

Comprehensive planning in the Austrian Theory

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COMPREHENSIVE PLANNING IN THE AUSTRIAN THEORY

Administrative Studies, vol. 10(1991): 4, 278—293

The aim of this article is to analyze comprehensive planning from the point of view of the Austrian theory. The Austrian theory belongs to the economic trend of liberal thought. Friedrich A. Hayek has been the most important representative of the trend when economic planning is concerned. Planning is analyzed as a comprehensive form of the direction and control of an economy. The Austrian criticism of planning is divided into three different parts. Firstly the background of the Austrian theory is clarified. In this connection the view of knowledge, principles of organization and mechanisms of co-ordination of economic activity in the society are analyzed in the market economy and in the planned economy. Based on this background the problems of a planned economy from the Austrian point of view are defined as a knowledge problem and as a totalitarian problem. The former is based on the position of market institutions and the latter on the threat to the individual liberty by planning machinery. The suitability of the ideas represented by the Austrian theory seems to be good when the latest development in the Socialist countries is evaluated. The theory is usable also when the more noncomprehensive western planning systems are analyzed but in this connection some problems arise, too. The basic ideas of the theory raise also some core methodological and theoretical problems of social sciences concerning the development of society, the nature of social action and the meaning of democracy.

Keywords: liberalism, Austrian theory, planning.

INTRODUCTION

In Finland as well as in other western countries negative attitudes to public planning have strengthened during the last few years. At least

on the rhetorical level planning must have given place to discussions concerning efficiency, leadership etc. The author of this article belongs to the Finnish student generation who were told during the lectures in public administration that planning was going to be one of the key words in the future. Although the word planning was not used in the same sense as in the socialist world at the time, the similarities and connections of the aims were not denied, either. Naturally, a distinction must be made between planning in the meaning of POSDCORB¹ on the one hand and aims to develop some kind of comprehensive economic planning system on the other. Nevertheless to mix the two with or without purpose should be avoided. The focus of this article is on the shortcomings of the ideas behind comprehensive planning. (About the latest planning discussions in Finland see Tiihonen & Tiihonen 1990 and Pihlajaniemi 1990.)

Because of the latest developments in the socialist economies it is also interesting to look at central economic planning again. Central economic planning has always been considered an inseparable part of the socialist economic system. Apart from this or perhaps because of it the idea of comprehensive economic planning was also adopted into the western liberal market economies during and after the World War II. At the level of ideas there is a clear contradiction between the two i.e. the liberal tradition and the socialist one.

Efforts to put a more or less comprehensive planning system into action in capitalist market economies has been explained in various ways. Firstly the socialist idea of planning has its roots in the German economic policy during World War I. The measures taken made an impression on Lenin and continued to have their influence upon socialist thinking during its later decades too. (Lenin 1977, 519—520, see also Ellman 1982, VI, Harding 1983, 73—75 and Lavoie 1985, 227—229) Secondly, the stream of

these ideas to the west is explained by the economic arrangements needed to solve the war time problems during and after the world wars. Thirdly the development of the socialist system itself had an influence on the matter. The adoption of the comprehensive planning ideas was based on some kind of mixture of admiration on the one hand and some kind of fear on the other. These effects were accelerated by the five year plans which were started in the Soviet Union in 1921. (Schulin 1988, 318, Lavoie 1985, 220—231, Vartola 1985, 1—2, Weber 1978, 112 and Hayek 1975a, 29—32)

In this article I try to clarify the basis of the contradiction between liberalism and comprehensive economic planning. Liberalism has in itself different trends and it is impossible to cover all of them in one article. Furthermore, all liberal thinkers have not concerned themselves with questions related to the planning problem. Liberalism is usually divided into economic and political trends. (About the development of liberal ideas see e.g. Gray 1986, Tolonen 1986, Arblaster 1984, Liedman 1983 and, Sabine and Thorson 1981) The main ideas of economic liberalism are as follows: a private market economy based on competitive mechanisms and individualism based on economic freedom. The central figures behind the economic tradition are Adam Smith and Herbert Spencer. The other main tradition, political liberalism, originates from the thoughts of John Stuart Mill. (Schumpeter 1967, 394, Liedman

1983, 170 and Arblaster 1984, 85) except there is a considerable number of definitions. For this reason it is comfortable to start the next part of the article by giving a brief definition of the way the word *planning* is used in this article. Then I review the basic ideas of Austrian theory on which the liberal criticism of planning has been based. In the main part of the article I concentrate on the analysis of the problems of planning as seen from the liberal point of view. The main contents of the article are presented in Figure 1. below.

On the next pages I concentrate on one line of thought in economic liberalism often labelled as liberal market philosophy. In the liberal market philosophy one trend is called the Austrian theory. Through the choice of the Austrian theory I hope to be able to clarify the incompatibility of economic planning and liberalism. In the Austrian theory the questions concerning economic planning have played quite a remarkable role. The most famous representative of this line of thought is Friedrich A. Hayek, an Austrian economist and Nobel prize winner. Hayek has paid special attention to the contradiction on the level of ideas between comprehensive planning and western liberal tradition. In some aspects the Austrian theory is an extreme trend in the liberal tradition. In my opinion this is also a good reason for choosing it when trying to clarify the basic ideas of economic liberalism.

Planning is a complex term and for the con-

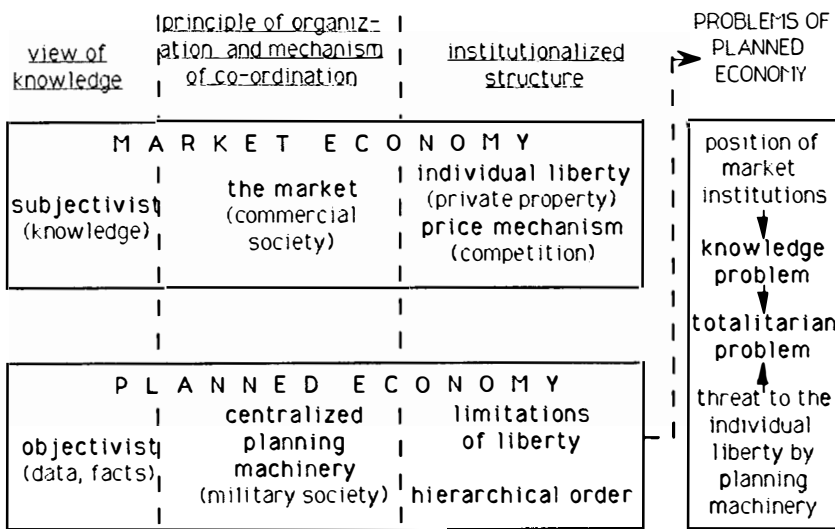


Figure 1. Problems of planned economy in the Austrian theory.

