

RESEARCH ARTICLE

# The German historical school on monetary calculation and the feasibility of socialism

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## Abstract

Several scholars anticipated Ludwig von Mises's calculation argument against socialism. The present paper summarises the contributions by the members of the German Historical School of Economics who preceded Mises and provides several examples of anticipation that have not been discussed in the literature. Furthermore, the paper explains why it is not a coincidence that members of the Historical School claimed as early as the nineteenth century that socialism was unfeasible due to calculation and knowledge problems. In their attempts to understand historically specific features of capitalism, they developed an approach to capital that involved the institutions of private property, money, the market, the enterprise, and monetary calculation. Starting from this institutional approach to capital and capitalism, it was only a small step to the question of what it means for socialist systems that those institutions are lacking.

**Keywords:** Capital; historical school of economics; monetary calculation; socialism

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## Introduction

Almost everybody knows the most popular argument against socialism: Although socialism sounds great in theory, it cannot work in practice because it presupposes an unrealistic concept of man. Socialists do not realise, the argument runs, that labourers, managers, and bureaucrats are no angels. They need proper incentives in order to give their best. Yet socialism does not provide sufficient incentives because it abolishes private property and the possibility of making profits and earning performance-based wages. Accordingly, the population in socialist countries either becomes lazy or goes its own way and circumvents the central plan as much as possible, thus provoking totalitarian measures by the government.

This argument against socialism is not historically specific. It assumes a certain universal nature of man and claims that all laws and regulations – or economic systems, for that matter – that ignore this universal nature must perform miserably. Private property, in this argument, must be understood as a part of our natural condition, not as a social or legal institution (Hodgson, 2015). Not only socialism but also the market economy becomes inefficient insofar as it ignores these natural conditions, as in the private production of public goods.

Ludwig von Mises (1920) brought forward a more powerful argument against socialism. He did not merely point out certain anthropological problems of socialism. In fact, he attempted to demonstrate the *impossibility* of rational economic calculation under socialism, that is, the impossibility of a calculation that helps to place the available means to the service of the chosen ends (Mises, 1920: 16). Interestingly, Mises's argument is based much more strongly on historically specific features of capitalism. The reason why socialism is impossible, according to Mises, is that it does not have the

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(capitalistic) institutions of private property, money, a market for the means of production, and enterprises performing monetary calculation. A central planning board is not able to evaluate and compare different production processes because without these institutions, it is impossible to reduce the myriad of goods and services in modern societies to a common denominator.

It is well known that some elements of Mises's arguments were anticipated by other economists. Mises (1966: 701) himself mentions that Hermann Heinrich Gossen, Albert Schäffle, Vilfredo Pareto, Nikolaas G. Pierson, and Enrico Barone 'touched upon the problem'. In his overview of the prehistory of Mises's argument, Ebeling (2003) adds the contributions of Paul Leroy Beaulieu, William Graham, Victor Cathrein, and Benedict Elder to this list. However, it escapes most observers that several members of the German Historical School of Economics anticipated Mises as well and criticised socialism along the same lines as he would in 1920. Mises is certainly partly responsible for the neglect of the Historical School on this matter. Although Mises (1966: 701) acknowledges that Schäffle, a member of the Historical School (Hodgson, 2010: 297), touched upon the problem, a few lines later he considers the Historical School to be not in any way interested in demonstrating the impossibility of socialism.

Several recent publications have come to a different conclusion. Hodgson (2010) discusses Schäffle's argument against socialism and, while doing so, turns against Mises's claim that the Historical School was antieconomic or antitheoretical. Braun (2016) provides additional evidence for the quality of Schäffle's argument and demonstrates that two more members of the Historical School, Hildebrand ([1848] 1922) and Stein (1887), criticised socialist plans on the grounds that the central planning board would not be able to calculate rationally. Braun and Wollboldt (2022) present Stahl (1863), a member of the Historical School of Law, as another predecessor of Mises: he dedicated half a book chapter to demonstrating that socialism is unfeasible.

The first purpose of the present paper is to summarise the known contributions of the Historical School to the impossibility argument against socialism and to add further examples. Knies (1885) was definitively aware of the problem and tried to cope with it, although with less clarity than others. Starting from the works of Albert Schäffle, the agronomist Calberla (1877) also came to the conclusion that socialism was impossible due to calculation problems. The fact that these authors discovered the calculation problems of socialism long before there was any notable real-world example of socialism to consider makes their anticipation even more admirable.

Second, the present paper delves deeper into the question why several members of the Historical School anticipated Mises. One element of the answer seems to be that their evolutionary perspective led some of them to doubt the human faculty to create new laws from scratch. The limits of human knowledge, implied in this view, lend themselves to a critique of central planning. Furthermore, it appears that the Historical School's preoccupation with the historically specific institutions of capitalism led them to a better understanding of the institutional preconditions of the nationwide or even worldwide division of labour. In its institutional approach to the theory of capital (Braun, 2017; Hodgson, 2014), the Historical School dealt with the specific problems that arise in a society where profit-oriented, privately owned enterprises produce goods and services more or less for the single purpose of making profits on the market (see, e.g., Sombart 1919; 1927). It even appears that this institutional approach to capital is indirectly the basis for Mises's (1920) argument. After all, Menger (1888) had adopted this approach to capital from the Historical School, and Mises (1932: 123), for his part, followed Menger.

Third, the paper briefly indicates why it was a mistake by the economics profession to abandon the approach to capital developed by the Historical School and adopted by Menger and Mises. As this approach is concerned with the actual role of capital and monetary calculation in organising the societal production process, it is able to serve as a basis for analysing and comparing different institutional arrangements. Next to the analysis of socialism, foreshadowed by the German Historical School itself, it has great potential to advance the study of reforms that tamper with the institutions of monetary calculation.

