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# Varieties of entrepreneurial function under totalitarian (dis)orders: from Ersatz to ideal

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**Abstract:** Communist's collectivistic approach to social order is based upon the premise that private means of production should be abolished, and instead be managed by a centralized power representing the people as a whole. As such, it defies one of the most inherent characteristics of human condition, the innate, creative, subjective, and perennial search for a better condition in life expressed by the entrepreneurial function. This paper uses the Austrian School's praxeology to show how entrepreneurs, as motors of the market system, end up being also the most relevant and widespread challengers to the socialist approach to economics. The real exercise of entrepreneurship defies the unreal socialist economic system in three basic ways: by exercising this latent entrepreneurial function in the most unfavorable conditions creating secondary markets in order to correct an official planned scarcity; by escaping the widespread statist mentality in socialist societies; and by actually exercising economic calculation in spite of the politburo calculus. The paper shows that as much as there are varieties of social order there is a on the kind of entrepreneurial function, which is impossible to eradicate from individuals. Therefore, even when totalitarian regimes take place, entrepreneurship finds ways to exist and emerges albeit of a different lacunar kind, in the shadows, supplying for consumer's wellbeing under the limits of such societal disorder and, more importantly, bringing to light the intrinsic impossibility of the socialist economic arrangement.

**Keywords:** Entrepreneurship, entrepreneur, communism, socialism, calculation debate, secondary economy, black markets, statist mentality.

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## Variedades de função empreendedora sob desordens totalitárias: do Ersatz ao ideal

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**Resumo:** A abordagem coletivista comunista de ordem social é baseada na premissa em que meios de produção privados devem ser abolidos, e ao invés disto, serem gerenciados por um poder centralizado representando o povo como um todo. Assim sendo, ele desafia uma das mais inerentes características da condição humana, a busca inata, criativa, subjetiva e perene para uma melhor condição de vida expressa pela função empreendedora. Este trabalho usa a praxiologia da Escola Austríaca para mostrar como empreendedores, enquanto motores do sistema de mercado, acabam sendo os mais relevantes e generalizados desafiadores da abordagem socialista da economia. Exercer o empreendedorismo desafia o ilusório sistema socialista de economia de três maneiras: exercitando esta função empreendedora latente, nas mais desfavoráveis condições, criando mercados secundários para buscar corrigir a escassez planejada pelo poder central; se livrando da difundida mentalidade estatista em sociedades socialistas; e por colocar em prática o verdadeiro cálculo econômico de mercado, ao invés do “cálculo” econômico imposto pelo politburo. O artigo mostra que, quanto mais existam variedades de ordem social, há ainda uma similaridade com o tipo de função empreendedora, que é impossível erradicar dos indivíduos. Assim sendo, mesmo quando ocorrem regimes totalitários, o empreendedorismo encontra maneiras de existir e se manifesta apesar do diferente tipo lacunar, nas sombras, suprimindo o bem-estar do consumidor sob os limites de desordem social e, principalmente, iluminando a impossibilidade intrínseca do arranjo econômico socialista.

**Palavras-chave:** Empreendedorismo, empreendedor, comunismo, socialismo, debate de cálculo, economia secundária, mercado negro, mentalidade estatista.

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## Variedades de función empresarial bajo desordenes totalitários: de Ersatz al ideal

