

Chapter 15 – Why Socialism Must Fail

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Why Socialism Must Fail

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Socialism and capitalism* offer radically different solutions to the problem posed by scarcity: everybody can't have everything they want when they want it, so how can we effectively decide who will own and control the resources we have? The chosen solution has profound implications. It can mean the difference between prosperity and impoverishment, voluntary exchange and political coercion, even totalitarianism and liberty.

The capitalist system solves the problem of scarcity by recognizing the right of private property. The first one to use a good is its owner. Others can acquire it only through trade and voluntary contracts. But until the owner of the property decides to make a contract to trade his property, he can do whatever he wants with it, so long as he does not interfere with or physically damage the property owned by others.

The socialist system attempts to solve the problem of ownership in a completely different way. Just as in capitalism, people can own consumer products. But in socialism, property which serves as the means of production are collectively owned. No person can own the machines and other resources which go into producing consumption goods. Mankind, so to speak, owns them. If people use the means of production, they can do so only as caretakers for the entire community.

Economic law guarantees that harmful economic and sociological effects will always follow the socialization of the means of production. The socialist experiment will always end in failure.

First, socialism results in less investment, less saving, and lower standards of living. When socialism is initially imposed, property must be redistributed. The means of production are taken away from current users and producers and given to the community of caretakers. Even though the owners and users of the means of production acquired them through mutual consent from previous users, they are transferred to people who, at best, become users and producers of things they didn't own previously.

Under this system, previous owners are penalized in favor of new owners. The non-users,

non-producers, and non-contractors of the means of production are favored by being promoted to the rank of caretaker over property which they had not previously used, produced, or contracted to use. Thus the income for the non-user, non-producer, and non-contractor rises. It is the same for the non-saver who benefits at the expense of the saver from whom the saved property is confiscated.

Clearly, then, if socialism favors the non-user, non-producer, non-contractor, and non-saver, it raises the costs that have to be born by users, producers, contractors, and savers. It is easy to see why there will be fewer people in these latter roles. There will be less original appropriation of natural resources, less production of new factors of production, and less contracting. There will be less preparation for the future because everyone's investment outlets dry up. There will be less saving and more consuming, less work and more leisure.

This adds up to fewer consumption goods being available for exchange, which reduces everyone's standard of living. If people are willing to take the risk, they will have to go underground to compensate for these losses.

Second, socialism results in inefficiencies, shortages, and prodigious waste. This is the insight of Ludwig von Mises who discovered that rational economic calculation is impossible under socialism. He showed that capital goods under socialism are at best used in the production of second-rate needs, and at worst, in production that satisfies no needs whatsoever.

Mises's insight is simple but extremely important: because the means of production under socialism cannot be sold, there are no market prices for them. The socialist caretaker cannot establish the monetary costs involved in using the resources or in making changes in the length of production processes. Nor can he compare these costs with the monetary income from sales. He is not allowed to take offers from others who want to use his means of production, so he cannot know what his foregone opportunities are. Without knowing foregone opportunities, he cannot know his costs. He cannot even know if the way he produces is efficient or inefficient, desired or undesired, rational or irrational. He cannot know whether he is satisfying less or more urgent needs of consumers.

In capitalism, money prices and free markets provide this information to the producer. But in socialism, there are no prices for capital goods and no opportunities for exchange. The caretaker is left in the dark. And because he can't know the status of his current production strategy, he can't know how to improve it. The less producers are able to calculate and engage in improvement, the more likely wastes and shortages become. In an economy where the consumer market for his products is very large, the producer's dilemma is even worse. It hardly needs to be pointed out: when there is no rational economic calculation, society will sink into progressively worsening impoverishment.

Third, socialism results in overutilization of the factors of production until they fall into disrepair and become vandalized. A private owner in capitalism has the right to sell his factor of production at any time and keep the revenues derived from the sale. So it is to his advantage to avoid lowering its capital value. Because he owns it, his objective is to maximize the value of the factor responsible for producing the goods and services he sells.

The status of the socialist caretaker is entirely different. He cannot sell his factor of production, so he has little or no incentive to insure that it retains its value. His incentive will instead be to increase the output of his factor of production without regard to its dwindling value. There is also the chance that if the caretaker perceives opportunities of employing the means of production for private purposes – like making goods for the black market – he will be encouraged to increase the output at the expense of capital values. No matter which way you look at it, under socialism without private ownership and free markets, producers will be inclined to consume capital values by overusing them. Capital consumption leads to impoverishment.

Fourth, socialism leads to a reduction in the quality of goods and services available for the consumer. Under capitalism, an individual businessman can maintain and expand his firm only if he recovers his costs of production. And since the demand for the firm's products depends on consumer evaluations of price and quality (price being one criterion of quality), product quality must be a constant concern of producers. This is only possible with private ownership and market exchange.

Things are entirely different under socialism. Not only are the means of production collectively owned, but so too is the income derived from the sale of the output. This is another way of saying that the producer's income has little or no connection with consumer evaluation of the producer's work. This fact, of course, is known by every producer.

The producer has no reason to make a special effort to improve the quality of his product. He will instead devote relatively less time and effort to producing what consumers want and spend more time doing what he wants. Socialism is a system that incites the producer to be lazy.

Fifth, socialism leads to the politicization of society. Hardly anything can be worse for the production of wealth.

Socialism, at least its Marxist version, says its goal is complete equality. The Marxists observe that once you allow private property in the means of production, you allow differences. If I own resource A, then you do not own it and our relationship toward resource A becomes different and unequal. By abolishing private property in the means of production with one stroke, say the Marxists, everyone becomes co-owner of everything. This reflects everyone's equal standing as a human being.

The reality is much different. Declaring everyone a co-owner of everything only nominally solves differences in ownership. It does not solve the real underlying problem: there remain differences in the power to control what is done with resources.

In capitalism, the person who owns a resource can also control what is done with it. In a socialized economy, this isn't true because there is no longer any owner. Nonetheless the problem of control remains. Who is going to decide what is to be done with what? Under socialism, there is only one way: people settle their disagreements over the control of property by superimposing one will upon another. As long as there are differences, people will settle them through political means.

If people want to improve their income under socialism they have to move toward a more highly valued position in the hierarchy of caretakers. That takes political talent. Under such a system, people will have to spend less time and effort developing their productive skills and more time and effort improving their political talents.

As people shift out of their roles as producers and users of resources, we find that their personalities change. They no longer cultivate the ability to anticipate situations of scarcity, to take up productive opportunities, to be aware of technological possibilities, to anticipate changes in consumer demand, and to develop strategies of marketing. They no longer have to be able to initiate, to work, and to respond to the needs of others.

Instead, people develop the ability to assemble public support for their own position and opinion through means of persuasion, demagoguery, and intrigue, through promises, bribes, and threats. Different people rise to the top under socialism than under capitalism. The higher on the socialist hierarchy you look, the more you will find people who are too incompetent to do the job they are supposed to do. It is no hindrance in a caretaker-politician's career to be dumb, indolent, inefficient, and uncaring. He only needs superior political skills. This too contributes to the impoverishment of society.

The United States is not fully socialized, but already we see the disastrous effects of a politicized society as our own politicians continue to encroach on the rights of private property owners. All the impoverishing effects of socialism are with us in the U.S.: reduced levels of investment and saving, the misallocation of resources, the overutilization and vandalization of factors of production, and the inferior quality of products and services. And these are only tastes of life under total socialism.

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* Meaning the free market, not historical, State-regulated capitalism.

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