

Why Communism Failed

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Mrs. Greaves is a member of the senior staff of The Foundation for Economic Education. From 1951 to 1969 she was a regular participant in Ludwig von Mises' graduate seminar in economic theory at New York University.

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Three years after the Russian Revolution, an Austrian economist, Ludwig von Mises, argued that Communism would fail and explained why. Communism, or socialism, couldn't succeed, Mises wrote in 1920, because it had abolished free markets so that officials had no market prices to guide them in planning production. Mises was relatively unknown when he made his controversial forecast, but he acquired some international renown later as the leading spokesman of the Austrian (free market) school of economics. Since his death in 1973, his theories have gained new adherents, some now even in Eastern Europe.

The Soviet Union was launched with high hopes. Planning was to be done by a central committee, insuring plenty for everyone. The state was to wither away. But things didn't work out that way. The Soviet state soon became one of the most oppressive in the world. Millions of Russians starved in the 1920s and 1930s.

As Mises pointed out, the raw materials, labor, tools, and machines used in socialist production are outside the market. They are owned by government and controlled by government planners. No one can buy or sell them. No market prices can develop for them because they aren't exchangeable.

Modern production is time-consuming and complicated. Producers must consider alternatives when deciding *what* to produce. And they must consider various means of production when deciding *how* to produce. Raw materials, tools, and machines must be devoted to the most urgent projects and not wasted on less urgent ones.

Consider, for instance, the planning of a new railroad. Should it be built at all? If so, where? And how? Is building the railroad more urgent than constructing a bridge, building a dam to produce electricity, developing oil fields, or cultivating more land?

No central planner, even with a staff of statisticians, could master the countless possibilities. Machines might be substituted to some extent for labor; wood, aluminum, or new synthetic materials might be substituted for iron. But how will the planners decide?

To make these decisions, planners must know the relative values—the exchange ratios or market prices—of the countless factors of production involved. But when these factors are government-owned, there are no trades, and thus, no market prices. Without market prices, the planners have no clues as to the relative values of iron, aluminum, lumber, the new synthetics, or of railroads, oil fields, farm land, power plants, bridges, or housing. Without market prices for the factors of production, the planners are at a loss as to how to coordinate and channel production to satisfy the most urgent needs of consumers.

More than 70 years have passed since the Russian Revolution and 45 years since the end of World War n. Why then do the Russian people still lack adequate housing and many everyday items? Why does agricultural produce rot in the fields for lack of equipment to harvest and transport it? Why are factories and oil fields so poorly maintained that production declines? Because the raw materials, tools, machines, factories, and farms are not privately owned. Without the bids and offers of private owners, prices reflecting their relative market values cannot develop. And without market prices, it is impossible to coordinate production activities so that the goods and services consumers need will be available. That is why Communism fails.

In a competitive economy, where factors of production are privately owned, these problems are solved daily as owners calculate the monetary values of the various factors and then buy, sell, and trade them as seems desirable, As Mises wrote in 1920, "Every step that takes us away from private ownership of the means of production and from the use of money also takes us away from rational economics."

Today, even Communists are coming to recognize that Mises was right. The U.S.S.R., a socialist society without private property and monetary calculation, is still "floundering in the ocean of possible and conceivable economic combinations," as Mises foresaw in 1920, "without the compass of economic calculation." Will she now take the important step Mises recommended of introducing private ownership of the means of production?

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