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**Resumén:** El enfoque colectivista comunista del orden social se basa en la premisa de que los medios privados de producción deben ser abolidos, y en su lugar, gestionados por un poder centralizado que represente al pueblo en su conjunto. Como tal, desafía una de las características más inherentes de la condición humana, la búsqueda innata, creativa, subjetiva y perenne de una mejor condición de vida expresada por la función empresarial. Este documento utiliza la praxiología de la Escuela Austríaca para mostrar cómo los empresarios, como motores del sistema de mercado, se convierten en los retadores más relevantes y extendidos del enfoque socialista de la economía. La búsqueda del emprendimiento desafía el ilusorio sistema socialista de economía de tres maneras: ejerciendo esta función empresarial latente, en las condiciones más desfavorables, creando mercados secundarios para abordar la escasez planificada del gobierno central; deshacerse de la mentalidad estatista generalizada en las sociedades socialistas; y poniendo en práctica el verdadero cálculo económico del mercado, en lugar del “cálculo” económico impuesto por el politburó. El artículo muestra que cuanto más hay variedades de orden social, todavía hay una similitud con el tipo de función empresarial, que es imposible de erradicar de los individuos. Por lo tanto, incluso cuando se producen regímenes totalitarios, el espíritu empresarial encuentra formas de existir y se manifiesta a pesar del tipo lacunar diferente, en las sombras, proporcionando bienestar al consumidor bajo los límites del desorden social y, sobre todo, iluminando la imposibilidad intrínseca del acuerdo de economía socialista.

**Palavras-clave:** Emprendimiento, empreendedor, comunismo, socialismo, debate de cálculo, economia secundaria, mercado negro, mentalidade estatista.

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## Introduction

Communism<sup>1</sup> was paramount amidst the totalitarian (dis)orders of the 20<sup>th</sup> century, both in breadth and length, which is why it was probably the most studied sociological phenomena of that particular time. Scholars debate the philosophical, ethical, economical, and social aspects of this utopian and collectivistic approach to social order. Austro-libertarian authors confronted those ideas on different grounds: in philosophy and ethics one can refer to Hoppe (2010); from a sociological perspective, to Böhn-Bawerk (1890), Mises (1951) and Hayek (1949; 2001); in economics, Mises (1990) and Hayek (1935)<sup>2</sup> contributed, while Rothbard (2004, p. 875) characterized socialism as the “violent abolition of the market”.

The collectivistic approaches to society's organization (among which are communism, socialism, Nazism, positivism, and social democracy) share a common ground concerning the free market. In them, the market is tethered to an intractable and inevitable antinomy between the owners of the means of production, the capitalists, and the owners of the workforce, the proletariat. In addition and subsidiary to it lies the idea that the spontaneous, decentralized social order from free markets is not only irrational and wasteful, but also inhumane, alienating, and inherently exploitative. To impose fairness, an external force, the state, the party, the 'people', etc., ought to (partially or completely) control the means of production.

In communism, the means of production should belong to the collectivity itself, the government would be a transitory shepherd between the dictatorship of the proletariat (the socialist arrangement) and the communist society. The diagnose prescribes the abolition of private property, Engels (1874, p. 14) says that in communism: “Private property must, therefore, be abolished and in its place must come the common utilization of all instruments of production and the distribution of all products according to common agreement -- in a word, what is called the communal ownership of goods”.

The Austrian theory of the entrepreneur is in the other part of the spectrum. Formed by two complementary approaches, the Kirznerian alert and Foss and Klein's (F&K) judgment-based entrepreneur (BOSTAPH, 2013; FOSS; KLEIN, 2017; HOLCOMBE, 2003; KIRZNER, 1973; 2009; KLEIN, 2017; PHELAN, 2016). Those theories see entrepreneurship as endogenous to the market process, and entrepreneurs as its cornerstone. In contrast, mainstream and especially Marxist economic theories ignore entrepreneurs (JOHANSSON; DAN; MALM, 2017). For Austrians, entrepreneurs, by exercising the **entrepreneurial function**, solve the problem of **mobilization** and **utilization** of **diffuse knowledge** within an industrial social order<sup>3</sup>. As a consequence, private ownership of the means of production is needed for any healthy social arrangement. In what follows, entrepreneurship could be understood as in Elert and Henrekson's (2016, p. 95) “evasive entrepreneurship”, define as “profit-driven business activity in the market aimed at circumventing the existing institutional framework by using innovations to exploit contradictions in that framework”.

<sup>1</sup> In spite of some differences, 'socialism' and 'communism' are used interchangeably in this paper.