PLANNING IN SOCIAL CONTEXT

From the philosophical point of view it is perhaps safer to speak about the term *planning* first and only after that use the word concept. (From the difference of these two see e.g. Niiniluoto 1980, 120.) This is because the connections in which planning has been used vary so widely. Accordingly, theoretical approaches concerning planning are divided into planning theories proper and theories used in evaluation of the subject area of planning. In the former field one concentrates on questions dealing with planning as a process while the latter studies deal with the special problems of the subject area. (Vartola 1985, 4)

The need for planning has been explained in connection to social decision making processes. It has been said that planning has developed as a consequence of the progress of social division of labour. Consequently, the division of labour is connected to the specialization of society and so decision makers are more and more connected with each other, which brings the need for planning as a part of the decision making process. Another suggested reason for the development of planning is the centralization of decision making in the west, which has also created prerequisites for planning. (Ståhlberg 1978, 31—33)

If one tries to use the term *planning* in a more common sense — as a concept — one should be able to give some general characteristics to it. Furthermore, these characteristics should be applicable at all different levels and connections where the term is used. When based on the previous definitions of the term it is possible to name a few factors common to all these definitions. First of all, planning is a social action which is connected to the social decision making process. Secondly, this action is oriented to some point of time in the future. The third factor needed when defining planning as a concept is some kind of a unit (usually an organization composed of individuals) to be responsible for planning as an action. (Wilson 1980, 12 and Ståhlberg 1978, 17—20)

Apart from the definition given above one should keep in mind that planning is used at many different levels. First of all, it is possible to speak about individual plans as an estimation of an individual himself concerning his own circumstances of action. Individuals try to estimate not only those factors on which they can have an influence themselves but also the ones

that must be taken as given facts. An individual plan is a logical structure in which the thoughts of an individual himself co-ordinate the means and ends of action. (Lachmann 1977, 101—102) Secondly, it is possible to talk about organizational planning, which refers to the way an organization works on the one hand, and how it and especially its structure is improved on the other. The former can be expressed more accurately to mean all those planning processes that take place in a certain public or private organization as a part of its decision making whereas the latter means the design of the structure of a certain public or private organization to improve its operation. (Eloranta 1977, 15) Connected to the former meaning of organizational planning the term is also used in a wider meaning to indicate the way public administration functions in several western countries. This meaning refers to the operation of public (government) organizations and concerns those activities that belong to the functions of the state. This kind of action has objects the nature of which is comprehensive social development policy and, furthermore, the planning actions are integrated together with the state budgeting system. (Pihlajaniemi 1990, 24—28)

In a way in its widest meaning planning is used to refer to the ideological means of direction and control of society and especially its economy. In this form planning is often connected to the socialist ideology. According to Vera Lutz (1969, 17) central economic planning has been used to refer to 1) a system of integral planning from the center (the direction of all economic operations centrally by a 'National Plan'); 2) a system of partial planning from the center (government intervenes to modify specific aspects of the patterns of the economy) and 3) the government's programme for the public sector of the economy (compare to Pihlajaniemi's definition above). In addition to the three meanings above, a planned economy has also been used to refer to the plans developed by the various economic agents (compare above the meaning of planning at the individual level).

On the next pages I use the term comprehensive planning to denote the planning system which aims to control the whole economic process from one administrative unit. Noncomprehensive planning on the other hand means a system where efforts have been taken to maintain market as an institution as an integral part of the planning system. The terms compre-

hensive and noncomprehensive are originally used by Lavoie. (Lavoie 1985, 3) I have chosen to follow his terminology because it gives a good idea of the differences between the centralized planning (of the socialist type) and the western types of planning such as the French indicative planning or the planning related to comprehensive social development policy in the Nordic countries. Compared to the above definition by Vera Lutz these terms cover all those three definitions used by her to refer to the term central economic planning. Apart from the comprehensiveness of the planning system the representatives of the Austrian theory seem to think that the same principles apply in both types of planning. According to them the development of the noncomprehensive forms of planning leads inevitably towards the comprehensive form. In the next part of this article I try to clarify the content of the Austrian criticism of that development.

THE BACKGROUND OF THE AUSTRIAN CRITICISM OF PLANNING

According to Hayek the beginning of the period, during which the belief on centralized planning grew, is possible to connect both to the idea of planning and to that of socialism. It is possible to regard comprehensive planning mainly as a method to achieve socialist objects. Hayek defined comprehensive planning as the detailed direction of all productive activities by one centralized authority. In "The Road to Serfdom" Hayek in a way created a program the aim of which was to oppose all kind of planning. He said that economic theory led to the emphasis of decentralization instead of centralized planning, and, moreover paid attention to price mechanism and private property as the central institutions of the economy. Also, the discussion concerning the proper extent of the state and the limits of its functions was important according to Hayek. (Kukathas 1989, 9 and 186, Hayek 1975a, 14—15 and 19, and Hayek 1972, 108)

When defining planning Hayek's (1972, 32—34) starting point is that planning is a means or a method, by which socialist, or to put it more widely, collective economic ends are attained. One essential part of the socialist economic system is that the planning machinery is substituted for the entrepreneur aiming at making a profit. According to the liberal view there is

a contradiction between the ideal objects of socialism based on the freedom of the individual, and, the planning, which is the means by which these objects should be realized. On the other hand it is also possible to realize other kinds of ends, connected to different kinds of collective ideals. Because of this all forms of planned economy are included in Hayek's definition of the concept of collectivism, independent of the ultimate aim of planning. In other words the critique of planning is at the same time critique of the means used in the realization of collective ideals.

According to Hayek (1972, 136) from the interaction between moral views and institutions it follows that those ideals which are consequences of collectivism can differ considerably from the ones on which the claims of collectivism were based. The positive starting point for planning is to handle common problems as rationally as possible. In this formulation planning is not at all contradictory with the liberal ideals. The contradiction emerges from the means to realize this kind of end. According to the principles of comprehensive planning the realization of the object demands the direction and organization of all economic activities according to one plan. Contrary to this the content of liberal planning can be defined according to Hayek (1972, 35) as the formulation of the most rational² permanent frame of planning in a way that according to the limits set by this frame different people can do different acts by following their individual plans.

