

التقدير الاقتصادي في ظل النظام الاشتراكي

د. محمد بسطامي منصور

يختص هذا المقال بمناقشة امكانية اعداد تقديرات اقتصادية في ظل النظام الاشتراكي لهدف التوزيع الامثل لعوامل الانتاج بين الاستخدامات المتعددة. ويبدأ الكاتب المقال بعرض مختصر لنشأة مفهوم الاشتراكية، ودور كارل ماركس في تطويره. ثم ينتقل الى بيان الحاجة الى اجراء تقديرات اقتصادية لتوزيع الموارد الاقتصادية بين الاستخدامات المتعددة، وكذلك أهمية السوق لامكانية اجراء التوزيع الامثل لعوامل الانتاج بالمجتمع. ويقوم الكاتب أيضا بمناقشة دور النقود في توزيع عوامل الانتاج بين الاستخدامات المتعددة.

ويتضمن المقال أيضا مناقشة لطبيعة التقدير الاقتصادي وخصائصه والعقبات التي قد تحد من استخدام التقدير الاقتصادي في توزيع عوامل الانتاج بأي نظام اقتصادي. وتناول الباحث تنظيم النشاط الاقتصادي في ظل النظام الاشتراكي والعقبات التي تعوق اجراء التقديرات الاقتصادية وأهمها عدم وجود سوق حقيقية للسلع الانتاجية.

كما يعرض الكاتب بعض المحاولات التي تستخدم في النظام الاشتراكي لاجراء التقديرات الاقتصادية. ومنها اعداد تقديرات على أساس ساعات العمل، وانشاء سوق افتراضية، واستخدام المعدلات الرياضية واستخدام المحاولة والخطأ كوسائل لتوزيع الموارد الاقتصادية بين الاستعمالات البديلة. وخلال هذا العرض بين الكاتب الآراء التي تؤيد امكانية القيام بتقديرات اقتصادية للتوزيع الامثل لعوامل الانتاج بالنظام الاشتراكي وكذلك الآراء المعارضة، ويستخلص الكاتب - عن طريق تحليل هذه الآراء وفي ضوء المفاهيم الاقتصادية - أنه لا يمكن اجراء تقديرات اقتصادية صحيحة، بحيث تؤدي الى التوزيع الامثل لعوامل الانتاج بين الصناعات المتعددة في النظام الاشتراكي.

Economic Calculation In The Socialist System

By
Dr. Mohammad Bastami Mansour *

I. SOCIALISM :

Origin and Development of Socialism :

The conception of socialism has its foundation on the writings of the philosophers of the eighteenth century who were concerned with the distinction between selfish individuals and the state, which was considered as the representative of the interests of the whole society. The rulers of that time and their governments had their own interests which were in opposition to the interests of the selfish individuals, on the one hand, and to those of foreign governments aiming for territorial gains, on the other hand. The writers of that time assumed that the interests of the individuals were opposing those of the whole society whom the government represented.¹

The liberal philosophers discarded the idea that the interests of citizen are in opposition to those of the whole society. They developed the idea of the ideal state whose purpose is that of promoting the welfare of the citizens. These philosophers demonstrated that the individual citizen if left free from any authoritarian control would take action which would be in conformity with the action of the perfect government. The entrepreneurs in the market economy could earn profit only by satisfying in the best possible way the urgent needs of the consumers. Those entrepreneurs, however selfish they may be, will have the same purpose which the perfect government has, that is the utilization of the means of production to the maximum satisfaction of the urgent needs of citizens.² By this reasoning, the liberal philosophers contributed to the notion of the paternal state. This implied that the king in the ideal regime would have the power to control the means of production and direct the economic life. Although the idea of the market economy was retained, the real operations of the market were not those of the market economy in the real sense. Production was to be directed not by the consumers, but rather by authoritarian decrees.

Dr. Mahamad Bastami Mansour is Assistant Prof. Of Marketing, Faculty of Commerce, Kuwait University

1 — Ludwig von Mises, **Human Action : A Treatise on Economics** (Henry Regnery Company, Chicago, 1966), p. 689.