<sup>2</sup> The book was edited by Hayek who also wrote some chapters, it brings Mises' contribution on the calculation debate for the first time in English, as well as counterarguments presented by Barone.

<sup>3</sup> For a more detailed explanation see D'Andrea and Ruettimann (2019).

Still in communism, the theory states that the distinguishing feature “is not the abolition of property generally, but the abolition of bourgeois property” ([MARX, 1848](#), p. 9) and that “capital is converted into common property, into the property of all members of society, personal property is not thereby transformed into social property. It is only the social character of the property that is changed. It loses its class character.” ([MARX, 1848](#), p. 10). Communism is but a child of Enlightenment materialistic rationalism whose aim was to emancipate man from all his historical substrata, sediments of irrational and superstructure developments made possible by the technological development. The rationalistic organizational takes many shapes, but the core remains unique, the substitution of **production for exchange** to **production for use**.

To better understand the libertarian critique of communism, one must start from the definition of property. Hoppe ([2010](#)) and Rothbard ([2002](#)) realize that property only arises when scarcity exists; in a hypothetical superabundance both the need and meaning of property would be irrelevant just as would most economic problems ([HOPPE, 2010, p. 18](#); [KLEIN, 2010](#), p. 87).

Hence, from the libertarian standpoint, socialism can be “conceptualized as an institutionalized interference with or aggression against private property and private property claims” ([HOPPE, 2010](#), p. 10), or “it is the aim of Socialism to transfer the means of production from private ownership to the ownership of organized society, to the state. The socialistic State owns all material factors of production and thus directs the use of them all.” By logical implication being, in a socialist system every good that is (or could be) used as a production good would be considered ‘collective property’ ([MISES, 1951](#), p. 56)<sup>4</sup>.

However, in the application of theory to reality there can be no pure socialist (nor capitalist, for that matter) society. All societies have degrees of socialism and their prosperity can be explained by how big or small are those degrees ([HOPPE, 2010](#), p. 10). Mises ([1951](#), p. 56) complements defending that there is no need of formal ownership by the state for a socialist society to take place:

Limitation of the rights of owners as well as formal transference is a means of socialization. If the State takes the power of disposal from the owner piecemeal, by extending its influence over production; if its power to determine what direction production shall take and what kind of production there shall be, is increased, then the owner is left at last with nothing except the empty name of ownership, and property has passed into the hands of the State.

Following these insights, this paper aims at presenting some of the theoretical and practical oversights of socialism and the problems that it produces wherever it takes power. In particular, we analyze three ways in which entrepreneurs defy socialism and its legitimizing agenda. By looking at what happens when bureaucratic planning tries to suppress the economic and social function of the entrepreneur. Can economies thrive without entrepreneurship? As Michael Polanyi said about the Russian Revolution, it set out to establish a moneyless industrial system, free from the chaotic and sordid automation of the market and scientifically directed by a single comprehensive plan, which necessarily excludes the entrepreneur. Did it succeed?

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<sup>4</sup> See also articles 5, 6, 7, 10 and especially 131 of the Constitution of the Soviet Union that reads: “Persons committing offences against public, socialist property are enemies of the people” ([UNION OF SOVIET SOCIALIST REPUBLICS, 1936](#)). For an analysis of personal (not private) property in the socialist regime, see Kucherov ([1962](#)).

The paper starts presenting the wider picture of a socialist (dis)order and what lies behind its dismal failure in all realms of human endeavor, explaining the false economy that it begets and the devastation that lingers even on post-socialist societies. After that, the three ways in which entrepreneurship defies socialism take the center: the secondary economy is presented, the statist mentality is discussed; followed by the economic calculation problem its connections to the theory of entrepreneurship in the Austrian tradition. The paper closes with implications to societies in which the collectivistic logic is still prevalent.

