

# The Eternal Validity of “Die Wirtschaftrechnung im sozialistischen Gemeinwesen”: A Centenary Appraisal

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## Abstract

This year marks the centenary of the publication of Mises’s pioneering article “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” in 1920. On the occasion of this centenary, the present author will try to answer a bold question: Can Mises’s arguments in “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” be judged to be valid eternally? In the first section following this “introduction,” relying on Guido Hülsmann’s *MISES: The Last Knight of Liberalism*, Mises’s writing, presenting, and publishing activity of “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” and reactions by some leading economists around Mises to his argument against socialism are looked back. The second section is devoted to re-reading Mises’s article. There, his arguments will be summarized, and the premise and propositions are concisely restated. Then, in the third section, after confirming the conditions for invalidating Mises’s proposition, Mises’s argument will be evaluated in the light of the history of the socialist calculation debate and the experience of the former socialist countries. Finally, a positive answer to the question of eternal validity of Mises’s argument will be given by borrowing Mises’s own words.

## Introduction

One hundred years ago, at a January 1920 meeting of *Nationalökonomische Gesellschaft*, Ludwig von Mises, a Viennese student of civilization, presented an article entitled “Die Wirtschaftrechnung im sozialistischen Gemeinwesen,” which was published later that same year in the German-language journal *Archiv für Sozialwissenschaft und Sozialpolitik*. In 1935, its English translation by S. Adler appeared in *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism* edited F. A. Hayek. Thereafter the article has translated into many languages.

For one hundred years, Mises’s article has been read, referred to, and criticized again and again. It was once alleged that Mises was accused of being wrong. At other times, it was also confirmed that he was right. Is Mises’s argument in “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” valid or not? This seems still an open problem. In this essay, on the occasion of the centenary of the publication of Mises’s groundbreaking article, the present author will try to answer a bold question: Can Mises’s arguments in “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” be judged to be valid eternally?

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That question might be too ambitious. Yet, the time of one hundred years is long enough to judge whether Mises is right or not because, during that hundred years, the socialist calculation debate has been going on, and the socialist economies had been experienced. Attempts to answer that question need no further justification.

In the first section following this “introduction,” relying on Guido Hülsmann’s *MISES: The Last Knight of Liberalism*, Mises’s writing, presenting, and publishing activity of “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” and reactions by some leading economists around Mises to his argument against socialism are looked back. The second section is devoted to re-reading Mises’s article. There, his arguments will be summarized, and the premise and propositions are concisely restated. Then, in the third section, after confirming the conditions for invalidating Mises’s proposition, Mises’s argument will be evaluated in the light of the history of the socialist calculation debate and the experience of the former socialist countries. Finally, a positive answer to the question of eternal validity of Mises’s argument will be given by borrowing Mises’s own words.

## **1. Mises’s Writing, Presenting, and Publishing “Die Wirtschaftrechnung im sozialistischen Gemeinwesen”**

### **1.1 Writing “Die Wirtschaftrechnung im sozialistischen Gemeinwesen”**

Thanks to Guido Hülsmann’s comprehensive biographical study of Mises using “Mises’s Lost Papers,”<sup>1</sup> we can extend Mises’s own recollection with the more detailed background story of his writing “Die Wirtschaftrechnung.”<sup>2</sup> As Mises himself suggested, after finishing *Nation, Staat und Wirtschaft* in 1919, Mises began the project to write a systematic and comprehensive critique of all variety of socialism, which would be completed in 1922 with the publication of *Die Gemeinwirtschaft: Untersuchungen ber den Sozialismus*.

To Emil Lederer, who participated in Böhm-Bawerk’s seminar and had had prolonged friendship with Mises, Mises gave a promise to contribute a series of articles to *Archiv für Sozialwissenschaft und Sozial Politik*, to which Lederer was named editorial secretary in 1911. In 1917 Lederer became managing editor under the editorship of Joseph Schumpeter. Then in 1922 he would assume the post of editor with Schumpeter and Alfred Weber. In his letter to Lederer dated on November 14, 1919, Mises informed him the title of the first of supposed pieces to be “Die Wirtschaftrechnung im sozialistischen Gemeinwesen.” Because Mises seemed to be planning to discuss this problem in his *Die Gemeinwirtschaft*, his decision of earlier publication of it as an independent work seemed to have some

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<sup>1</sup> On “Mises’s Lost Papers,” for example, see Richard M. Ebeling “Mises’s Lost Papers: Plundered by the Nazis, Buried by the Soviets, Rediscovered by Me” at <https://fee.org/articles/mises-lost-papers-plundered-by-the-nazis-buried-by-the-soviets-rediscovered-by-me/>

<sup>2</sup> Hülsmann, 2007, p. 372f.

reasons. One of these was certainly political one. The economic suffering had put Austria unstable situation, and in the direction towards socialism. Therefore, it is not unreasonable to assume that Mises, with his article, had the hope to obstruct the political trend.

