

The Role of Entrepreneurship in Desocialization

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Now that communism has been repudiated across Central and Eastern Europe, the most pressing challenge for economic theory is to outline a process of desocialization for the former communist countries. Socialism's most obvious economic failure is its inability to produce the goods necessary for its citizens to have even a modest standard of living by Western, capitalist standards. Because, as Ludwig von Mises stressed, the entrepreneur is the driving force behind the social creation of wealth, any policy of desocialization must incorporate an understanding of the role of entrepreneurship in social production.¹ Because entrepreneurship is an integral part of their theories, Austrian school economists have more readily provided viable desocialization plans than those of other schools of thought.² Formulating a social system with the proper channels for entrepreneurial expression is essential for newly emerging capitalist countries and for interventionist ones, such as the United States, as they seek to revitalize their stagnating economies.

To anyone concerned with the problems of economic prosperity and the progress of civilization, an understanding of entrepreneurship and its institutional prerequisites is essential. The first step is to develop the economic theory of entrepreneurship applicable to every action; The next is to discuss entrepreneurship in a free market

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¹Ludwig von Mises, *Human Action*, 3rd rev. ed. (Chicago: Henry Regnery, [1949] 1966), pp. 297, 299, and 336.

²It is a widely accepted observation that neoclassical economics has no significant role for the entrepreneur due to its formalistic character. At best the entrepreneur is an afterthought in neoclassical theory, awkwardly appended to its formal, usually mathematical, models. For example, see Israel Kirzner, *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985), pp. 1-25 and 68-92.

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and how it compares to entrepreneurship under a socialist system. Only then can one construct a program of desocialization that calls forth the greatest quantity and quality of entrepreneurial activity in social production and exchange.

The Role of Entrepreneurship in Human Action

Economic theory is constructed by deducing the necessary consequences of the irrefutable fact that human action exists.³ The purposefulness of human action provides the foundational concepts from which all economic theory stems: ends, means, ideas, scarcity, choice, preference, value, cost, profit and loss, etc. When engaging in action an individual must evaluate potential courses of action, choosing one he prefers and setting aside others of lesser value; formulate ideas concerning how the end might be attained by the combining of means, choosing the highest evaluated recipe for action; and evaluate the means required by the recipe, come to control these means in action (i.e., own them) and so be able to combine them in an attempt to attain the end. In each action, the actor views means as either consumer goods, ones immediately available to satisfy an end, or producer goods, ones intermediate to the creation of a consumer good. Producer goods can be further sub-categorized into labor—human effort, land—naturally existing items, and capital—man-made goods. An essential feature of the means of production is diversity; not only is each person's labor different from that of every other person, so each parcel of land and each type of capital good is different from every other.

It follows immediately from the fact of action that when engaging in human action, i.e., applying means according to ideas to attain ends, individuals face an uncertain future. It is this uncertainty that calls forth the skill of entrepreneurship in each action a person takes. If the future state of affairs were known in advance with deterministic certainty, human action would be negated since the individual would not find it necessary to evaluate various ends (choosing the most preferred and setting aside others), to formulate ideas about how the end can be attained, nor to assess and accumulate the means he believes can be used cooperatively to attain the end. People would simply live out the preordained activities seen beforehand, never

³On the method of economics see Mises, *Human Action*, pp. 1–10 and 30–71; Hans-Hermann Hoppe, *Praxeology and Economic Science* (Auburn, Ala.: Ludwig von Mises Institute, 1988); and Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1962), pp. 1–2 and 63–66. On these basic economic principles, see Rothbard, *Man, Economy, and State*, pp. 1–62.

making errors in action caused by lack of foresight. Choice, as action requires it, would no longer be necessary; rather the problem of choice would be solved mechanically, much like solving an algebra problem.⁴

