

## A forgotten duel: on central planning

In the 1961 edition of his bestselling economics textbook, American economist Paul A. Samuelson predicted that the Soviet Union's centrally planned economy would surpass the size of the American economy in just a few decades. As the country failed to perform as well as he expected, Samuelson kept postponing the year when the Soviet Union would race past the U.S. until it eventually disintegrated. Not all economists, however, were as blind to the fatal weaknesses of the Communist economic system as Samuelson. In fact, during the nascent years of the Soviet Union, a time when most economists were in awe of central planning, a few rebel economists raised serious doubts about the utopian plans of Communist revolutionaries. This led to a famous, but now forgotten, economic debate over the possibility of collectivist economic planning. The 100th anniversary of the Russian revolution is a good time to remember it.

### The Hayek view

Famously known as the socialist calculation debate, the duel happened between two groups of economists with different world views. On the one side were socialist economists like Oskar R. Lange from Poland who believed that an economy led by central planners could vastly outdo Western market economies. In particular, they believed that central planners could force the economy to save and invest a lot more than otherwise and help achieve rapid gains in living standards.

On the other side of the debate were the sceptics who believed that central planning would be a disastrous failure. The most prominent among them was Austrian economist Friedrich A. Hayek, who argued that without private property, central planners would be left handicapped when trying to manage the economy. This is for at least two reasons. One, in a market economy, resources are allocated by the means of free trade wherein millions of private individuals try to guess the tastes of strangers to whom they hope to sell their goods. In a centrally planned economy like the erstwhile Soviet Union, where just a small group of central planners was in charge of managing all resources, the amount of knowledge used to guess the tastes of citizens is limited. This leads to the misallocation of resources, as in the the Soviet Union where there was a chronic shortage of essential goods at the same time when there was a huge surplus of other goods. Two, in a market economy, private ownership offers people the incentive to preserve the resources they own and optimise their use as they get to enjoy the benefits from it. In Communist countries like the Soviet Union, where most resources were owned by nobody, there could only be vast destruction of resources.

The fall of the Soviet economy proved sceptics like Hayek right. In fact, the importance of private property and the price system is today recognised by economists across the board, albeit with the benefit of hindsight. Yet the fact that many famous economists rallied behind a dangerous idea like Communism in the past should offer economists a lesson in humility.

The definition of harassment needs to be constantly updated, and the process for justice made more robust

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