Our essay on Socialist Economic Calculability\(^1\) has been subjected to critiques from several sides – some more, some less incisive.\(^2\) As an introduction to this short note of response, we briefly summarize our position with respect to the ongoing discussion of the problem of socialist economic calculability.

The significance of the problem for socialist economies has now become generally acknowledged.\(^3\) There are basically three contending groups of viewpoints – two of which represent the traditional contradiction between market and non-market economy,\(^4\) while the third position, which is not so well defined takes its point of departure from reasoning independent of the traditional dichotomy. The advocates of this third position are less numerous to be sure; we refer to them as representatives of **positive** socialist theories.

As regards to the two major contending groups, there is agreement concerning the problematic. Both sides identify the contradiction between market and non-market economy with the contradiction between capitalism and socialism, and both sides accept a definition of socialist economy in its collectivist and state-socialist sense, which, moreover, is assumed to be a non-

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\(^3\) Weil is alone in his contention that in a socialist economy this problem is either non-existent or of marginal significance. He cites Marx in evidence. But he is wrong in so doing, as shown by the following passage from Kapital, Vol. III, p.338: “After the demise of the capitalist mode of production, the problem of value will continue to rule the process of social production insofar as the measurement of labour time and the division of labour among productive activities will require a system of accounting (Buchführung) which will be more important than ever.” (Our translation – K.L.) The statement that the problem of accountancy constitutes the keystone of the socialist economic problem is, incidentally, attributable to Lenin. It is well known that Lenin asserted this in the context of a debate on Soviet Russia in 1920.

\(^4\) Among the critics of our work, Mises represents the first group, Weil the last.
exchanged, non-market command economy. However hotly the contending positions are debated by their respective advocates, both sides to the dispute make common front against the more recently constituted third group in this debate. The latter includes the pioneers of functional (pluralistic) socialism in England, particularly the advocates of functional guild socialism and embraces also socialist theoreticians who share the orientation of E. Heimann and J. Marschak.  

Our own writing originated in a challenge to the two conventional positions and should be interpreted as an attempt to respond to the need to create a positive socialist theory of economics (Wirtschaftslehre) as distinct from what, in our view, is a somewhat state scholastic debate between orthodox Marxists and their “bourgeois” enemies.  

Thus, to the meat of the matter. The acknowledgement of the need to create a “positive socialist economics” implies the admission that such a body of knowledge does not, as yet, exist. Our article addressed itself in detail to the articulation of an appropriate methodology, for the treatment of the problem of economic calculability in a socialist economy. We have consciously and deliberatively selected definitions and related postulates in a fashion which permits the development of a positive theory of the economics of socialism.  

Specifically, we are concerned with three aspects. Firstly, with respect to the definition of socialist economy; secondly, with respect to the mutual relationship between the legal and the economic order; and ultimately with the mechanisms which drive the economy. Our conception of a socialist economy is one which conceives the organizations of communal economic activity, in the widest sense of the term, as autonomous. The realization of two central requirements – the advancement of maximal productivity on the one hand, and the rule of social justice on the other, (as manifested in the distribution of the product and in the social

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6 Cf. our work, pp. 380-382.
orientation of the discretion of production) – constitutes the essence of our concept of a socialist economy.  

We approach the concepts of law and economy in the same spirit: not statically, as two manifestations of the social – economic base, (property relations = relations of production), but dynamically as two relatively independent determinants of social reality. In this manner we are able to distinguish between circumstantial and directly interventionist effects of legal property relations on the economy, a distinction which escapes the conventional alternatives of the planned command economy versus the free market economy.  

Finally, we formulate the problem of the divorce between “natural” and “social” costs of the product in terms of an analysis of “holistic economic will” (einheitlicher Wirtschaftswillen) respecting motivation and clarify the relationship between the inner organization of economic actors with the behaviour of economic groups.

All of this is but a starting point toward the construction of a positive theory of socialist economics. It is, however, not difficult to establish the fact that our approach to definitions and postulates is crucial if we seek to construct such a body of systematic knowledge. The English functionalists proceeded in similar fashion to overcome the supposedly inherent contradiction between collectivism and syndicalism. In our previous work we attempted to explain that our definitions and assumptions can bear fruit only in the intellectual soil of a functionalist approach to society. In summary, our attempted solution depends on the dual premise that the contradiction “market versus non-market economy” is not useful point of departure for a theory of the economy and that the contradiction “collectivism versus syndicalism” does not necessarily represent meaningful alternatives for a theory of organization of a socialist economy.

