But what if friendly politicians rig the game so that favoured companies can reap the benefits associated with economies of scale while socialising the costs associated with diseconomies of scale? Then we might just possibly end up with an economy dominated by those bloated, bureaucratic, hierarchical corporate behemoths we all know and love. (For some of the ways that state intervention contributes to the Dilbertesque nature of today's business world, see Kevin Carson's article "Economic Calculation in the Corporate Commonwealth" – and for more detail, his online books *Studies in Mutualist Political Economy* and *Studies in the Anarchist Theory of Organizational Behavior.*)

The good news, then, is that the unlovely features of the economy that often get blamed on the free market (or on something called "capitalism," which means either the free market, or plutocracy, or somehow magically both) are in fact the product of government intervention. We can embrace the free market without embracing big business.

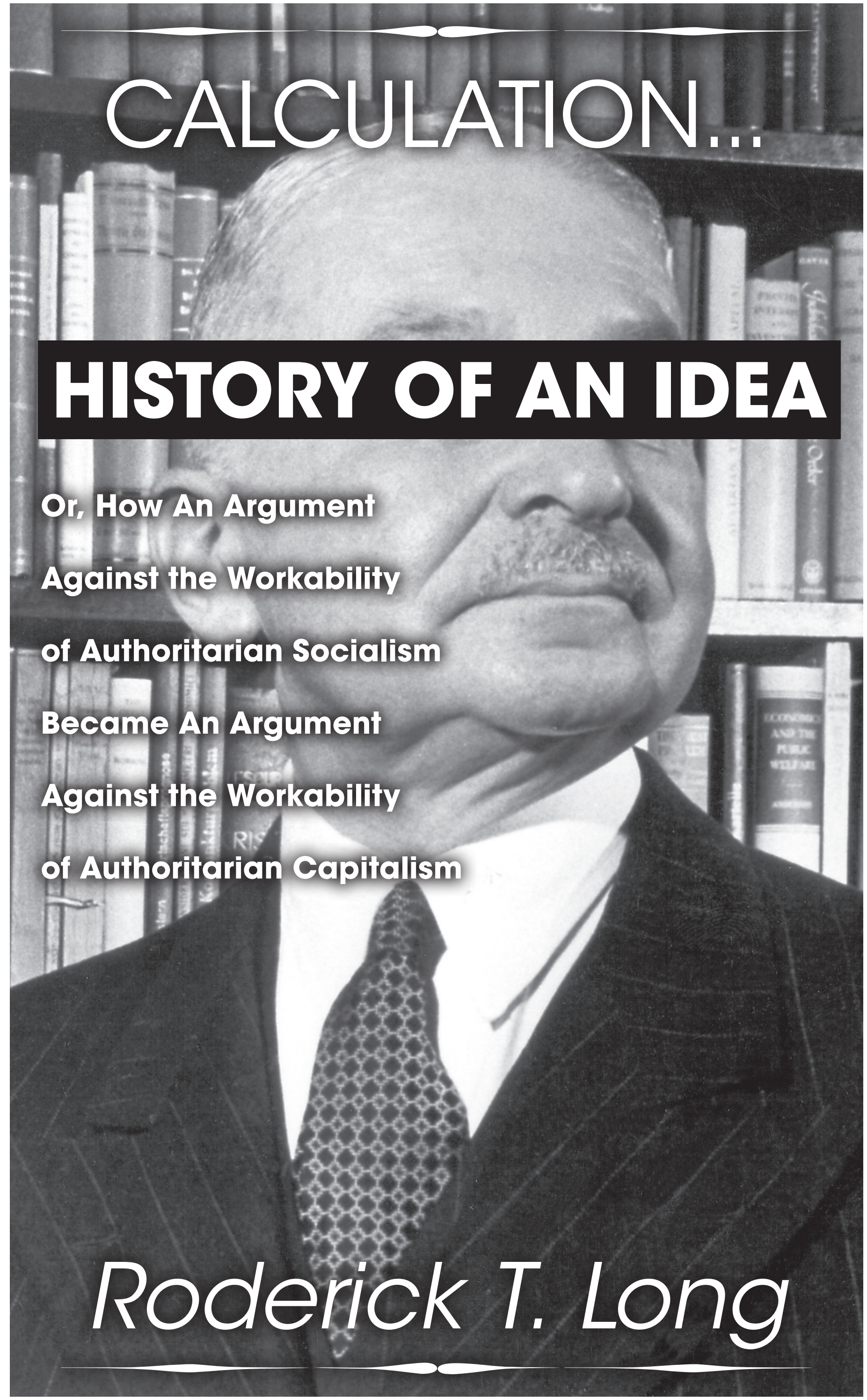
But it's not just opponents of the free market that get markets and business interests mixed up. All too many libertarians still rush to defend giant corporations like Microsoft and Wal-Mart (two firms whose whole business model in fact depends heavily on government intervention – via, *e.g.*, IP protectionism for Microsoft, eminent domain plus socialised transportation costs for Wal-Mart, and general suppression of competition from the less affluent for both) as though such a defense were part and parcel of a commitment to markets. As libertarians we can hardly complain when we're accused of being apologists for corporate plutocracy, so long as we're actually *contributing to that perception ourselves* by allowing ourselves to lose track of the basic facts about the price system that we of all people should remember.

So long as the confusion between free markets and plutocracy persists – so long as libertarians allow their laudable attraction to free markets to fool them into defending plutocracy, and so long as those on the left allow their laudable opposition to plutocracy to fool them into opposing free markets – neither libertarians nor the left will achieve their goals, and the state-corporate partnership will continue to dominate the political scene.

