Deepening the Irony of Thomas More's *Utopia*: A Mises/Hayek Perspective

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INTRODUCTION

In the first article he published as editor of the *Rheinische Zeitung*, Karl Marx identified Plato as an early theorist of communism.[i] My own examination of this claim revealed that if it is descriptive, it is only trivially so.[ii] The communal elements of Plato's vision of the ideal society are neither central to his purpose nor crucial to the structure presented. Apparently, Marx saw in Plato what he wished to see and ignored elements discordant to that belief. Later historians of socialist and communist theory, including Emile Durkheim, Alexander Gray and Max Beer, made the same error.

This also appears to be true of many scholarly commentators on Thomas More's *Utopia*. Attempting to take Raphael Hythloday's communist commonwealth of Utopia to be More's ideal commonwealth runs up against serious discords in the manuscript itself, as well as in the rest of More's writings and the life and death of the man himself.

Nevertheless, this paper is not intended to be a contribution to the resolution of the controversy between those who believe that *Utopia* presents More's ideal communist commonwealth and those who argue that it is intended to encourage more serious and critical reflection on any ideal of communism—or, as Gerard Wegemer argues (1996), to reject it. Not being a More scholar, but only a mere historian of economic theory, I am simply going to pick a side and buttress it with arguments from my own discipline. If irony was More's intention, then my argument also shows that he was even more prescient concerning the failings of communism than he previously has been shown to be.

THE IDEA OF SOCIALISM

Marx distinguished two phases of communism: the first or earlier phase of "crude" communism, where there is still a dictatorship of the proletariat and common ownership of the means of production; and the second and later phase, or "real" communism, where there is no political state and no ownership, either common or private. It has become conventional to refer to the first phase as "socialism" and the second as "communism." Consequently, it will clarify the present discussion if the term "socialism" is used to refer to the economy envisioned for the commonwealth of Utopia. In Utopia, there is a political regime and it is involved in the planning of the Utopian economy; it is not Marx's "real communism."

The historical debate over the actual feasibility of the economics of the planned economy of the socialist state is relatively recent. It began in the late nineteenth century and very quickly identified the key problem faced by any population that wished to establish and perpetuate a socialist planned economy. It was the same one faced by any population attempting any economy—how to make production and consumption decisions in the face of the fact that the material context within which any actual economy is set, socialist or not, is one of a scarcity of means to secure man's material ends. Decisions have to be made as to what ends to pursue and with what means. Further, some methods must be devised to determine how the means that are available can be used to the best effect in achieving those ends. If resources or means are not infinite, then using the relatively more abundant resources and conserving the relatively more scarce ones implies a greater efficiency in resource use. But, how does one identify relative abundance and relative scarcity?

With respect to the choice of ends, it was clear that either one person or several must decide for all others, or each member of the population must decide for himself what ends to pursue, and which were relatively more valuable than others. Advocates of the socialist planned economy argued that no true planning could occur if the choice of ends was entirely left to the individual; and, the planning of the use of means to achieve the chosen ends was even more importantly a prerogative of the planners if the economy was to be planned so as to achieve the best results for the population as a whole. Individual choice of ends or of the means to secure the chosen ends would disrupt the social plan. Needless to say, in such a system there can be no individual property rights. Otherwise, the claims of the property owners would trump the use of means by the planners.

The questions of identifying the relative values of ends and the relative scarcity of means, and of planning the optimal efficiency in their use, were then addressed and these proved to be vastly more difficult ones for socialist theorists to answer. As we shall see, opponents of the socialist planned economy argued that, in fact, they were impossible to answer.