2 — *Ibid.*, p. 690

The model of the perfect state developed by the old liberal philosophers was compared with the operation of the market economy that must bring about what the imaginary perfect state would realize. People then concluded that this unselfish state was more capable of satisfying the needs of the citizen than were the individuals. They inferred that the state could avoid the errors that often frustrate the actions of entrepreneurs and capitalists. The planned economy was believed to be more efficient than the wasteful capitalist economy. The planned economy was considered by those who were influenced by historicism as a progressive system which was more efficient than the market economy. Human evolution would then necessitate the elimination of the market economy, which was considered as an inferior system to the succeeding and more adequate system of socialism.

Karl Marx's Contribution to the Socialist Doctrine :

«Karl Marx was not the originator of socialism.»³ The socialist ideas were already developed when Marx adopted the socialist creed. Marx's contribution to socialism was his doctrine of the inevitability of socialism. He integrated the socialist creed into the meliorist doctrines. Marx argued that the coming of socialism is inevitable, and this by itself proves that socialism is a higher and more perfect state of human affairs than the preceding state of capitalism.⁴

Marx tried to prove the desirability of socialism in two ways. First, he argued that the capitalist system based upon private property should be removed and replaced by the establishment of a system based upon public ownership of the means of production. Secondly, Marx tried to demonstrate the unsatisfactory condition brought about by capitalism. He argued that society has better knowledge of the people's needs and is more capable of satisfying their urgent needs than is anyone else. The economic activity must, therefore, be controlled and directed by society. The individual's needs will, then, be satisfied better under socialism than they will be under capitalism.

Marx based his theory of socialism on historical phenomena without the tendency to observe the permanent economic problems which are independent of the historical framework. Marx and the Marxians, moreover, continued to discourage any inquiry into the actual organization under the performance of the socialist society of the future. Only occasionally, and in a negative form, do we find statements by Marx about what the new society would not be like.⁵ Investigation of the actual organization of the socialist society and the economic activity within its framework was condemned by the Marxians as «unscientific».

3 — Ibid., p. 693.

4 — Ibid., p. 684.

5 — F. A. Hayek, «The Nature and History of the Problem,» in *Collectivist Economic Planning*, F. A. Hayek (Ed.), (Augustus M. Kelley, New York), p. 13.

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Types of Socialism :

Aside from the types of socialism associated with various political parties, socialism may assume different types in regard to the degree of the central control and direction of the means of production. The most widely advocated program of socialism is that which provides for collective ownership of the material factors of production as well as for a unified direction of their uses.⁶ It also provides for freedom of choice in consumption, and continued freedom of choice of occupation.⁷

Some proposed programs of socialism call for introduction of a certain degree of competition into their schemes in order to overcome some of the difficulty which arises from completely centralized planning. The extreme case of socialism is that under which everything is centrally directed including consumption and choice of occupation. This system is widely known as communism. Whatever the degree of control found in any system of collective ownership, the allocation of the material factors of production must be decided by a central authority.

II. ECONOMIC CALCULATION :

The Need for Economic Calculation :

The need for economic calculation arises because of the fact that the means of production can only be substituted for one another within narrow limits, and they are not absolutely specific. Most of the means of production are better suited for the realization of some ends, less suited for the attainment of some other ends and absolutely useless for the production of a third group of ends. The acting man, therefore, has the task of allocating the various factors of production to those employments in which they can yield maximum returns.⁸

Necessity of the Market for Economic Calculation :

The elementary theory of value and prices employs the construction of a market in which all transactions are performed in direct exchange.⁹ It is necessary to ignore the intermediary role played by money in order to realize what is really exchanged are economic goods of the first order against other goods. However, we must guard ourselves against the errors that we might fall into when using the imaginary construction of a market with direct exchange. One source of error in this respect is the assumption that money is neutral. We should be aware of the change in the purchasing.

6 — George Halm, "Further Considerations on the Possibility of Adequate Calculation in a Socialist Community," in **Collectivist Economic Planning**, F. A. Hayek (Ed.) (Augustus M. Kelley, New York), p. 137.