In the first two sections, the paper ponders the question of why so many members of the Historical School were able to anticipate Mises's critique of socialism. Their method led some of them to doubt

whether humans had enough knowledge to create new laws or constitutions. Although they mainly targeted classical liberalism, some of them turned the argument against socialism ('The historical school on the knowledge problem' section). Further, it appears that it was their interest in understanding capitalistic institutions and the role they play in organising the production process that led Historical School economists to consider what happens when these institutions are missing – as in socialism. Their institutional theory of capital is designed to explain the peculiarities of the capitalistic production process ('The institutional theory of capital' section). 'The components of Mises's argument against the possibility of economic calculation under socialism' section reiterates Mises's original argument against socialism briefly and dissects it into its different components. The following sections discuss several members of the Historical School and demonstrate how much they anticipated Mises. These sections are arranged more or less chronologically, although it is difficult to be precise in this regard as the lifespans of the respective authors overlapped and the relevant books sometimes went through several editions and were revised in this process. 'Friedrich Julius Stahl on the impossibility of socialism' section starts with Friedrich Julius Stahl, who asserted the unfeasibility of socialism already in 1846. 'Bruno Hildebrand on economic calculation under socialism' and 'Karl Knies on the role of money in capitalism and socialism' sections deal with two of the three founders of the Historical School of Economics, Bruno Hildebrand and Karl Knies. Knies's position on the impossibility of socialism has, to the best of my knowledge, never been discussed. Wilhelm Roscher, the third founder, is not covered in this paper. Roscher (1864: 140 ff.) also criticised socialism, claiming that the 'central direction of all production and consumption' would be a 'despotism' (151) never seen before.<sup>1</sup> However, Roscher did not deal with calculation or knowledge problems but with the incentive problem mentioned at the outset of this introduction. 'Albert Schäffle on economic calculation under socialism and capitalism' section is dedicated to Albert Schäffle. He is the author who comes closest to Mises in terms of the quality and completeness of the argument. 'Further members of the German Historical School on the impossibility of socialism' section presents the previously unrecognised contribution of Georg Calberla and some other, minor contributions by Historical School economists. Finally, 'The continuing importance of the institutional theory of capital' section explains why the institutional theory of capital is not only of historical importance as a helpful tool in the debates on socialism. Its current significance is indicated in the face of recent reforms of the institutions of monetary calculation and corporate governance.

### The historical school on the knowledge problem

Mises belonged to the Austrian School of Economics. The Austrian School was opposed to the German Historical School of Economics in the famous *Methodenstreit*. These schools clearly were antagonists, and Mises (1966) wrote that the Historical School had no interest whatsoever in even considering the impossibility of economic calculation under socialism. Mises (701) stated that it is not puzzling that the 'detractors of economics' – that is, the historical and institutionalist schools – 'failed to recognize the problem'. They 'disparage economics [...] in the interest of their interventionist or socialist propaganda'. We must count ourselves lucky that these schools 'have not succeeded in suppressing the study of economics entirely'.

Why, then, did several members of the Historical School anticipate large parts of Mises's famous argument against the possibility of rational economic calculation under socialism? For want of any historical source on this matter, it is impossible to answer this question precisely. What I do in this and the following section, therefore, is reflect on the relationship between Mises's argument and the work of the Historical School and highlight their overlap.

If we paid attention only to the statements by the Historical School on social philosophy, it would be difficult to find common ground with the Austrian School. When the German Historical Schools emerged at the turn of the nineteenth century, they turned against the attempts by classical liberalism

<sup>1</sup>Throughout the paper, all foreign language quotations have been translated by the author.

and, more generally, the Enlightenment to construct human societies based on human reason. Friedrich Carl von Savigny founded the Historical School of Law as a direct reaction to the intention of progressive and classical liberal scholars who wanted to create a new civil law for all German countries more or less from scratch. Savigny (1814: 164–65), as a conservative, argued that it is an illusion to think that humanity is able to step outside history and to invent new laws without a deep understanding of customs and the historical development that led to the present state of affairs. The entire history of the nation constitutes the material of law. Law is not arbitrary but emanates from the innermost nature of the nation and its history. Therefore, '[e]very age must judiciously intend to see through this material that is given with inner necessity, to rejuvenate it and to keep it alive' (Savigny, 1815: 264).

The Historical School of Economics adopted this approach and tried to understand present-day economic phenomena by studying their role and place in history. For Savigny, the main target was the idea that humans are able to discover and understand natural rights based on their reason alone and without consulting history. In a parallel effort, the Historical School of Economics tended to criticise classical economists for their unhistorical treatment of human nature and economic laws and for their belief that human societies would flourish based on individual liberty alone – that is, without any rules or institutions except for private property. Karl Knies, one of the founders of the Historical School of Economics, expressed his concerns about classical economics as follows:

For Adam Smith himself, the devotion to theoretical absolutism was a natural consequence, first, of the then generally accepted conception of nations in which he saw completely similar, summary aggregates of general, human individuals who just happen to be separated by national borders and live under different systems of law; but probably even more, second, of the fact that the fundamental area of his research was *human labour*, an area where the relative, the historical, and the concrete tend to evade the observer and where a universal foundation of absolute results seems to be given. (Knies, 1885: 27, emphasis in original)

Although the Historical School mainly targeted classical liberalism, it appears that its critical approach toward the creation of laws from scratch can easily be transferred to a critique of socialism. In any case, that is how several members of the Austrian School used this argument.

It is well known that Menger had praised Savigny for understanding law as a more or less unreflective product of a higher wisdom rather than as something derived from the planned action of a legislative body (Kolev and Dekker, 2023). According to Roos (1994: 295), much of what Hayek had to say about 'embodied' knowledge in law and society can also be traced back to the Historical School. Hayek knew Savigny's work, occasionally citing him approvingly. Hayek's (2014: 46) view on the origin of rules is clearly reminiscent of Savigny:

[N]o single human intelligence is capable of inventing the most appropriate abstract rules because those rules which have evolved in the process of growth of society embody the experience of many more trials and errors than any individual mind could acquire.

Witt (1997: 47) points out that this argument, typical of Hayek since the late 1930s, is not consistent with the Austrian method. The younger Hayek himself had been keen to make deductions, in a logically consistent way, based on the premises of a pure equilibrium theory where there is no lack of knowledge at all. Raico (1995: sect. 7) presumes that both Menger and the older Hayek leaned toward spontaneous-order explanations for ideological reasons, that is, because they served to validate their liberal view of the social order. Tellingly, Hayek usually criticised socialism and interventionism for their pretence of knowledge but tended to ignore that Savigny, Knies, and others had used similar arguments against classical liberalism as well.

It is interesting to note that the Historical School of Economics itself did not attack only classical liberalism on the grounds that it tended to ignore history, customs, and institutions. Some of its

members attacked socialism for the same reason. Bruno Hildebrand, for example, another founder of the Historical School of Economics, criticised socialists exactly because they overestimated the power of reason and ignored history:

They [socialists] break with the past and want to transform the rich, free, and diverse life of humanity into a dead, uniform mechanism. They approach the given world as if the first men were born a second ago and the first form of communal life should be created for them by reason. [...] [T]hey do not see that every new creation that humanity passes through in its history can only be spawned from the old, given elements and draw its sustenance from the fluids of the available soil. (Hildebrand [1848] 1922: 214)

Below we will see that several members of the Historical School, including Hildebrand himself, extended this rather general point and questioned the possibility of centrally planning the economy.