That's why we need a left-libertarian alliance.

http://praxeology.net/aotp.htm#5

Prepared by the
Tulsa Alliance of the Libertarian Left
for the
Center for a Stateless Society
c4ss.org



In 1920, Ludwig von Mises published an argument against the workability of "socialism" (by which he meant state ownership of the means of production), an argument subsequently elaborated by himself and his student Friedrich Hayek.

The idea in a nutshell: the value of a producers' good depends on the value of the consumers' goods to which it contributes. Hence in deciding among alternative production methods, the most efficient choice is the one that economises on those producers' goods that are needed for the most highly valued consumer's goods.

But there's a difference between technical efficiency and economic efficiency. (The following way of explaining the difference is indebted to David Ramsay Steele's From Marx to Mises.)

Suppose we're comparing two ways of making widgets; method A uses three grams of rubber per widget produced while method B uses four grams of rubber per widget produced (with everything else being the same). In that case method A is clearly more efficient than method B; that's a case of technical efficiency, because we can figure out which is more efficient just by looking at quantities expended without concerning ourselves with any economic concepts like demand.

But now compare method C, which uses three grams of rubber and four grams of steel per widget, with method D, which uses four grams of rubber and three of steel (with all else remaining the same). In this case neither C nor D is more *technically* efficient than the other. To figure out which is more *economically* efficient, we have to figure out the comparative value of rubber vs. steel – *i.e.*, which forgoes a more highly demanded alternative use, a gram of steel or a gram of rubber? As per Mises and Hayek, that's something there's no clear way to figure out except through market competition and a price system, whereby consumer valuations of first-order goods get translated, by means of prices, into varying demand for their factors of production (as reflected in, say, a higher price for steel than for rubber, thus prompting producers to economise on steel). State ownership of the means of production means no market in, and thus no prices for, producers' goods, and so no way to transmit this information.

But why *couldn't* a state-socialist central planner have access to this information? Well, first, most of the relevant information about preferences is local, inarticulate, and constantly changing; it can be expressed through the actual consumer choices that embody it, but there's no easy way to collect it otherwise. (This is the aspect of the problem stressed by Hayek – who also included other kinds of local, inarticulate, and constantly changing information – besides that concerning preferences – in his focus.) Second, even if you could get this information, it would all be in the form of ordinal rankings, and without translation into cardinal prices there's no way to combine the ordinal rankings of different people. (This is the aspect of the problem stressed by Mises.) Finally, even if you could get the information into cardinal form, in order to use it to plan the economy you'd have to solve millions of simultaneous equations at rapid speed. (Critics of Mises and Hayek often write as though this third problem is supposed to be *the* main problem – and thus have supposed, for example, that fast enough computers could substitute for the price system – but from the Mises-Hayek perspective it's a relatively minor afterthought.)

If central planning is as hopeless an endeavour as the calculation argument claims, then why haven't state-socialist regimes like the Soviet Union been even less successful than their actual record (which, while lousy, was not as completely chaotic as one might expect the Mises-Hayek argument to imply)? The reply is that the Soviet state, like similar regimes, was never *completely* insulated from the price system, since it had access to international prices (to say nothing of its own internal black market). Hence the information transmission mechanism, while seriously hampered, was able to function to some extent. (Most forms of governmental intervention merely distort the price system rather than suppressing it entirely. Of course the effects of these distortions can be serious enough – as when, per the Austrian theory of the business cycle, state manipulation of the money supply artificially lowers interest rates, sending investors the signal that consumers are more willing to defer consumption than they actually are, thereby directing resources into longer-term projects (boom!) that prove unsustainable (bust!), as in 1929 – or 2008. But the application of Austrian price theory to the current financial crisis is a story for my next post.)

The Mises-Hayek account of the limits of state centralisation was subsequently extended, by Mises's student Murray Rothbard, to cover the limits of private cartelisation as well. In his 1962 work *Man, Economy, and State*:

> In order to calculate the profits and losses of each branch, a firm must be able to refer its internal operations to *external markets* for *each* of the various factors and intermediate products. When any of these external markets disappears, because all are absorbed *within* the province of a single firm, calculability disappears, and there is no way for the firm rationally to allocate factors to that specific area. The more these limits are encroached upon, the greater and greater will be the sphere of irrationality, and the more difficult it will be to avoid losses. ...
>
> [I]f there were no market for a product, and all of its exchanges were internal, there would be no way for a firm or for anyone else to determine a price for the good. A firm can estimate an implicit price when an external market exists; but when a market is absent, the good can have no price, whether implicit or explicit. Any figure could be only an arbitrary symbol. Not being able to calculate a price, the firm could not rationally allocate factors and resources from one stage to another. ... *For every capital good, there must be a definite market in which firms buy and sell that good*. It is obvious that this economic law *sets a definite maximum to the relative size of any particular firm on the free market*. Because of this law, firms cannot merge or cartelize for complete vertical integration of stages or products. Because of this law, there can never be One Big Cartel over the whole economy or mergers until One Big Firm owns all the productive assets in the economy. The force of this law multiplies as the area of the economy increases and as islands of noncalculable chaos swell to the proportions of masses and continents. As the area of incalculability increases, the degrees of irrationality, misallocation, loss, impoverishment, etc., become greater. Under *one* owner or *one* cartel for the whole productive system, there would be no possible areas of calculation at all, and therefore complete economic chaos would prevail.

Everyone knows about economies of scale; after all, that's why we have firms in the first place. What Rothbard's analysis shows is that there are also *dis*economies of scale, and that these grow more severe as vertical integration increases.

What happens when a firm grows so large, its internal operations so insulated from the price system, that the diseconomies of scale begin to outweigh the economies? Well, that depends on the institutional context. In a free market, if the firm doesn't catch wise and start scaling back, it will grow increasingly inefficient and so will lose customers to competitors; markets thus serve as an automatic check on the size of the firm.