



Book Reviews

Peter Boettke, *Calculation and Coordination: Essays on Socialism and Transitional Political Economy*. London and New York: Routledge, 2001.

This book is a collection of previously published essays by Peter Boettke on three themes: The contributions of Hayek and Mises to the economic theory of socialism; the economics of Soviet-type dictatorships, and the political economy of Russian transition. Boettke's contributions to these three issues are thought provoking, and, if accepted, would require considerable rethinking of the way we view the Soviet planned economy and Russian transformation.

As someone who considered himself reasonably versed on the “socialist controversy”—having been brought up on Hayek and Mises's most famous essays and on Abram Bergson's *Journal of Political Economy* essay—I confess that I had missed the extreme subtlety, particularly of Hayek's critique of socialism. Boettke argues (Essay 3) that the socialist controversy has been wrongly interpreted as being about whether socialism, in perhaps its market variant, could achieve something approximating equilibrium prices for the purpose of rational calculation. Boettke explains that Hayek was not particularly interested in equilibrium prices; rather capitalism's true superiority lay in its ability to react to disequilibrium prices, which entrepreneurs took as signals for business opportunities and investment. Equilibrium prices are, at best transitory. In contrast to other interpretations of Hayek and Mises as focusing on motivational problems and calculation complexity, Boettke argues that the heart of the Hayek-Mises critique is the calculation problem—both the inability of socialism to determine what is abundant and what is scarce and to use prices to react to disequilibria.

Essay 4 deals with Hayek's overlooked writings on the political economy of socialism, Boettke argues that Hayek did indeed foresee the political economy consequences of socialism and maintained that socialism will be run not by benevolent dictators but by those who have a comparative advantage in political brutality. In this manner, Boettke makes a case that planned socialism will breed ruthless dictators of the Stalin/Mao variety not by historical chance but as an integral feature of the system itself: “There are strong reasons for believing that what to us appears the worst features of the existing totalitarian systems are not accidental by-products but phenomena which totalitarianism is certain sooner or later to produce.” (Hayek 1944, quoted p. 52). Moreover, Hayek's 1944 *Road to Serfdom* anticipated the public choice logic of concentrated benefits and dispersed costs, which applies to distributional coalitions in planned as well as to market economies.

Boettke devotes Essays 6 and 7 to the initial years of Soviet socialism—the War Communism period dating from 1918 to March of 1921. War Communism was an abortive attempt to introduce full communism without going through any preparatory steps—a disastrous move which socialist writers later dismissed as forced upon a reluctant Bolshevik leadership

by the civil war emergency. Boettke makes a convincing case that War Communism was not a response to the emergency of the civil war but constituted the “original intent” of the Soviet founders. Boettke’s chronology is particularly convincing. He shows the major war communism policies either preceded or succeeded civil war hostilities. His reading of the contemporary writings of Lenin also provide convincing evidence of the ideological origins of war communism. Although Boettke’s case concerning the founder’s original intent is convincing (and he provides one of the few good accounts of the first years of Soviet socialism), I have never been convinced this is a key issue in understanding later Soviet socialism. Such an experiment, whether based on ideology or necessity was bound to fail disastrously.

Boettke’s key contribution (co-authored with G. Anderson), and his most controversial, is his interpretation of the mature form of Soviet socialism (Essay 8). Boettke dismisses the Soviet myth of planned socialism (a myth too commonly accepted by Soviet specialists) and applies instead a political-economy interpretation of the Soviet system. Boettke’s controversial interpretation is of a Soviet dictator who deliberately creates monopolies which he “sells” in some fashion to monopoly rent seekers. These monopoly rent seekers—presumably industrial ministries or regional leaders—then exploit their monopolies to reap economic rents in the form of political favors, bribes, or to gain resources from other monopolists. The state planning commission, in Boettke’s model, is not the planner-balancer of the scientific planning model but an arbiter of conflicts among monopolists. Boettke applies this analysis to Soviet economic reforms (Khrushchev’s regionalization reforms, Gorbachev’s perestroika), which he interprets not as efforts to raise economic efficiency but as redistributions of monopoly rents as new leaders come to power (Essay 9).

I disagree with Boettke’s conclusion that Soviet planned socialism was not a unique political-economic system but an extreme variant of mercantilism in which state revenue was generated not by taxation but by sales of monopoly rights. I would, however, accept it as a polar variant to the propagandistic Soviet version of scientific planning. In this sense, the Boettke Soviet “venality” model serves a useful function.

Essays 11–13 deal with the former Soviet Union’s transition. If one accepts Boettke’s interpretation of the Soviet period, as an extreme form of mercantilism, then the transition must be reinterpreted accordingly. Boettke accuses the political economy of transition literature as focusing on “the wrong questions” (p. 250). Transition specialists overlooked “questions of history, culture, legitimacy and so on” (p. 250) and dealt instead with technical questions such as accounting practices or voting procedures. Transition success will rest “with the ability of the Russians themselves to establish institutions of governance which reduce political uncertainty by restricting the opportunities for public and private predation and enhance the willingness of individual actors to ‘bet on their ideas’ in the marketplace for goods and services.” Boettke also makes the point that privatization could not be done effectively without a market to place a value on assets.

The essays in this collection are the originals. They have been published without revisions or updating. Those that were written in the mid 1990s on the Russian transition have been somewhat dated by subsequent events. Boettke’s provocative reinterpretation of the Soviet and transition periods, particularly his reinterpretation of the Soviet period, is based largely on theoretical foundations, due to the extreme secrecy of the Soviet period. He provides

interesting hypotheses about the Soviet economy being a rent seeking rather than a planned economy—that can eventually be tested against real-world Soviet data as they emerge. The application of modern political economy to explain the problems of transition has brought together the “old” and “new” economic specialists on the former Soviet Union. I am particularly pleased that Boettke, unlike others, has taken the time to examine the Soviet past and in particular question the stereotypes of the Soviet administrative-command economy that Soviet specialists have been too willing to accept.

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The Origin and Evolution of New Businesses by Amar V. Bhidé.

Professor Amar V. Bhidé’s book, *The Origin and Evolution of New Businesses*, is a breath of fresh air in today’s world of economics. Perhaps because it doesn’t pretend to be a book on the economics of the firm, but rather a systematic, multi-disciplinary research on the subject of entrepreneurship and the emergence and evolution of businesses. It should appeal to Austrian economists and others who don’t find that mainstream firm theory adequately explains the emergence and growth of organizations.

Bhidé’s book is about understanding why and how distinctive firm capabilities emerge. It is about the emergence of organizations in an open-ended environment. It relates to entrepreneurs, their necessary skills and psychological qualities, the market environment in which businesses emerge and grow (e.g. availability of capital, business opportunities) and the critical strategies that entrepreneurs usually adopt to turn a business into a long-lived corporation. To a large extent, Bhidé shares this research program with many market process theorists such as Nicolai Foss, Stavros Ioannides, Peter Klein, Richard Langlois, Peter Lewin and the present author.

The book is divided into three sections. The first two treat the nature of start-ups and the evolution of businesses and the last one deals with economics and with policy issues that can be inferred from the first two chapters.¹

Methodological Issues

Some economists might be put off by Bhidé’s methodology: he bases his work mostly on case studies realized by his Harvard students and himself, as well as insights from the modern theory of the firm and industrial organization. He could of course fall into the tendency to try to induce general statements from empirical cases (however numerous they are), but I do not think he does.

In some ways, Bhidé’s approach is akin to comparative institutional/historical analysis, which some economists, such as Douglas North and Mancur Olson, have used to explain economic growth. Bhidé claims that minute and detailed studies of real firms may help