7 — F. A. Hayek, *op. cit.*, p. 18.

8 — Ludwig von Mises, **Human Action : A Treatise on Economics** (Henry Regnery Company, Chicago, 1966), p. 207.

9 — *Ibid.*, p. 202.

power of money. Another source of error that we should avoid is the assumption that goods and services exchanged are of equal value, which is inherent in them, and their proper magnitude is established by an act of measurement. We should be aware of the fact that value is merely based upon people's eagerness to acquire things. «The basis of modern economic is the cognition that it is precisely the disparity in the value attached to the objects exchanged that results in their being exchanged.»³ Valuing, then, implies preferring one thing more than another (e.g., a to b) under the conditions valuing is made. There is no measurement of value of commodities.

Money as a Vehicle for Economic Calculation :

«Economic calculation is calculation in terms of money prices.»¹¹ Goods are included in the calculation with the amount of money they are bought or sold in the market or for which they could be prospectively bought or sold.

Comparison between possible methods of using the means of production in order to achieve certain objectives can not be made without the use of money prices. Thus money becomes the vehicle of economic calculation.¹² This role is performed by money as a common medium of exchange. «The exchange ratios between money and the various goods and services as established on the market of the past and as expected to be established on the market of the future are the mental tools of economic planning.»¹³

The Nature of Economic Calculation :

Economic calculation is performed by entrepreneurs producing for the consumer in a market society. It is performed in money prices. «A price is necessarily a historical fact either of the past or of the future.»¹⁴ Exchange between economic goods and money is constantly fluctuating. Economic calculation is distinctive from measurements and engineering or technical data.

Economic calculation always deals with the future. Its purpose is to enable the acting man to establish the outcomes of certain activities by contrasting input and output. It is concerned with the outcomes of future actions or the outcomes of past actions. But the establishment of the outcomes of past actions serves only to provide insight into future actions.

¹⁰ — *Ibid.* p. 204.

¹¹ — *Ibid.*, p. 205.

¹² — *Ibid.*, p. 208.

¹³ — *Ibid.*, p. 209.

¹⁴ — *Ibid.*, p. 217.

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Economic calculation deals with change in exchange ratios. This change may take place without the interference of the individual or may be a result of a program which he embarks on for the purpose of influencing conditions. Exchange ratios of the past are not the purpose of economic calculation, but rather a help in anticipating future prices.

Economic calculation is distinctive from accounting practices followed for some purposes, such as the determination of taxes. Tax legislation determines the methods of accounting followed in an enterprise. The data generated through the adoption of prescribed methods in such cases will not be useful as a basis for economic calculation. Besides, in making economic calculation, we should beware when using balance sheets and profit and loss statements which include, beside other items, assets and liabilities not embodied in cash, and which are evaluated at an arbitrarily chosen instant of time. Those items depend upon future conditions. In using such accounts as the basis for the determination of outcomes of past actions, while planning for the future, we must realize the changing conditions of those items and the effect of their speculative character on the computations based upon them.

Limits of Economic Calculation :

«Economic calculation can not comprehend things which are not sold and bought against money¹⁵. Things that can not be exchanged against money, or that part which can not be exchanged against money, can not be included in economic calculation. Such things as honor, glory, and health can not enter into economic calculation.

Economic calculation involves calculating the expected costs and proceeds of a specific commercial activity. It operates in a society based upon the division of labor and private ownership of means of production in which goods and services are sold and bought against a common medium of exchange, i.e., money. It involves the calculation of outcomes of future action of individuals (i.e., individual's profit or loss), not social value and social welfare. Consequently, economic calculation can take place only in the market economy where the exchange ratios of goods and services are determined through their exchange in the market. Besides, economic calculation can not be applied to national income or wealth.

Limits of Money as a Vehicle for Economic Calculation :

Money is not a yardstick for value or price; it does not measure value. Prices are not measured in money either, but rather they are amounts of money. The relation between money and economic goods constantly fluctuates both on the goods side and on the money side. However, under a state of changing economic conditions, economic calculation is performed for relatively shorter periods. The purchasing power of «sound money» is not expected to change to a great extent. Fluctuation between money and economic goods does not, therefore, impair too much economic calculation based upon money units.