While not deterministic, neither can a person's perception of future states of affairs be random. The very existence of human action negates this possibility as well, since no action could be purposeful in a random world lacking any ability to predict the outcome of using means in any particular way, e.g., drinking milk nourishes one time and poisons the next. For human action to exist, the world outside the actor's mind must be orderly, i.e., characterized by time-invariant physical laws governing relationships among means, and subject to discovery by acting individuals.⁵

Uncertainty as a condition of human action lies between determinism and randomness, and implies the human capacity to form expectations of the future that do not diverge completely from it nor adhere completely to it.⁶ Entrepreneurship is the human ability to deal with uncertainty. Since every action is taken in the face of uncertainty, every action exhibits entrepreneurship, either to a lesser or greater degree.⁷

For an isolated individual the problem of uncertainty, for which entrepreneurship must provide a solution, concerns only the physical laws governing the relationships among means and the perceptions of his mind. Any action Robinson Crusoe takes requires him to apply his

⁴This is precisely the neoclassical view of choice. While necessary to draw out the conclusions from the aspects of choice not concerned with uncertainty, economic theory is incomplete at best and absurd at worst until propositions incorporating uncertainty are developed. This is one area where Austrian economics is far in advance of neoclassical economics. The neoclassical economists' frequent assumption of no uncertainty leads them to accept mathematical techniques in building theory and forces them to ignore the crucial role of entrepreneurship in human action. On the use of the technique of imaginary construction to build economic theory see Mises, *Human Action*, pp. 236–37; on uncertainty in action, pp. 105–18; and on general equilibrium and entrepreneurship, pp. 244–56.

⁵See Mises, *Human Action*, pp. 22–27 and 99–100; and Hoppe, *Praxeology and Economic Science*, pp. 18–19 and 32–34.

⁶The absence of randomness in human action precludes the use of statistical techniques based on the assumption of a data-generating process that produces data randomly. Econometrics violates both conditions: the absence of determinism, by assuming constants, and the absence of randomness, by assuming probability distributions. See Frank Knight, *Risk, Uncertainty and Profit* (New York: Kelley and Millman, 1957) pp. 22–48 and 197–232; and Mises, *Human Action*, pp. 106–15.

⁷On the differences between entrepreneurship in every action and specialized entrepreneurs see Mises, *Human Action*, pp. 252–55.

labor, which he owns naturally, to transform his physical surroundings into capital goods and eventually consumer goods (i.e., to homestead the island) which he then owns as the product of his labor. In so attempting to attain an end, he can act erroneously by, say, trying to catch fish with his bare hands because, e.g., he underestimates the difficulty of the task or he overestimates the benefit of having the fish.

The Role of Entrepreneurship in a Free Market

Those who wish to participate in the social interaction of voluntary exchange and the division of labor have additional and more difficult entrepreneurial tasks, namely, to discover and to forecast the subjective values of other people. Despite this obstacle, most people prefer engaging in social interaction, instead of acting in isolation, because they benefit from it. This benefit derives from a primal fact of human existence: Individuals differ from one another, both in subjective values and labor skills.⁸ The former creates gain in subjective value from engaging in voluntary exchange as existing goods move from those who value them less to those who value them more, while the latter creates a gain in production from a division of labor as existing factors of production move from higher cost activities to lower cost activities. It is in these interactions that entrepreneurship finds its socially beneficial channels and plays its central role in the creation of society and progress of civilization.

The desire a person has to acquire the benefit of social interactions is insufficient to accomplish action in this setting. In addition, he must accurately forecast the subjective values of others to effectively participate in social production and exchange. Voluntary exchange requires that each person who wants to participate must produce and bring to market a good that other people find of sufficient subjective value that they will exchange valuable goods they own for it. While everyone must exhibit this skill to some extent, it is possible for individuals to arrange their production of consumer goods according to a division of labor where specialized entrepreneurs take over this function.