In this critique, Mises went to the heart of the matter in an attack on the functionalist position: “Between syndicalism and socialism there can be no compromise and no reconciliation,” says Mises. (Socialism in this context is to be understood as collectivist

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7 Compare with Weil’s definition: “By Socialism we understand a social order which (according to Marx and Engels) is historically progressive, (Note 9).
9 Weil imagines that this resembles Duhring’s “Verteilungswirt.” This is erroneous. Duhring’s “Verteilungswirt” represents a monopoly price based on the power of ownership, as in the case of Duhring’s landlord (Grossgrunbesitz). Weil fails to bring proof of his assertion.
10 S. and B. Webb, definitely opponents of guild socialism claim that British Socialism has already adopted a functional approach. The work of the Webbs was inevitably unsuccessful in reconciling their collectivist tendencies with the functionalist principle.
centralized socialism). The error of our model, according to Mises lies in the indeterminacy with which it seeks to evade “the key issue: syndicalism or socialism”. In particular, Mises questions our propositions regarding a constitutional structure which places joint direction of society in the hands of two functionally defined constituent bodies – one representing producers, the other consumers. Mises offers the following proof for this objection to our model:

He quotes from our article: “Functional representative associations of one and the same set of people can never result in an insoluble conflict between them – this is the basis tenet of all functionalist constitutional models”. He elaborates: “The basic tenet of the functionalist constitutionalist model is flawed. If, as is implicitly assumed by Polanyi’s and all other similar models, the parliament of consumers is constituted with one vote for each individual, while the parliament of production enterprises proceeds by means of a different logic of choice, there can most certainly be conflict between them. In the event that neither the organized consumers (Kommune) nor the congress of producers associations is vested with the power of ultimate decision to resolve the conflict, the system is not viable. If ultimate decisions rest with the organized consumers, we have a model of a centralized command economy – which Polanyi rejects as incapable if undertaking rational economic allocation. If final decision making powers are vested in a Congress of Producers, we have the syndicalist model.”

This line of argument would indeed be convincing if this implicit starting point on which it is predicated were valid. It is, however, invalid. Mises initial point of departure would have to be that “the constitutional model cannot be operational unless ultimate decision powers are vested in one or the other of the two constitutionally recognized associations.” There is no lack of evidence, however, that in the overwhelming number of systems which are acknowledged to be perfectly viable, the opposite is true: the final decision is effected with input from at least two sets of economic actors.

The erroneous conclusion drawn by Mises is explained by the fact that he has failed to distinguish between the two meanings of the words “constitutional form” (Verfassungsform), one relating to the societal power relations (Machtverhältnis), the other to mutually recognized societal relations (Anerkennungsverhältnis). Only in the first sense of the word, i.e. as a societal power relationship is true that in order for a society to be viable, there is need for a supreme political directorate which can decide an issue in favour of one or the other contending parties to a dispute. If we consider constitutionality in the second sense of the word, i.e. as a relationship of two associated groups with mutually recognized rights and interests, matters are very different.
Because Mises does not make this distinction, he erroneously concludes that a constitutional order cannot be viable unless decision making powers are vested in one of the contending groups. Mises’ error is perhaps veiled in the ambiguity of the words “final decision”, insofar as the adjective “final” may mean ultimate in the sense of the power relations which lie behind the interest groups or it may refer to the (???).

But even an erroneous line of reasoning may reveal a pertinent objection to an argument. For this reason, we will attempt to address Mises’ critique after we have briefly dealt with the problem of the teleological necessity of an ultimate court of decision both in the constitutional sense of power relations, and in the societal sense of the resolution of conflict between recognized interest groups.

In pure power relations, a conflict between two parties can only be resolved by the permanent superiority of one party over the other. In this case, the outcome will indeed be determined by one of the two parties. In the case of equal or changeable relative strength of the two parties, there can be no solution by means of power relations: the settlement of the conflict on the basis of power relations remains elusive. Insofar as a conflict is in fact resolved in such a case, it can only be by reference to mutual recognition by both parties of their social interdependence (e.g. by drafting a constitution, or by law, or custom, etc.). It is possible even in this case – albeit more in appearance than reality – that the outcome is imposed (as in the case of taking turns or decision by draw). This, however, is likely to be the exception rather than the rule. In the general case the parties have the duty to reach an accord, which is mutually respected and which secures the settlement against possible re-emerging conflict. The relative strength of the parties will determine the range in which a compromise is struck. This, however, is qualitatively different from the case of decision by a power above the constitution which suspends and displaces the social contract between the parties. The identification of the relatively stronger position (Ubergewicht) of one of the two parties with decision by a politically superior power (Ubermacht) is an error.