According to Hayek (1972, 36—39) a prerequisite for the liberal frame of planning is a carefully formulated legal system. The liberal ideal of planning is based on competition. Competition for its part requires, besides the legal system, the sufficient organization of certain institutions such as money, the market and the channels of information. This is not realizable if based only on private action. The control of the methods of production to save social costs is acceptable according to these principles as well as the kind of social services which don't affect the operation of the competitive mechanism. From Hayek's point of view the intervention by the state is also allowed, according to the principles of Adam Smith, when it is not possible to take care of some action beneficial for the society through competition. Hayek pays a lot of attention to legislation as the means for the state to intervene in the situations described above.

The Rule of Law forms the basis of Hayek's views. The Rule of Law is a multiform concept. From the point of view of planning the main content of the idea is, that the state is not allowed to intervene in the action of individuals on an ad hoc basis. The principle of the Rule of Law limits the arena of legislation. The basic quality of the Rule of Law is that the rules legislated by it are suitable in common situations without limiting the freedom of individual action in relation to time and place. The neutrality of this kind of common rules requires that the conditions in which the rules are applied are not known beforehand. On the other hand, the collective economic planning requires that the state intervenes on ad hoc basis in the action of individuals. In purely judicial meaning it is also possible to legislate the laws required by collective planning within the limits of legal norms. It is essential that the ad hoc rules required by planning are against the principles of the Rule of Law.

All the ideas of comprehensive planning usually emphasize the fact that the running of the economy is not controlled perfectly enough, but that it is possible to realize the control required in the economy in the planning process. Behind the requirements of control is the traditional economic problem of allocating scarce resources. As a solution to the problem three alternatives of organization are often presented i.e. tradition, market, and planning. The alternatives can also be seen as principles of economic co-ordination. Co-ordination in this connection should be understood as a certain social intelligence, through which the indispensable information needed in the functioning of the economy is communicated. An ideal social system is seen to represent a reasonable combination of different co-ordination principles. (Lavoie 1985, 26—29 and 52, Halm 1975, 148; c f also Flynn 1973, 28—29 and Grinder 1977, 21—22)

As principles of social organization tradition, market and planning are not to be combined according to Don Lavoie (1985, 29—54). Each of them creates its own social order based on the selection of production methods. When functioning according to the tradition, rules and taboos are created and they support the preservation of those production methods which have been discovered to be suitable. On the other hand, the selection procedure of alternative production methods is characteristic of the market and the procedure is based on competition

for a profit. The competition is regulated by a price mechanism, which communicates the individual knowledge required in the running of the economy. The economy should be regarded as a self-organizing structure which is changing all the time. The co-ordination taking place at the market is never complete and will never be.

As a principle of organization and mechanism of co-ordination the market should be understood as an endless process where efforts are made to reach a balance between prices and costs; a balance which is never reached, however. The difference between prices and costs is the basis for the possibilities of profit for entrepreneurs. A market economy is an open system, the fundamental nature of which is the continuous adaptation to the changing circumstances. (Lachmann 1977, 328—329)

Ludvig von Mises (1975, 122) analyzes the responsibility for the results of economic activity connected to the private ownership of the means of production and according to him that is where the basic difference between liberal and socialist economies can be found. It has also been said (Halm 1975, 177 and 187—189) that because the pricing process does not exist in the socialist economic system there are no connections between this kind of planned economy on the one hand and the individualistic organization of the economy on the other. It can be said that planning means that the centralized authority dictates the price structure through the planning of the economy and consumers' choices have no influence at all on the relative prices. Accordingly, the freedom of choice of the consumers and the freedom of every employee to choose one's occupation are not seen to square with the centralized planning of the economy.

On the other hand, according to some opinions terms of trade and the price mechanism based on competition could exist in a planned economy. Instead of private entrepreneurs seeking for profits, the competition could take place between the different branches of public administration. From the point of view of economic liberalism it is possible to argue against this by saying that a monopoly like social ownership of the means of production leads to the impossibility of competition in the planned economy, because the evaluation of the results of the competition without a developed price mechanism is impossible. Moreover, competition would be possible artificially on

the demand side of the planned economy but not on the supply side of it. Therefore competition would take place between consumers and between those who need means of production whereas the supplier of both consumer goods and the means of production would be a centralized authority in a monopolistic position. (Halm 1975, 189—200)

From the social point of view, a negative feature of the market mechanism is said to be its destructive effect on traditions. Above all, the market mechanism formulates traditions little by little through an incremental process. Accordingly, a justification for government is sometimes said to be the fact that it slows down the destruction of the cultural traditions caused by the market. Compared to the functioning based on tradition the most remarkable change from the social relations' point of view is the co-ordination between individual human beings required by the market mechanisms. On the other hand, neither communal goals nor communal will seem to belong to the market mechanism. Therefore social requirements have usually been directed to the government. (Lavoie 1985, 36—41)

The idea behind the planning process is that social production is based on democratic choice and voluntary participation. As it is not possible to combine the different principles of economic organization Lavoie (1985, 29—42) is of the opinion that the government has never really constituted a genuine agent of rational planning. He also points out that Marx had the same opinion. This is based on the fact that the role of the government has always been connected and somehow submitted to either the tradition or the market. If the functioning of the government was independent of the market, the market should be entirely substituted for the social plan.

According to Hayek the aim of planning is a more rational mechanism for the arrangement of production than the price mechanism of the market is. If the competition between economic units and the market is maintained, it is questionable whether it is possible to speak about planning at all or whether it actually is a question of the formulation of a legal frame for capitalism. In practice efforts can be made to realize this arrangement under centralized planning as competition either between different industries or between individual companies. Only through the latter alternative is it possible to avoid the statements presented against central

planning. Hayek thinks that the competition between different industries operating as monopolies under centralized planning does not lead to the most rational running of the economy. He also considers real competition impossible even when efforts are made to maintain the competitive mechanism between companies under centralized planning. Rather, that is a question of ostensible competition in which the problems of the freedom of initiative and the appreciation of responsibility connected with bureaucracy emerge. For this reason Hayek is very sceptical about the possibility to combine planning and competition in a rational way. (Hayek 1975b, 218—241; see also Halm 1975, 149—150)

On a general level the theoretical arguments supporting planning have been criticized because in the beginning the question of planning in practice was not considered at all. From the economic point of view, attention was not paid to the question how market institutions would function together with central planning. From the political point of view, no attention was paid to the threat caused by the planning machinery to the individual liberties. (Lavoie 1985, 213) In the next chapter the problem of the position of the market institutions is analyzed as a knowledge problem. After that the threat aimed at the individual liberties by the planning machinery is approached as a political problem of totalitarianism.

