The Road From Serfdom: The Economic and Political Consequences of the End of Communism. By Robert Skidelsky. Allen Lane: Penguin Press, 1996

If Robert Skidelsky is right, the twentieth century has been dominated by a conflict that ought never to have happened. Throughout most of the century, collectivism was the order of the day. (By a collectivist society, Skidelsky means "one in which state purposes have replaced private purposes in shaping economic and social life" [p. 17]). No longer, American and European intellectuals held, could a nation's economy be entrusted to private enterprise. The immense efforts at national unity manifest during the world wars, not to mention the glories of Bolshevism, demonstrated what state direction could achieve. Only since the 1980s has this roseate view of state power encountered attacks among the self-styled intellectual elite.

As Skidelsky fully recognizes, collectivism from the first was a false path. "Enrico Barone (1908) and Ludwig von Mises (1920) had argued that efficient Communism was an impossible dream because if all capital were publicly owned there would be no market for capital goods in terms of which competing investment projects could be properly costed" (p. 80). Incidentally, Skidelsky deserves credit for defying the legend, propagated by Schumpeter, that Barone had refuted Mises in advance of his 1920 article.

True enough, not all collectivism takes the explicit form of socialism. But, as Mises also demonstrated, intervention offers no "third way" between capitalism and a fully-collectivized economy. Interference with the market inevitably fails to secure the results its advocates promise. Faced with failure, the government must either retreat to the market or press on with further intervention, in a futile effort to repair the damage. If the government endeavors to pursue the interventionist "cure" for the selfsame disease, the result eventually will be socialism.

But if the socialist calculation argument is right, how did socialism manage to survive in Soviet Russia for 70 years, apparently confounding its critics? Skidelsky appeals in reply to a surprising source, John Maynard Keynes. Our author, an outstanding biographer of Keynes, has pursued for many years the quixotic project of proving Keynes to be a classical liberal. In the course of his

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futile quest, Skidelsky has succeeded in uncovering some genuine insights in Keynes's work.

Concerning the Soviet economy, Keynes, in his *Short View of Soviet Russia* (1925) notes that "[e]xploitation was accomplished by the state's procurement policy. Their import and export monopoly and virtual control of industrial output enabled 'the authorities to maintain relative prices at levels highly disadvantageous to the peasants. They buy his wheat from him much below the world price, and they sell him textile and other manufactured goods appreciably above the world price'" (p. 51, quoting Keynes).

Thus the Soviet state, established in protest against alleged capitalist exploitation, maintained itself precisely through exploiting the peasants. By this means, and other types of predation, the Soviet government staved off, though it could not ultimately escape, the disaster foretold by Mises. Though the Soviet economy operated at a low level of efficiency, it did, after all, function, and this was enough for those enamored of planning. The features of the Soviet economy that Keynes identified "were to form the core of the economic policies of most developing countries in the 1970s" (p. 51).

But here an objection is likely to strike the reader. If a socialist economy can limp along for a period of time, what is so good about that? How can anyone rationally prefer planning to the abundance a free economy provides? Skidelsky, adopting the term of Sir John Hicks, argues that modern collectivist regimes have reverted to the "revenue state" of pre-capitalist times. In these, "the wealth of subjects and foreigners alike was considered fit for rulers to command at will, for their greater power, splendor, and prestige" (p. 27). Readers of libertarian bent will not fail to note the parallel between Skidelsky's and Hicks's claim and the Oppenheimer–Nock view of the state as predator.

But more than the self-interest of predators is required to explain the sway of collectivism. Skidelsky assigns much of the blame to leftist intellectuals, entranced by the prospect of reconstructing society to their liking. "Collectivism was an intellectual construction . . . largely created by a new class of social philosophers, engineers and scientists, often made up of marginal academics, who saw themselves as a rational directing elite 'above class'" (p. 39).

Skidelsky has expertly diagnosed the key economic problem of our time, and the remedy appears obvious. If collectivism, doomed to inefficiency, exists principally to benefit exploiters, must it not at once be replaced with a complete system of free enterprise capitalism? Since socialism cannot work, and interventionism leads to socialism, what other choice remains?

Unfortunately, for our author, matters are not so simple. He himself, it transpires, accepts a considerable measure of interventionism. "The failure of collectivism everywhere led to the mistaken view that the state could do almost nothing and the market almost everything. Yet the theory of the liberal state is built on the concept of market failure. We need states because there are missing or failing markets" (p. 187). Like almost all economists save Austrians, Skidelsky thinks that the free market cannot efficiently produce public goods.

Further, like his master Keynes, our author contends that government action is needed to remedy the vagaries of the business cycle. "Economies can linger in a situation of 'underemployment' for a long time till something turns up which causes entrepreneurs to regain their optimism" (p. 73). Left to itself, the market falls victim to irrational changes of mood by speculators.

This is not the time or place to examine fully Skidelsky's case against the market. I confine myself to two observations. If, as our author thinks, the free market cannot supply public goods, how can it be that "public goods theory gives an elegant explanation of the social contract" (pp. 21–22)? Why would not the same public-goods problem block a social contract to establish a state? And if resources are misallocated owing to "inescapable uncertainty," how can Keynes be said to have "established the possibility of 'underemployment equilibrium'" (p. 73)? Surely what is here described is a state of disequilibrium.

These observations of course do not suffice to overturn Skidelsky's indictment of the market. But this is not the key point at issue. For suppose Skidelsky is right. Then exactly the case against intervention he has elsewhere in the book so eloquently advanced tells against his own proposals. The interventions he favors will necessitate more and more supplementary interventions, and the result will be the collectivism Skidelsky deplores.

Our author would no doubt dissent. The interventions he supports, as opposed to those the collectivists demand, are strictly limited. But I doubt that this contention can be sustained. The category "public goods," in his usage, is not well-defined, and a virtually-unlimited statist agenda can be squeezed within its confines. And collectivists have been quick to seize upon Keynesian fiscal policy to advance their cause.

Skidelsky's devotion to a free society cannot be doubted, but his attempt to discover in Keynes the savior of capitalism is a *fata morgana*. In the pursuit of his case, though, our author explores an issue that Austrians will find of major importance. As the title of his book suggests, Skidelsky has been much influenced by Hayek; and he attempts to show that his own support of a "mixed" capitalist system echoes Hayek's views.

In this endeavor, he achieves considerable success. During World War II, Hayek endorsed Keynes's plan for "progressive taxes and deferred pay" (p. 74). Further, in *The Road to Serfdom*, Hayek "was careful not to identify economic liberalism with laissez-faire—a mistake made by liberal thinkers in the nineteenth century. . . . Hayek himself thought that a world government would be needed to entrench economic liberalism internationally" (pp. 81–82). Connoisseurs of the Mises–Hayek dehomogenization dispute, take note!

Whatever one's disagreements with our author's view of the market, one can only admire his grasp of the details of the collectivization debate, and his ability to illuminate historical events by means of economic theory. His account of the debate between Jeffrey Sachs and John Gray on "shock therapy" (pp. 167–73) is especially valuable.

David Gordon
Ludwig von Mises Institute

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