

College of Social Studies
Sophomore Economics Tutorial
Topics in the History of Economic Thought

2016-2017

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Tutorial I: Order and Planning

Reading Assignment

Adelstein, "Organizing Production," unpublished manuscript (2011).

Tugwell, "The Principle of Planning and the Institution of Laissez Faire,"
22 American Economic Review (1932), pp. 75-92.

Adelstein, "Planning," unpublished manuscript (2011).

Hayek, "Competition as a Discovery Procedure," in *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1978), pp. 179-190.

Heilbroner, "After Communism," *The New Yorker*, September 10, 1990.

Lindblom, "The Sociology of Planning: Thought and Social Interaction," in
Bornstein, ed., *Economic Planning, East and West* (1975), pp. 23-60.

Lindblom, *Politics and Markets: The World's Political-Economic Systems*
(1977), pp. 52-62.

Essay Assignment

Your reading for this first week considers the issues raised by the Socialist Calculation Debate, a controversial episode in the modern history of economic thought that began in the early years of this century and seems to this day not to have reached a satisfactory resolution. Initiated by the publication of Ludwig von Mises's deeply skeptical assessment of the "feasibility" of central economic planning in 1920, the debate was originally joined between, on the one side, Mises and his student Friedrich Hayek, themselves disciples of the nineteenth-century Austrian School of Carl Menger and Eugen Böhm-Bawerk, and, on the other, enthusiastic proponents of a politically democratic socialism firmly grounded in a centrally planned economic order, led by the distinguished Polish *émigré* Oskar Lange. The ostensible focus of the controversy was a seemingly technical question, whether and

how it might be possible for a central planning agency to administer an industrial economy without resort to the price mechanism and without seeing the processes of production and distribution descend into chaos, and by 1948 Abram Bergson would express the view of the majority of American and British economists that these questions had in the end been resolved in favor of the socialists. But the personal respect for one another shown by all the participants and the technical tone of the debate itself could not completely mask the profound political and philosophical differences between the contestants; neither the deeply rooted individualism of the Austrians nor the equally thoroughgoing collectivism of the socialists remained far from the surface. And so, with the demise of communism in Eastern Europe, the apparent waning of the socialist faith in the West since 1990 and the concurrent revival of interest among economists in ideas of the Austrian School, the conclusions of the 1940s and 50s have come to be reexamined and the Great Debate opened once again.

Were one to read only the contributions of the Austrians to the Debate, one might conclude that successful central planning of production and distribution in even a moderately complex economy is impossible. But history and everyday experience seem to compel a different conclusion. In the aftermath of the Russian Revolution, to be sure, our century has seen both the rise and fall of history's most ambitious experiment in large-scale economic planning by a strong central state. But if, in the end, the experience of Eastern Europe must be counted as evidence in favor of the Austrian view, the twentieth century is also replete with examples of effective and successful state planning, on both sides of the Iron Curtain. In the United States, for example, the federal government has succeeded not only in coordinating and directing vast portions of the nation's economic activity in the pursuit of victory in two world wars, but managed since 1945 to replicate this success under rather different conditions by organizing and overseeing a huge defense and aerospace industry largely insulated from ordinary market forces and constraints. Nor has successful state planning been confined to the democratic West, as the extraordinarily rapid industrialization of the Soviet Union between 1920 and 1940 and similar achievements in China and other communist countries since World War II testify. And, of course, the increasingly dominant positions in both the American and the international economies assumed in this century by large industrial corporations make clear that, whatever obstacles might confront the state as it struggles to allocate resources effectively without resort to prices and markets, private firms have found ways to overcome these obstacles and successfully administer extensive domains of economic activity from the center within their own boundaries.

Your assignment for this week is to consider the reasons for these apparently successful instances of central planning in the specific case of economic planning by the state. What, exactly, is the problem that the Austrians suggest must be solved if economic planning by the state is to succeed, and in what ways have modern states attempted to solve it? Is the problem a technical one, or is it political? Can a modern economy dispense with private profit, as Tugwell argues, or are profits an essential source of information for the efficient allocation of resources, as Hayek maintains? Must economic efficiency always be a goal of central planning, or can it be rejected in favor of other objectives? Does the efficacy of central planning vary with the particular goals of the planners? What constitutes success-

ful economic planning in the case of the state? Does this definition depend on whether the state is liberal or democratic (whatever these terms might mean)? What role does "human nature" play in the success or failure of economic planning by the state? Is this factor a fixed constraint with which all state planners must contend, or is it a variable within their power to alter?

Please limit your essay to no more than 2000 words.