialism. At the time, its radical critique of centrally planned economies caused many socialists to recourse in their designs for socialist economies, birthing the famous Lange-Lerner model of “market socialism,” among others. The debate remains partially active today, generally dividing socialists and anti-socialists into three camps:

1. Those who entirely accept Mises’ conclusions, rejecting most to all non-market economic solutions;
2. Those who concede the ECP to Mises, but assert workarounds through the marginal incorporation of markets into an otherwise “socialist” economy;
3. Those who reject the ECP on the basis that it is solvable simply through the utilization of powerful centralized data-collection tools and mechanisms.

The purpose of this article is to assert that these positions, and the debates between them, are for the most part entirely misguided. Moreover, beginning from poorly thought out and wholly bourgeois presuppositions, the “socialists” who have entertained these debates can be called nothing short of misinformed. In a word, there is *no* problem of economic calculation in the socialist commonwealth, in the way Mises conceives of it. This article will discuss the ECP, why it does not apply to socialism (unless one has a misguided understanding of socialism), and in the last section will discuss the related but more general “knowledge problem” posited by Mises’ protégé, F.A. Hayek.

1 — The ECP

The core argument of the ECP is rather famous. It essentially states that price signals are necessarily the most efficient form of economic coordination, achievable only through private property rights and generalized markets. By bringing together the actions of millions of private producers and coordinating efficient resource allocation between them, price signals allow incredible and complex calculations to take place between them in a way that no individual coordinator alone could. The price mechanism, as a mediator between these producers, can essentially conduct massive coordination mechanisms on their behalf, more effectively than an individual or group could manually. Moreover, by coordinating in common, the mechanism prevents bottlenecks in information collection and the regulative power of specific individuals or groups. Mises explains it like so:

There are two conditions governing the possibility of calculating value in terms of money. Firstly, not only must goods of a lower, but also those of a higher order, come within the ambit of exchange, if they are to be included. If they do not do so, exchange relationships would not arise. True enough, the considerations which must obtain in the case of Robinson Crusoe prepared, within the range of his own hearth, to

exchange, by production, labor and flour for bread, are indistinguishable from those which obtain when he is prepared to exchange bread for clothes in the open market, and, therefore, it is to some extent true to say that every economic action, including Robinson Crusoe's own production, can be termed exchange. Moreover, the mind of one man alone — be it ever so cunning, is too weak to grasp the importance of any single one among the countless many goods of a higher order. No single man can ever master all the possibilities of production, innumerable as they are, as to be in a position to make straightway evident judgments of value without the aid of some system of computation. The distribution among a number of individuals of administrative control over economic goods in a community of men who take part in the labor of producing them, and who are economically interested in them, entails a kind of intellectual division of labor, which would not be possible without some system of calculating production and without economy. (*pp. 14–15*)

This logical progression seems to be plausible, but it has little to do with socialism and even less to do with capitalist markets. The problem of economic calculation does in fact exist, but that it has a scope several magnitudes smaller than Mises perceives. In his worryingly short text, wedged between embarrassing misunderstandings of Marx, Mises inflates the problem of economic calculation to incredulous proportions in order to hastily disregard the socialist movement — through hand-wave arguments that have been enthusiastically taken up by mild apologists for capitalism and “libertarians” alike.

2 — The Problem of Value

Mises' argument departs from an analysis of subjective valuations within individual acts of exchange. He then places these valuations in the context of a complex web of generalized market exchanges in order to demonstrate

the necessity of price mechanisms for the effective and unambiguous coordination of these exchanges and their reproduction for positive ends oriented towards the satisfaction of individual utility.

The issue with this starting point, in some sense, is brutally obvious: the real, material point of departure for an individual in a capitalist economy is not individual valuation of products at all. Their real material starting point is *labor*, and it is only through labor that they can even begin to be conceived of as market actors. Mises' ECP already stands on uneven ground here; there is no reason, from the outset, to believe that Mises' imaginary starting point for economic analysis could do anything but either reach the same conclusions or less charitable ones than a starting point rooted in reality.

Now, a word of clarification. The engagement of an individual in a capitalist market through its labor process is most certainly done via an exchange process, and in that sense could it be argued that individual valuations of exchange remain the primary factor at play. But the notion of "individual valuation" is inherently vacuous and without content — it appears a plausible explanation for market processes only in the abstract, when stripped of determinate content and ripped from social contexts. The real "content" of these individual valuations is unequivocally *labor*, in the sense that labor serves as the primary means to products and the essential mediator of capitalist relations of social production.

This is the genuine problem of value. The necessity of utility is an established fact of all social formations through history, but its regulation through various forms of social mediation has not remained static through them. So too in capitalism does there exist a form of social mediation quasi-independent of marginally transhistorical notions of utility, and this is understood as *value*.

Mises is essentially correct that value can, in fact, only be expressed through its form of value in money — which includes the prospect of price signals. But he is correct only for a reason entirely outside the scope of his understanding.

Labor always objectifies itself in its product — this much will always be true. It is, however, specifically in capitalist relations of production that labor objectifies itself as a generalized social mediation. Because labor is not an overtly social form of mediation (e.g., the serf bounded to the land of the baron), it can express its mediations only through its *objectified* form. As an objective form of social domination, labor must be able to be expressed independently of the social subjectivities which utilize it, and because it has no individual or group owner (not even a class owner necessarily), it must express itself *generally*. This expression of labor is necessitated in its form of *qualitative indifference*. Money, as a qualitatively invariant expression of only pure and abstracted quantitative difference, is thus necessitated as a social object that is capable of representing generally the relations of capitalist labor, mediating social life as *value*.