THE KNOWLEDGE PROBLEM IN PLANNING

When we start a detailed analysis of the critique Hayek directed against economic planning, it is possible to show that the basis of his subjectivist view of knowledge was the importance which he gave in this connection to the individual liberty. According to him the definition of the free or liberal society is that there is no coercion and individuals are not suppressed under the will of others. It is possible to give many arguments for the individual liberty. Firstly, the ignorance of the mechanisms according to which the society functions means that the centralized plan may destroy some of those mechanisms in a fatal manner while limiting the liberty. Secondly, the limita-

tion of the liberty prevents progress and the finding of new intellectual discoveries. Thirdly, the complexity of society is based on the liberty. (Butler 1985, 25—26)

Hayek developed further von Mises' idea according to which the insuperable problem of socialist planning was the knowledge concerning the best way to use resources. The forecasting of the development of society was impossible because the basis of that very development was the behaviour of human beings and the relations between them. The complexity of society makes also the planning of it impossible. Instead of conscious planning the roots of societal life lie in human development. Societal life and the economic institutions are results from human action, nevertheless, they are not consequences of conscious formulation and planning. Also, the market order originates from the individual economic action of human beings, and not from conscious planning. The institutions functioning in society are based on spontaneous empirical findings according to Hayek. That is why he calls the order on which the modern society is based as spontaneous one. As an example of another unplanned structural order he gives language. Based on his theory of spontaneous order Hayek argues that social and economic planning are contradictory with the aims of planners; in addition planning is harmful for the interests of society. In spite of their structural form social institutions are neither consciously invented nor planned. (Butler 1985, 9—16, 72 and the note no 15 p. 158 and Kukathas 1989, 207)

Based on his subjectivist view of knowledge Hayek tries to make a clear distinction between the regularities of individual action and the overall social regularities generated by them. The starting point is that the social order demands certain regularity from the behaviour of individuals. Only based on the experience is it possible to analyze the connection between the rules of individual action and the social order. To understand the social order requires the differentiation of knowledge from pure facts. This kind of definition of knowledge connects it to individuals. Pure facts on the other hand are only an abstract impersonal form of information. The functioning of social institutions is based on wider unconscious "wordless" knowledge. It includes customs, attitudes, skills, gestures, and inherited unconscious knowledge. Individuals may be unaware of this nonarticulated knowledge; nevertheless, it

directs either their individual behaviour in the form of spiritual rules or their social action in the form of social rules or it directs both of them. That is why on the psychological level individuals adapt to their environment in spite of their unawareness. On the level of social action the unawareness leads to the best results without the conscious ambitions of individuals. (Butler 1985, 17—20 and Kukathas 1989, 56)

Hayek classifies the rules which direct the behaviour of human beings on the group level into three categories:

- 1) the deliberately chosen rules which can be communicated;
- 2) the unwritten rules, which cannot be exhaustively expressed in words
 - justice, style in using the language, fair play; and
- 3) the verbal rules, which concern the course of practical action
 - common law.

The rules above are interpreted subjectively. The emergence of and changes in the rules are evolutionary processes. After following the abstract rules the behaviour of human beings becomes regular and predictable. According to Hayek a society functioning on the basis of general rules is more effective in adapting to changing circumstances than a consciously planned and directed society. (Butler 1985, 21—24 and the note no 12 p. 154 and see also Vihanto 1987. About the explanation of the social action as following the rules see also Pietilä 1984, 109—114.)

The economic view, according to which the aim of research was the rational economic order, which required knowledge of the preferences and of the means to be used to satisfy them, was considered wrong by Hayek. According to him the essential question was to clarify how the knowledge was reached and used correctly as well as how economic activity was co-ordinated. In the Austrian theory a general aim of economic research can be said to be to get information on knowledge. According to subjectivist view of knowledge the market process and the price mechanism co-ordinate the subjective knowledge to economic relations. These relations between human beings are based on means, not on ends. Unlike the planned economy the market cannot be ruled by one scale of values or by one hierarchy of goals, because in the market the different goals of different people are articulated in a certain manner to create a functioning mechanism. It

Is impossible to collect individuals' knowledge centrally, because it is changing all the time. (Kukathas 1989, 8, Butler 1985, 42—57 and Lachmann 1977, 336)

In the social sciences the prediction and control of social action is impossible according to the subjectivist view of knowledge. The reason for this is that the knowledge directing social action comes into existence in the communication process between human beings. Social action is directed by the free choice of the individual, the prediction or control of which is impossible, because as the basis of the choice there is the individual interpretation of the existing situation. (Lachmann 1977, 170)

From the socialist point of view the inevitability of planning has been justified as the only means to solve the problems of capitalism. The inevitability of planning has been explained mainly by two arguments. On the one hand it has been claimed that the technological changes lead to monopolistic production and to prevent this development planning would be needed. On the other hand the expanding complexity of the society has been seen to require co-ordination based on centralized planning. According to Hayek there is nothing in the social evolution which inevitably leads to planning, however, the idealistic trends which consider planning necessary make the situation look like it. Hayek denies the inevitability of planning because according to him e. g. the standardization of production through planning ignores the continuous economic and technological changes. Likewise, the co-ordination required by decentralization can be taken care of by the price mechanism. Experts in different areas are ready to support planning because they see it as a possibility to realize their own aims. So the movement towards planning is based on the will. (Butler 1985, 68—71 and Hayek 1972, 43—54)