### The institutional theory of capital

Given that the Historical School influenced the Austrian School on the issue of the limit of human knowledge, it does not appear to be a coincidence that it also anticipated the Austrian argument against the possibility of socialism. Yet, the relationship between the approach of the Historical School and the Austrian argument against socialism is even closer. This is particularly true for Mises's original version of the argument.

Not many economists know that Mises deviated from his fellow Austrians when it came to his treatment of capital and the institutions that underlie it in capitalistic societies (Braun *et al.*, 2016). The standard Austrian theory of capital concentrates on the physical activities of roundabout production processes and defines capital as produced means of production – i.e., as physical factors of production. In this sense, capital is not specific to a certain economic system or historical period but a universal phenomenon – a phenomenon that all humans can understand and discuss based on their reason and is independent of historical circumstances (Braun, 2017).

Mises deviated from this approach (Lewin and Cachanosky, 2018: 424). Following a rather unknown and often misinterpreted essay by Menger (1888; see Braun 2015a for a summary and Braun 2020 for a partial translation), Mises, when he talked about capital, concerned himself with the organisation of capitalism. He argued explicitly that capital is not a universal production factor but a historically specific concept. Mises (1966: 264) stated that the 'concept of capital cannot be separated from the context of monetary calculation and from the social structure of a market economy.' Mises (1932: 123) defined it as *the tangible and intangible properties of business enterprises, whether they consist of money or are only expressed in money terms*.

It is highly probable that Menger (1888) had adopted his view of capital from Richard Hildebrand, a member of the Historical School and the son of Bruno Hildebrand (Braun, 2015b: 78 ff.). This notion of capital revolves around the capitalistic institutions of private property, money, markets, the capitalistic enterprise, and financial accounting. The Historical and Institutional Schools claimed, as Hodgson (2014: 1,070) writes, that capital is historically specific to capitalism and must be analysed as such because only in this way can important features of this economic system be grasped.

A mature discussion of capital and its role in capitalism by a member of the Historical School can be found in Werner Sombart's writings. Sombart rejected the standard Austrian theory of capital. Böhm-Bawerk's famous books on capital and interest 'fall outside the area of what I consider to be fruitful economic theory' (Sombart, 1927: 128). It is 'ridiculous' to call a child that is picking berries and placing them in a basket a capitalist who is producing capitalistically (Sombart, 1927: 134). Capital is not a universal phenomenon; it is specific to capitalism, where capital-based enterprises organise the production process rationally by means of calculation and accounting (Sombart, 1927: 130). Sombart (1927: 129) was explicit on this point:

Capital is a historical-economic term, i.e., a term that evolved within the context of a certain economic system – the capitalistic one. It is misleading to use this term for different economic systems. Only since business wealth [capital] assumed an independent existence in capitalistic thinking did it adopt a certain, well-defined meaning.

It is only because certain amounts of wealth came to be dedicated to the purpose of making profit and separated from personal concerns that the ‘principle of acquisition’ (*Erwerbsprinzip*), distinctive of capitalism, was able to develop without limits. According to Sombart (1919: 119), the institution of double-entry bookkeeping creates the capitalistic enterprise as a separate, acting entity. By means of accounting, the enterprise ‘assumes a separate existence’ and becomes ‘an entity which emerges as a subject conducting individual economic acts and which leads a separate life, outlasting the life of individuals’ (Sombart, 1919: 101). Capital is inextricably linked to these capitalistic enterprises, which combine the production factors and organise the production process under capitalism according to the principle of profit maximisation.

Mises (1966) constructed a *theory* of capital based on his historically specific approach to capital. It explains how the invisible hand of the market arranges for profit-oriented, capitalistic enterprises to organise the allocation of resources according to consumer demand (Braun, 2017).

Again, it was the Historical School and, ironically, Karl Marx who preceded Mises in the development of such an institutional theory of capital. Marx (1859: 101 ff.) tried to understand and explain the logic of production under capitalism. He described the acquisitive activities of the capitalistic enterprise with the following formula:

$$\text{Money–Commodity–Money}'$$

This formula, according to Marx (1859: 102), describes the ‘current form of bourgeois production.’ For capitalistic enterprises, money is not a means but the be-all and end-all of all transactions, ‘the starting point and the end point of movement’ (Marx, 1859: 102). The goal of the production process is not to produce products but to make money. ‘Money is exchanged against a commodity in order to exchange the very same commodity for more money’ (Marx, 1859: 102).

In *Das Kapital*, Marx famously combined this theory on the circulation of capital with the labour theory of value in order to explain that the difference between Money’ and Money (the profit retained by the capitalists) amounts to an exploitation of the labour class. Non-socialist authors, however, adopted Marx’s approach to capital without combining it with the labour theory of value and simply used it to explain the role of capital in capitalism.

For example, Zwiedineck-Südenhorst (1930: 1,072), a member of the Historical School (Grimmer-Solem, 2003a: 23), developed an institutional theory of capital as a clear and explicit attempt to add substance to Marx’s rather abstract approach. He showed how the transformation of land, labour, and produced means of production into products through production is embedded in the circulation of capital.

Figure 1 can be used to explain how, in capitalism, the production process depends on numerous institutions. The production factors are combined, and output is produced within the *enterprise*. The enterprise must buy its inputs and sell its output for *money* on the *market*. In order to do so, it must be

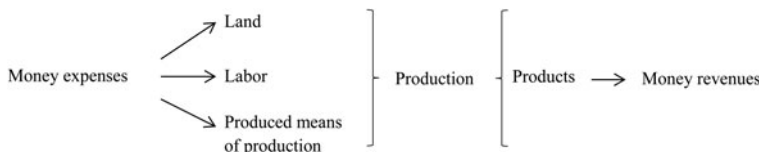


Figure 1. The circulation of capital as illustrated by von Zwiedineck-Südenhorst (1930: 1,069).

able to acquire and forego *private property* in commodities. Its profit is determined as the difference between revenues and expenses with the help of the institution of *financial accounting* or monetary calculation.

Zwiedineck-Südenhorst (1930: 1,070 ff.) argued that capital is relevant because it allows to check whether the means applied have served their purpose. According to Mises's calculation argument, which is presented in the next section, this is exactly what socialist planning boards cannot do.

