

# Calculation and Knowledge: Let's Write *Finis*

Leland B. Yeager

I regret prolonging the discussion, but remarks by Joseph Salerno, Hans-Hermann Hoppe, and Jeffrey Herbener in the first 1996 issue of this *Review*<sup>1</sup> foster the impression that my position is so wrong as to require further discussion. They obscure what the original issue was.<sup>2</sup>

In earlier writings, Murray Rothbard, Joseph Salerno, and Jeffrey Herbener had tried to distinguish between calculation and knowledge problems besetting socialism. F.A. Hayek, they suggested, had shoved aside or perverted the analysis that Ludwig von Mises got straight in the first place. My 1994 article challenged this supposed distinction.<sup>3</sup> I argued that knowledge was intimately bound up with the calculation problem that Mises had diagnosed. Hayek elaborated on points that were implicit and very nearly explicit in Mises's own writings.

Neither Salerno's "Reply"<sup>4</sup> nor his and the other two latest comments justify the supposed wedge driven between the analyses of Mises and Hayek. They do not adequately specify the supposed crucial nonknowledge aspects of the calculation problem that Mises emphasized and from which Hayek diverted attention. Yet

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<sup>1</sup>Jeffrey M. Herbener, "Calculation and the Question of Arithmetic," *Review of Austrian Economics* 9, no. 1 (1996): 151-62; Hans-Hermann Hoppe, "Socialism: A Property or Knowledge Problem?" *Review of Austrian Economics* 9, no. 1 (1996): 143-49; and Joseph T. Salerno, "A Final Word: Calculation, Knowledge, and Appraisalment," *Review of Austrian Economics* 9, no. 1 (1996): 141-42.

<sup>2</sup>I am informed that these authors wrote their contributions separately and that Hoppe did not even have my "Rejoinder: Salerno on Calculation, Knowledge, and Appraisalment," *Review of Austrian Economics* 9, no. 1 (1996): 137-39, in mind. Nevertheless, their comments, especially happening to appear together immediately following my "Rejoinder," foster an impression that, along with their substance, requires correction.

<sup>3</sup>Leland B. Yeager, "Mises and Hayek on Calculation and Knowledge," *Review of Austrian Economics* 7, no. 2 (1994): 93-109.

<sup>4</sup>Joseph T. Salerno, "Reply to Leland B. Yeager on 'Mises and Hayek on Calculation and Knowledge,'" *Review of Austrian Economics* 7, no. 2 (1994): 111-15.

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Hoppe says that “Hayek’s distinct contribution to the debate was fallacious from the outset”<sup>5</sup> and “false, confusing, and irrelevant”<sup>6</sup>; Hayek’s thesis is “absurd” and “nonsensical.”<sup>7</sup>

Hoppe blames Hayek for playing down the importance of private property. But the whole discussion concerned an inherent flaw of socialism, conceived of as government ownership and administration of the means of production (as socialism was indeed generally understood when Mises wrote his critique). The whole discussion concerned *why* a system of private property and private enterprise is much superior to socialism. Mises and Hayek went beyond merely trumpeting this superiority. In setting forth the calculation problem, both were explaining *reasons* why the private-property system is superior to socialism.

Salerno<sup>8</sup> says I make a “very important concession” to his position. Formerly I held the Hayekian position that past prices automatically convey to all passive producers “all the knowledge that is relevant to their business decisions in a near-equilibrium world.” Now I concede that “knowledge is a primary matter of individual entrepreneurial experience, hunches,” and so forth. In saying so, Salerno misstates Hayek’s position, and mine, on the role of knowledge in an adequately functioning economy. In his celebrated article of 1945, Hayek<sup>9</sup> explained why the decentralization of decisions is essential for using knowledge even of kinds that *cannot* be communicated by prices. As long-time students of the classics of Austrian economics, Salerno and I should concede each other a grasp of Hayek’s seminal article. Misstatement of Hayek’s and my positions draws still another red herring across the original issue of the supposed wedge between Mises and Hayek.