As stated above, when starting from the subjectivist view of knowledge planning becomes impossible and not inevitable because of the complexity of the economy and society. In the allocation of economic resources the collection of the required knowledge is seen as a problem from this viewpoint, not at all the making of the decisions concerning it. Mistakes have more fatal consequences in centrally planned system than mistakes in individual plans or in those made by companies, because centralized planning is connected to only one view concerning the future development. In Hayek's opinion the

aim of comprehensive planning to cover all activity of economic participants was worrying not only in socialist planning systems but also elsewhere. According to him planning requires such unity of aims that it is not possible to be reached between human beings except in the smallest groups of people. (Hayek 1975a, 23 and Butler 1985, 71—75)

In his own analyses concerning economic planning Don Lavoie (1985, 4—6 and 56—112) develops further the critic of comprehensive planning based on Hayek's view of knowledge. Lavoie's definition of liberal view of planning takes as its starting point the idea that all proposals aiming to increase the power of the state to control economic actions are negative. Comprehensive planning requires knowledge instead of data, because economic phenomena are based on the actions at the individual level. Accordingly knowledge is the basis of economic activity. It is not possible to deliver knowledge in pieces of information because it is connected to its subject. The knowledge problem also concerns noncomprehensive planning. In noncomprehensive views of planning efforts have been taken to solve the knowledge problem by limiting the comprehensiveness of the job of the planner. There are three ways to do that: 1) Instead of detailed data planning is based on aggregated information. Wassily Leontief is a famous representative of this perspective. 2) Decision making is decentralized in the planning system. In the United States the representatives of this kind of views are called democratic planners. 3) The planning unit concentrates its support on certain structurally important sectors. This is called reindustrialization. For researchers in the field of public administration the most famous representative is perhaps Amital Etzioni.

Hayek himself analyzed the mathematical possibilities of theoretical economics to collect the information required by planning as well. If the aim was to reach the same level of information as in the economy based on competition, the collection of the information needed was an impossible task. First of all the centralized planning authority should collect the information from the company level in the form that it is used in the detailed decision making by the management of the companies with all its varied possibilities. It should also have all the technical information on the basis of which the production is developed and renewed to meet the changing requirements of the business environ-

ment. Thirdly the planners should have information about consumers' choices in relation to both quality and quantity and, what is even more important, about the changes in them. In addition, the pure existence of information is not yet enough, because it is on the basis of this information that decisions should be made and conveyed to those responsible for implementing them. Based on this Hayek considers the centralized decision making concerning production impossible. (Hayek 1975b, 207—213; compare also Halm 1975, 184—186)

Especially the social process or connection by means of which the knowledge is created, is a prerequisite for the running of the economy. At the moment the only efficient social process through which the knowledge is available is the market mechanism. Competition as a part of the market mechanism is such a procedure that the information found and mediated by it is not otherwise available. This fact is in contradiction with the principles of planning, because the planning system would abolish legal and market institutions inevitable for the generation of economic information. For example John Jewkes (1968, 22—23) thinks that planning inevitably weakens competition in particular. So the contradiction lies expressly between the goals and the real possibilities of planning. According to Lavoie not even a comprehensive planning system is able to obtain the knowledge of the functioning of the economy. The reason for that is that the knowledge required by planning is scattered into the minds of individuals, accordingly the collection of it is impossible. In noncomprehensive planning the planning unit is on a lower information level than the market, whose functioning it aims to direct, in consequence the actions of the planning unit are, from the liberal point of view, characteristically blind intervention. If the planning unit was able to compensate for the operation of the market, its individual intelligence should exceed the social intelligence of the competition process. Through noncomprehensive planning only a part of the economic system can be controlled by government. Even the possibility to use coercion does not guarantee the attainment of the set goals according to Lavoie. (Lavoie 1985, 4—6, 56, 95—96, 159 and 186; see also Hayek 1972, 205)

The planning systems do not have a means comparable to the competitive mechanism of the market by which it would be possible to reach the level of social knowledge included in

the competitive process and which would be higher than the individual level of knowledge. While planning destroys legal and market institutions, it also threatens to destroy the knowledge created in the unplanned competitive process, which it needs itself. The prerequisite for the planning is that the market processes function and are able to continue their functioning. Knowledge is created and spread through the competitive mechanisms. The operation of the human society is based on mass communication. In economic activity the social intelligence is determined as something else than the individual knowledge because of the mass communication process (the price mechanism). Hayek and Michael Polanyi call this signal system based on the price mechanism of the market as spontaneous order. The market processes can be regarded as unplanned complex spontaneous orders. The spontaneous order functions as a co-ordination system in the economy based on the market. The task of the market institutions is to co-ordinate the calculation on the individual level; in other words — individuals' plans concerning their economic action. The economic system based on decentralized decision making is not a result of planning based on reason. That is why a certain irrationality is one basic feature of this system. (Lavoie 1985, 4—6, 66—119 and 228, Lachmann 1977, 62 and Lutz 1969, 142)

On a more general level of analysis the criticism directed towards planning can be seen to be based on the criticism directed towards the objectivist theories of knowledge. The objectivist rational view of knowledge starts from the assumption that knowledge is quantitative, objective and cumulative as well as separated from the subject. According to Hayek both planning and also totalitarianism do not acknowledge the limited nature of human intelligence. From this follows that the view, according to which social forces should be controlled in the same way as the human being has learned to control the forces of nature, leads little by little to the breaking down of the basis of our civilization. As can be seen Lavoie's view of knowledge is based on that of Hayek and Polanyi. According to it knowledge is connected to a subject and it depends on his values and beliefs. According to this view knowledge can be divided into articulate or theoretical knowledge and inarticulate knowledge or knowledge without words. The most central shortcoming of planning is its rational view of human knowl-

edge, which leaves the inarticulate part of knowledge without attention. However this knowledge without words affects the content of single economic decisions. For these reasons both comprehensive and noncomprehensive planning systems are unable to direct the economy to the desired direction. (Kukathas 1989, 12, Lavoie 1985, 56—113 and Hayek 1972, 205)

Connected to the knowledge problem Lavoie refers to Weber and Dilthey as such representatives of sociological research who have paid attention to the interpretation of human action from its subjective meaning (Lavoie 1985, 115, especially note no 20 p. 123; c f Weber 1978, 4, Pietilä 1984, 90—109, Juntunen — Mehtonen 1982, 88—101 and Ermarth 1981). Ludvig M. Lachmann has connected the views of Weber and von Mises concerning the nature of economic research. Accordingly the function of subjective or interpretative economics is to understand economic activity as intentional actions of individuals. (Grinder 1977, 16) The essence of Weber's sociology can be considered individualistic. His liberal theory of society and the critique directed towards bureaucratic control match with the ideas emphasized by neoliberalism — individualism and a free market, a liberal state and society. While taking part in the discussion concerning state socialism and planned economy which took place in Germany after World War I Weber opposed both of them and defended a private economy and its principles. (Mommsen 1988, 2—3 and Schulin 1988, 318)