### The components of Mises's argument against the possibility of economic calculation under socialism

Mises (1920, [1932] 1951) is famous for his argument that socialism runs into *unsurmountable* difficulties because a central planning board would not be able to calculate, assess, or compare the value productivity of alternative production processes and therefore could not allocate resources rationally in society:

The mind of one man alone – be it ever so cunning, is too weak to grasp the importance of any single one among the countless many goods of a higher order. No single man can ever master all the possibilities of production, innumerable as they are, as to be in a position to make straightway evident judgments of value without the aid of some system of computation. (Mises, 1920: 15)

In other words, as Hayek (1937, 1945) would stress later, socialism has a knowledge problem. The information available to a planning board would never suffice to allocate resources rationally. In contrast to Hayek, however, Mises did not confine himself to the knowledge problem. First and foremost, socialism had a calculation problem (Hülsmann, 1997: 24). His point was that socialist planning boards do not have a common yardstick at the ready that would help them to reduce the desirability of goods and services to a single dimension.

The decision-makers in capitalism, in contrast, and particularly the entrepreneurs, do have recourse to such a yardstick. In their calculations, they can rely on the market prices of the means of production. The market system transforms the ordinal preference rankings of different individuals, which are impossible to compare, into common, cardinal units – that is, money prices – and thus provides the basis for economic calculation (Hauwe, 2019: 201).

Based on prices, entrepreneurs are able to assess whether they can employ a certain good or labour service usefully in a certain production process simply by calculating expected profits and losses. As long as they expect an input factor to generate profit – i.e., to increase a product's price enough to exceed the input's price – its employment is economically justified. Otherwise, they sell, abandon, or transfer the factor to another production process:

Anyone who wishes to make calculations in regard to a complicated process of production will immediately notice whether he has worked more economically than others or not; if he finds, from reference to the exchange relations obtaining in the market, that he will not be able to produce profitably, this shows that others understand how to make a better use of the goods of higher order in question. (Mises, 1920: 10)

Socialism, Mises claimed, lacks a comparable common yardstick. As it abolishes private property rights in the means of production, these goods are not traded and therefore no market prices of them exist. Consequently, as a socialist central planning board does not have a yardstick to rationally compare inputs, outputs, and net results, they are not able to determine whether they have employed inputs economically in the production of output:

[I]t lies in the very nature of socialist production that the shares of the particular factors of production in the national dividend cannot be ascertained, and that it is impossible in fact to gauge

the relationship between expenditure [production effort] and income [production proceeds]. (Mises, 1920: 2; square brackets contain my translations of the original German)

Mises admitted that socialism could solve this problem if it found ‘an objectively recognizable unit of value’, a yardstick ‘which would permit of economic calculation in an economy where neither money nor exchange were present’ (Mises, 1920: 30). Mises added, however, that the only item which could conceivably replace money prices and be considered such a yardstick – labour – would be ‘unworkable’ because labour is not homogeneous and of uniform quantity (6). His famous conclusion was that it is impossible for a planning board to economise:

Without economic calculation there can be no economy. Hence, in a socialist state wherein the pursuit of economic calculation is impossible, there can be – in our sense of the term – no economy whatsoever. (18)

For the following discussion, it is helpful to dissect Mises’s argument into its individual components. Interestingly, Mises based his argument not only on the theoretical and deductive approach of the Austrian School of Economics but also on important elements of the Historical School of Economics, particularly the institutional theory of capital.

The first component of Mises’s argument – an Austrian one – is his critique of the labour theory of value. This critique consists of two aspects:

- (a) Based on the subjective theory of value, Mises argued that the labour theory of value is utterly wrong. Objective values cannot be measured at all, he claimed, and *relative values* or prices depend on consumer choices, not on the amount of labour invested.
- (b) Even if we accepted the idea that value is somehow measurable, labour could not serve as a yardstick for economic calculation anyway because labour is not uniform or homogenous.

It must be added that this critique had numerous predecessors. Streissler (1990) pointed out that the subjective theory of value had been wide-spread in the German-language area before the neoclassical revolution of the 1870s. It is therefore unsurprising that, below, we will find it in the writings of several members of the Historical School.

The second component of his argument – a historical or institutional one – is his description of how capitalism solves the problem of economic calculation. Several capitalistic institutions are necessary to make this possible. They are the same as those that constitute the foundation of the institutional theory of capital. We need *private property* in the means of production; we need *money* so that there are money prices of all traded goods; and we need the *enterprise* and the *institutions of monetary calculation, bookkeeping and financial accounting*, so that we are able to calculate profits accurately.

Component 3 of his argument is that the *market* for the means of production guarantees that these means have market prices. This allows enterprises to extend their economic calculation to the higher stages of production – and hence the entire production process. Component 3 is historical as well. I separate it from component 2 because most predecessors of Mises missed it.

Component 4, the consequence of the other three components, is the point that socialist planning boards cannot solve the knowledge problem and are therefore unable to allocate resources and organise the production process rationally. This, of course, is the component that must be present or at least perceptible in any work dealt with in this paper; otherwise, an author cannot be understood as having anticipated Mises. As we have seen in ‘The historical school on the knowledge problem’ section, it is closely related to the approach of the Historical School as well.

Table 1 collects the components of the economic calculation argument. In the following sections, I refer to this table when characterising the arguments made by the predecessors of Mises and Hayek in the Historical School of Economics.



**Table 1.** Components of the economic calculation argument

1a	The labour theory of value is wrong. Value is a subjective magnitude.
1b	Labour cannot measure value because it is not homogenous or uniform.
2	Capitalistic institutions are a precondition for rational economic calculation.
3	There must be market prices of the means of production.
4	A central planning board cannot obtain and process all the necessary information.

It is no wonder that the connection between the historically specific notion of capital and the problem of economic calculation under socialism suggested itself to several members of the Historical School. Almost all of the scholars discussed in the following sections not only anticipated one or several components of Mises and Hayek's argument against socialism, but also employed a historically specific notion of capital or focused on one or several of the institutions behind this notion. Except perhaps for Schäffle (1870), they did not employ all components of Mises's argument. Nevertheless, their achievements are still remarkable given that real-world examples of socialism were still a long way off at their time.

### Friedrich Julius Stahl on the impossibility of socialism

Chronologically, the first scholar that must be mentioned as a predecessor of Mises is Friedrich Julius Stahl (1802–1861). Stahl was a German legal philosopher associated with the Historical School of Law. In the preface of the first edition of his magnum opus on the philosophy of law, he spoke very positively of Friedrich Savigny, the founder of this school. Stahl (1847: xix ff.) announced that he would apply, in his book, the historical method, proposed by Savigny, not only to civil law, as Savigny had done, but to law as such.

