

Don Lavoie

foreword by Christopher J. Coyne

**NATIONAL
ECONOMIC
PLANNING:
WHAT IS LEFT?**

ADVANCED STUDIES IN POLITICAL ECONOMY

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Series Editors: Virgil Henry Storr and Stefanie Haeffele-Balch

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Don Lavoie, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered*

Don Lavoie, *National Economic Planning: What Is Left?*

Peter J. Boettke, Stefanie Haeffele-Balch, and Virgil Henry Storr, editors, *Mainline Economics: Six Nobel Lectures in the Tradition of Adam Smith*

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 **MERCATUS CENTER**
George Mason University

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FOREWORD TO THE MERCATUS CENTER EDITION

Don Lavoie's *National Economic Planning: What Is Left?* was originally published in 1985 by the Cato Institute. The subtitle was intended to suggest two related questions. First, what is left of national economic planning as a means of economic organization? Second, given the answer to the first question, what are the implications for the ideological Left?

To answer these questions, Lavoie begins with a discussion of three forms of social organization—tradition, markets, and planning. Tradition involves the use of informal rules and taboos to coordinate activity, while markets rule on competition, prices, and profit and loss. Planning involves the use of deliberate human reason to predetermine how social production should occur. It attempts to replace tradition and markets with the designed coordination of social activity. Lavoie argues that tradition can effectively coordinate social activity in simple societies. Markets, in contrast, allow for widespread cooperation through anonymous interactions with others. In the market context, property, prices, and profit and loss guide economic actors as they experiment with alternative uses of scarce resources, ultimately advancing general well-being. Planning, according to Lavoie, suffers from two devastating defects.

The first is a power problem by which significant economic power is concentrated in the hands of the planning authority. Among the

defining characteristics of markets is decentralized decision-making and the freedom for individuals to engage in discovery. Planning shifts decision-making away from decentralized individuals toward a centralized authority. By undermining individual choice and liberty, planning destroys the very democratic values that proponents of planning claim to uphold.

The second is the knowledge problem, which refers to the inability of planners to obtain the knowledge necessary to coordinate economic activity. This is not an issue of simply gathering more information but instead one of planners being unable to access the requisite economic knowledge that is context-specific and inarticulate. As Lavoie writes, “the advanced technology that market organization based on private ownership of the means of production has made possible requires that the dispersed knowledge of thousands of individual minds be marshaled in a manner of which comprehensive planning is logically incapable” (52). It is the market process that generates the knowledge about which goods should be produced and how they should be produced. Economic order is not predetermined and fixed but, rather, emerges through the process of social interaction and exchange. By attempting to replace markets with expert rule, planning removes the very mechanism that is necessary to facilitate large-scale social cooperation.

Lavoie argues that “comprehensive planning,” which is intended to completely replace markets with central planning, has been largely abandoned. However, “noncomprehensive planning,” which involves government intervening in markets to direct economic activity, remains alive and well. He explores how the power and knowledge problems relate to three contemporary proposals for noncomprehensive, national economic planning: Leontief’s input-output method (chapter 4), the economic democracy movement (chapter 5), and reindustrialization policies (chapter 6). In doing so he shows that these proposals suffer from both problems and that they are ultimately undesirable from the perspective of the proponents of the policies.

Given the failures of planning, Lavoie shifts to answering the second question in the concluding chapter. He argues that the ideological Left has made a crucial mistake in embracing planning as a means of economic organization. The stated goal of the radical Left, he argues, was to transcend war and militarism, political oppression, and special privilege. Planning, both the comprehensive and noncomprehensive

varieties, is an inappropriate means to achieve these ends. Not only did planning fail to achieve the desired ends, but its implementation served to perpetuate the very militarism, oppression, and privilege that advocates of planners sought to end. This is because planning, in all its variants and forms, is fundamentally grounded in the militaristic methods. As Lavoie notes, “The *theory of planning* was, from its inception, modeled after feudal and militaristic organizations.” He goes on to note that “elements of the Left tried to transform it into a radical program, to fit into a progressive revolutionary vision. But it doesn’t fit. Attempts to implement this theory invariably reveal its true nature. The *practice of planning* is nothing but the militarization of the economy” (230, emphasis in original). One consequence of this militarization is that the many are subjected to the few who possess significant power to oppress and grant privileges as they see fit.

What is the solution? Lavoie concludes that what is needed is an “alternative radicalism” based on a complete rejection of planning and an embrace of markets as the means of social organization. This requires a radical ideological shift by both those on the ideological Left and Right. Those on the Left tend to call for new and better forms of noncomprehensive planning to achieve their social goals while overcoming the ills of markets. They attribute past failures not to the inherent features of planning but to mistakes of previous efforts to design and implement planning schemes. Those on the Right tend to combine market-oriented rhetoric with an unwavering commitment to militarizing the economy to maintain a strong national defense. In doing so, they fail to recognize the fundamental tension between their supposed commitment to markets and the simultaneous embrace of significant scope for government planning for military purposes. Lavoie argues that both sides fall prey to the two fundamental problems of planning—political power and economic knowledge—discussed throughout the book.

National Economic Planning was published in the same year as Lavoie’s *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered*.¹ Individually, each book makes important contributions to Austrian economics. Together, the insights from the two books present a comprehensive whole. In *Rivalry and Central Planning*, Lavoie reengaged the socialist calculation debate. In addition to documenting the evolution of the debate, he argues that, contrary to popular opinion, the

market socialists have failed to address the fundamental arguments made by Ludwig von Mises and F. A. Hayek.