For most activities, people prefer the greater efficiency of arranging production according to comparative advantage and then obtaining goods by voluntary exchange, compared to self-sufficient productive

⁸Economic theories that ignore the diversity of labor, as well as that of other means, cannot adequately describe social production or explain the social role of entrepreneurship. See Mises, *Human Action*, pp. 157–65.

efforts. Taking the factors of production he justifiably owns (his labor and homesteaded land and capital), each individual voluntarily contracts with others to use his property for specific tasks in cooperation with them. Entrepreneurship becomes a part of the division of labor as some show greater abilities to deal with uncertainties inherent in the process of social production. Specialized entrepreneurs perform the social functions of dealing with uncertainty, coordinating the diverse labor (and other factors) of numerous individuals, and directing production into the most socially valuable ends. The latter two activities would be impossible without money as a basis for economic calculation.

Money is essential for the development of any advanced, i.e., industrial, economic production.⁹ Without it no cardinal unit common to all exchange would exist and thus, participants would have no basis for making meaningful comparisons of the social value and cost of using diverse goods in action. Prices, which can exist only in money terms, that are determined in voluntary exchange indicate the degree of scarcity of goods; i.e., the subjective value placed on them relative to the amount of them in existence. Because money prices reflect subjective value and exist in cardinal units, they can be the ingredients of economic calculation.

Calculation of profit and loss is the process by which individuals determine what and how to produce in the complex latticework of social production.¹⁰ Without economic calculation, a social system would not be able to register true preferences for consumer goods or produce them rationally, i.e., taking account of opportunity costs. Money prices determined by the free exchange of private property ownership reflect the social scarcity of goods as individuals, demonstrating their preferences, freely buy, surrendering the value of other consumer goods, or refuse to buy, preferring the value of other consumer goods. Existing prices provide indispensable information from which entrepreneurial forecasts of the future scarcity of consumer goods can be made. Only then can entrepreneurs coordinate current productive activities to create those consumer goods with the greatest future social value.

The more difficult problem solved by economic calculation is selecting from the numerous techniques available to create a given consumer good. Without money prices, different techniques using various amounts and types of factors of production cannot be compared

⁹See *Ibid.*, pp. 257-69, 405-08, and 520-23.

¹⁰See *Ibid.*, pp. 200-31 and 698-715.

since they are denominated in non-comparable units, e.g., labor in hours and land in acres. Each factor must be evaluated with a common standard, denominated in cardinal numbers, to make comparisons among the techniques possible. Money prices for the factors of production reflect the value of those factors in the production of alternative consumer goods; thus, by comparing the total monetary payments required to produce a given consumer good using different techniques, the entrepreneur can determine which technique is socially efficient; i.e., which results in the lowest value of foregone consumer goods. In the absence of economic calculation, choosing one technique from among the many available can only be done arbitrarily and hence, irrationally.¹¹

Entrepreneurs guide social production toward the attainment of desirable consumer goods by assuming the function of coordinating those who cooperate in the division of labor. This is accomplished through voluntary exchange, as each entrepreneur forms a business firm to contract with owners of factors of production internally and then to contract with the firms of other entrepreneurs externally.¹² Through these contractual agreements, entrepreneurs construct a grand latticework of production from higher stage capital goods to lower stage capital goods to consumer goods. A structure of almost infinite complexity in its detail, requiring the coordination of all factors of production in the economic system, it is completely flexible in the service of changing consumer desires within the boundaries of private property ownership, technological possibilities, and existing capital goods. Entrepreneurs also bring about the transfer of factors of production across time, according to individual preferences, from producing current consumer goods to producing current capital goods necessary to build the structure so that the production of future consumer goods can increase.

It is through these contracts that entrepreneurs assume the uncertainty inherent in social production. They agree to pay the owners of the factors of production fixed sums of money in exchange

¹¹This is why Mises describes central planners in socialism as "groping in the dark." See *Human Action*, pp. 700-01. He also points out that Robinson Crusoe cannot engage in economic calculation (*Human Action*, p. 205). However, calculation is unnecessary for solving the problem of acting for Crusoe; economic calculation is necessary only for social systems requiring coordination of a division of labor and hierarchy of capital goods.