Stahl's contribution to the impossibility of socialism has been noticed only very recently (Braun and Wollboldt, 2022). This is surprising because Stahl is not at all an unknown figure. Born in 1802 near Würzburg (Germany), Stahl was and still is famous as a Christian and reactionary legal philosopher. Renowned management theoretician Drucker (1933) even argued that Stahl shaped German thinking about the state up until the First World War. Some of Stahl's works have been translated into English, among them the lecture series that contains the most detailed version of his argument (Stahl, 1978). Unfortunately, copies of Stahl (1978) are hard to come by, and then it contains numerous errors and confusing mistranslations.

Before I present Stahl's contribution, I have to say a few words about the origin of his ideas. In a footnote, he referred to Dönniges (1845), who 'has illustrated the economic unfeasibility of the social theory [socialism] on the grounds that it removes the distinction between the value of labour and [the value of] its products' (Stahl, 1846: 75).

Stahl exaggerated. Dönniges (1845) did not maintain the unfeasibility of socialism, and he did not go into a lot of detail on this issue. Dönniges criticised socialism mostly on the grounds of components 1a and 1b (see Table 1). The value of labour is not inherent to labour but derives from its products and the needs it satisfies (Dönniges, 1845: 573). As talents and efforts differ, the value of labour is not the same for each labourer (574). From this, Dönniges (573) did not deduce the impossibility of socialism but claimed that '[i]t would be the highest arbitrariness and despotism to equalise the prices of goods or, what amounts to the same thing, to organise them according to principles of justice'.

Stahl, however, concluded from reading Dönniges (1845) that socialism was actually impossible. His own arguments are more sophisticated and contain mainly components 1a, 1b, and 4 (see Table 1). Component 2 features less prominently but can still be detected.

The first reference by Stahl to the argument in question that I can detect is in the second edition of the fourth volume of his book on the philosophy of law (Stahl, 1846). It contains a section labelled 'The social theories [socialism] are indeed unfeasible'. Stahl (75) anticipated component 4 by saying:

Another error of the social theories [socialism], that makes them unfeasible, is the failure to recognise the limit of human intelligence. [...] Even if the will of man were that pure as they [these theories] assume, they would still have to fail because of the inability of the human mind to calculate the entire demand and the produce of labour in advance and direct the industrial activities in all its circles accordingly.

Stahl (1863) elaborated on this argument at length in a chapter entitled 'Review of the socialist system and of Proudhon's doctrine of value from the economic point of view'. Stahl started the chapter with the blunt statement that '[f]rom the standpoint of economics, it [the socialist system] proves to be impossible and to be a system that does not enhance prosperity and enjoyment, but diminishes, even destroys them' (Stahl, 1863: 240).

Once again, component 4 loomed large in his discussion. He attacked socialists such as Charles Fourier who had claimed that it was possible to plan the production process from above and in advance and without recourse to any measure of value. Stahl (1863: 245 f.) argued that these plans would fail due to the 'limit of human intelligence':

Socialism, however, ventures itself to take over nature's whole task, to achieve that balance between consumption and production solely through human intelligence. It undertakes to sketch out in advance the annual budget for the needs and funds of the entire human race, according to the needs of each individual family, and then to set up systematically the entire labour activity, assigning to everyone his daily business. Now this would not remotely be accurate even in the moment where the need is detected; but the uninterrupted change, the oscillation of wants would remain totally unsatisfied if it were no longer to assert itself through its own direct effect via demand and sales, but only through notification of the superiors and a commissarial investigation.

Stahl (1863) dug deeper than Stahl (1846). The quoted passage demonstrates that he was aware of the general role of the institutional framework of capitalism (component 2). He contrasted the market – demands and sales – with central planning and claimed that the latter could not at all accomplish the task of allocating resources satisfactorily. His position on these institutions remains unclear, however, as he appears to identify them with 'nature', here and elsewhere.

Stahl (1863) also addressed other socialist proposals. Pierre-Joseph Proudhon, for example, had made the point that it was possible to introduce labour time as the measure of value of all goods and, consequently, to pay labourers according to their labour time. What needed to be done, Stahl wrote, was to demonstrate the unfeasibility of Proudhon's demand that it is the task of society to fix the price of all products and all services according to the standard of labour time and to achieve the corresponding equality of wages per hour (Stahl, 1863: 248).

In his response to Proudhon's challenge, Stahl employed components 1a and 1b. First of all, he wrote, goods are not valued according to the labour time that is necessary to produce them. It is the other way around: labour is valued because and insofar as its product is valuable to consumers: 'All value is based on the product itself, i.e., the usefulness, the utility, the virtue that it has in itself' (250). Stahl (249) ridiculed the labour theory with the following story:

A farmer has a tooth extracted by a surgeon; the operation is carried out beautifully and in no time at all and the surgeon demands the usual charge as payment. But then the farmer breaks out in indignation: What! Your predecessor also once extracted a tooth from me, he pulled and tore at me for a whole hour but did not charge me more than you, and you were finished in a moment and almost without me noticing it.

Stahl did not leave it at that. The classical economists had not been able to explain prices based on a subjective theory of value (use value) because they could not solve the diamond-water paradox of

value. Stahl (1863: 250) did not cite his influences, but like several German-language economists of his time (Streissler, 1990), he anticipated the neoclassical revolution of the 1870s by explaining how goods with objectively high use value (such as water) can end up having lower prices than goods with objectively low use value (such as diamonds):

This utility or virtue of the product (or service) [...] depends on the need: in the French army during the retreat from Moscow, lemonade and ice may have been of low value and fur of high value, and vice versa during the campaign in Egypt. It [utility] is based on rarity; for it is a general law of nature, not that the rare is the best, but that the best is rare.

Stahl then went on to demonstrate that even if we grant the possibility of taking labour time as the measure of value, socialism is still ‘not achievable’ (Stahl, 1863: 251) because labour time is not homogenous (component 1b):

For if one takes the working time of the individual as a measure – the time that person A and person H have really spent – the consequences are that individual goods of the same kind have different prices, depending on the random expenditure of time by the workers, even that the goods that the slow beginner has made have everywhere to be paid dearer than those of the masters; and who dares to determine how much time the particular worker has spent each time! If one takes the general average amount of work as a yardstick, the inequality of wages becomes already reestablished in principle, since one person needs more than the average time and another one less.

The quality of Stahl’s argument and the number of details he mentioned are astonishing given that the lectures printed in Stahl (1863) stem from the 1850s. He was the first of a number of members of the Historical School who criticised socialists for their ignorance of the calculation and knowledge problems.