What surprises us about Mises's writing "Die Wirtschaftrechnung" is the fact that he could find time for writing during his playing eminent role for saving Austria from inflation and economic collapse.<sup>3</sup>

## 1.2 Presenting "Die Wirtschaftrechnung im sozialistischen Gemeinwesen"

In early January 1920, Mises presented "Die Wirtschaftrechnung" at a meeting of *Nationalökonomische Gesellschaft*, attendees of which included Joseph Schumpeter, Alfred Amonn, Max Adler, and Helene Bauer.

Mises attacked the fundamental point of socialism by demonstrating that the avolition of private property of the means of production would logically lead to the extinction of exchange and money prices, and then consequently to monetary accounting with money prices of the means of production. Based on these deductions, Mises asserted that monetary accounting in the socialist commonwealth was impossible, and that no other means of economic calculation existed in such society.

The reaction of attendees to Mises's talk can be known in his letter dated January 14, 1920 to Emil Lederer who did not attend the meeting<sup>4</sup>.

My first concern is to show that economic calculation, as it is practiced in the free economy, is inconceivable in a socialist commonwealth because it is built on the premise that money prices are formed for the means of production. This part of my presentation has generally met with full consent in the discussion in the *Nationalökonomischen Gesellschaft*. Even Max Adler and Helene Bauer have made objections on merely one point, namely, that economic rationality will choose other ways and means in the socialist commonwealth than they will in the free economy. But what these means will be, they could not specify.

Amonn too fundamentally agrees with my argument. I have just told him on the telephone that you would like him to put together some remarks on my paper for the *Archiv*. He replied he could not comply because he fundamentally agreed with the negative side of my argument, but was unable to make a positive proposal for the institution of an economic calculation in the socialist commonwealth.

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<sup>3</sup> Hayek writes: "That under the prevailing conditions he found time to concentrate and to pursue a comprehensive theoretical and philosophical work has remained a wonder to one who at least during the last month of this period saw him almost daily at his official work." Hayek, 1981, p. xxi. Hayek, 1981, p. xxi. For Mises's activities in 1919, see Hülsmann, 2007, pp. 325-368.

<sup>4</sup> Hülsmann, 2007, p. 377f.

Schumpeter made the following proposal: The socialist commonwealth gives each comrade a certain amount of accounting money as income and then leaves it to free pricing to bring about prices through exchanges. This proposal is however unsuited to circumvent the problem I have pointed out. For the higher-order goods remain *extra commercium*; consequently it is impossible to sort out prices for them even in terms of this accounting money, and thus economic calculation becomes impossible in the sphere of production.

The substance of my argument, which I believe to have evidenced in my proof, is precisely this: that economic calculation in the free economy is not applicable in the commonwealth; and I also do not see any conceivable economic calculation that the socialist commonwealth could adopt. I believe that this presents the most important problem of social-ization—a problem far more important for socialist theory than, formerly, the problem of the average rate of profit.

Mises did not report about Adler's or Bauer's reactions to his talk. However, according to Hülsmann, "Vienna's Austro-Marxist elite was left speechless."<sup>5</sup> Lederer himself sent Mises the following comments after the meeting:

[a future socialist economic calculation] would be essentially different from capitalistic calculation in that many moments would be included in the calculation, some would be lacking, and some would be evaluated differently; this all points to another kind of system, but a system, nevertheless. It is at that point within a system where universal factors are found that operative methods of calculation for the system originate<sup>6</sup>.