The position of Mises should thus be reformulated as follows: “The permanent superiority of consumer associations over a congress of producers, (or the reverse), excludes the mutual recognition of the interests of the two groups; in this case, the relationship must remain in of pure power which can only be visible in the event that final decisions rest with one or the other association. Ergo: collectivism or syndicalism.”
To bring evidence of his objection to our thesis, Mises would have to explain which of these two organized interests groups would capture permanent power within the system. (As explained above, a stable solution would require the permanent superiority of one or another party, insofar as rise and fall from supremacy of one or the other party would require precisely the kind of mutual recognition of their interests which we have demonstrated). Mises cannot evade the question, insofar as he cannot prove, a priori, that either one or the other of these functionally based associations is likely to gain permanent superiority.

The question has no a priori answer. Man as producer and man consumer represent two aspects of human motivation which are determined by a single life process – the economic activity of the individual. The interests which arise from these motives thus, manifest themselves fundamentally in equal measure. Insofar as associations of citizens and consumers and associations of producers represent complementary aspects of human economic activity, they are fundamentally equal in relationship one with the other. A tendency towards the stronger assertion of one organized interest group over the other is as likely as would be the case for an individual. In the event of such an imbalance, there will be a tendency to a corrective counter movement toward equilibrium. The functional principle will tend towards the institution of the mutual recognition of two organized interest groups and constitutes our response to Mises’ contestation of our thesis.\textsuperscript{12}

We note that we have never stated that there could not be conflict between associations of consumers (kommune) and producers. Such conflicts are an essential dynamic lifeforce of a functionally organized socialist society. In place of conflicts between groups of individualistic opposing interests, such as is the case in a class society, socialism permits conflict between variously constituted aspects of the same body of individuals which animate the society (Bewegungsprinzip) and the economy. Not only because choices are ordered differently by individuals, as argued by Mises, but precisely because the functional organizational model facilitates conflict between functional associations, there is movement within society. What we

\textsuperscript{12} Mises has found our formulation lacking in clarity. We quote: “The association of citizens as consumers (Kommune) are the owners of the means of production: the right to dispose (Verfugungsrecht) is not however that of the Kommune but that of the associations of producers.” Mises claims that the central question: “socialism or syndicalism”, is here evaded. Mises position is then: “property is the right to dispose. If that rights is accorded to organized producers and not to organized consumers, then the producers are the effective owners and we have a syndicalist model” (49) But ownership is not only the right to dispose, it is also the right to appropriate (Aneignungsrecht). Insofar as the Kommune is the owner of the means of production, it has both the right to appropriate the product, as also the right to dispose of the means of production. Both of these are exercised as social rights, within the framework of the economic order.
maintain, in opposition to Mises is that those conflicts are never *irreconcilable* because the transparency (Durchsichtigkeit) of conflict between functional organizations representing different interests of the same set of individuals ensure that a solution *must* be possible, just as is the case with respect to contending interests within a single individual. Through their representatives individuals are faced with of confronting themselves. The inevitability of reconciliation within a functionally organized socialist society is, thus, based on the physical and psychic unity within the individual and requires no further proof.

In order to prove that such a confrontation could not occur, Mises would have had to turn his argument against the functional model of social organization. He would have had to prove that functional representation by association is ineffective in articulating the interests of individuals as consumers and producers, or that the functional democratic model is not sufficiently transparent (Durchsichtig) to enable individuals to recognize that they have interests both as consumers and as producers. Mises did not assert either of these arguments, not to speak of proving them.