### Bruno Hildebrand on economic calculation under socialism

Bruno Hildebrand (1812–1878) discussed the impossibility of socialism in his programmatic book *Die Nationalökonomie der Gegenwart und Zukunft* (The economics of the present and the future), one of the foundational treatises of the Historical School. The ‘fundamental errors’ of socialists and communists, Hildebrand stated, are their organisational plans for a socialist society: ‘[W]e will demonstrate that all socialist organisation plans are impossible’ (Hildebrand, [1848] 1922: 213). In the subsequent chapter, entitled ‘All socialist organisation plans are unfeasible’, Hildebrand employed components 1b, 2, and 4 of Table 1. Component 2 in particular is much more prominent in Hildebrand than in Stahl. It must be added, however, that Hildebrand ([1848] 1922: 213) referred to Stahl’s treatment of socialism but did not give him credit for his attempt to demonstrate the unfeasibility of socialism a few years earlier.

We have seen in ‘The historical school on the knowledge problem’ section that Hildebrand applied Savigny’s arguments against classical liberalism to socialism. He argued that socialists ‘break with the past’ and try to ‘form communal life [...] by reason’ (Hildebrand, [1848] 1922: 214). But, he did more. In the same way that Savigny had argued that *law* cannot be invented from scratch but must develop organically, Hildebrand argued that the *economy* cannot be re-organised from scratch as if it had no history. Accordingly, he defended the institutions of private property, money, and the market against the attacks of the socialists who wanted to abolish them and to organise the economy in a new and different way (Hildebrand, [1848] 1922: 196–211).

The organisational plans of socialists are doomed, Hildebrand concluded, because the socialists do not have a method of rational allocation of resources in society. Socialists would have to come up with an alternative to the market economy. What they need is rules or laws that determine how the

individual suppliers of goods and services are compensated in a way that consistently guarantees that the value of outputs surpasses that of inputs:

Any socialist economy which suppresses the individual private economy [...] necessitates a law which regulates, first, the mutual ratio between the individual contributions of production and consumption and, second, the ratio between these individual contributions (of production and consumption) and the total of them. (Hildebrand, [1848] 1922: 215)

There is no foundation for such a law, Hildebrand ([1848] 1922: 215) added. First of all, 'it presupposes the knowledge of the entire demand and the entire supply [Leistungen]' (indication of component 4). Second, and more importantly for Hildebrand, outside a market economy it is impossible to find rules that indicate how the individual contributors should share in the consumption of the social product. Statements such as 'From each according to his ability, to each according to his need' (Hildebrand, [1848] 1922: 216) are mere slogans that are of no help.

The reason he gave for the inability of socialism to find such rules clearly foreshadows component 1b of Mises's argument. For Hildebrand ([1848] 1922: 215), the main deficiency of socialism is its lack of a yardstick for the value of production or consumption:

Furthermore, as individual labour capabilities, talents, and wants are different everywhere, any law of distribution and accommodation presupposes the existence of an absolute measure of individual contributions to production and consumption. Yet, such a measure has neither been discovered, nor is it possible because these contributions are individual, that is, infinitely various, not only quantitatively but also qualitatively, and therefore not objectively measurable.

Earlier in his book, Hildebrand ([1848] 1922: 208) stated that money is necessary as a measure of value. Socialism, in short, is unfeasible for Hildebrand because it lacks the historically grown institutions of capitalism, where money prices serve as a yardstick in the economic calculations of entrepreneurs and where the distribution of the social product to the productive factors is oriented towards the contribution of each factor to the monetary profits of enterprises.

### **Karl Knies on the role of money in capitalism and socialism**

Hildebrand hinted at the important role of money as a measure of value, but Karl Knies (1821–1898) dedicated large parts of his book on money to this issue. At the outset, Knies (1885: 6) stated that the institution of money is supposed to eliminate the 'social evil' that comes with the 'so very difficult and so unsatisfying assessment and comparison' of economic goods in a natural economy. Any plans for organising the production process without trade and money would bring along this social evil, especially in modern societies with their highly developed and complicated system of division of labour. It is no coincidence, Knies (1885: 5) wrote, that social reformers who demand the abolishment of money suggest that the organisation of the economy should depend on 'the unlimited prevalence either of fatherly benevolence facing naive piety or of a supposedly highly prudent, highly just etc. supreme power facing blind obedience on the part of all people that are involved'.

Knies did not claim explicitly that socialism is unfeasible. Yet, he tried to demonstrate why Marx had not succeeded in his attempts to replace the monetary unit with the quantity of labour as the measuring rod for the value of goods and claimed that socialism would drift towards a despotic government if it were to abandon money and money prices. His argument built mainly on components 1b and 2 of Table 1.

It must be mentioned that when it comes to capitalistic institutions (component 2), Knies (1885: 72) was well aware that some economists claim that capital is historically specific – a 'historical category', as he expressed it. However, Knies was not ready to follow these economists. Knies (1885: 29) was of the opinion that it had not helped economic science that Adam Smith and many other

economists tended to make apodictic pronouncements in favour of certain definitions of capital over others. Accordingly, Knies (1885: 24–83) himself, in his long discussion of capital, did not dare to come to a definite conclusion on the term *capital* but rather discussed the merits and demerits of existing definitions of the term. That is, he did not opt for capital as a historical category that is a part of the institutional framework of capitalism.

Still, his argument against socialism rests on his analysis of one capitalistic institution, namely money, and how it helps to solve the issue of valuating goods and services. Knies (1885: 151) mentioned that Karl Marx had wrestled with exactly this problem. His argument against Marx's solution runs as follows.

According to Marx, exchange value derives from the quantity of simple labour that is necessary, on average, to produce a certain good. Knies (1885: 156) objected that there are many cases where this is not true at all and where labour time cannot be the substance of value. The apprentice will never be able to replicate 'the artwork of his master even in a multiple of the time that the master needs'. Knies (1885: 158) added that it is an illusion if Marx wants to measure the value of all products of labour by the quantity of simple labour (component 1b of Table 1). According to Knies, the problem is that different kinds of labour cannot be compared. They appear to be comparable only because in capitalistic societies they all have a money price. That the price of advanced labour can be expressed as the multiple of the price of simple labour, however, does not imply that simple labour could serve as a measuring unit for advanced labour (1885: 158). Knies's argument was that the existence of money may make it possible to express the *price* of any good as a multiple of the *price* of any other good, but that does not mean that it is possible to express the *quantity* of any good as a multiple of the *quantity* of any other good. Rather, what is needed is a *tertium comparationis*, a monetary unit that has a certain and predetermined amount of value itself that can be used to express the value of all other goods (1885: 163). The task of money is to 'be the special tool by means of which the social fungibility of value, necessary because of the division of labour in the exchange economy, is realised in all valuable goods' (1885: 164).