Mises's presentation of "Die Wirtschaftrechnung" which provoked several replies by economists made the meeting of *Nationalökonomische Gesellschaft* a real forum of controversy and marked the very beginning of "Die sozialistische Berechnung Debatte" in German speaking area. Then "Die Debatte" moved to the controversy in *Archiv für Sozialwissenschaft und Sozialpolitik* after it published Mises's article in the same year. What was interesting fact was that Amonn, Adler, Otto Bauer who was husband of Helene Bauer, Schumpeter, and Lederer would be able to publish their own objections in this German journal. However, all of them seemed decline to do so.<sup>7</sup>

### **1.3 Publication of "Die Wirtschaftrechnung im sozialistischen Gemeinwesen"**

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<sup>5</sup> Hülsmann, 2007, p. 379.

<sup>6</sup> Hülsmann, 2007, p. 379, footnote 15.

<sup>7</sup> Schumpeter's proposal suggests a market socialism which allows free exchanging of consumer goods and the formation of their prices which then could be used to determine the prices for the means of production. He himself might think seriously his scheme to be effective objection to Mises's argument as, later, he would supervise Klare Tisch's dissertation on economic calculation and distribution in the socialist community at University of Bonn, in which Tisch would explain her mentor's idea.

In 1920, “Die Wirtschaftsrechnung im sozialistischen Gemeinwesen” was appeared as the third article in the first issue of forty-seventh volume of *Archiv für Sozialwissenschaft und Sozial Politik*. The editor was Emil Lederer who got helps of Werner Sombart, Max Weber, and Joseph Schumpeter. With its publication, Mises’s calculation argument against socialism began to spread into not only the academic realm but also the political sphere. The exact process of the propagation of Mises’s argument was impossible to trace out. But it should be noted that *Archiv für Sozialwissenschaft und Sozial Politik* provided the place of discussion on the calculation problem Mises raised against socialism. Without going into the details of each participant in this discussion here, but rather the key articles are listed below in chronological order.

First of all, two articles should be mentioned: the one is Otto Neurath’s “Ein System der Sozialisierung [A System of Socialization]”<sup>8</sup> which was in the first issue of the next volume of *Archiv*; Volume 48, Issue 1. The other was lengthy “Sozialistische Möglichkeiten von heute [Socialist Possibility of today]”<sup>9</sup> by Schumpeter, which was published in the next issue of the same volume. In that both of authors of these articles did not touch on Mises’s argument, paradoxically they should be important.

In the same year, in 1922 as Mises himself published *Die Gemeinwirtschaft*, the first article which tried to refute Mises appeared in the second issue of the forty-ninth volume; it was Karl Polanyi’s “Sozialistische Rechnungslegung [Socialist Accounting]”<sup>10</sup>. Then in the second issue of fifty-first volume in 1923, Mises’s “Neue Beiträge zum Problem der sozialistischen Wirtschaftsrechnung”<sup>11</sup> which includes his criticism of Polanyi’s article, and Jacob Marschak’s “Wirtschaftsrechnung und Gemeinwirtschaft: Zur Mises'schen These von der Unmöglichkeit sozialistischer Wirtschaftsrechnung [Economic Calculation and the Socialist Commonwealth: The Misesian Thesis of the Impossibility of Socialist Economic Calculation]” were published side by side. Then the first issue of the next volume, volume fifty-second, published two articles; Polanyi’s “Die funktionelle Theorie der Gesellschaft und das Problem der sozialistische Rechnungslegung. (Eine

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<sup>8</sup> Otto Neurath. “Ein System der Sozialisierung.” *Archiv für Sozialwissenschaft und Sozial Politik*, Vol. 48, Iss. 1, 1920/1921, pp. 44-73.

<sup>9</sup> Joseph Schumpeter. “Sozialistische Möglichkeiten von heute.” *Archiv für Sozialwissenschaft und Sozial Politik*, Vol. 48, Iss. 2, 1920/1921, pp. 305-360.

<sup>10</sup> Karl Polanyi. “Sozialistische Rechnungslegung.” *Archiv für Sozialwissenschaften und Sozialpolitik*, Vol. 49, Iss. 2, pp. 377-420. According to Hülsmann, “In February 1924, Polanyi sent his article to Mises, and ask him for an offprint of his critique of the article.” (Hülsmann. 2007, p. 343, footnote 27.)