3 — The ECP and Capitalist Consciousness

The imagined “rational” construction of generalized exchange relations imposed by relations of individual subjective value judgements coalescing into a complex network of market processes, is in truth not particularly “rational” at all. It is, rather, simply a rational outcome of a particular historical movement of capitalist value relations, which itself cannot be truly rationalized; in some sense it could be called a rational outcome of an irrational process. The estrangement of the population from its means of subsistence and its means to produce such, and the transformation of social relations of domination into relations of wage-labor, is the essential historical development in the formation of these constructions. Labor is transformed into the general regulative principle of capitalist modernity by the fact of its generally imposed reality and its role as a general means to the products of labor.

It is this fact which imposes generalized exchange relations from which before there were not. If this fundamentally irrational process can have its outcome rationalized, it would only reflect the fetishistic con-

sciousness of the one who is rationalizing it. In the appearance of objectified social relations, the natural restrictions imposed by the natural world and human interaction with it, seems to be the only regulative factor at play. Likewise, the reality of some form of labor in any social formation presents itself as an innocuous naturally imposed necessity for labor. All of this is plausible only if the genuine content of capitalist value is conveniently ignored. Mises, in his exceptional commitment to vulgarity in denying all irrationalized conceptions of capitalist relations, is able to construct a fanciful theoretical model in which it appears he is correct. The model makes it blindly obvious, at least, but the model itself is incoherent.

4 — Value and the ECP

The ECP has very little to do with socialism — unless conceived of in the negative sense. The expressions of relations of capitalist social production are not of interest for socialists as a goal, and as such neither is the problem of value. Mises seems entirely intellectually incapacitated on this point, humorously proclaiming:

[T]he labor theory of value is inherently necessary for the supporters of socialist production in a sense other than that usually intended. In the main socialist production might only appear rationally realizable, if it provided an objectively recognizable unit of value, which would permit of economic calculation in an economy where neither money nor exchange were present. And only labor can conceivably be considered as such. (*p. 30*)

This quote likely reveals the entire issue with Mises' conception of socialism. For him, it is a question of conscious calculation and regulation of value and its dictates, and a subsequent search for "an objectively recognizable unit of value." Mises also assumes that, whether the socialists know it or not, the problem of value will present itself in the "socialist economy" as it would the current capitalist one. This is done by stringently rationalizing

the latter through imaginary conceptions of market relations in order to make its dictates appear equally rational, and thus important to consider for the “socialist economy” as well. Of course, socialism entails the abolition of value through the reunion of laborers and their means of subsistence and production thereof — so the problem becomes specious.

None of this is to say that socialism will require no coordination or calculation of productive actions in advance. It is, however, to say that the problem of calculation conceived of by Mises is not valid outside of capitalism and its fetishized social forms. Because the goal of socialism is not to simply maintain the dictates of value imposed by capitalist production processes but now under conscious control, the problem of socialist calculation (if there is one) would look nothing like the one conceived of to justify markets in the capitalist historical epoch.

Mises effectively makes a point that Marxists have known for much longer than him: that value necessarily expresses itself in the exchange-value of products, represented generally in the money-form. The scope of this fact is both quite obvious and extremely narrow; that it could be used to generate critiques of Marxian socialism is a bizarre notion. Unfortunately, misguided Marxists are almost as much to blame as Mises and his followers are.

5 — The Knowledge Problem

It has been established that the ECP is invalid on the simple grounds that it is inapplicable to the problem of socialist economic coordination. The “knowledge problem,” however, posited by Hayek, is considered to be an affirmation of capitalist market economies on a much larger scale.

On the surface, this appears to be true. The knowledge problem is intended to express not a specific problem of economics, but an epistemological problem of human life in general. The ECP can thus be called a *kind* of knowledge problem, with the former being a subset of the latter. Hayek states:

Fundamentally, in a system in which the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people in the same way as subjective values help the individual to coordinate the parts of his plan. (*op. cit.*)

This again, appears plausible, and Hayek seemingly rigorously justifies this argument using logic revolving around the fact of “*knowledge [...] dispersed among many people*” being most effectively solved by pricing mechanisms.

However, because the knowledge problem attempts to ontologize itself, it falls flat as well — and in much the same way as the ECP. If there exists a knowledge problem, and it is effectively transhistorical, the analysis of various historical social formations which reveal various forms of mediation present to regulate the fact of social production, suffices to show how the scope of the “problem” is again quite narrow. Clearly something of a knowledge problem exists in human society, but because the simple fact of social mediation, in common across history, appears to constitute a livable solution to the “problem,” there is no reason to believe that the socialists have failed to consider the issue or are at great and unrealized fault in this way. Only if the socialists believed that no mediation whatsoever would be necessary to regulate social production in society would the knowledge problem appear valid.

6 — Conclusions

None of this is to say that bottlenecks in knowledge or inefficiency of economic coordination are impossible prospects for the project of socialism. There is no reason to believe that these phenomena, and possibly worse ones, could not occur in socialist society. It is, however, to say that the potential problems of the socialist commonwealth are not captured by the concepts posited by Mises and Hayek. Their conceptions are internally invalid, and if they would appear to be empirically true for the socialist

commonwealth, it would only be by coincidence. An internally wrong framework cannot be trusted to consistently explain anything until it can establish internal logical validity.

Friedrich A. Hayek. “The Use of Knowledge in Society.” *American Economic Review*, vol. 35, no. 4., 1945, pp. 519–30.

von Mises, Ludwig. *Economic Calculation in the Socialist Commonwealth*. The Ludwig von Mises Institute, 2012.

Even more so than Marx alone, this article is indebted to the work of Moishe Postone and his book *Time, Labor, and Social Domination*.