The Economic Calculation Debate: Lessons for Austrians

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The thesis of this article is that the celebrated debate over economic calculation under socialism that raged during the interwar period was important for the history of economic thought in a sense not generally appreciated. Not only was the debate an important episode, of course, for its own sake. It was, in addition, I shall claim, important as a catalyst in the development and articulation of the modern Austrian view of the market as a competitive-entrepreneurial process of discovery. Professor Karen Vaughn has written of her conviction that "the most interesting results of the controversy . . . were the further developments of economic theory to which it gave rise."¹ It will be my contention here that the crystallization of the modern Austrian understanding of the market must be counted among the most significant of these "further developments of economic theory." I shall argue that it was through the give-and-take of this debate that the Austrians gradually refined their understanding of their own position; the Mises-Hayek position at the end of the forties was articulated in terms far different from those presented in the Misesian statements of the early twenties. Moreover, this more advanced Mises-Hayek position pointed beyond itself toward (and decisively helped generate) the more explicit Austrian statements of the seventies and eighties.

Now it may at first glance appear that my thesis contradicts the view of the most eminent historian of the calculation debate. Don Lavoie, in his definitive account of the debate, has exhaustively explored the debate as what we have referred to as "an important episode for its own sake."² His position in regard to the debate emphasizes two related points: First, Lavoie emphatically denies that, as a result of the thrust and parry of the debate, the Austrian side found it necessary "to retreat" from or otherwise modify its originally stated central case challenging the feasibility of economic calculation under socialism. For Lavoie, the later statements of Mises and Hayek do no more than restate—in better, clearer, fashion—the originally presented arguments. Second, Lavoie has demonstrated with admirable clarity and thoroughness that the Mises-Hayek arguments, from the very beginning, reflected
the Austrian understanding of the market as a competitive discovery process. (He furthermore has shown that it was failure by the socialist economists to recognize this that led to confusion during the debate itself, while it was failure by later historians of the debate to recognize this that led to the widespread misinterpretations of the debate by post–World War II writers.) So that it may appear that my contention that the debate was itself responsible for the distillation of that Austrian understanding runs sharply counter to both of these elements in Lavoie's thesis. It will perhaps be helpful to explain briefly why, in my view, there is no contradiction here. In fact, such a brief explanation permits me usefully to introduce further the central ideas to be offered in this article.

**The Articulation of the Discovery-Process View**

Professor Lavoie is entirely correct, I believe, in interpreting the original 1920 argument by Mises as reflecting the characteristically Austrian understanding of the market as an entrepreneurial process. And, as Lavoie shows, once this is recognized, there is no reason whatever to read the later statements by Mises and Hayek as “retreating” from the original argument. My position is, however, that neither Mises nor (in his earlier papers on the topic) Hayek was aware of how sharply their Austrian view of the market differed from that implicit in the views of other contemporary schools of thought. Accordingly, the earlier statements of the Austrian position failed to articulate sufficiently clearly the “process” perspective that Lavoie (correctly) perceives as underlying those statements.

The truth is that there was, among most economists (Austrian, Marshalian, or Walrasian) in the early twentieth century, a superficial, shared understanding of markets that submerged important distinctions that would become apparent only much later. In this shared understanding, there coexisted elements of appreciation for dynamic market processes and elements of appreciation for the degree of balance—the degree of equilibrium—held to be achieved by markets. To be sure, the Mengerian background of the Austrian version of this common understanding pointed unquestionably to the predominance of the process view, while the Walrasian version of this common understanding pointed consistently toward a strictly equilibrium view, but these conflicting signposts were simply not seen at the time. Mises’ earlier statements, while they indeed adumbrated the process elements central to the Austrian tradition, did not emphasize these elements (and, as Lavoie suggests, a case can be made that for his immediate purposes in 1920, it was not at all necessary for Mises to emphasize these elements) so that when economists such as Lange came to consider the Misesian challenge from their own equilibrium perspective, they failed to recognize how seriously they were misunderstanding that challenge.