Weber had also his own views of a rationally planned economy. According to him it was impossible because there are no means to create a plan which could solve everything. The basis of Weber's views was the same as von Mises' i.e. they both thought that because of socialism rational calculation (in other words the economic planning on the individual level realized by the individuals and concerning their own economic activity) was impossible because it required an economy based on money and capital accounting. Perfect socialism, however, wanted to abolish these institutions in particular. The social ownership of the means of production formed an obstacle to define their value in monetary terms. Consequently, money could not function as the basis of economic calculation. On the other hand, economic solutions require that the value of both products and the means of production could be compared based

on the price mechanism. According to Weber the perfect socialism should be separated from the partial socialization of different spheres of production. The planned economy which was directed as a budgetary unit was especially characteristic of perfect socialism. In partial socialism, on the other hand, some kind of capital accounting was maintained. (Weber 1978, 109—112, Lachmann 1977, 47, Hayek 1975a, 34, von Mises 1975, 104—108 and Halm 1975, 150—151)

On the other hand, the calculation based on money has also its limits according to von Mises. It can not function as the measure of value when the factors defining the value lie outside the circle of exchange transactions. Monetary calculation is meaningful only in an economic organization. It cannot be used as a measure when the historical development of social relations is studied. It is not suitable as a criteria for national welfare or income, either. The first prerequisite for the determination of a value in money terms is that the goods to which it is applied are exchangeable. Another prerequisite is that there is some kind of means of exchange, i.e. money. (von Mises 1975, 98—101; see also Pierson 1975, 72—73)

THE TOTALITARIAN PROBLEM AS A CONSEQUENCE OF THE KNOWLEDGE PROBLEM

Besides the knowledge problem there is also another problem, that of totalitarianism³, which is introduced in liberal views of planning. By using this concept the Austrians refer to the threat to the individual liberty caused by the planning machinery. This threat is based on the view according to which power concentrates little by little in the hands of a planning elite. My aim in this article has been to clarify the content of the Austrian criticism of comprehensive planning. To fulfill this aim I have followed the terminology of the representatives of the Austrian theory. I am aware of the politically problematic content of the concept totalitarianism. The concept *totalitarian problem* is here used in a methodical meaning. In this form the concept is originally used by Lavoie to refer to the concentration of power. When evaluating the suitability of the terminology of the Austrian theory one should also keep in mind that originally this terminology was created in the beginning of 1900s.

The totalitarian threat to individual liberty is indirectly a consequence of the knowledge problem analyzed above. While the knowledge problem is of economic nature, it is possible to say that the totalitarian problem is of political nature. According to the knowledge problem the public direction of production is not possible for human abilities, it is beyond reach. It is possible to connect the totalitarian problem to planning institutions and their inner dynamics. More concretely it means the concentration of both political and economic power into one unit. There seems to be no difference between the society and the state. The totalitarian problem also includes the view, according to which the use of public planning power can lead only to a political dispute, not to reasonable discussion concerning the economy. (Lavoie 1985, 20 and 201 and Hayek 1972, 187; about Karl Popper's views connected to totalitarianism see Camhis 1979, 154—155, note no 11)

According to Hayek (1972, 56—58 and 113) the forms of collectivism differ from liberalism and individualism especially for the reason that the collectivistic conceptions refuse to admit the primary position of individual goals. Economic planning in collectivism wants to organize the whole society and all its resources on the basis of a uniform goal. However, the realization of a uniform goal would require a complete ethical code according to which all human values would be possible to put in their due place. This kind of complete ethical code does not exist. Because the unification based on values is impossible, the restriction of material liberties affects directly also spiritual liberty.

The absence of the ethical code means that those using the planning power have to justify their decisions to people in one way or another. Propaganda in its different forms is used for that purpose. Propaganda needs to be extended from values to the uniform view of the facts on which planning is based. The truth is reformulated by some authority and it does not emerge through knowledge formation. As I have earlier stated in connection to the knowledge problem, according to Hayek (1972, 153—166) knowledge can be seen to emerge as a result of the interaction process between human beings. By limiting and equalizing the change of opinions between human beings propaganda erodes the basis of rational reason instead of setting it in a primary position. The way

propaganda gets its totalitarian nature is that all its forms serve the same goal i.e. the justification of the uniform goal setting.

So behind economic planning there is a common end or goal to which all people aim at. In this kind of situation people form organizations like the state, which are given their own goals and means to reach the common end. These organizations would require complete unanimity about the goals, but to reach it is impossible, since there is no ethical code covering all the possible values. From the point of view of democratic decision making planning requires wider unanimity than is possible to reach. Instead of the goals themselves an agreement is reached to use planning as the means to achieve the goals. However, the implementation of the plans requires that decisions should be made, and according to Hayek, this is when the inability of democratic institutions to make the decisions required by the economic planning is revealed. The conclusion that can be drawn is that planning is concentrated in the hands of experts. This is realized in practice for instance through delegated legislation. (Hayek 1972, 60—63)

The irreconcilable contradictions of planning bring out that majority decision making is not a suitable mechanism to direct the economic resources of a nation. The inability of democratic decision making organs to make the required decisions results in the situation where people turn their dissatisfaction towards the democratic institutions. This view of Hayek is comparable to those of Habermas (e.g. 1976) and Offe (1972) concerning the social crisis tendencies. They also emphasize the inability of political-administrative system to fulfill the expectations growing together with its continuous expansion. Because of the causal structure of the planning systems in particular it has been stated that they support the continuous expansion of the state functions and at the same time form a threat to the values of liberty and democracy. Following from the interdependence of economic phenomena it is not possible to limit planning on a certain field but it becomes comprehensive. (Paloheimo, 1981, 53—54 and Hayek 1972, 68 and 105)

To understand the connection between economic planning and totalitarianism in liberal views, we have a good reason to continue the following of Hayek's thoughts (1972, 64—70 and 235). It was stated above that because it is not possible to reach the required uniformity

of goals through the democratic majority decision mechanism, the consequence of this is that planning moves more and more in the hands of experts. At first the delegation of power concerns especially the technical tasks, but little by little it becomes evident that the goal setting required by planning makes it inevitable to liberate the whole decision making from the democratic process. The uniformity in goal setting is also problem in the planning system of experts. It can be solved only by concentrating the planning power in fewer hands still. Hayek's general view is that when political measures become so extensive that all the essential information belongs almost exclusively to the bureaucracy, the creativity of individual flags.