THE THEORY OF THE MARKET ECONOMY[iii]

Economic theory proper, or “catallactics”—the theory of exchange—is concerned with constructing a theoretical framework within which the problem of scarcity can be confronted and its implications for human actions to achieve human ends can be inferred. The phenomenon of exchange actually begins with the individual person. Every decision involving human action requires that something be given up in order that something else can be gained. The former is figuratively exchanged for the latter. What is to be given up is referred to as the “opportunity cost" of that which is to be gained. So, every decision—even that of the isolated individual—imposes a cost and involves an exchange of something preferred over something else. At the simplest level, time spent in one activity or complex of activities is time not spent in another, since a person cannot be simultaneously engaged in both.

A second basic principle of economics is that the larger a stock of anything that an individual possesses, the lower the value he places on any (interchangeable) unit of that stock. Known as the law of diminishing marginal (subjective) value, it is symmetrical in that it dictates that as a stock of anything is diminished in any way, the (subjective) value of individual units of that stock that are still in the command of the individual rise. This law leads to a decision principle: when choosing between two actions or material things, the lesser value is always to be sacrificed to gain the greater one, if maximizing value is one's goal.

When the context is that of two individuals exchanging goods or services with one another, additional considerations come to the fore—most particularly those of limits to exchange activities and rates of exchange, or prices. These represent historical ratios at which one or more exchanges took place. The theory of market exchange argues that individuals engage in exchange activities so long as the value of what they receive by so doing exceeds the value of what they give up. The values in question are subjective to the trading individuals and rule their trading decisions in that they never knowingly trade a higher for a lower valued good. Using the principle of diminishing marginal value, the theory of exchange argues that as individuals engage in trading activities the values they place on individual units of any commodity decline as they acquire more of them and rise as they trade units away. Trading ceases when any one of two trading partners concludes that net value cannot be gained by engaging in any further trades.

The ratios of exchange, or market prices, represent historical records of the activities of trading individuals who are each attempting to maximize the value gained while minimizing the value lost. The prices are not the values themselves, but bear a relationship to them in that all trading individuals believe that they have received a value greater than the price they have paid in any specific transaction. Recalling that the price paid—that which is given up—is the opportunity cost to the individual of that which is gained, and that values are subjective to the individuals trading, then every individual who voluntarily engages in exchange gains value thereby, assuming an absence of error in his estimations of valuable trades.

Market prices also express the relative scarcities of the goods or services traded in that those in great abundance, whose individual units possess relatively low values in the assessments of trading individuals, will only be traded for other goods and services considered to be of low value. Consequently, the goods and services in question will command low prices in comparison to those that are less abundant and that possess relatively high values. Truffles usually are priced higher than other fungi.

In depicting the workings of an unhampered exchange or free market economy, economic theory assumes that choices of ends and means and all planning with respect to them occurs at the level of the individual consumer or production unit. It also assumes that all property is privately owned and, consequently, individuals are the sole decision-makers concerning the use of goods, services, and resources of whatever kinds in existence. Consumer goods demand is a consequence of ends chosen by individual consumers, who seek to achieve those ends at least in part through the consumption of the goods in question. Demand and supply conditions in consumer goods markets are reflected in relative prices in those markets. Consumer demand is reflected back into the markets for the goods that will be used to supply the consumer goods in question. Producer goods are valued only because the consumer goods they can be used to make are valued.

Using the prices expected or historically set in consumer goods markets as an indication of revenue possibilities, production units attempt to acquire the producer goods that are necessary to produce the consumer goods in question at a lower total cost in order to obtain profits—the difference between revenue and costs. In so doing, they create markets for producer goods, whose prices are set by demand and supply conditions in those markets and thus reflect the relative scarcities of the producer goods in the same way as prices of consumer goods reflect their relative scarcities.