¹²On contracting see Armen Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review* 62 (December 1972): 777-95.

for the use of these factors in production, the output of which they own, be it a capital good or consumer good. Because the market value of the factors is known in advance of production while the market value of the goods produced is not known until after they are produced, entrepreneurs become residual claimants, earning the profit or suffering the loss from the production process the magnitudes of which cannot be known in advance of production itself. It is their residual claimant status that links the incentive of entrepreneurs to actions that have demonstrable social value.

The ability to appeal to profit and loss gives entrepreneurs the information, incentive, and calculational process to act in accordance with social values, both externally from their business to others across the structure of production, and internally as a way to continuously check operations within their firm. Entrepreneurial activity can, therefore, penetrate into the firm's internal operations. Mises says:

Business management or profit management is management directed by the profit motive. The objective of business management is to make a profit. As success or failure to attain this end can be ascertained by accounting not only for the whole business concern but also for any of its parts, it is feasible to decentralize both management and accountability without jeopardizing the unity of operations and the attainment of their goal. Responsibility can be divided. There is no need to limit the discretion of subordinates by any rules or regulations other than that underlying all business activities, namely, to render their operations profitable.¹³

The test of profit and loss applies not only to the firm vis-à-vis the market, but also within the firm as entrepreneurs use it to check the viability of internal operations. Thus, entrepreneurial activity has full reign both within firms (via both general and specialized entrepreneurship) and across firms (via specialized entrepreneurship) firms in a market system.¹⁴

While the process of exchange and production is driven by entrepreneurs, its goal is the satisfaction of the subjective values of those who participate as consumers and owners of factors of production. And thus, it is also a continuing testing ground for the selection of

¹³Ludwig von Mises, *Bureaucracy* (Cedar Falls, Iowa: Center for Futures Education, [1944] 1983), pp. 45–46.

¹⁴The need to check the profitability of each internal operation of the firm requires money prices that can only be determined by the buying and selling of those outside the firm. Thus, in capitalism if a firm grew to encompass the entire market, entrepreneurs would no longer be able to apply economic calculation to its internal operations. This is *the* economic problem of socialism. See Rothbard, *Man, Economy, and State*, pp. 544–50.

specialized entrepreneurs who best fulfill its goal. Those who cannot consistently earn profits and avoid losses will be weeded out from the ranks of specialized entrepreneurs, as capitalists, seek to provide funds to those who produce for them the highest returns.

The Role of Entrepreneurship in a Socialist System

Since social production requires the coordination of numerous, diverse individuals all engaging in human action, every social system must have channels for entrepreneurship. Social production cannot exist without entrepreneurship but each economic system opens different channels to it and opens them to different degrees. In the free market all channels are open to entrepreneurship within the boundaries of private property ownership and voluntary exchange. In socialism with state ownership of the means of production and legal prohibition of voluntary contracts, entrepreneurship is severely repressed and misdirected as its social functions are encroached upon by coercion and bureaucracy. Within the framework of the central plan, entrepreneurship takes on a peripheral role. Instead of being the driving force behind social production it becomes the means of coping with the contradictory and impossible demands of the plan. And yet, the ability of entrepreneurship to satisfy its social functions cannot be eradicated, a fact partially responsible for the economies of communist countries continuing to limp along year after year, providing their long-suffering citizens a meager standard of living.¹⁵

By eliminating private property and voluntary exchange, socialism eliminates money and money prices, and thus economic calculation and with it rational production. The planners not only cannot determine the relative scarcities, i.e., social value, of consumer goods, they have no meaningful way to choose among the various production techniques available to create the (socially) arbitrary list of consumer goods they have selected. They cannot rationally arrange a division of labor, lacking as they do information, incentives, and a calculational process. Under such conditions it becomes extremely difficult,

