

## **Review of Theodore A. Burczak’s *Socialism after Hayek* Ann Arbor: The University of Michigan Press, 2006, 171pp**

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For most Austrians, the collapse of the Soviet Union just proved something that we had long since known. Socialism as we understand it (i.e., the elimination of private ownership of the means of production) is impossible; or, to be more precise, rational economic calculation in the absence of private property and so in the absence of competition between severally owned firms over resources, meaningful prices which reflect relative scarcities and profit and loss accounting, is impossible. Attempts by market socialists like Lange (1936) to come up with a “competitive” response to the Austrian critique, as Lavoie (1985) has shown, have failed to answer Austrian concerns. Interestingly, they have not taken Marx all that seriously either, abandoning key features of his program like his concern for alienation and exploitation. Burczak, however, does not commit either sin. His *Socialism after Hayek* is a stimulating book that is grounded in Burczak’s deep appreciation of both the Austrian critique of socialism and the Marxian critique of capitalism.

Burczak attempts to answer a critical question: What would a socialism that takes seriously Hayek’s critiques of socialism look like? Before presenting Burczak’s version of an Hayekian socialism, it is worth rehearsing Burczak’s understanding of Hayek’s critiques. Hayek, Burczak writes, really articulated two distinct knowledge problems that a socialist regime would have to overcome. First, a socialist government that hoped to centrally plan would have to overcome what Burczak calls the “factual knowledge problem.” They “must figure out how best to coordinate the actions of scattered individuals, each of whom is in possession of unique, partial, tacit, and potentially erroneous knowledge” (p. 2). Central planning is unable to effectively solve this problem because it is impossible for central planners to get at individuals’ subjective knowledge of time and place. The market, Hayek believed and Burczak understands, is the only effective solution to the factual knowledge problem.

According to Burczak, Hayek has also stressed that a socialist government must also solve the “ethical knowledge problem.” This term is intended to capture Hayek’s complaint

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that it is impossible for government officials to figure out what the “common interest” is or to arrive at “objective, unprejudiced assessment about the nature of a fair outcome and the definition of... a just distribution of income or wealth” (p. 2). Since, for Hayek, there is no effective solution to the “ethical knowledge problem,” he believed, Burczak writes, that society should embrace the unfettered market order and give up on attempts like socialism, the welfare state, etc., to promote “economic justice.”

Arguably, it is unclear what, if anything, would be left of socialism if we really were to take these problems seriously. It would seem to have to embrace markets and everything else that goes along with Hayek’s conception of the Great Society: think private property, the rule of law, freedom of contract, and all the other constituent parts of Hayek’s vision of a free social order.

It is at this point the Burczak makes his most provocative move. He concedes that any workable version of socialism, read a socialism that takes Hayek seriously, would have to embrace markets and so private ownership of the means of production. This may sound like heresy to his fellow Marxists but, Burczak argues, being anti-market for the sake of being anti-market is folly and not consistent with Marx. Instead, Burczak writes, the problem with capitalism is not markets. The problem with capitalism is that laborers under capitalist relations of production are exploited. In a capitalist labor market, “workers do not own any of the product their labor jointly creates and capitalists are the last owners of worker’s labor” (p. 105). Because it is the wage-for-labor relationship and not private property that leads to exploitation, workers should be prevented from selling their labor time. The capitalist labor market should be abolished and worker self-managed firms encouraged. This approach, Burczak argues, avoids Hayek’s factual knowledge problem because it still relies on markets but addresses Marx’s concerns about exploitation.

This might end exploitation as Burczak understands it but, as he concedes, pushing workers toward worker self-managed firms will not do anything about the inequalities in wealth and income that result in the competitive market. Just as successful entrepreneurs are better off materially than unsuccessful entrepreneurs and also have a leg up in their future business dealings because of their ready access to necessary financial resources, workers in successful, asset-rich worker-managed firms will tend to outcompete asset-poor firms. The solution here, for Burczak, is creating a stakeholder’s society along the lines that Ackerman and Alstott (1999) propose. Burczak believes that every person in the society should be given an endowment large enough to allow them to start their own self-managed enterprise when they reach adulthood. This approach, Burczak argues, is the only way to satisfy Marx’s concern with distributive justice while avoiding Hayek’s ethical knowledge problem.