Now, almost all consumer goods either actually or potentially can be produced in a variety of ways. Each production technique involves a different combination of producer goods, for which the usual generic categories are labor, capital and raw materials. Within each category are a multitude of possibilities, and each possible producer good actually or potentially will be traded in its own market. Given that the goal of the production unit is to maximize its profit, the production technique chosen for a given quantity and quality of a consumption good will be the one that costs the least. And, given that prices of production goods reflect their relative scarcities, this will be the technique that emphasizes the use of the relatively more abundant production goods and conserves the relatively more scarce ones. Since this is the case all the way back to the market for raw materials, i.e., natural resources, a market economy automatically, as it were, makes the most efficient use of the resources available. Rather than being arbitrary, the actual choice of goods to be produced, as well as the techniques of production, will be dictated by the consumption choices of individuals seeking their individual ends within the context of the known relative scarcities of means to achieve those chosen ends.

Most importantly, market prices are the basic units of calculation that make comparable everything exchanged, thus providing a means for individual market participants to adjust their personal plans to the plans of others. This is true in consumer goods markets, where each consumer attempts to obtain the bundle of goods that best achieves the ends he has chosen to satisfy through market transactions at the lowest cost, and thus where the structure of consumption and consumption goods markets is determined. It is also true in producer goods markets, where prices are used to calculate profit and loss and determine the structure of production and of production goods markets.

The bedrock of the theory of the market economy is the assumption of private property rights. Without the command and control of property assured to the individual by his or her property rights, there can be no regularity and stability in the exchange of things. Without regularity and stability in exchange, there will be no prices set in markets that reflect market conditions of demand and supply, themselves reflective of relative resource abundance. Without such market prices, there is no basis for rational individual planning in consumption or production activities.

THE CRITIQUE OF SOCIALISM

The founding rationale of the socialist planned economy is the absence of private property rights—most particularly for producer goods. Land, labor and capital are to be owned and administered by the state and production of all goods is to be planned from the beginning to the end of each production process. But, if there are no markets or market-determined prices for producer goods, then what is to be used as a unit of calculation? How can the heterogeneous producer goods be compared for planning purposes so that production techniques can be chosen? How can one tell which resources and goods are relatively abundant and which are relatively scarce so that a rational and efficient use of resources can be attained? These are the questions that were raised by Ludwig von Mises in 1920 in his article "Economic Calculation in the Socialist Commonwealth," followed in 1922 by his treatise, SOCIALISM: AN ECONOMIC AND SOCIOLOGICAL ANALYSIS. The article and book initiated the "socialist calculation debate" in which socialist theorists unsuccessfully attempted replies to Mises's questions and analysis.[iv] The actual failure of almost all socialist economies in the latter part of the twentieth century led to a number of former advocates of socialism publicly admitting the obvious correctness of Mises's critique.[v]

In the first part of his seminal article, Mises argued (1935, p. 104) that "…as soon as one gives up the conception of a freely established monetary price for goods of a higher order [producer goods], rational production becomes completely impossible." This is because monetary prices are the bases for economic calculation, the calculation of least cost techniques of production and of profit and loss. The former determines how a particular consumer good of a given quality can be produced at the least cost (i.e., using the relatively most abundant resources), while the latter determines whether the good can be produced at a profit—meaning, whether it can be produced to generate more value than is consumed in its production. As a consequence (1935, p. 110), "…in the socialist commonwealth every economic change becomes an undertaking whose success can be neither appraised in advance nor later retrospectively determined. There is only groping in the dark." Production under socialism becomes ad hoc or arbitrary in its choices of techniques of production and, thus, in its choices of resource use to make production goods.

An additional point made by Mises was that directors and managers of socialist enterprises would lack responsibility and initiative because of their lack of a personal incentive to be accountable in their decision-making. Lacking ownership stakes in the enterprises, even if they could engage in rational calculation they would have little incentive to do so because their personal incomes and fortunes would not immediately be affected by their decisions. Mises denied that “commercial-mindedness” was anything inherent in men’s characters. Instead, he argued that (1935, p. 120) “the entrepreneur’s commercial attitude and activity arises from his position in the economic process and is lost with its disappearance.” The lack of any identification of the interests of the socialist enterprise with his own personal interests would mean lessened responsibility and initiative as compared with the situation in a private property, private enterprise regime.