¹⁵ — Ibid., p. 214.

Another limitation of money as a vehicle for economic calculation stems from the fact that some things can not be evaluated in money terms such as health, pride, honor of a nation, and beauty of a place. Some economic actions might also result in social costs or social benefits which can not be estimated in money limits. Such social costs and social benefits can not, therefore, be included in economic calculation, although they influence the decision of the acting man in choosing among possible alternatives. However, this limitation does not stem from money as a vehicle for economic calculation, but rather, from the nature of things.

III. ECONOMIC CALCULATION IN THE SOCIALIST SYSTEM :

Economic Organization Under Socialism.

An important aim of socialism is the redistribution of income through the elimination of private property. This calls for collective ownership and direction of all material factors of production. Planning is a necessary condition in any socialistic economy. Organization and planning are substituted for people's initiatives. This unitary control of economic activity requires that a central agency has to determine the ultimate ends to be attained and the ways of attaining them. All offices concerned with administration of various aspects of economic activity are subordinate to and follow the instructions of the central agency.

Necessity of Economic Calculation in the Socialist System :

The problem of choosing among the possible alternatives for carrying out a specific project exists also in a socialist society. The man or the group of men responsible for planning in a socialist society are faced with the problem of choosing among possible alternatives for carrying out a certain economic project so that the total well being will be increased without the divergence of economic resources necessary for the satisfaction of more urgent needs. The man or group of men responsible for the allocation of economic resources are faced with tremendous numbers of factories in operation and projects to be established. A large number of these factories are producing unfinished goods and production goods. All these establishments are interrelated. Each good has to go through a whole series of processes before it is ready for final use. Besides, each of the projects to be established requires an individual solution appropriate to the special data of the project. In all cases the central agency has to attain the ends desired with the least expense.

The Problem of Economic Calculation in the Socialist System :

The problem of performing economic calculation in a socialist system emerges from the fact that there is no free market for production goods. For economic calculation to take place there must be a market for all goods. If there is no market for goods, exchange relationships do not arise. And, «where there is no free market, there is no

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pricing; without pricing mechanism, there is no economic calculation.»¹⁶

Besides, there must be a common medium of exchange, namely money, in order that economic calculation may be performed. If money does not exist, it will be impossible to reduce the exchange relationships to a common denominator. Economic calculation based upon monetary calculation will be, therefore, impossible.

In a socialist society there is no market for production goods. Exchange relationships between these goods could not be established. Besides, while there is a room for money as a common medium of exchange in a socialist economy, its significance is far less than its significance in a free market economy. The use of money in a socialist economy is confined only to consumption goods. The production goods being publically owned, will never be the object of exchange against money. Consequently, it will be impossible to determine the monetary value of these goods. The resources used and proceeds expected from a special project can not be reduced to a common denominator; therefore, monetary calculation, and economic calculation based upon them, will be impossible in a socialist society.

IV. SUGGESTIONS FOR ECONOMIC CALCULATION IN THE SOCIALIST SYSTEM :

Calculation in Terms of Labor Hours :

The socialist writers argue that on the basis of labor theory of value, labor hours can be used as the unit of calculation. The amount of labor involved in each product can be determined. The utility of the various goods will be compared against one another and against the amount of labor required for their production.

The labor calculation theory takes into account the diminishing returns resulting from different natural conditions of production in so far as they influence the cost of labor. But, the labor calculation theory does not take the consumption of material factors of production into account. It leaves out the influence of unfavorable natural conditions of production on returns of these material factors of production.¹⁷ Besides, the labor calculation theory disregards differences in the quality of labor. Marx considers labor as economically homogenous. According to Marx, a small quantity of skilled labor equals a large quantity of simple labor. However, the different capabilities and skills of people result in different qualities of goods and services. It is not possible to reduce the different qualities of labor to a common denominator without the valuation of the product by the consumers. It has not been proven that products enter into exchange regardless of the kind of work embodied in them. Besides, labor is not the only source of exchange value. The relation between various kinds of work can be reflected in wage rates established only by the market mechanism. Thus, «calculations based on labor cost rather than on monetary values would have to establish a purely

16 — Ludwig von Mises, «Economic Calculation in the Socialist Commonwealth,» in **Collectivist Economic Planning**, F. A. Hahn (Ed.), (Augustus M. Kelley, New York), p. 111.