<sup>11</sup> Ludwig Mises. “Neue Beiträge zum Problem der sozialistischen Wirtschaftsrechnung.” *Archiv für Sozialwissenschaften und Sozialpolitik*, Vol. 51, Iss. 2, pp. 488-500. In this article, Mises responded to Marschak’s article, which meant that Mises was presented it before its publication. The other socialist authors whom Mises criticized include Arthur Wolfgang Cohn, Eduard Heimann, Karl Kautsky, Otto Leichter, and Polanyi. According to Richard Ebeling, “In correspondence at the time when this article was in galleys, Mises accused Joseph A. Schumpeter, who was one of the editors of the *Archiv*, of attempting to change a part of the text without Mises’s permission.” (Ebeling ed. 2002, p. 351 footnote 1.) A part of this article was added as appendix to the second edition of *Die Gemeinwirtschaft* published in 1932 under the title “Zur Kritik der Versuche, ein System der Wirtschaftsrechnung für das sozialistische Gemeinwesen zu konstruieren.”

Erwiderung an Prof. Mises und Dr. Felix Weil) [The Functional Theory of Society and the Problem of Socialist Accounting (A reply to Prof. Mises and Dr. Felix Weil)]”<sup>12</sup> and Felix Weil’s “Gildensozialistische Rechnungslegung. Kritische Bemerkungen zu Karl Polanyi: »Sozialistische Rechnungslegung« [Guild Socialist Accounting: Critical Remarks on Karl Polanyi: ‘Socialist Accounting’]”<sup>13</sup>.

After four year passed, when Mises’s short paper “Neue Schriften zum Problem der sozialistischen Wirtschaftsrechnung [Recent Writings Concerning the Problem of Economic Calculation under Socialism]”<sup>14</sup> published in the first issue of the sixtieth volume in 1928. At the end of this paper, after citing Adolf Weber’s three postulates as summary of the results of the discussion of the socialist calculation problem the second of which reads:

2. Without monetary calculation there can be no calculation of profitability in the economy, no interconnection of individual enterprises in order to form a rationally operating community of men within the complicated system of division of labor. For this purpose, it is necessary that prices be formed not only for finished goods but also in all earlier stages of the process, especially for scarce material factors of production, and for labor and capital.

Mises proclaimed that “One can hardly raise any objection to Weber’s remarks.” This seemed become the last voice in the discussion on the *Archiv*.

## **2. Re-reading “Die Wirtschaftrechnung im sozialistischen Gemeinwesen”<sup>15</sup>**

### **2.1 Summarizing Mises’s argument.**

Mises’s article consists of “Introduction”, five sections, and “Conclusion.” In “Introduction” Mises insists that studying economics of socialism and the analysis of economic consequence of the socialization of the means of production are the most urgent task to be done.

The first section is about one of those consequences: it is only the Socialist State, the solo owner of the means of production, that decides to how to distribute the consumer goods. The State could

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<sup>12</sup> Karl Polanyi. “Die funktionelle Theorie der Gesellschaft und das Problem der sozialistische Rechnungslegung. (Eine Erwiderung an Prof. Mises und Dr. Felix Weil).” *Archiv für Sozialwissenschaften und Sozialpolitik*, Vol. 52, Iss. 1, pp. 218-28.

<sup>13</sup> Felix Weil. “Gildensozialistische Rechnungslegung. Kritische Bemerkungen zu Karl Polanyi: »Sozialistische Rechnungslegung« .” *Archiv für Sozialwissenschaften und Sozialpolitik*, vol. 52, Iss. 1, pp. 196-217.

<sup>14</sup> Ludwig Mises. “Neue Schriften zum Problem der sozialistischen Wirtschaftsrechnung.” *Archiv für Sozialwissenschaften und Sozialpolitik*, Vol. 60, Iss. 1, pp. 187-190. This was classified into not “Treaties” but “Literature” in that volume. In his paper, Mises critically took the works by Marschak again, Neurath, Erich Holn. He favorably introduced Boris Brutzkus’s *Die Lehren des Marxismus im Lichte der russischen Revolution*.

<sup>15</sup> The English translation, Mises (1990), was mainly used.

choose any distribution principle except for that based on the labor theory of value. The consumer goods could be exchanged among the comrades. The general medium of exchange, that is, money, could be used. The exchange relations or the exchange ratios among consumer goods could be somehow taken into consideration for both the distribution and production of the goods.

