

Some Limitations of the Socialist Calculation Debate

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Abstract

One of the most important debates in the history of economics is known as the ‘socialist calculation debate.’ It was initiated in 1920 by the Austrian school economist Ludwig von Mises and continued by Friedrich Hayek, who forcibly criticised the schemes for socialist planning developed by Oskar Lange, Henry Dickenson and others. But the earlier critique of socialism by the German historical school economist Albert Schäffle has been largely overlooked. Furthermore, the rightful emphasis on the role of information and knowledge in the Austrian case ironically suggests some limits on property and markets, as well as endorsing their continuing importance. This essay points to the neglect of the detailed character of institutions on both sides of the debate. Not only were adequate notions of property and exchange absent from the general equilibrium theory used by the socialists in their attempted justifications of planning, but they were also threadbare on the Austrian side. Hence, ironically, the Austrian defence of capitalism was inadequate.

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One of the most important controversies in the history of economics – known as the socialist calculation debate – was initiated by the Austrian school economist Ludwig von Mises (1920; 1935; 1981) and continued by Friedrich Hayek (1935; 1944; 1948; 1988).¹ At the peak of the controversy, Hayek criticized neoclassical economists, such as Oskar R. Lange (1936–37; Lange and Taylor 1938) and Henry Dickenson (1933 and 1939), who used general equilibrium theory to model their socialist proposals. These Austrian school economists effectively undermined general equilibrium theory and successfully rebutted socialism, at least as originally defined.²

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¹ This article makes use of some material from Hodgson (2015a).

² The classic definition of socialism, by Robert Owen, Karl Marx and others, was in terms of comprehensive economic planning, without any private property (Hodgson 1999).