17 — Ludwig von Mises, **Socialism : An Economic and Sociological Analysis**, (Yale University Press, New Haven, 1951), p. 133.

arbitrary relation by which to resolve skilled into simple labor, and this would make them useless as an instrument for the economic organization of resources».¹⁸

Establishment of a Quasi-Market :

Some socialist writers advocate the introduction of some degree of competition and the establishment of an artificial market in the socialist system in order to overcome the problem of economic calculation. This requires that the consumers and managers of various production units act as if they were acting under a capitalist system. Those writers argue that the only difference between the position of the managers of corporations in a capitalist economy and that of the managers of business units in a socialist society is that the former act on behalf of the shareholders while the latter act on behalf of the whole community. In the conduct of operation, the managers in the socialist system will follow the same principles and techniques applied by their counterparts in the capitalist system.

However, this argument fails to grasp the essential difference that distinguishes the action of managers in the capitalist system from that of managers in the socialist system. While the managers in the capitalist system carry out orders of those who own the business, they adjust to the market prices determined through the market mechanism and influenced by the action of large numbers of consumers and entrepreneurs. But prices of the material factors of production in the socialist society are determined by the central authority. The exchange ratios between the material factors of production and capital goods does not reflect the preferences of business units, but rather are arbitrarily determined by the central authority.

This argument also fails to recognize the important role played by the capital and money markets in allocating capital among the various industries. The entrepreneurs and capitalists direct capital into the enterprises which seem to satisfy the urgent needs of consumers in the best possible way. If the transactions of the capital and money markets are eliminated, the market can not exist and the remaining parts can not function as a market.¹⁹

In the capitalist system it is the entrepreneurs' actions which determine the allocation of factors of production among the various industries and not that of the managers of the corporations. Only those entrepreneurs can decide which enterprises should be established.

In the socialist system, on the other hand, it is the central agency which allocates the factors of production among the various production units. The advocates of the quasi-market for the socialist system do not allow for a capital market and financial

¹⁸ — Ibid., p. 134.

¹⁹ — Ludwig, von Mises, *Human Action*, op. cit, p 708.

institutions to exist. They suggest instead that the central agency act as a bank allocating the funds among the various production units. Such suggestion, however, does not help, and the central agency will be faced with the problem of allocating capital to the alternative uses without the existence of the entrepreneurs who can decide upon the most efficient use of capital. The managers of the production units do not decide on their use of funds upon the basis of consumers' behavior, but rather according to the decision of the central agency. The introduction of the quasi-market in the socialist system does not, therefore, solve the problem of economic calculation.

The Use of Differential Equations :

The use of differential equations implies that each factor of production is employed in such a way that it renders the maximum possible returns. These equations describe the condition of equilibrium. They do not provide information on the human action and the effect on the hypothetical state of equilibrium. This state of equilibrium does not resemble the real state of affairs.

In a market economy, the exchange ratios and the allocation of resources are determined through the market mechanism which is influenced by the entrepreneurial action. In predicting the outcomes of his action, the entrepreneur bases his calculation on the anticipated prices, not on the equilibrium prices. Besides, the differential equations assume that the preferences of consumers for goods and services are known. The equations do not allow for changes in the consumers' preferences at various conditions of production. Thus, the change in production conditions and changes in the other data are expected to cause changes in the conditions under which the equilibrium will occur. The equations are not useful in providing information with regard to the most appropriate way of transforming the total produced factors of production at the present state to the total produced factors of production which are necessary for the equilibrium state to exist. Thus, not only the state of equilibrium can not be computed upon the basis of the knowledge of conditions in a nonequilibrium state, but also such hypothetical state of equilibrium could not be of use in arriving at the best alternative solution to the problems of economic activities.²⁰