¹⁵For the most recent exposé on the suffering of the Soviet citizen, see Paul Craig Roberts and Karen LaFollette, *Meltdown Inside the Soviet Economy* (Washington, D.C.: Cato Institute, 1990), pp. 39-74. They report Mikhail Gorbachev himself publicly announcing in 1988 that the Soviet economy had not grown for twenty years (p. 1). Coupled with the fact that the Soviet citizen's standard of living lags behind that in many Third World countries (p. 5) the truth of the dismal failure of Soviet attempts at central planning is evident. For similar accounts of the Hungarian and Peruvian citizens respectively, see Ivan Szeleenyi, *Socialist Entrepreneurs* (Madison: University of Wisconsin Press, 1988); and Hernando de Soto, *The Other Path* (New York: Harper & Row, 1989).

if not impossible, for the planners to exhibit entrepreneurship even if one assumed that they had comparative advantage in it.¹⁶ Encompassed within the "single factory" that the economy becomes under socialism, the amount and accuracy of entrepreneurial insight are greatly diminished, severely hampering the social functions only entrepreneurs in the performance of their social functions.

Being planned from the top, the structure of production in a socialist economy must be simple and rigid vis-à-vis a capitalist economy since every production process in every stage of production must be written down and coordinated by the small group of planners.¹⁷ This process parallels what a specialized entrepreneur does within his business firm in planning internal operations, which illustrates why such a plan must be almost infinitely more simple than the entire free market production structure encompassing, as it does, all the insight and plans of every entrepreneur across all businesses. Socialism formally taps the entrepreneurial skill of only the central planners while capitalism formally provides a channel for the entrepreneurial insight and energy of everyone, either in a specialized role or generally, i.e., in every action.

The absence of private property and voluntary contract also nearly eliminates the ability of (potential) entrepreneurs, within the "single factory," to assume the uncertainty of social production by becoming residual claimants. They are thus, unable to fulfill their social role in production or provide a testing ground to discover who has comparative advantage as specialized entrepreneurs. Instead, those involved in the process of production from the higher stage capital goods through to the lower stage capital goods and finally to the consumer goods become creatures of the bureaucracy. The central planners and bureaucrats issue orders, backed by coercion, to achieve production goals and thus, must rely on bureaucratic management, instead of profit and loss management, for fulfillment of the plan.

Mises defines bureaucratic management as, "the method applied in the conduct of administrative affairs the result of which has no cash value on the market," or "management of affairs which cannot

¹⁶The presumption would be quite the opposite; that those who rise to the top in the political process have comparative advantage in the skills needed to do so and not superior forecasting of future subjective values of others or propensity for accepting the burden of uncertainty. See F. A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), pp. 134-52.

¹⁷For examples of how inferior the structure of production is in the Soviet Union, see Roberts and LaFollette, *Meltdown*, pp. 7-37. The contrast between the smooth operation within a capitalist firm and the chaos within the socialist "single factory" is remarkable.

be checked by economic calculation."¹⁸ Lacking the method of economic calculation, bureaucrats cannot exhibit entrepreneurship to any significant degree. Mises says:

Bureaucratic management is management bound to comply with detailed rules and regulations fixed by the authority of a superior body. The task of the bureaucrat is to perform what these rules and regulations order him to do. His discretion to act according to his own best conviction is seriously restricted by them.¹⁹

Bureaucracy places so many fetters on producers that most entrepreneurial activity is done illegally, some to nominally fulfill the plan, some to subvert it.²⁰

Mises concludes:

Socialism, that is, full government control of all economic activities, is impracticable because a socialist community would lack the indispensable intellectual instrument of economic planning and designing: economic calculation. The very idea of central planning by the state is self-contradictory. A socialist central board of production management will be helpless in the face of the problems to be solved. It will never know whether the projects considered are advantageous or whether their performance would not bring about a waste of the means available. Socialism must result in complete chaos.²¹

No country in history has ever fully adopted socialism since it would mean swift death for its population. Instead, socialist countries play at central planning, overlooking widespread violations of the plan and using prices on international markets to engage in calculation.²²

A Policy of Desocialization Accounting for Entrepreneurship

To provide for the full expression of the creative energies of entrepreneurs, the former communist countries must fully desocialize their economies by privatizing all property and removing the fetters of government intervention.^{23, 24} Complete desocialization requires putting

¹⁸Mises, *Bureaucracy*, pp. 47–48.