To Mises’s critique of socialism, Friedrich von Hayek added two additional points: the informational requirements of a planned economy would not only be vast, and insurmountable in practice, but some information needed for rational planning was impossible to obtain. With respect to the first point, Hayek (1948, p. 152ff.) argued that rational central planning would require the planners to accumulate a vast amount of detailed information on consumer preferences if there were no free markets in consumer goods, and if the purpose was to provide consumers with goods and services to their liking. Further, whether consumer goods markets were free or not, vast amounts of detailed information would be required from the production sector in order to produce whatever goods were chosen for production. Basically, everything known to engineers, designers, managers, technical experts of all kinds and all workers in the producer goods sector would have to be collected in a timely manner and used in the planning process. And, this was in addition to the basic problem of determining the relative value of all goods and services included in the comprehensive plan.

Hayek's second point was (1948, p. 202) that the knowledge of consumer preferences, production techniques, available resources and so on, does not exist in some total sum form, but is individually dispersed in any economy among the population. It is that knowledge that the planning entity would have to accumulate—and some of it was impossible to collect because it consisted of individual subjective evaluations of costs or preferences that might not even be fully known by the individual person.[vi] Even if the socialist planners could surmount the practicalities of collecting all the information in a timely manner that was germane to planning the economy, and of constantly updating it so that plan coordination would persist through time, some important information was uncollectible by nature and could not be used in central planning. The manager of a state factory might subconsciously anticipate the failure of a particular machine or hold an expectation of a need for particular services by his factory for the local population or be implicitly aware that the cost of a particular expansion would be greater or less than previously anticipated. This knowledge would not be collectible and thus would not be included in the planning process, and this would be detrimental to coordinating the overall plan elements.

THE CRITIQUE OF THE PLANNED ECONOMY OF *UTOPIA*

The primary requirement for a completely planned socialist economy is the absence of private property rights. Property rights allow individual control and use of property—resources—that it is the purpose of planning to control and use socially. Private property rights disrupt the planning process. Thomas More appears to recognize the signal importance of this requirement because he has Raphael Hythloday present the argument against private property at the end of Book I (1964, pp. 52-4) of *Utopia*, just as he is about to describe the ideal state in Book II. It is notable that Hythloday invokes the authority of Plato, while misrepresenting the argument found in *Republic*. Plato emphasizes justice as social order, and requires communal ownership by the Guardians in order that their attention will not be diverted from their main goal of fostering and maintaining order in the state; Hythloday argues injustice as inequality in possessions and justice as equal distribution, and recommends it for the whole population.[vii] He also states that it will result in abundance and happiness for all men, where Plato was neither concerned with the question of the quantity of goods in the ideal state nor with the happiness of its inhabitants.

In contrast, More's reply (1964, pp. 54-5) faithfully renders two of Aristotle's arguments against communal property from Book II of *Politics*. As Wegemer notes (1996, p. 99), Hythloday has no answer to More, but merely claims a special knowledge that communal property works in Utopia. It is difficult to avoid the conclusion that More deliberately has compromised the very foundation of the Utopian economy at the outset of its description with his refutation of Hythloday's argument in favor of communal property and against private property rights. More's later arguments (2004, pp. 246-52) in favor of private property rights only add to the strength of this conclusion.

As Hythloday describes Utopia in Book II, it is an elective authoritarian state, with an agricultural-based, planned economy. There is no private property and the citizenry are assigned positions in the workforce to suit the needs of production in the economic plan. Every citizen is trained as an agricultural worker, as well as in at least one non-agricultural craft or profession, which are limited to those deemed essential. Employment in either agriculture or crafts is completely according to the needs of the state. All citizens work in a strictly scheduled workday except for the intellectual class, membership in which depends upon performance. It is also that class from which the officials and rulers are chosen.