The Trial and Error Procedure :

«The method of trial and error is applicable in all cases in which the correct solution is recognizable as such by unmistakable marks not dependent on the method of trial and error itself.»²¹ The trial and error process is used by entrepreneurs in the capitalist economy. The entrepreneurs can easily recognize if their action was right or wrong by observing their profit from a particular economic activity. «Profit tells the entrepreneur that the consumers approve of his venture; loss, that they disapprove.»²²

²⁰ — *Ibid.*, p. 714-715.

²¹ — *Ibid.*, p. 704.

²² — *Ibid.*, p. 705.

In the socialist system, however, the situation is different. Although the market for consumers goods exists in the socialist society, there is no market for producers goods, and therefore, there are no prices for them. Consequently, comparison of input and output can not be made. Thus the trial and error process can not be of any help in determining the optimum solution to the economic problems in the socialist society.

One socialist writer²³ asserts that the trial and error procedure can work in the socialist system as it does in the market economy. The prices for capital goods and productive resources can be established objectively if we consider prices in their «wider sense as indices of alternatives» rather than in their «narrower sense as exchange ratios.» The argument, according to this view, is that in the socialist system where the freedom of consumption and occupation is retained, the equilibrium prices which equate the quantity demanded and the quantity supplied can be arrived at through the trial and error procedure. The allocation of resources by trial and error will be based upon the so-called «parametric function of prices» i.e., each individual separately regards the actual market prices as given data on which he bases his calculation.

The consumers demand as based upon the consumers incomes is the guiding criteria in production and the allocation of resources. The prices for the consumers goods will be determined through the market mechanism. The prices for capital goods and productive resources outside labor will be fixed by the Central Planning Board. The income of each individual is conceived to be consisted of two parts, «one part being receipts for the labor services performed and the other part being a social dividend constituting the individual's share in the income derived from the capital and the natural resources owned by society.»²⁴

The managers of production units are provided with rules by the Central Planning Board aiming «at satisfying consumers' preferences in the best way possible.» These rules determine the combination of factors of production and the scale of output. The factors of production are to be employed in such a way that the marginal productivity of all factors is equal. The scale of output is determined according to the rule that the marginal cost should equal the price of the product. Thus, the scale of output and the demand for the factors of production by the production units are determined. «The first rule, to whomever addressed, and the second rule when addressed to the managers of plants perform the same function that in a competitive system is carried out by the private producer's aiming to maximize his profit, when the prices of factors and of the product are independent of the amount of each used by him and of his scale of output.»²⁵ The second rule being addressed to the managers of a whole industry is

23 — Oskar Lange, «On the Economic Theory of Socialism, » in **The Economic Theory of Socialism**, Oskar Lange and Fred M. Taylor, (University of Minnesota Press, 1938), pp. 57-129.

24 — *Ibid.*, p. 74.

25 — *Ibid.*, p. 76.

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adopted as the guiding principle for the scale of output for the industry and its expansion or contraction, or the establishment of new industries.

The prices for consumers goods being determined through the market mechanism, and fixed by the Central Planning Board in all other cases, and the prices of factors of production being fixed also by the Central Planning Board, determine the supply of products and the demand for factors of production. The prices of capital goods and productive resources being given, their distribution between different industries is also determined.

The equilibrium prices in the socialist system can be determined, according to this view, by the trial and error procedure. The Central Planning Board has to fix prices and request that managers of plants and industries take these prices as «accounting rules». The consumers' incomes for each set of prices are determined by the prices of productive resources and according to the principles adopted for the distribution of social dividend. «For each set of prices and consumers' incomes a definite amount of each commodity is supplied and demanded.»²⁶ The equilibrium price will be that at which the quantity demand equals the quantity supplied of each commodity. If the price is different from the equilibrium price, a surplus or a shortage for the commodity in question will show up at the end of the accounting period. Through adjustment of prices, the equilibrium prices will be finally reached.