¹⁹Ibid., p. 45.

²⁰For fascinating examples of the native entrepreneurship of the Soviet people tragically suppressed by the bureaucracy see Roberts and LaFollette, *Meltdown*, pp. 7–37.

²¹Mises, *Bureaucracy*, p. 57.

²²For Soviet examples of this phenomenon see Roberts and LaFollette, *Meltdown*, pp. 9, 15–17, and 25–26.

²³As in all cases where property ownership is concerned, desocialization raises ethical as well as economic questions. It is not surprising that the program of complete privatization not only creates the necessary point of departure for the free market but

full ownership (control of use in action including voluntary contract) of labor, land, and capital into the hands of individuals. With labor, this is relatively simple. Since each person naturally owns his labor it requires only that government interventions restricting the use of labor be abolished, allowing each person to freely contract and associate with others. Self-ownership and freedom of contract are necessary prerequisites of a completely entrepreneurial economy because entrepreneurship is an individual phenomenon and can only be expressed socially, by individuals, in the less-than-fully predictable process of earning profit and avoiding loss. Entrepreneurship cannot be centrally planned, either in specific decisions or personnel.

The initial ownership of land and capital is not as easily implemented but theoretically should follow the principle of homesteading since it in turn is derived from the principle of each person owning his labor. The application of homesteading to existing unjustly owned, i.e., state owned, property is a syndicalist strategy; that is, land to the farmers and capital to the workers.²⁵ The labor of those who have worked the land under the collective ownership system gives them sufficient claim to the land to supersede the claims of others, save those who could demonstrably justify, i.e., by homesteading or contract, their ownership prior to state confiscation. Each parcel of land should be returned to those peasant farmers who worked it under collectivization. Likewise the ownership of capital should initially be given to those who worked in the various state-owned factories.²⁶

is morally justified as well. This is a corollary of the principle that selfownership and homesteading are the prerequisites of the free market. For the ethical justification of the free market see Murray N. Rothbard, *Ethics of Liberty* (Atlantic Heights, N.J.: Humanities Press, 1982); Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism* (Boston: Kluwer Academic Publishers, 1989); and Hans-Hermann Hoppe, "From the Economics of Laissez Faire to the Ethics of Libertarianism," in Walter Block and Llewellyn H. Rockwell, Jr., eds., *Man, Economy, and Liberty* (Auburn, Ala.: Ludwig von Mises Institute, 1988).

²⁴Far from despoiling these formerly communist countries with crass Western materialism, the implementation of capitalism will allow each group of people to fully express its own unique culture in ways restricted and forbidden until now. Indigenous entrepreneurs will bring forth those consumer goods, and the capital goods most suited for producing them, that people find desirable within the constraint of their cultural norms.

²⁵See Hans-Hermann Hoppe, "De-Socialization in a United Germany," *The Review of Austrian Economics* 5, no.2 (Fall 1991): 98-104.

²⁶As a practical matter, this would probably need to include the former bureaucrats who presided over the production centers. Although those remote from the source of production, i.e., central planners, would only have homesteading rights to the particular state buildings they used in their former endeavors. On what to do with the bureaucrats, see Murray N. Rothbard, "How to Desocialize?," *The Free Market* 7, no. 9 (September 1989).

