

# Rejoinder: Salerno on Calculation, Knowledge, and Appraisalment

Leland B. Yeager

**C**ontrary to Joseph Salerno's "Reply" (1994), my article (1994) did not try to specify what Professors Salerno, Rothbard, and Herbener mean by "calculation." I did not say that they "equate calculation and arithmetic" (Salerno 1994, p. 116). Instead, I implicitly raised the *question* of what they might mean. I did so by pursuing my avowed main purpose, namely, to challenge their attempted dichotomy between the "calculation" and "knowledge" problems of socialism. I further challenged their suggestion that Ludwig von Mises was concerned only with the non-knowledge aspects of the calculation problem.

Salerno now focuses attention on "appraisalment." In the capitalist market process but not under socialism, every scarce resource receives an appraisalment "reflecting its relative importance in serving (anticipated) consumer preferences" (p. 112). The market process "transforms the substantially qualitative knowledge about economic conditions acquired . . . by competing entrepreneurs," including their estimates of consumers' subjective valuations, into "an integrated system of objective exchange ratios for the myriads of original and intermediate factors of production" (*ibid.*). The process operates "in the face of ceaseless change of the economic data" (p. 113). "[D]ispersed knowledge is not a bane but a boon to the human race; without it, there would be no scope for the intellectual division of labor, and social cooperation under division of labor would, consequently, prove impossible" (pp. 114–15). In the capitalist process, as Rothbard says in a passage that Salerno quotes (p. 115), "the entrepreneur is able to appraise and estimate future costs and prices. In the

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market economy, *qualitative* knowledge can be transmuted, by the free price system, into rational economic calculation of *quantitative* prices and costs."

Correctly interpreting Mises, Salerno writes "that the market creates a social appraisal process . . . which depends crucially on an intellectual division of labor featuring the qualitative *understanding* of competing entrepreneurs; and . . . that this process is indispensable for converting the multidimensional knowledge of the economic data, regardless of who possesses this knowledge or where it is located, into a unitary structure of meaningful resource and product prices" (p. 120). Salerno goes on to emphasize "entrepreneurial forecasting" and "dynamic appraisal" (p. 122).

All this emphasis on knowledge—yes, knowledge—is amply warranted. A further point that Salerno makes at least implicitly is worth underlining: much relevant knowledge is of a kind that simply could not be quantified or articulated except through the market process. Often an entrepreneur makes business decisions partly on his intuition or feel for technology, the attitudes and tastes of consumers and workers, sources of financing, and conditions in markets for inputs and for consumer goods and services—all in the future as well as the present. The entrepreneur receives information for judgments about such matters by reading specialized and popular publications, watching television and movies, experiencing various services and products personally, chatting with innumerable people, and strolling through town or the shopping mall. Much of what he thereby observes—or senses—he could not express in explicit words or numbers. A socialist system would let much such entrepreneurial knowledge go to waste even if it somehow emerged in the first place. The market system of profit and loss tends, as Mises said, to expand or shrink the roles of particular entrepreneurs according as they are relatively good or relatively poor in acquiring and using even these subtle and conjectural kinds of knowledge.

I forgo correcting several of Salerno's conjectures about my own position, mind-set, and standards of scholarship because his conjectures are peripheral to the issue at hand. My central point is that Mises was indeed concerned with the capitalist market process of mobilizing, articulating, and quantifying knowledge that socialism simply could not duplicate or replace. On any reasonable interpretation of exactly what calculation means in debates over socialist calculation, it is closely bound up with the development and use of knowledge. One ill-serves

Mises's reputation and ill-serves wide understanding of momentous issues by insisting on some conception or other of calculation from which all knowledge aspects have been severed.

### **References**

- Salerno, Joseph T. 1994. "Reply to Leland B. Yeager on 'Mises and Hayek on Calculation and Knowledge'." *Review of Austrian Economics* 7, no. 2: 111-25.
- Yeager, Leland B. 1994. "Mises and Hayek on Calculation and Knowledge." *Review of Austrian Economics* 7, no. 2: 93-109.

# A Final Word: Calculation, Knowledge, and Appraisalment

Joseph T. Salerno

**L**eland Yeager's rejoinder "Salerno on Calculation, Knowledge, and Appraisalment" (1996) merits a final word, because I believe it makes a subtle though very important concession to the argument made by Rothbard, Herbener, and myself regarding the function of the price system. Before addressing this issue, I will offer comments relating to two other points raised by Yeager in his rejoinder.

1. Yeager (p. 175) denies having said, in his original article (1994), that Salerno, Rothbard, and Herbener (SRH) "equate arithmetic and calculation." While strictly speaking he is correct, I believe it is a quite reasonable inference from the statements he does make when characterizing the problem confronting central planners who are endowed with perfect knowledge of the economic data. As I have discussed in my Reply (Salerno 1994, pp. 120–23), in SRH's interpretation of Mises's argument, granting the unrealistic assumption of complete and perfect information, about either present disequilibrium market conditions or the future final equilibrium state toward which the real market is tending at any moment, does not obviate the need for monetary calculation provided by the market's pricing process. Yeager (1994, p. 97) states, however, that given "the centralized availability of information," the argument against socialism "boil(s) down to a contention about arithmetic." Elsewhere, in questioning the "supposed distinction" that SRH observe in Mises's writings between calculation and knowledge, Yeager (1994, p. 94) remarks "I cannot believe Mises was merely saying that *if* the socialist planners possessed in some way all the information normally conveyed by the market prices, they still would be stymied

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by inability to perform *calculations* in the narrow arithmetic sense." What else could Yeager mean by these statements except that anyone who argues that Mises distinguished calculation from knowledge is indeed equating calculation with arithmetic?

2. In stating that "Salerno *now* focuses attention on 'appraisement' (the emphasis is mine)" Yeager is implying that this is a concept I originated in my Reply (Salerno 1994) and that I have, therefore, suddenly shifted the grounds of my initial argument. But in my Reply (*ibid.*, pp. 112–15) I quote at length several passages from my earlier work on this topic, as well as from Rothbard's, in which the concept of "social appraisalment" is elaborated. Far from an *ad hoc* fallback position, the notion of appraisalment was at the heart of the SRH interpretation of Mises from the very beginning.

3. Finally, and most importantly, in the two consecutive paragraphs ending with the penultimate paragraph of his rejoinder, Yeager now abandons his original Hayekian position that the price system, i.e., past prices, automatically conveys to all passive producers all the knowledge that is relevant to their business decisions in a near-equilibrium world. He now concedes that "knowledge" is a primary matter of individual entrepreneurial experience, hunches, reading and personal observation, and superior forecasting of the uncertain future and whose qualitative content is therefore *not* "normally conveyed by (past) market prices." Contrary to his claim in the final paragraph of his rejoinder, then, this means that Mises's concept of economic calculation refers exclusively to the function of the price system in permitting entrepreneurs to appraise the quantitative importance of productive resources in a world where incessant change renders the future very unlike the past and current prices not directly relevant to future-oriented production plans.

## References

- Salerno, Joseph T. 1994. "Reply to Leland B. Yeager on 'Mises and Hayek on Calculation and Knowledge.'" *Review of Austrian Economics* 7, no. 2: 111–25.
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