Foreword

Peter J. Boettke

Jesús Huerta de Soto is one of the great contemporary champions of the Austrian School of Economics. He has been a tireless advocate for the methodological, analytical, and ideological importance of the writings of Mises, Hayek, Rothbard, and Kirzner in his capacity as a book publisher (and translator), professor, and researcher. I think it is safe to say that in the Spanish speaking world, Professor de Soto is the leading representative of the Austrian school today. But we should be quick to add that due to his heroic efforts, a new generation of economists in Spain is emerging that tackles important issues in economic theory and public policy from an Austrian school perspective. It is all very exciting to watch from afar how a man of intellectual and moral conviction can make such a difference armed only with ideas and an educational and research vision.

Professor de Soto's *Socialismo, cálculo económico y función empresarial* has gone through three editions, this is the first edition in the English language. As Professor de Soto reports, the book has been enthusiastically read by undergraduate and graduate students throughout the Spanish speaking economics community. And rightfully so, as the issue of economic calculation is fundamental both to understanding why the market economy works to realize the gains from trade and captures the gains from innovation, while socialism fails to realize its aims, suffers from endemic waste, and delivers the people living under it to a life of economic deprivation and political tyranny.

Simply put, the entrepreneurial market process based on private property can engage in economic calculation while socialist planning run by bureaucratic rules cannot.

As Professor Kirzner has pointed out in discussing economic processes, we must distinguish between the underlying variables of given tastes, technology and resource availability, and the market induced variables of prices and profit/loss statements. It is the entrepreneurial market process that reveals a systemic tendency within the market economy for the induced variables to reflect the underlying variables. Of course, in the real day-to-day market underlying conditions are constantly changing so

that the induced variables at any one point in time never perfectly reflect the underlying variable, but any deviation represents opportunities for pure profit that will alert economic participants to the necessary adjustments. Markets work through continuous adjustments guided by relative prices and the lure of pure profit and the penalty of loss. Markets are self-correcting. This point is all the more important to understand and emphasize given the current policy debates world-wide over the Great Recession of 2008.

Government ownership and government planning, on the other hand, is unable to mimic the entrepreneurial market process. Without private property in the means of production, Mises pointed out, there would be no market for the means of production. Without a market for the means of production, there would be no exchange ratios established on the market. Without the exchange ratios of the market, there are no relative prices reflecting relative scarcities. And without the market prices reflecting relative scarcities, economic planners will not be able to engage in rational economic calculation. That is, they will not be able to determine whether it is more economically rational to engage in project A versus project B.

Economic calculation is essential to an economic system because it assures that scarce resources will systematically tend toward being employed in the least cost methods of production with the purpose of satisfying the greatest consumer demand. The economic problem any economic system faces is not just to allocate scarce resources among competing ends. In other words, the economic problem doesn't stop when a choice has been made to pursue A rather than B, but actually just begins. The economic system must find some way to sort out among the numerous technologically feasible ways to pursue A, the most economical way to pursue A. Rational economic calculation is the means by which this sorting takes place. Eliminate the ability to engage in rational economic calculation, and you eliminate the ability to solve the fundamental economic problem of how, what and for whom.

Absent an economic answer to these questions, socialism (both in its comprehensive and piecemeal forms) tends to try to answer these questions with politics. Political criteria substitute for economic, with the result being economic deprivation and political tyranny. To use Hayekian language, the knowledge problems of socialist planning produce the power problems of socialist governance. The Road to Serfdom is thus explained.

Jesús Huerta de Soto's *Socialism, Economic Calculation and Entrepreneurship* is a welcomed addition to the literature in Austrian economics. Capitalism, with its reliance on entrepreneurial appraisalment and the discipline of profit and loss provided by a private property market economy, achieves what socialism cannot.