More than any other single passage in the three comments of 1996, the concluding paragraph of a footnote in Herbener<sup>10</sup> pushes, however unintentionally, against the bounds of academic propriety. It unavowedly shifts ground while attributing to the opponent a position he never held. According to Herbener, neither he nor Salerno nor Rothbard nor Mises “claim that the central planners do not face an information problem. The SRH [Salerno, Rothbard, and Herbener] claim is that Mises’s calculation argument has more to it than the information problem. Yeager’s claim [is] that it does not.” Furthermore, Herbener begins his 1996 comment with this remarkable statement: “The view that

<sup>5</sup>Hoppe, “Socialism: A Property or Knowledge Problem?”: 143.

<sup>6</sup>Ibid.: 146.

<sup>7</sup>Ibid.: 144.

<sup>8</sup>Salerno, “A Final Word.”

<sup>9</sup>Friedrich A. Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35 (September 1945): 519–30. Reprinted in idem, *Individualism and Economic Order* (London: Routledge and Kegan Paul, 1949), pp. 77–91.

<sup>10</sup>Herbener, “Calculation and the Question of Arithmetic”: 158–59.

Ludwig von Mises had more in mind in his calculation critique of socialism than the Hayekian knowledge problem has recently been attacked by Leland Yeager.”

I ask the fair-minded and attentive reader whether this is a correct statement of my position. I never denied that there might be more to the calculation problem than the knowledge aspect. I was challenging SRH to specify just what that other aspect was. More particularly, I was challenging them to justify their sharp distinction between the two (or more?) aspects. What nonknowledge aspect is so distinct and central that Hayek’s elaboration of the knowledge aspect is diversionary and, to use Hoppe’s words, “false, confusing, and irrelevant,” “absurd,” and “nonsensical”? I ask the impartial reader to find any passages in which Salerno, Hoppe, and Herbener have squarely faced my challenge. Have they not, instead, merely obfuscated their failure to do so?

Of course arithmetic enters into economic calculation. People making business (and consumer) decisions use arithmetic all the time. Herbener makes much of people’s not being able to add apples and oranges. Money prices are needed for calculation, for commensurability, for arithmetic, for comparing values and costs and, for recognizing gains and losses. Sure, all this is a standard part of the logic of the market and money. It is a standard part of the argument about why socialism could do nowhere near as well as capitalism in putting scattered knowledge to use. But none of this helps refute my refutation of a supposed sharp wedge between the positions of Mises and Hayek.

Herbener’s points about incommensurate units (apples and oranges) are further symptomatic of a particular style of argument worth identifying so that readers can recognize it when it occurs. I am not aware of any generally accepted name for it, but having one would be useful. Anyway, it works this way. Make lots of valid statements as if they were highly relevant to the issue at hand and as if one’s opponent in discussion were nevertheless ignorant of them. These valid points, in the present instance, are roughly of the nature of  $2 + 2 = 4$ , grass is green, demand curves slope downward, and private property is essential to a decently-functioning economy. Perhaps the unalert reader, after agreeing with valid (but diversionary) points for page after page, will get the impression that they demolish the opponent against whom they are ostensibly deployed. (Sometimes, though not in the present instance, this style of argument carries a further twist: even though the facts and figures deployed are not really relevant, make them detailed, numerous, and recondite enough to foster the impression that the speaker or writer is a consummate expert on his topic.)

Not only on the socialist-calculation issue but on the other topics also, Salerno, Hoppe, and Herbener, like Rothbard before them, work to distinguish

between Hayek's and Mises's positions. (I particularly have in mind articles on "dehomogenization" in various issues of this *Review*.) A reader not very familiar with Austrian economics might get the impression that Hayek-bashing is under way. Surely (or so I hope, anyway) no one wants to let this impression prevail.

I'll try to conclude what I hope is the entire debate in this *Review*. On any reasonable interpretation of exactly what calculation means in the debates over socialism, calculation is closely intertwined with the development and use of knowledge. One ill-serves Mises's reputation and ill-serves understanding of momentous issues by trying to drive a wedge between Mises and Hayek, specifically, by imagining and overemphasizing (yet not specifying) some aspects or other of calculation crucially distinct from the knowledge aspects on which Hayek elaborated, all while disparaging Hayek's elaborations. A correct understanding of the socialist-calculation problem is important to economic theory, the history of economic thought, twentieth-century economic history, and future policymaking. I hope that we respectful students of Mises, Hayek, Rothbard, and other great Austrian economists can subordinate polemics among ourselves and can collaborate in achieving and spreading this correct understanding.