By confirming the two facts, Mises begins the second section on the nature of economic calculation. The first is that the economy of which he thinks is very developed one with complex roundabout productions, which necessitates some kind of exact evaluation of the means of production. The second fact is that the evaluation can be done only with some units. The evaluation of relative importance of the means of production can be done only with the money prices of those means of production. Because the money prices have the same unit, the calculation becomes possible. Then, Mises concludes that the economic calculation must be the monetary calculation with money prices which emerge from the exchange of goods. Monetary calculation is only meaningful if not only consumer goods but also the means of production have money prices. In a socialist state, monetary economic calculation is impossible.

In the third section Mises ask himself a question: are his arguments in the second section logical consequences of common ownership of the means of production? That they are is his answer. Where there is no free exchange market, there is no monetary pricing mechanism. Without monetary pricing mechanism, there is no monetary economic calculation. Because free exchange of production goods is only possible on the basis of the private ownership of the means of production, monetary economic calculation in a socialist state is impossible. What is interesting is that Mises himself investigates that calculation system which might be compatible with common ownership of the means of production: calculation based on the labor theory of value, and the reason why the labor theory of value is inherently necessary for socialists.

The fourth section is on the behavioral characteristic of the manager of the socialist firm. According to Mises, the behavioral characteristic of the manager is dependent on the institutional settings of ownership of property. Transition from private ownership of property to common ownership would transform completely the manager's behavior. As the result, in the socialist firms, there is no reform and improvement of production. There is no adjustment to changing condition of demand. It is vain to attempt to change the behavior through a reform in the system of remuneration. However, this problem only reinforces the negative consequences of the basic calculation problem. Even if the managers of the socialist firms could behave like those of the capitalist firms, monetary economic calculation is absolutely impossible.

In the fifth section Mises examines the socialist doctrines at that time in the light of monetary economic calculation. Such socialists as Otto Bauer and Lenin do not realize that the exclusion of free exchange and the monetary pricing mechanism eradicates the basis of monetary economic calculation, and something must be in its place if total collapse of the economy would be avoided. Statistics as a kind of calculation *in natura* cannot serve for monetary economic calculation.

Finally, in the “Conclusion,” the difference between technological rationality and economic rationality and the impossibility of the latter in a socialist state are reaffirmed. Mises ends his essay with asking socialists who expect a rational economy in a socialist state to reconsider their socialist vision.

## **2.2 Invalidating the Labor Theory of Value**

In his article, Mises regularly takes the labor theory of value into consideration. As for the distribution of the consumer goods, Mises insists that those who adopt the standpoint of the labor theory of value could find the simple principle: those who work one hour are given the right to receive the product of one hour’s labor. Regarding economic calculation with the same unit, which is compatible with the common ownership of the means of production, “the matter is indeed very simple for those theorists who rely on the labor theory of value<sup>16</sup>.” However, Mises invalidates the labor theory of value by pointing out the qualitative difference of labor. Labor is not a uniform and homogeneous quantity and has the different qualities. A proportional rate for the substitution of complex by simple labor is arbitrary. Those who believe that skilled labor counts only as multiplied simple labor commit to “a theoretical juggle of almost stupefying naivete<sup>17</sup>.”

The relationship between the labor theory of value and socialist ideal is also articulated. The former is intrinsically necessary for thoughtful socialists because *only* labor can conceivably provide an objectively recognizable unit of value, “which would permit of economic calculation in an economy where neither money nor exchange were present.” But diverse labor cannot be used for rational calculation. There no longer exists anything which could replace the monetary prices.

What is more, those who would search for something substituting the monetary prices should note Mises’s claim that “so far as economic administration is concerned, objective use value can only acquire significance for the economy through the influence it derives from subjective use value on the formation of the exchange relations of economic goods<sup>18</sup>.”

## **2.3 Restating Mises’s Premise and Central Proposition**

For verification of validity, it is convenient to itemize Mises’s premise and proposition.

- (1) The economy to be socialized is what we have today; it consists of complex roundabout productions, sophisticated logistics and distribution system, and diverse consumers.
- (2) Socialism means complete socialization of the means of production.
- (3) A socialist state needs some system of economic calculation.

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<sup>16</sup> Mises (1990), p. 28.

<sup>17</sup> Mises (1990), p. 31.

<sup>18</sup> Mises (1990), p. 49.