Privatizing property would significantly reduce the size of government, eliminating state production and provision of goods and the massive bureaucracy necessary to operate the state apparatus. In its place, specialized entrepreneurs would emerge as those who render the greatest returns to the initial owners of land and capital as these owners sought out investment in entrepreneurial ventures. This voluntary method of capitalizing the specialized entrepreneurs is the only one consistent with the property ownership and freedom of all individuals. Simultaneously, it elicits the greatest quantity and quality of social entrepreneurship.²⁷

The privatizing of socialist production centers should be done by creating ownership shares and distributing them to the workers at each center. Alternative schemes for privatizing these centers have either economic or ethical defects or both. For example, having a national auction where the state sells all state-owned property is grossly unjust: akin to having slaves pay their masters for the "privilege" of their freedom. Since the state is an illegitimate confiscator of property it has no just claim to sell or even use the property it has appropriated. If anything, justice demands that state officials compensate the populace for the decades of virtual enslavement under their communist regimes. A national lottery to give away all state property cannot satisfy the demands of justice either. By what right can those who have not attached their labor to the capital and land make a superior claim to those who have? There is no justice in a random distribution of previously homesteaded and then expropriated property. Finally, a scheme to inventory all state property and issue equal ownership shares to each person fails on both economic and ethical grounds. Justice demands that ownership of capital and land be objectively identified with those who transformed this property with their labor, and economic ownership requires that the individual be able to sell his shares or liquidate them

²⁷While there is a tendency on the free market for those individuals to emerge as specialized entrepreneurs who have the relevant comparative advantage regardless of the existing pattern of property ownership, the precise outcome of social production will not be identical under different patterns of initial ownership. The beginning distribution of capital and land must take into consideration the question of justice. If not, one should argue for the most expedient pattern of ownership; i.e., leave it in the hands of the bureaucrats and central planners. That such a suggestion is immediately ruled out is proof that justice makes a difference and must be appealed to unless the program of desocialization be discredited and abandoned. The tendency for efficient selection of specialized entrepreneurs on the market is actually an argument in favor of privatizing according to selfownership and homesteading principles. Since the general economic result will be similar with either an unjust pattern of initial ownership or a just one, the latter is preferable.

in specific pieces or limited aggregates of property. This ability is the counterpart to that of entrepreneurs who in creating new business firms could issue and initially sell shares only in their own firms. If they cannot do this they do not fully own their firms. These private shares would quickly out-compete the inefficient collective ownership shares, which would eventually be divided into economically meaningful sub-components, like shares for each private business firm, or become worthless.²⁸

Essential to the justice and economic success of such privatization would be free trade in these shares. The newly born stock market would quickly expand as emerging specialized entrepreneurs form new businesses and begin, with free capital markets in general, to correctly channel savings into the structure of production and across the structure to various processes for creation of the necessary capital goods without government intervention injecting irrationality into the process.

Money must also be returned to the market by state decrees to end monetary inflation immediately, to make the official currency redeemable in gold (at a rate appropriate to allow redemption of the entire stock of fiat paper for the state's gold stock), and to allow entrepreneurs to freely produce money within the framework of property rights. Returning money to the market is necessary to meaningful economic calculation without which rational social production cannot occur. Allowing the state to maintain control of money, even partial, insures the distortion of entrepreneurial activity as the state uses this power to control spending and capital flows.²⁹

Privatization should be instituted simultaneously with a complete dismantling of all forms of government intervention into the ensuing pattern of voluntary exchange and division of labor. This is a necessary condition of permitting private property ownership and of opening the channels for entrepreneurial activity in social production. With no more interference into the contractual conditions of private individuals, e.g., no price controls or occupational licensing, government would be further scaled back, releasing more bureaucrats into the productive private sector.

²⁸For a discussion of these alternatives, see Hoppe, "De-Socialization," pp.98-101.

²⁹On the gold standard see, Murray N. Rothbard, "The Case for a Genuine Gold Dollar," in Llewellyn H. Rockwell, Jr., ed., *The Gold Standard: An Austrian Perspective* (Lexington, Mass.: Lexington Books, 1985); and idem, "The Case for a 100 Percent Gold Dollar," in Leland Yeager, ed., *In Search of a Monetary Constitution* (Cambridge, Mass.: Harvard University Press, 1962).