Although Knies (1885) did not explicitly deny the possibility of socialism, he came to the conclusion that a 'socialistically organised society errs' when it 'determines the value substance and the measure of value' (1885: 165) on the basis of labour and not on the basis of use value, which is present in all goods as well as the monetary unit.

To sum up, Knies tried to understand the role that the institution of money plays in capitalism. As part of his analysis, he demonstrated the problems that economic systems that abolish money would face. In doing so, he employed and combined components 1b and 2 of Mises's argument.

### Albert Schäffle on economic calculation under socialism and capitalism

Albert Schäffle (1831–1903) was a member of the German Historical School. He was a sociologist, economist, and politician and Menger's direct predecessor at the University of Vienna. Schäffle's contribution to the economic calculation argument against socialism is well established. Hodgson (2010) covers Schäffle's *Quintessence of Social Democracy*, and Braun (2016) focuses on his *Kapitalismus und Socialismus*. Schäffle (1878: 307 ff.) contains another discussion on economic calculation under socialism. However, Schäffle (1878) is less forceful than Schäffle (1870), probably because of some developing socialist tendencies in his thinking. That is why I concentrate on Schäffle (1870) and confine myself to categorising its contributions according to Table 1.

In 1870, Schäffle was still convinced that socialism would be impossible. He stated explicitly that it is 'utopistic that the economy of a large people could be directed from a central point' (Schäffle, 1870: 192) and that it simply 'cannot be done' (Schäffle, 1870: 205). His argument is reminiscent of component 4 of Table 1:

Communism completely ignores [...] the difficulty of governing national and international societies from a single central point. You do not find any idea about how the millions and squillions

of people who are separated from each other by hemispheres (locally) and by years, decades, even centuries (temporally) [...] are supposed to be governed by a host of civil servants such that they perform the economic valuation process according to costs and utility (Schäffle, 1870: 206).

Schäffle (1870) substantiated this claim with components 1a, 1b, 2, and 3. As Braun (2016) focused on the role of 1a and 1b in Schäffle's work (for component 1a see also Dekker, 2016: 55 f.), the present paper concentrates on component 2, the necessity of capitalistic institutions for rational economic calculation, and component 3, the necessity of money prices of the means of production.

At the outset, Schäffle (1870: 19 ff., 92) distinguished clearly between capital goods (*Kapitalgüter*) and capital (*Kapitalvermögen*). Whereas he defined capital goods as produced means of production, as technical or physical elements of the production process, capital is something entirely different. Capital 'directs' and 'organises' (Schäffle, 1870: 21) the production process via monetary calculation:

The reduction of all cost and use values to exchange values and money implies that each invested particle of labour and each particle of already arranged product can become and actually does become subject to *calculation*. An exactly developed economic art of calculation – bookkeeping and cost accounting – records all cost elements and revenues in monetary terms, it records, in equal magnitudes of value, the entire process of the never-ending transformation of capital [goods] and labour. [...] Only now it becomes and remains obvious where in the business and the household the conduct of affairs has been economical and where it has not been so. (Schäffle, 1870: 109, emphasis in original)

According to Schäffle, the capitalistic institutions of money, financial accounting, and private property in the means of production make rational economic calculation possible. Capital, understood as a correlate of these institutions, plays the essential role in the production process. It 'combines' the different assets that are technically necessary for the production of specific goods. For example, the viticulturist combines, with his capital, all assets that are necessary for the production of wine (Schäffle, 1870: 109).

Schäffle is the only one of the authors discussed in this paper who even included component 3 of Mises's argument. He wrote that there is, at the societal level, a division of capital, a coordination of the individual business assets of the numerous entrepreneurs in the different stages of production. Schäffle (1870: 109–110) explained that the division and specialisation of capital is made possible because the assets of all the individual enterprises together constitute a large, intertwined production apparatus. The organic relationship of all capital goods in this apparatus is created by the striving of the capital of each enterprise for the highest profit. In this way, enterprises put checks and balances in place for each other. Their 'competitive seeking for profit has become the organising power of the economy' (Schäffle, 1870: 114). Schäffle (1870: 114) included the means of production in the higher stages of production in his analysis of how capitalism is organised:

Each subsequent entrepreneur in the production chain takes vengeance for the inefficiency of his suppliers by refunding them less than they have disbursed. Competition between all enterprises is objectively and imperatively inducing the highest efficiency of the modern capitalistic structure of production.

In other words, Schäffle is aware of the role that the prices of the means of production play in capitalistic societies. Schäffle's discussion of the way enterprises organise the capitalistic economy by orienting their actions towards monetary profits therefore foreshadows Mises's discussion in his magnum opus *Human Action*.

Schäffle's *Kapitalismus und Socialismus* indeed does more than allude to the economic problem of socialism. It contains all components of Mises's later argument against socialism and demonstrates that what Mises did years later is closely connected to the research programme of the Historical

School. It was his analysis of capitalistic institutions – money, financial accounting, private property, and the market – that led Schäffle to claim that socialism was unfeasible.

I must add that Schäffle's book is more than seven hundred pages long and is based on public lectures. His arguments are scattered throughout the book and accompany treatments of philosophical, sociological, and historical issues. Still, Schäffle had a very good sense of the role of monetary calculation in capitalism and the problem any economic system would face if it were to forgo capitalistic institutions.

### Further members of the German Historical School on the impossibility of socialism

Lorenz von Stein (1815–1890) was a lawyer and economist who wrote extensively on the role of capital and enterprises in capitalism. He is important in the history of economics and socialism because he brought the first important debates on socialism in France to the attention of the German public (Pasquino, 1981: 1). Stein (1887: 370) did not focus on the role of economic calculation, but it appears that he was aware of the problem. He declared that '50% of all socialists believe in the promises of communism because they do not have an idea of even the simplest accounting procedures'. He even claimed that 'nobody who has learned to calculate and to account could ever become a socialist'.

The German agronomist Georg Calberla (1845–1904) was not a direct member of the Historical School. In his critique of Marx, however, he referred to Gustav Schmoller and especially Albert Schäffle as his two role models who had directed analysis of socialism to the right channels (Calberla, 1877: 11).

Calberla (1877: 46) stated that 'a socialist system absolutely needs a measure of value in order to distribute the social product'. However, Marx had made the 'fateful error' of constructing 'equal undifferentiated abstract human labour as the actual essence of value'. In his book, Calberla (1877: 46) demonstrated 'how wrong this is'.