- (4) The calculation *in natura* is useless and meaningless.
- (5) The calculation with labor hours is only imaginable for the substitute for the monetary calculation.
- (6) The calculation with labor hours is useless.
- (7) In the socialist commonwealth, economic calculation and rational economy are impossible.

(1) and (2) are the premises of Mises's argument, and (3) through (7) are his central propositions.

### 3. Questioning Eternal Validity of “Die Wirtschaftrechnung im sozialistischen Gemeinwesen”

#### 3.1 Falsifying Mises's Proposition

Since Mises's argument is very simple and his proposition is clearly specified, it seems very easy to think how Mises's proposition is invalidated.

- (a) Demonstrating that no system of economic calculation is needed in a socialist state.
- (b) Demonstrating that calculation *in natura* works.
- (c) Demonstrating that the calculation with labor hours works.
- (d) Demonstrating that there works some system of calculation in a socialist state.

It is not necessary for all of these to be demonstrated to falsify Mises's proposition. Demonstration of one of them is sufficient. What is more controversial is how to understand the meaning of term “demonstration.” According to the dictionary definition, it means the act of showing someone how to do something or how something works. However, the meaning of “showing” is still ambiguous. Showing something on paper or in theory is different from showing something by growing it practically.

In the eighteenth paragraph of the second section, Mises speculates the working of the socialist society with hundreds and thousands of factories in operation. If this society can be grown actually and demonstrated to work practically, Mises is wrong in his argument against socialism.

In insisting that “monetary calculation has its inconveniences and serious defects, but we have certainly nothing better to put in its place<sup>19</sup>,” Mises puts himself in a place from which he can be easily pulled down.

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<sup>19</sup> Mises (1990), p. 25.

### **3.2 Looking back on the Socialist Calculation Debate**

Mises's argument had been inviting the counterargument and the demonstration of possibility and workability some system of economic calculation in a socialist state. With Karl Polanyi's "Sozialistische Rechnungslegung" in 1922 as one of counterarguments, so-called "the socialist calculation debate" had begun and that debate over a hundred years is said to be ongoing.

Does this mean that Mises's proposition has not been invalidated? In looking back on the history of the socialist calculation debate, it is difficult to answer this question either positively or negatively. Indeed, the history of the socialist calculation debate is not so much the chronicle of a continuous accumulation of rebuttal and surrebuttal arguments.

When English translation of Polanyi's "Sozialistische Rechnungslegung" got available in online in 2016, one of translators "argues argues that scholars have too narrowly used Polanyi's work to support the Keynesian welfare state to the exclusion of other institutions, have too broadly used his work to study social institutions indiscriminately, and have not recognized that his work shares fundamental commonalities with and often unacknowledged distinctions from neoclassical economics<sup>20</sup>." But wasn't Polanyi's intention his counterargument to Mises? In "Market Socialism Renewed" which appeared this year, John Roemer insists that "if economic actors behave according to the stipulated behavioral ethos, then the property relations should implement the distributive ethic<sup>21</sup>." This reminds of Kautsky's opinion that "if socialism is a social necessity, then it would be human nature and not socialism which would have to readjust itself, if ever the two clashed<sup>22</sup>." Wasn't this opinion rejected by Mises as nothing but sheer Utopianism?

The history of the socialist calculation debate is very complex and difficult to understand. Nonetheless, one thing is certain: Mises's proposition has not been invalidated.

### **3.3 Learning from the Experience of the Former Socialist Countries**

Mises's argument against socialism would be invalidated if a socialist economy could be grown actually and demonstrated to work practically. In this perspective, there are still many things which should be learnt from the experience of the former socialist countries, and those many things are usually concerned with tremendous challenges the socialist countries faced. Here is one of such challenges: "The existing neglect of economic levers in planning and managing the national economy, and the weakening of the system of cost accounting, are to a great extent connected with the considerable shortcomings in the system of price formation. If prices are not substantiated, then economic calculations lose their dependability which in turn encourages the adaption of subjectivist decisions." Mises's judgement that "where there is no free market, there is no pricing mechanism, and

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<sup>20</sup> Bockman et al (2016)

<sup>21</sup> Roemer (2020)

<sup>22</sup> Mises (1990), p. 37.

without a pricing mechanism, there is no economic calculation<sup>23</sup>” should be appreciated with these experiences.