Lavoie revisits some of these same themes in *National Economic Planning*, but he goes beyond the theoretical argument to explore what happens when planning is implemented in practice. He emphasizes that significant political power must be granted to planners and that this undermines individual choice. Following F. A. Hayek's argument about "Why the Worst Get on Top,"² Lavoie argues that the concentration of power "will naturally lend itself to abuse by those hungry for such power and eminently competent in its exercise" (20–21). This reality is structural and independent of which ideological party assumes power or designs planning policies. The "Right's militarization of the economy and the Left's industrial policy or national economic planning," Lavoie notes, "are fundamentally equivalent both to one another and to the worst of the decaying regimes of the present world" (232). At their core, all are variants of national economic planning that seek to replace the sovereignty of the individual with centralized command and control.

When seen in this light, Lavoie's two books can be read as providing both a theoretical critique of government planning and a practical critique of planning. He explains not only why planning cannot work conceptually but also how it will fail in practical terms from the perspective of the proponents of planning. As the devastating consequences of "real world" government planning illustrate—estimates range from 90 million to more than 100 million killed by communist regimes in the 20th century³—the failure to appreciate both the theoretical and practical implications of planning has tragic consequences for the lives and well-being of innocent people. As Lavoie makes clear, only the full embrace of markets as a means of social organization can avoid the dual problems of planning, both conceptually and practically.

National Economic Planning is as relevant today as when it was first published. It offers an excellent discussion of the dual issues that plague efforts of government planning. It also provides a framework for understanding current attempts at non-comprehensive economic planning, of which there is no shortage. Although Lavoie's focus was on national economic planning, the logic of his analysis can, and should, be extended to local, state, and international efforts at government planning. Given the prevalence of government planning at all levels

of social activity, *National Economic Planning* provides the foundations of an open-ended research program that is of crucial importance to individual freedom and human flourishing.

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NOTES TO FOREWORD

1. Don Lavoie, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (Cambridge, MA: Cambridge University Press, 1985), republished by the Mercatus Center in 2015.
2. F. A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).
3. See R. J. Rummel, *Death by Government* (New Brunswick, NJ: Transaction Publishers, 1994), available online at <https://www.hawaii.edu/powerkills/COM.ART.HTM>; and Stéphane Courtois et al., *The Black Book of Communism: Crimes, Terror, Repression* (Cambridge, MA: Harvard University Press, 1999).

AUTHOR'S ACKNOWLEDGMENTS

I owe my understanding of the central argument of this book, which I call the “knowledge problem,” to the Austrian economist Ludwig von Mises—who had called it the “calculation problem”—and to his students, F. A. Hayek and Israel M. Kirzner. My renaming of the Austrian school’s critique of planning should not be taken to mean that I consider my version substantially different. My purpose is only to try to indicate more clearly and in my own words what the original argument was getting at. The argument is theirs.

I must acknowledge the extent to which Michael Polanyi’s ideas—including both his critique of planning and his general philosophical outlook—have shaped my own. In addition, I should thank Ludwig M. Lachmann, whose patient, open-minded, and radical approach to scholarship in economics is a permanent source of inspiration.

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ABOUT THE AUTHOR

Don Lavoie was the David H. and Charles G. Koch Chair of Economics at George Mason University, where he taught from 1981 until his death in 2001. Beginning in the early 1970s, Lavoie was a crucial figure in the revival of the Austrian school of political economy, and he played an important role in building the Austrian economics program at George Mason University. His research focused on comparative economic systems, the use of knowledge in economic and organizational contexts, and the implications of hermeneutical philosophy for economics.

Lavoie received a BS in computer science from Worcester Polytechnic Institute in 1973 and a PhD in economics from New York University in 1981.

In the sphere of economics, Lavoie is perhaps best known for his reexamination of the socialist calculation debate. In his first book, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (1985), he argued against the standard history of the debate and made a compelling case that market socialists had not in fact adequately answered the Austrian economists' chief concerns about central planning. His account of the debate inspired a generation of Austrian economists and emphasized their unique understanding of how markets work. His second book, *National Economic Planning: What Is Left?* (1985), continued to elaborate on the Austrian school's critique of centralized economic planning.

Lavoie's later research focused on cultural studies, philosophy, and organizational learning. He edited two volumes: *Economics and Hermeneutics* (1991), a collection of essays exploring the implications of hermeneutical philosophy for economics, and *Expectations and the Meaning of Institutions* (1994), a collection of essays in economics by his teacher, Ludwig Lachmann. He also coauthored *Culture and Enterprise: The Development, Representation, and Morality of Business* (2000) with Emily Chamlee-Wright.

Through research in his many fields of interest, Lavoie sought to reveal the fundamental nature of social learning processes. Along with Jack High, he cofounded the interdisciplinary Program on Social and Organizational Learning at George Mason University.

Professor Lavoie was twice the recipient of George Mason University's Distinguished Faculty Award and was one of the university's leading innovators in teaching methods, developing new ways to use software to enhance the learning experience of his students. He developed and used groupware and hypertext software environments to enhance communicative processes and promote interactive learning in both organizations and in the field of teaching. He was also an active faculty member of the economics, public policy, and cultural studies PhD programs at George Mason University, where he influenced a generation of contemporary Austrian economists. Don Lavoie's legacy continues in the ongoing contributions of the students he mentored.

WRITINGS OF DON LAVOIE

Compiled by WILLIAM TULLOH

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