and the least costly method calculated. That permits entrepreneurs to better serve consumers, who communicate their preferences through their purchases and con-currently their effect on prices. The object is to have scarce resources devoted to products that consumers prefer over other possible uses.

If prices are to do their job and convey good information, they must change quickly in response to supply and demand fluctuations. If they are to be capable of doing that, the things that prices are attached to must be tradable and subject to competition. And, wrapping up the chain of logic, if they are to be tradable, they must be owned. No private ownership of the means of production means no real prices. No prices means no economic calculation. No calculation means planned chaos.

Socialism is Impossible

Mises concluded therefore that socialism is impossible – literally incapable of being realized. No society larger than a handful of people could organize production along socialist lines and hope to intelligently cope with scarcity. Many people have misunderstood this point. When the Soviet Union existed, they said that it disproved Mises. Call socialism inefficient, they said, but don't say it's impossible.

They missed the point. Immediately after the Russian revolution in 1917, the Bolsheviks under Lenin and Trotsky tried to carry out the Marxian program. They got planned chaos. Trotsky said they stared into the "abyss." Chastened by that experience, Lenin enacted the New Economic Policy, which was a reintroduction of money and markets. No Soviet leader ever tried to abolish the market again. That is not to say that the Soviet Union had a free market. It is to say that the Soviet Union's economy was a government-saturated market. There was no actual central plan. In truth, the plan was revised to reflect what was happening outside the planning bureau.

There is more to this story – the socialists tried to rally against Mises and Hayek by proposing "market socialism" to generate prices without ownership and capitalism – but that was actually a surrender. Most people concede now that Mises and Hayek won the debate.

The bottom line is that no one who denies the existence of unplanned order can properly call himself an economist.

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To Create Order, Remove the Planner

by Sheldon Richman

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Unplanned Order

Which came first, the chicken of economics or the egg of economic action? Did the discipline of economics precede the object of its interest? The obvious answer is no. To say yes would be like saying that astronomy preceded the planets and stars – or that before Newton, apples didn't fall from trees.

Yet, there are people who speak as though they believe that there was no economy before there were economists. This isn't just an interesting intellectual exercise. It bears on how we understand the economic process and ultimately how we view government involvement in that process.

The first people who could be called economists were descriptivists rather than prescriptivists. They were concerned with what people *do*, not with what they *should do*. The discipline of economics began as a riddle to be solved. At least as far back as the Middle Ages, some perceptive observers noticed a kind of order – things were produced and placed in proximity to the people who were willing to make trades to obtain them. Yet this order was undesigned. No one planned the overall scheme. How did it happen? How could there be unplanned order? It was a paradox. The people who first set out to answer those questions were the first economists.

The classical school of economics (for all its faults) focused on resolving that paradox. Adam Smith used the metaphor of the invisible hand to point out unplanned order to readers of *The Wealth of Nations*. Later, Frederic Bastiat saw that the task of economics was not to prove the existence of unplanned order. One needed only to draw attention to it. Rather, it was necessary to explain how such order comes about and how it works. Israel Kirzner, in his book *The Economic Point of View*, writes that Bastiat was impressed by how smoothly "the tremendously complicated machinery of economic endeavor succeeded in fulfilling the wants of consumers." Those like Bastiat who were so impressed summed up a cornucopia of insight with the words "Paris gets fed." Bastiat called the means whereby Paris got fed a "prodigiously ingenious mechanism." Ingenious? Well, Parisians every day could find useful things from the world over and they could obtain them in trade. No central command post directed the countless decisions and transactions that made such a wonderful thing possible.

Not everyone saw things as Bastiat did. J. E. Cairnes, who wrote about wealth, thought Bastiat had committed a fallacy. By not first proving the existence of order, Bastiat, in Cairnes's view, was unscientific. Treating order as a given was to take it as a foregone conclusion, and for Cairnes, "science has no foregone conclusions." Cairnes wished to study wealth without reference to a smoothly operating marketplace. Kirzner comments:

> For Bastiat, what invited explanation was precisely the large degree of efficiency empirically evinced by the system, a phenomenon of which the recognition hardly deserves the suspect position of "foregone conclusion."

Subjective Value and Marginal Utility

Bastiat's orientation was incorporated into Austrian economics, which can be understood as the best of classical theory refined by a broader, entrepreneurial view of human action and the theories of subjective value and marginal utility. (Subjective value simply means that "value" indicates a relationship between an object and a particular subject who acts to obtain it; marginal utility refers to an analysis based on units of goods relevant to choice rather than the entire supply.) On page one of his magnum opus, *Human Action*, Ludwig von Mises put himself in the Bastiat tradition when he referred to the "discovery of regularity in the sequence and interdependence of market phenomena." Again, on page 2: "In the course of social events there prevails a regularity of phenomena to which man must adjust his actions if he wishes to succeed." That discovery marked the beginning of economics as "no longer a normative discipline of things that ought to be."

Others, Mises wrote, "were fully convinced that there was in the course of social events no such regularity." These were the aspiring central planners who "did not search for the laws of social cooperation because they thought man could organize society as he pleased." If their plans went awry, it was because the people were not good enough for them.

Mises' student F. A. Hayek spent a good part of his long career thinking about "spontaneous order," a term he picked up from physicist-turned-philosopher Michael Polanyi. In *The Constitution of Liberty*, Hayek reproduced a quotation, the source of which he could not recall: "That there is some kind of order, consistency and constancy, in social life is obvious. If there were not, none of us would be able to go about his affairs or satisfy his most elementary wants." To that Hayek added: "Such an order involving adjustment of circumstances, knowledge of which is dispersed among a great many people, cannot be established by central direction."

It is not just that the central planner cannot create order as good as the market can. He can't create order at all! Thus the title of one of Mises's books: *Planned Chaos*.

The Central Planner Cannot Plan

That's the irony. The central planner cannot plan. Order is restored by removing the planner. In this sense, economics can have normative implications, for it can establish what destroys the market's orderliness and what makes it possible. But since it is the market's order that enables us as individuals to realize our goals, there is no need to demonstrate its desirability. It goes without saying: Let the burden be on he who would object to people realizing their goals.

In the 1920s, Mises went further than his predecessors and showed why central planning would create not order but chaos. Back then, Marxian socialism meant the literal abolition of the market and all its features, including money, exchange, and private ownership of the means of production. (This reminder might be necessary: socialism is in such disrepute that even the socialists pay homage to the market, however much they wish to cripple it.) Marx never wanted to discuss how a marketless society would produce the goods consumers wanted and get them to the right places. He never said how under socialism Paris would get fed. Markets accomplish this because prices, as exchange ratios, permit disparate things to be thought about in terms of a common unit, the dollar or pound or franc or gold ounce.

If raw materials and machines and land and labor can be stated in a common unit of account, alternative production strategies can be compared