Mises’s argument is related to the institutional differences between capitalist accounting system and socialist one. In the former socialist countries, as a matter of fact, some economic calculation had been performed, and there had developed system of accounting, although it never used subjective value or labor value. It was institutionally utterly different from that of capitalist-market economies. According to Derek Bailey who studied the Soviet accounting system, in the socialist economy, accounting system and production organization were disconnected, and the former was considered as statistical data processing tools that supported for centralized management of the whole economy<sup>24</sup>. The nature of socialist accounting system is largely prescribed by the coordination mechanism of socialist society; ensuring consistency in production planning. On the contrary, the capitalist accounting system is devoted to achieving efficient utilization of resources. Market’s pricing mechanism is complemented by accounting system. The former produces money prices, and the latter accounting data. Money prices are used for the coordination among economic activities of firms. Accounting data helps the firms pursuing efficiency and avoiding inefficiency.

Mises was well aware of contingent nature of institution of monetary accounting system under capitalism and other significant related institutions although he did not explicitly mention to, for example, double-entry bookkeeping system and its various entries. But when we read “Die Wirtschaftrechnung im sozialistischen Gemeinwesen” with due attention to the explicit and implicit contingent institutions Mises supposed to have in his mind, it leads to better understanding of the economic history of socialism.

The study and deep understanding of the accounting system and its working in the former socialist countries might provide a hint for economic calculation in the socialist commonwealth. However, the socialist experiences demonstrate that the abolition of private ownership of the means of production accompanies the institutional transformation of accounting system.

## **Conclusion**

“Die Wirtschaftrechnung im sozialistischen Gemeinwesen” was written, presented, and published by Ludwig von Mises, an eminent Viennese student of civilization. Mises has firm belief that civilization depends on economic calculation:

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<sup>23</sup> Mises (1990), p. 28.

<sup>24</sup> Bailey ed. (1988). See also Okon (1998).

Our civilization is inseparably linked with our methods of economic calculation. It would perish if we were to abandon this most precious intellectual tool of acting. Goethe was right in calling bookkeeping by double entry 'one of the finest inventions of the human mind'<sup>25</sup>.

In "Die Wirtschaftrechnung im sozialistischen Gemeinwesen," Mises argued that socialist societies could not rely on economic calculation which was known and practiced in market economies. The root cause of this is abolition of private ownership of factors of production. In this sense, he recognized private ownership and monetary calculation as the fundamental institutions for our civilization.

Can "Die Wirtschaftrechnung im sozialistischen Gemeinwesen" be judged to be valid eternally? Needless to say, this must be a bold question. The answer might be a pure speculation. Yet, isn't the hundred years of the history of the socialist calculation debate, and the awful and tragic experience of the socialist economies over seventy-years enough to be able to ask that question?

In the second edition of *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* published twelve years later since 1920, Mises wrote as follows:

To prove that economic calculation would be impossible in the socialist community is to prove also that Socialism is impracticable. Everything brought forward in favour of Socialism during the last hundred years, in thousands of writings and speeches, all the blood which has been spilt by the supporters of Socialism, cannot make Socialism workable. The masses may long for it ever so ardently, innumerable revolutions and wars may be fought for it, still it will never be realized. Every attempt to carry it out will lead to syndicalism or, by some other route, to chaos, which will quickly dissolve the society, based upon the division of labour, into tiny autarkous groups.

The discovery of this fact is clearly most inconvenient for the socialist parties, and socialists of all kinds have poured out attempts to refute my arguments and to invent a system of economic calculation for Socialism. They have not been successful. They have not produced a single new argument which I have not already taken account of. Nothing has shaken the proof that under Socialism economic calculation is impossible<sup>26</sup>.

The last paragraph of the section including the above should be read repeatedly as the answer to the question on eternal validity of Mises's argument.

Socialist writers may continue to publish books about the decay of Capitalism and the coming of the socialist millennium: they may paint the evils of Capitalism in lurid colours and contrast with them

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<sup>25</sup> Mises (1996), p. 230.

<sup>26</sup> Mises (1932), p. 115, Mises (1981), p. 117.

an enticing picture of the blessings of a socialist society; their writings may continue to impress the thoughtless - but *all this cannot alter the fate of the socialist idea. The attempt to reform the world socialistically might destroy civilization. It would never set up a successful socialist community*<sup>27</sup>.

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<sup>27</sup> Mises (1932), pp. 116-7, Mises (1981), p. 118. Italics added.

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