The planning of an economy compels to treat human beings as means for reaching the goals of the economic plan; in other words as means for achieving the aims of the state, such as social welfare or good of the community. This is how the need to develop the coercive machinery is created. Because the effect of planning organs directing individual action tends to strengthen, the concentration of power to the unit responsible for planning leads towards totalitarianism. The danger of planning is the concentration of power in the hands of the experts. It has been said that in the socialist system centralized planning leads to such concentration of power and information that it causes the decline of the social system in such a way that it starts to support the use of power, arbitrary rule and unequal treatment of people. If the comprehensive planning was to succeed, it should not be possible to limit the power of government in any way, and so it would expand to the traditionally private sphere of life to a larger extent. (Cf the views of Habermas concerning the crisis tendencies of capitalist society, Habermas 1976, 33—94, especially 68—75 and see also Vartola 1979, 44—50.) So the direction of the resources toward a certain purpose also implies the setting of the goals into an order of preference by the government. At the same time it must take a stand as to the relative importance of different groups and individuals. (Butler 1985, 10, 67 and 75—77, Friedman — Friedman 1982, 74 and Hayek 1972, 56, 91—96 and 111)

The expansion of collective planning narrows therefore the freedom of action of an individual, or to quote Hayek (1972, 76—88 and 213—214) "...the more the state 'plans' the

more difficult planning becomes for the individual." The possibilities of the Individual to bring out his own order of values is reduced to the periodical election of representatives while the dominating order of values represents the view of some majority group. Consequently especially the values of minorities are displaced. The expansion of planning reduces the basis of the Rule of Law because the solutions cannot be based on general rules but on such principles as "fair" or "reasonable". The application of these rules involves a conscious and predictable way to select between interests. The erosion of the Rule of Law is one step in the development which leads to a totalitarian state as a consequence of collective planning. To run this kind of planned economy requires a more or less dictatorial style of leadership.

The concentration of power resembling dictatorial system is also seen to be based partly on the fact that the planned economy should be as closed as possible. Because it is impossible to regulate the competition from outside in the same way as one's own economy can be regulated the only means to control it is to shut it out. (Flynn 1973, 199—200) More concretely the centralized control of economic activity is connected to the nationalization of the means of production. A comprehensive planning system without a centralized control of the means of production is unthinkable. This centralized element is seen to be a typical part of a planned economy. (Halm 1975, 168 and Hayek 1975a, 21)

For Hayek economic freedom forms a precondition for social freedom, because economic calculation is connected to the fulfillment of all human hopes. As a consequence of the division of labour all human activities are a part of a wider social process. Therefore by controlling economic activity it is possible to control all human activities. Through the control of economic resources the action of the state becomes comprehensive already when it controls a considerable share of the available resources, since the indirect effect of its decisions governs everything. The state has to limit the freedom of individuals not only as consumers but also as producers since the freedom to choose one's occupation has to be limited to comply with the aims of planning as well. As a consequence the limitation of freedom becomes a developmental feature required by planning. The control connected to centralized planning has to extend wider than economic activity in society. Accordingly through

the control connected to economic planning the individual becomes a means to reach "higher" goals. According to Hayek planning does not lead to economic equality, either but supports the politically strong strategic groups. Furthermore the uniform economic goals often require strong leadership. (Butler 1985, 78—82 and Hayek 1972, 61 and 92—107)

In a society based on planning the power concentrates to a certain group on the basis of how the members of the group can agree on their lines of action. Hayek (1972, 137—141) describes those mechanisms through which those in power are selected in collectivistic systems and concludes that the application of collectivism is possible only by some kind of small power elite. Accordingly the practical forms of collectivism such as socialism are always totalitarian by their nature.

Hayek's (1972, 25—26 and 144—150) view of the totalitarian nature of planning may be clarified by his view of power. Socialist conceptions of economic freedom identified it with power or welfare. Consequently power became a goal in itself according to a collectivistic view. The desire to arrange society according to a uniform plan means at the same time the attainment of power in the form defined above. The amount of power used by people varies in society. The concentration of power to serve only one plan for instance increases the amount of it compared to the power decentralized to individuals. Economic power in the hands of individuals is never complete reaching to the whole life of individuals whereas the centralized political power creates a dependence like a serfdom. Consequently the basis of this view then is that the individual is seen as a means which should serve the aims of a higher totality such as the society or the nation. In a way the end justifies the means, and according to Hayek this leads to limitations and neglect of the rights and values of an individual.

Hayek (1972, 119—133) analyzes economic security as the other side of liberty. He divides economic security into limited and absolute form. In a free society it is possible to guarantee limited security to everybody, but that is not the case with absolute security. Limited economic security refers to "...the particular income a person is thought to deserve..." whereas absolute security refers to the guarantee of minimum income. The latter is not possible when it concerns all citizens without at the same time jeopardizing the common liber-

ty. The requirement of maintaining liberty is that economic security is guaranteed in a way that competition and the operation of the market is not interfered.

The guarantee of economic security to one group automatically increases the insecurity of other groups since the alternatives offered by system based on competition decrease at the same time. For instance unemployment follows according to Hayek (1972, 126—129) from the limitation of liberty. Development can lead either to the direction where both the freedom of choice and the risk connected to it are assigned to the individual or to that where neither of them touches the individual. The corresponding forms of organization would be the commercial and the military form of society. The former is characterized by a wide spectrum of possibilities for the individual whereas the latter is characterized by the limitations of freedom and the hierarchical order.

THE MAIN FEATURES OF THE AUSTRIAN CRITICISM OF ECONOMIC PLANNING

Based on the text above it is possible to question whether it is at all possible even to speak about the liberal view of planning from the point of the Austrian theory. The starting point when considering the possibilities of planning is first of all the more generally suspicious attitude typical of economic liberalism when the functions of the state and their necessity especially in the field of economic action are concerned. The basic principle is that economic activities should be as completely as possible in the hands of individual economic participants functioning in the market. First of all it is clear that the Austrian theory and the economic planning machinery directed by a centralized authority cannot be fitted together conceptually. Therefore the possibility of comprehensive economic planning is also outside the basic principles of liberalism. It also seems to be very difficult to fit the noncomprehensive forms planning, such as the french indicative planning together with liberal economic conceptions.