While Mises emphasizes conflict between the interests of individuals as producers and consumers, and thus validates the viability of the model, Weil asserts that consumers and producers (Kommune und Gilde) have no conflicting interests at all. Small wonder then that our model, built as functionalist approach to socialist economy appears to him as “mere imagination” and a “curious fantasy” of “mystical powers” to the organizations of consumers and producers. We need not look very far to discover the sources of Weil’s lack of comprehension. It is his misfortune to have misunderstood the two key concepts of our system. Our model designates the constitutional design of a society as a “functionalist” one. With respect to a socialist economy, we specifically posit a set of fixed prices (*Festpreise*) and a set of negotiated prices (*Vereinbarungspreise*). It is to the latter that our model addresses itself. Weil has misinterpreted these negotiated prices as a type of fixed price and has ignored the fundamental nature of the difference. He has similarly misunderstood the term “functional”. He

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13 Footnote 29.
14 p. 213.
15 p. 212.
16 p. 212.
17 Clearest in “Festsetzung” or “Vereinbarung von Preisen” pp. 210 and 215 and 201, footnote 29 and Part III, B and Weil’s critique.
identifies “functional” with “guild socialist”\textsuperscript{18} which explains the title of his critique “Guild Socialist Accountancy”. Although our work assumes a guild socialist organization of production, we have set this within the framework of a functional organization of society. Our principal propositions, however, proceed from the functional organization of society and not from the guild socialist model of production.

Weil has combined the term “functional”, whose meaning within the recent socialist literature is evidently not familiar to him, with the term “guild socialist.” This crucial error dooms his efforts to understand our work to failure.\textsuperscript{19} One entire line of argument thus appears to him as a chaos of contradictions. These contradictions\textsuperscript{20} are easily resolved if one does not misinterpret negotiated prices (Vereinbarungspreise) to mean their opposite, and confuse the organizational model of guild-like associations of producers with the very different concept of a functional constitutional model of society.\textsuperscript{21}

Any meeting of minds between Weil’s critical comments and our line of argument could only be coincidental. We have found only one such instance, where Weil suggests that the determination of quasi-social costs is not feasible because it is necessary to subtracts from the new costs of production “an imaginary quantity”, i.e. those costs which would be incurred in the event of a discontinuation of a particular product and its substitution by another product.\textsuperscript{22} These comments are pertinent insofar that, in marginal cases, such as the costs of a new process, there may be a range of indeterminacy.\textsuperscript{23} This is a dynamic phenomenon, whereby “social costs”

\textsuperscript{18} Weil equates functional with guild socialism. We draw attention to the fact that the founders of the guild movement, A. J. Penty and A.R. Orage, did not accept functionalist social theory. Similarly, although without ambiguity, the guild socialists W. Mellor and S. Taylor have been considered adherent of functional theory by their opponents. “Functionalist” and “guild socialist” have several meanings. Weil has confused “function” with “profession” and has interpreted functional associations as professional associations, i.e. trade unions. Thus he refers to trade unions as the “functional” organs in Russia, in contradistinction to the Soviets which he considers as “central administrators.” To refer to one functional association in a society is as wrong as to maintain that one half of a symmetrical body is considered to be symmetric while the other half is not. Reference is to Weil’s discourse on “the functional economy”, where Weil suggests that consumers are served “by the ‘Trust’ to which they belong as producers” and are “represented” by the same “Trust”.. This would, of course, be the exact opposite of functional representation.

\textsuperscript{19} Weil summarizes our argument as follows: “The agreement (Ubereinkunft) between the two principal associations determines prices, i.e. determines the figures (Ziffern) for each and every type of product.” In our model, only wages and select raw material prices are pre-determined, while all prices of all other products are freely determined between consumers and producers (Vereinbarungspreise). Weil has failed to comprehend this.

\textsuperscript{20} (Omitted as trivial).

\textsuperscript{21} Weil reveals his lack of familiarity with the functionalist model insofar as he credits us with the creation of the term “Kommune,” whereas even a passing acquaintance with Cole’s Guild Socialism Re-Stated would have sufficed to save him from this error.

\textsuperscript{22} Cf. op. cit., p. 209.

\textsuperscript{23} Cf. our writing, footnote 24.
eventually become “natural costs”. Indeed, this is so as a rule, and takes us into the area of accountancy of a dynamic economy. In our functional societal model, the transition from “social” to “natural” costs would have to be determined by agreement between the organizations of consumers and producers. The objection raised by Weil relates to a dynamic phenomenon which we could not address in our static treatment.24

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24 Cf. Weil, pp. 209, 210. The calculability of “natural” and “social” costs does not constitute a problem for us, insofar as we based our system on costs, leaving value, in the utility sense of the word, to the operation of the organized “market”. Weil charges us with failure to deal with the problem of additivity of costs, whereas we have addressed ourselves from the start, precisely to the problem of costs, in considerable detail. Weil, for his part, discusses the problem, and the equally important analysis of the concept of productivity, with an offhand remark or two.