Meals are taken in common dining halls, the sick are cared for in public hospitals and infants and children up to the age of five are nursed and live in separate quarters. Given that slaves do all the heavy labor and least desirable work, and given the strict social hierarchy observed in the living and dining quarters and the severe restrictions on travel, the picture painted is one of a highly regimented society with its production, consumption and leisure activities meticulously planned. No basis for the planning is presented, other than the assertions of the narrator as to what is considered necessary and desirable. The method of planning also goes unmentioned, but apparently is the fiat of the elected rulers.

Consumer goods are limited in variety and standardized in attributes and quality. They are available for distribution to the head of each household in each quarter of each city in "markets" where they are placed in storehouse buildings as they are produced. Distribution occurs when the head of each household takes what he requires from the city stores. This is no "market" in the economic sense of the term. There is no bargaining, no use of money, no price formation, no trading of one thing for another or of commodities for money. In fact, there are no "commodities" in the Utopian economy—"commodities" being defined in any economy as goods or services that are the subjects of exchange activities. There is no indication of how the requirements of a household are determined. Evenness in distribution of existing goods throughout the country is obtained by physical transfer of goods from regions where there is relatively more physical abundance to areas where there is less. In Hythloday's words (1964, p. 83), "…the whole island is like a single family."

Yet, Hythloday is not ignorant of the existence of markets somewhere because he has the Utopians selling any island "surplus" to other countries "at a moderate price" and then spending the proceeds on import goods or using them to wage wars. The wars are either those (1964, p.

76) of imperial expansion, retaliation for wrongs done to Utopians, liberation of oppressed people or to protect friendly nations from the invasion of others. Although not used as money internally, precious metals are stored up and used in war to hire mercenaries and as a prize for the assassination of the leaders of their national opponents. The Utopians even claim reimbursement for these outlays from their defeated opponents.

Given that More has Hythloday argue (1964, p. 149) that the extremes of wealth and poverty exist in contemporary societies because of the existence of money, and that crime, strife and poverty would be eradicated in a moneyless society, it is passing strange that he admits the existence of crime in his ideal (moneyless) society [criminals become slaves] and has Utopia use money as a tool of warfare. This internal contradiction in his argument only strengthens the view that More's *Utopia* is really an irony and that More was well aware of the indispensability of money in a complex society.

A family might not need money internally, but a complex society is far from one that can function as a family would. Obviously, the absence of internal prices makes the planning of production and consumption arbitrary, given the Mises/Hayek critique. More gets around the question of consumption choices by positing a population of compliant subjects, devoid of any ambitions other than obedience, and he avoids the question of production planning by positing a ruling class whose employment and production decisions are apparently arbitrary. Yet the ruling class engages in market transactions external to the society and uses prices in external planning. And, the ruling class is well aware of the incentives that prices provide for performance as shown by their purchases of iron imports and in their willingness to pay for assassinations.

In this portion of his narrative of Utopia, More reveals that he is not unaware of how markets actually function and of how men can interact in them to mutual benefit. But, his

Utopians act differently in their dealings with one another than they do in dealing with mankind as a whole. The dour lives of the Utopians may be what More wants us to see as the fruit of a planned socialist society. History has proven More to be strikingly prescient, if irony was his intention in Utopia. The socialist paradises of the imagination found no reflection in the sordid reality of the various historical socialist societies attempted in the past two hundred years.

ENDNOTES

[i] See Marx (1972), pp. 47-8.
[ii] Bostaph, (1994).
[iii] This section necessarily sums a vast literature. Two sources were particularly of value: Menger (1976) and Mises (1966).
[iv] The key works in the debate include Mises (1935; 1951), the three articles by Hayek (1948) and Lange and Taylor (1964).
[v] The most well-known of these was that by Robert Heilbroner (1990).
[vi] Michael Polanyi (1967) refers to this latter sort of knowledge as "tacit knowing."
[vii] See also (1964, pp. 147-50).

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