Finally, the process of desocialization should be done instantly, following the historic example of the German economic "miracle" begun by Ludwig Erhard on June 24, 1948.³⁰ Halfway measures will not work since they create secondary problems and the ensuing political pressure to renew controls.³¹

No better example of this principle exists than the tragic plight of the people of the former East Germany who may miss this historic chance for freedom by their apparent acceptance of the West German welfare state instead of a free market.³² The results so far have been massive transfers of wealth from west to east caused by the artificial overvaluation of the East German mark; unjust property ownership caused by the sale of state assets and the preference in these sales to the politically connected; unemployment caused by the adoption of unemployment "insurance" and minimum wages; inefficient allocation of capital caused by acceptance of social security; inefficiencies and wealth destruction caused by implementation of a West-German-style tax structure and controls interfering with free domestic and international trade. Such a welfare-statist beginning does not bode well for the freedom and prosperity of the German people.

The East Germans would have been far better off traveling a course of complete privatization, not only for themselves, but for the irresistible pressure thereby put on the West German state to follow them down the privatization path. Unfortunately, they, like most people, have a dearth of principled, courageous, and knowledgeable statesmen who would take the initially, politically difficult path. Instead they are led by politicians willing to import the disastrous welfare-statist policies and politicians of West Germany.³³

Entrepreneurship has no direct role in bringing about the program of desocialization. However, entrepreneurial activity has played a crucial indirect part by subverting the centrally planned system, illustrating to people the benefits of freedom. Those in the political system with the courage to desocialize will face their biggest obstacle in the bureaucracy, entrenched as it is in the status quo. Overcoming this obstacle will be a most difficult political problem; those who will

³⁰Consider also the Russian economist Yuri Maltsev's one-day plan for the immediate desocialization of the Soviet Union outlined in, "The Maltsev One-Day Plan," *The Free Market* 8, no.11 (November 1990). A similar, but relatively snail-paced, plan for the United States is outlined by Llewellyn H. Rockwell, Jr. in, "Rockwell's Thirty-Day Plan," *The Free Market* 9, no. 3 (March 1991).

³¹See Mises, *Human Action*, pp. 858–61.

³²See Hoppe, "De-Socialization," pp. 90–95.

³³*Ibid.*, pp. 88–97.

take the unpopular course of instant desocialization are not political entrepreneurs but statesmen to whom their countrymen would owe a great debt of gratitude.³⁴

Conclusions

Entrepreneurship is the driving force behind improving the ability of all people to attain their ends in cooperation with one another. The future condition of mankind depends on the channels provided within a social system for the functioning of entrepreneurship. To have the greatest amount of entrepreneurship of the highest quality, a social system must be based on the private ownership of property and individual liberty. Only then can the free market emerge incorporating the talents of everyone in a voluntary, cooperative edifice of exchange and production coordinated by entrepreneurship which is made possible by economic calculation. A rare moment in history has come, allowing countries of the world to institute the free market, and thus ensure the prosperity and gratitude of their progeny.

³⁴ Adherence to the Misesian view of entrepreneurship avoids the paradoxical idea of the "political" entrepreneur. The specialized entrepreneur, by definition, is involved in the wealth-enhancing process of voluntary cooperation within the division of labor where everyone benefits. There can be no "political" entrepreneur since the political process employs coercion resulting in the transfer and destruction of wealth as it distorts the division of labor. There is, however, political entrepreneurship in the sense that in every action the actor must deal with uncertainty. In the political arena this would be akin to the entrepreneurship interest in the actions of the robber and swindler. In both cases, the actor is uncertain concerning how much he can take from the victims and how strong and in what form their resistance might be. For analysis using the concept of a political entrepreneur, see Gordon Tullock, *The Politics of Bureaucracy* (Washington, D.C.: Public Affairs Press, 1965), pp. 99f; and James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1965), pp. 334f.