Although intriguing, there are a number of issues with Burczak’s formula for achieving appropriative justice (an end to exploitation) and distributive justice (equality in some meaningful sense). Burczak argues, for instance, that the stakeholder society is consistent with an Hayekian vision in a number of respects. First, he claims, it does not run afoul of an Hayekian conception of the rule of law because it would be implemented “via abstract, well-announced rules” and does not directly interfere with the market process (p. 134). He is of course right. It is possible to redistribute through a system that does not try to pick market winners and losers and is no more partial or unjust than our current systems of justice where judges often “make” rather than “find” law. Even so, Hayek’s “ethical knowledge problem” remains.

The reason that markets work is because firms that do what is socially desirable are rewarded with profits and firms that do not are punished with losses. These profits and losses are an important feedback mechanism. How does the government in the stakeholder

society know that the size of the transfer is large enough to turn citizens into stakeholders? What is the feedback mechanism at work here? Arguably, it is ambiguous, at best. Unlike in the market, where entrepreneurs can get their cues from outcomes, government officials would not be able to determine whether the stakes that citizens received once they reached the age of maturity were too large or too small, as the failure of any one individual or group of individuals need not tell us anything about the adequacy of the stake. People have different abilities, and so you would expect some to succeed and succeed wildly once given an adequate stake and others to fail and fail miserably regardless of the size of their endowment. It is not, simply, access to resources that determine any particular person's success or failure. There are other things (e.g., raw intelligence, education, health, personal connections, chance, etc.) that promote human functioning and flourishing.

Hayek has insisted that disparities of wealth should be treated the same as disparities in beauty. Burczak never offers a satisfactory reason for rejecting Hayek's advice. It is, ultimately, unclear whether we are promoting or discouraging equality of opportunity if we give the strong, the pretty, the healthy, the intelligent the same stake as the weak, those in ill health, the unintelligent. And, more importantly, it is impossible for any government official to know whether giving everyone an endowment of a particular size is welfare enhancing or not. We can assume that outcomes will be different if everyone is given a stake but we cannot assume that outcomes will be better. Burczak misses this because he conflates Hayek's ethical knowledge problem with Hayek's defense of "relativistic libertarianism." Perhaps there are flaws in Hayek's defense of classical liberalism, Burczak offers several, but that does not mean that Hayek's arguments against the practicability of alternatives to Hayek's liberalism are suspect.

Burczak's advocacy of worker self-managed firms is also somewhat problematic. First, for Burczak to make the case that labor-managed firms can eliminate exploitation, he has to define exploitation in a particular way. He objects to two typical interpretations of Marx's notion of exploitation (i.e., that workers are exploited because they do not retain the surplus labor that they produce or that workers are exploited because the capitalist claims the laborer's surplus labor even though he is a non-participant in the production of surplus labor). Burczak rejects these interpretations because, as he correctly concludes, they necessarily lead to a rejection of private property. That may satisfy many Austrians, but that is not really a defense, and it is, in the end, too easy a solution to Marx's complaint.

Second, Burczak's condemnation of wage-labor is clearly too sweeping. Are all wage laborers exploited? Is Roger Clemens exploited? Is Kobe Bryant? Is the computer programmer earning six figures a year who works remotely from home? On the flip side, would we say that the textile worker in Bangladesh who works by the piece is not exploited? By the definition of exploitation that Burczak embraces, the computer programmer is the exploited one because he was not the first owner of his labor product or the last owner of his labor time. The textile piece worker is both the first owner of her labor product and the last owner of her labor time. For exploitation to be a meaningful category, however, it cannot call the programmer exploited and the piece worker not exploited.

Finally, we cannot know for certain that preventing individuals from entering into wage-for-labor relationships will make them better able to flourish and function. Even if it were true for most laborers, it is probably not true for all of them. In that kind of scenario, we have no way of knowing the cost of forcing someone out of a wage-labor setup and into a worker cooperative. We have no way of knowing the consequences of preventing individuals from entering into certain kinds of relationships. Hayek's ethical knowledge problem returns again. Government is simply not in a position to know what is best and does not have access to a feedback mechanism that can offer them any assistance.

These issues with Burczak's formulation aside his book should be read widely by Austrians. It is a well researched and thoughtfully argued book that seriously engages Hayek's work on the knowledge problem and offers provocative critiques of Hayek's conception of the rule of law and his critique of social justice. Although it is likely that a socialism that takes Hayek seriously will end up looking a lot less like traditional socialism than even he thinks, Burczak goes a long way toward successfully recasting socialism in the wake of Hayek's critiques. Burczak should be applauded for his effort.

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