The rate of interest in the socialist society is determined, in the short period, where the amount of capital is regarded to be constant by the condition that the demand of capital is equal to the amount available. If the interest rate is set too low, shortage in capital will show up. If the interest rate is set too high, surplus in capital will exist.

The amount of capital in the long period is determined by the rate of capital accumulation which, in turn, is determined by the Central Planning Board. The managers of production units have to take the interest rate as given.

Thus, the Central Planning Board having provided the values for the scale of output and the combination of factors of production in the different industries, and fixed the prices of capital goods and productive resources, can arrive, by the method of trial and error, at the equilibrium prices.

This view, however, is objectionable for the following reasons:

1. The Central Planning Board, by determining the prices of capital goods and productive resources, at the same time determines the incomes of the consumers. Assuming that the distribution of the social dividend takes place in such a way that it has no influence on the individual's choice of occupation (e.g., divided equally per head of population), as suggested by this view, the incomes of the individuals will be changed by the same amount, if there is any change in the prices of the material factors of production. Thus, the Central Planning Board when it changes the prices of these

²⁶ — *Ibid.*., p. 81.

factors of production also changes the incomes of consumers. It therefore, affects both the supply of the factors of production and the demand for consumers goods at the same time. If, for example, the Central Planning Board increases the prices of the factors of production, the incomes of the individuals will also be increased. While there will be a movement along the supply curve of the factors of production, the demand curve for the consumers goods will shift from its position (i.e., shifts to the right). This will be due to the income effect resulting from the increase in the consumers incomes. Thus, while the Central Planning Board takes into account the effect of the increase in prices on the supply of the factors of production and demand for consumers goods, this demand increase occurs as a result of other factors (i.e., income effect) and not only because of change in prices of these goods. Consequently trying to arrive at the equilibrium prices by changing prices of the factors of production will not be of any help since the other factors that affect demand for consumers goods are ignored.

2. The demand for consumers goods is not only influenced by change in prices, but by other factors such as change in consumer preferences. Thus, change in prices of the factors of production alone is not helpful in the allocation of these factors among different industries.

3. While the market for consumers goods exists in the socialist society, it is not the consumers' demand that actually determines the demand for factors of production. The Central Planning Board by changing prices of the factors of production, forces the consumers to change their demand for consumers goods, and consequently, forces the managers of production units to change their demand for factors of production. Thus, through price fixing, the Central Planning Board is distorting the allocation of factors of production from their proper use.

4. The managers of production units in the socialist society are not able to affect the demand for the products they are in charge of through changes in the product mix, the product line, or the marketing mix like the managers of corporations do in the market economy. Those managers of production units may fail to recognize the true preferences of consumers, and accordingly, can not produce what the consumers need. Instead, the managers of production units sell the consumers what the Central Planning Board wants them to. Thus the factors of production are not expected to be allocated among different industries according to the consumers preferences.

5. Although prices in the market economy are regarded by each individual as given, they are affected by the interrelated action of all individuals in the society. Thus, the allocation of the factors of production in the market economy is determined by the individual's action. In the socialist economy it is the Central Planning Board that determines prices and the allocation of factors of production to their possible uses.

Thus, the optimum allocation of capital goods and productive resources among the different industries in the socialist system can not be achieved through the method of trial and error.

V. CONCLUSION :

Economic calculation is essential for deciding on engaging in a commercial activity and determining the best possible method of performing it. As economic calculation is

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performed in terms of money prices, it is possible only if there is a market for all goods and factors of production. The entrepreneurs, through the market mechanism, can know what the consumers want and, accordingly, try to choose the best way of satisfying the consumers' needs.

In the socialist system where there is no market for producers goods and material factors of production in their real sense, accurate economic calculation is not possible. The managers of production units can not know the best ways of utilizing the factors of production. The central authority decides arbitrarily what is to be produced, in what quantity, and how. It achieves that through fixing of prices of producers goods and material factors of production and through rules established for the scale of output and the combination of factors of production. This lack of accurate economic calculation in the socialist society prevents the optimum allocation of factors of production among the different industries.

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