The crucial economic values connected to the freedom of individual in liberalism are realized in the criticism of planning mainly in two forms. Above these problematic questions have been called knowledge and totalitarian problems. From the point of economic planning the

knowledge problem seems to become more decisive and the totalitarian problem is indirectly derived from it. Most representatives of the Austrian theory think that economic planning is impossible since from the point of view of economic activity the only functional mechanism for the creation of new knowledge is the system based on the price mechanism and competition on the market. It is not possible to collect the information required by economic decision making through the planning system because the subjective knowledge is not available through it. The only form of organization and co-ordination mechanism which takes into consideration the subjective knowledge important for the functioning of the economy is the market. The attempts to co-ordinate the knowledge crucial for the economic decision making by the government lead to the centralization and furthermore to the threat of totalitarianism. At the same time the centralized mechanisms destroy the prerequisites for obtaining the needed information by destroying the market institutions.

As a conclusion it is possible to state that according to the Austrian theory it is impossible to speak about liberal economic planning through which the economic decision making would be directed comprehensively beforehand. It is not possible to try to fit together the market mechanisms and noncomprehensive forms of economic planning either, according to the same views. It is more suitable to speak about the different forms of state intervention. Instead of the development of a comprehensive planning system market mechanisms should be allowed to function as freely as possible.

Although the Austrian market philosophy is mainly an economic theory, economic planning is one of those fields where the limits between administration, politics and the economy are not quite clear. Therefore it is interesting to take up with these ideas, partly over forty years old, that after the latest remarkable changes in the socialist countries seem to have more weight than perhaps ever since they were first written. These ideas seem to have theoretical interest too; furthermore they seem to give thoughts for many different scientific fields. Before concluding I would like to elaborate on these further possibilities. First the explanation of state functions and their suitable limits on the basis of the Austrian theory should interest political scientists as well as economists and public administrators. The connections be-

tween the incrementalist views of planning and the Austrian theory is another field of interest. Connected to the state functions the real nature of the spontaneity of public authorities is also a question not yet answered from the Austrian perspective. At last it would also be interesting to carry out an empirical analysis of the development of socialist planning from the Austrian premise.

SOME CONCLUDING REMARKS

Connected to the ideas of the possible fields of further research one should also give space for a few critical remarks questioning some ideas of the Austrian theory. Behind its ideas some basic questions of social sciences arise. The first one can be connected to the idea of individualism and, what is more, to the nature of human beings as individuals on the one hand and as social beings on the other. The ultimate emphasis on individualism leads to problems in the analysis of collective action and its possibilities. One meets the Weberian problem of explaining all collective action on the basis of the actions of individuals. Connected to the study of organizations one meets difficulties in explaining the role of these collective bodies in the functioning of society.

These problems become even more evident when connected to another basic question of the social science, viz. that of the development of society. The basis of Hayek's view (other representatives of Austrian theory have different views) about the development of society is evolution and, to be more exact, evolution based on spontaneous action of individuals. It is especially problematic to give a good definition of the limits of the spontaneity in the functioning of society. It is difficult to find an exact answer to the question, why the actions of the state based on democratic development are not considered as the results of spontaneous action; on the contrary, they are seen as coercive. Consequently, the governments economic policy must be seen as being interventionist for the most part, and, moreover, the welfare institutions for instance in Finland should be seen to bear the same burden. The relationship between democracy and economic action is also quite complex in Austrian theory. This can also be connected to the problem of the position of political sphere in economic theories generally and at this time in Austrian theory.

It is quite difficult to deny the subjectivist view of knowledge on which the Austrian theory is based. Also many features of totalitarianism can be seen in the problems of socialist countries. The partial disappearance of real socialism in the eastern parts of Europe shows by its details that Friedrich A. Hayek could actually cry out: "What did I say!" At the moment it is much more difficult to say how the ideas of the Austrian theory should be interpreted in order to appraise for instance the public planning system and welfare institutions in Finland. There are undeniable connections; nevertheless there seems to be a lot of differences too. One can also claim that the now prevailing negative attitude to planning cannot immediately very dramatically change the ways public administration functions. This view can also be based on the Austrian theory because it pays attention to the long lasting effects of ideas forced by incremental decision making mechanisms. In other words planning can be seen as a quite deeply institutionalized form of action in public bureaucracies.

NOTES

1. The abbreviation POSDCORB was originally presented by Luther Gulick in the article "Notes on the Theory of Organization". It was formed from the first letters of the words in a list representing the functions of the executive. These words were: Planning, Organizing, Staffing, Directing, Coordinating, Reporting, and Budgeting. (Gulick 1954, 13)
2. Hayek criticizes the objective view of knowledge and does not accept rationalism as the basis for social order. When giving the definition of the liberal plan as "the most rational permanent framework" he, however, does not use the term rational as denoting to rationalism. The meaning of the word rational connected to the definition of liberal plan becomes perhaps clarified by the following quotation of Hayek (1972, 34—35) taken few lines before the definition: "'Planning' owes its popularity largely to the fact that everybody desires, of course, that we should handle our common problems as rationally as possible and that, in so doing, we should use as much foresight as we can command. In this sense everybody who is not a complete fatalist is a planner, every political act is (or ought to be) an act of planning, and there can be differences only between good and bad, between wise and foresighted and foolish and shortsighted planning. An economist whose whole task is the study of how men actually do and how they might plan their affairs, is the last person who could object to planning in this general sense."
3. As an ideal goal for totalitarianism was both in Italy (fascism) and in Germany (national socialism) to abolish all the differences between classes and groups through an imperialist goal of aggrandizement. As a practical consequence was the totalitarian, internal organization of the state. In the name of national power the state should control every action and interest of every individual and group. The form of political organization was dictatorship. As well in the fields of administration and legal system as in the economy and social structure systematic organization took place as a part of a command system resembling a war economy; a system in which individuals were drowned into the mass. (Sabine and Thorson 1981, 677 and 836—841) It should also be mentioned that as a cold war term totalitarianism usually has been used to refer to the Socialist countries.

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