According to Calberla (1877: 25), it is the 'fundamental theorem of the entire socialist doctrine' that 'the sole basis of [exchange] value is the human labour embodied in each commodity'. Calberla argued against this that labour cannot serve as a measure of value. He employs elements 1a and 1b (see Table 1) in order to demonstrate this point. It is 'not the intensity of human effort, not the duration of labour' that determines the value of the product of labour but 'the degree of urgency of the needs that the product can satisfy' (Calberla, 1877: 30). Therefore, different kinds of labour have different values, depending on the needs they can satisfy. From a 'subjective standpoint', human labour is 'not of equal value, not equally useful, not equal' (Calberla, 1877: 34).

As the fundamental theorem of socialism is wrong, Calberla (1877: 59) concludes that socialism is impossible:

[T]he most important foundations and necessary conditions of a social organisation according to the recipe of present-day socialists are entirely called into question and are not present if – as we have demonstrated – from a subjective standpoint human labour is not equal and undifferentiated but profoundly diverse; and if the measure of its value is not its duration but the degree of its social utility.

Calberla (1877) is a work of criticism. It deals with the problems of socialist systems. Therefore, it does not contain an analysis of capitalistic institutions (component 2 of Table 1). But Calberla was well aware of the role that these institutions play. In a short passage, he stated: 'Everyone has to admit that production on the basis of free, individual property and the exchange of value by means of general signs of value [money] are the preconditions of the present-day degree of material emancipation of humanity' (Calberla, 1877: 58). Private property and money appear to be necessary for the division of labour in modern societies.

A brief comment is warranted on the so-called younger Historical School around Gustav Schmoller and Adolph Wagner. This school is sometimes referred to as 'socialism of the chair.' However, as Bunyk and Krasnozhon (2022: 180 f.) explain, while the younger Historical School was arguing for

an interventionist state and social policy, it could hardly be called socialistic. On the contrary, an important impulse for the social reform activities Schmoller organised and directed since the early 1870s was his fear of socialist revolution (Grimmer-Solem, 2003b: 107). And even though I was not able to trace the calculation argument in the literature of the younger Historical School, Wagner (1907: 692) at least echoed Bruno Hildebrand's point briefly. Despite his sympathy for some socialist ideas, he stated explicitly that the 'realisation of the Socialistic system of economy makes demands upon the intellectual and moral qualities of men [...] which all that we know of men [...] shows to be pitched far too high.'

### The continuing importance of the institutional theory of capital

In the socialist calculation debate, Oskar Lange and Abba Lerner opposed the idea, propagated by Mises, that socialism would fail without a market in which the prices for the means and factors of production could be determined. They backed their position with mathematical standard models. As Boettke *et al.* (2014: 283) explain, the Lange–Lerner theorem basically applied neoclassical economics to a socialist system. These authors and their followers maintained that a central planning board could act as a Walrasian auctioneer by announcing and adjusting prices until equilibrium is achieved. The neoclassical general equilibrium model was supposed to describe not only capitalist market economies but also socialist economies (Hodgson, 2016: 37). The applicability of the model was thought to be independent of the actual institutional context.

In contrast, Mises position was that the rational allocation of resources, described by the neoclassical equilibrium model, is contingent on a certain institutional and historical background. Only in a market economy where private property rights in the means of production are upheld and the institutions of monetary calculation exist can societal resources be reasonably evaluated according to their utility for the final consumer. Socialism, which does not have or even actively rejects these institutions, is therefore not able to evaluate and economise its resources.

One basic element of Mises's argument – the institutional theory to capital – has since been abandoned by large parts of the economics profession (Hodgson, 2014: 1,077). Tellingly, the three-volume collection of seminal papers on capital theory published by Edward Elgar in 2005 contains only two (out of a total of 71) contributions that are associated with this theory: Schumpeter (2005) and a few, mainly polemical pages in Veblen (2005: 161–167).

We must not overlook the fact that the adherents of the institutional approach to capital are at least partly to blame for its neglect. Apart from Veblen's contribution, the three major controversies on capital in the history of economics took place without notable interference by advocates of the institutional approach. Neither the Austrians Menger and Mises nor the respective generations of Historical School economists entered the debate. Furthermore, what may have been the most extensive attempt to develop the institutional theory of capital, Mises (1966), has been neglected not only by his intellectual opponents but also by most of his followers in the Austrian School, who preferred and still prefer the standard Austrian theory of capital, which defines capital as a physical factor of production.

From a current perspective, this must be considered a loss for economic science. The institutional theory of capital does not exhaust itself in the critique of socialism. Its purpose is to describe important processes within the market economy and how they depend on certain institutional preconditions. These processes are at risk of being jeopardised not only by the outright socialisation of the means of production. Any reform of these institutions may have important, possibly undesirable consequences for the creation and distribution of wealth in market societies.

To give an important example, by abandoning the institutional theory of capital, economists have deported themselves of the ability to comment profoundly on the implications of the far-reaching reforms of financial accounting and corporate governance witnessed in recent decades. This is not the place to comment on the viability of these reforms. The point is that they concern activities of capitalistic enterprises, particularly monetary calculation and profit-making, which are described and explained by the institutional theory of capital. Therefore, this theory is not only important for



demonstrating certain problems of socialism; it may also serve as a basis for explaining and commenting on somewhat related problems that have haunted capitalistic economies since at least the 1980s, especially the increasing macroeconomic instability and the supposed or actual tendency of managers toward short-termism.

## Conclusion

Mises's argument against the feasibility of socialism is based on the institutional setting peculiar to a certain economic system in a specific period of time. According to Mises, it is the institutions of private property, money, markets, and monetary calculation of the capitalistic enterprise that make possible rational economic calculation in capitalism. In socialism these institutions do not exist, or at least exist only in a crippled form, and therefore no rational economic calculation is possible.

This paper has demonstrated two points. First, Mises's argument was foreshadowed by several members of the Historical School: Friedrich Julius Stahl, Bruno Hildebrand, Karl Knies, Albert Schäffle, and Georg Calberla. Second, these contributions should not be viewed with surprise. The members of the German Historical School of Economics were interested in the historically specific institutions of capitalism. They wanted to understand how and why capitalism works – that is, how the international division of labour was made possible in the market economy. By doing so, they came to the institutions that Mises would employ in his argument against socialism. Their institutional theory of capital explains the role of these institutions in the production process.

Starting from their interest in these institutions, some members of the Historical School not only anticipated Mises's argument but developed an approach to capital that incorporated these institutions. Menger (1888) adopted this approach, and it is highly probable that the contributions of the Historical School influenced Mises's thinking indirectly via Menger's essay. In my opinion, backed up throughout this paper, the Historical School deserves some credit for Mises's contribution on the possibilities and preconditions of economic calculation in different economic systems. Further, economists should revive its institutional theory of capital, as it could serve as a tool for understanding the current reforms in financial accounting and corporate governance.

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