## 1. Communism as *ersatz religio* and Socialism as *ersatz economy*

Ersatz, by definition, is an artifice, a mimetic synthesis, a subterfuge that pretends to emulate a much more complex reality. As opposed to the religious dimension of human life - which tethers the order of Being in a tensional and differentiating scale that ascends from the immanent to the transcendent, from temporal to eternity, and that center the focus of existence on a conversion (*periagoge*) to spiritual liberty - secular religions, as communism has been defined ([TISMANEANU, 2015](#)), abolish the verticality of this tension and hijack its symbols and signs in order to (try to) edit reality and bring upon an earthly paradise where the inner liberty of conscience is stunted in favor of a horizontal freedom defined by the power relations among men ([VOEGELIN, 2004](#)).

Communism's aspiration to foster a new civilization, a new man<sup>5</sup>, can be characterized by three elements. Its aversion to history and hostility to memory renders it *mnemophobic*; its institutions must reshape an uncertain past to an everlasting present aiming at a certain and inevitable future. It is *axiophobic* inasmuch as it seeks the destruction of an ethics of virtue and any transcendent dimension of existence which is deemed to be "phantoms formed in the brain" and by-product of contingent and derivative modes of production. Third, it despises the human spirit, *noûs*, reason why it is *noophobic* as well; the novelty lies in the type of evil spawned by it, one that falsifies good in the name of universal happiness. As Besançon ([1998](#), p. 45) said, what flabbergasts us is the fact that these regimes acted their mass expropriations, deportations, concentrations, famines, and murders, in the name of a good under the pretense of moral grounds. These regimes destroyed morality by instrumentalizing it onto a falsification of the good.

Del Noce ([2015; 2017](#)) defines totalitarianism as the **absolutization of politics** whereby every aspect of reality is politically interpreted (social life, law, education, medicine, the family, or sexual relations) – or for Solzhenitsyn: communism deeply penetrates into the fabric of life ([REMNICK, 1994](#), p. 738)- , as such, they lose their symbolic or ideal significance and are dumbed down, rendered devoid of any finality beyond the satisfaction of immanent desires. Moreover, when the structure of **culture**, which renders the transcendent hermeneutics of meaning for a social order, is subordinate to the structure of **politics**, when politics dominate

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<sup>5</sup>The importance of that can be summarized in the statement of Mikhail Suslov, one of the leaders of the plot to overthrow Khrushchev and Brezhnev's ideologist: "The Communist Party of the Soviet Union proceeds, and has always proceeded, from the premise that the formation of the New Man is the most important component of the entire task of Communist construction" ([REMNICK, 1994](#), Chapter 3).



culture, we are in the realm of a totalitarian society ([DEL NOCE, 2015](#), p. 87; [2017](#), p. 23). This divorce from transcendence renders the individual dependent upon society. What takes place then is the typical inversion of order by revolutionary movements: any form of transcendence, especially religious transcendence where the notion of the good life, of spiritual liberty and, therefore, inner freedom of man from his impulses, is subsumed to material well-being. The ethical realm must be subverted if the revolution is to be successful, for no other authority but temporal must exist. As Del Noce ([2017](#), p. 167) explains,

the collapse of the idea of a normative order of values that had been affirmed by traditional moral thought, and that in some way the secular morality of the nineteenth century wanted to preserve. [...] The only remaining value will be the increment of perceptible life; in short, well-being, and every human activity, and religion itself, will be viewed as a vitalizing tool.

The vertical hierarchy of order, between the immanent and the transcendent divine, the accidental and the eternal is destroyed and substituted by the horizontal disorders of men. To fill in the vacuum comes history interpreted by the oracular / messianic class, the proletariat, mainly by its revolutionary party-state (in its Leninist guise). Either way, we have on these heterozygote twins either on Communism an ideocratic pathology of universalism or Fascism an ideocratic pathology of the particular ([TISMANEANU, 2015](#), p. 16). The new man is forged upon a new *ethos*<sup>6</sup>.

Voegelin (2004) also saw Communism as an expression of an ersatz religion. He identifies three varieties; the *teleological* (root of all progressivism whereby the chief emphasis of political reality is a forward movement toward mundane, technological perfection); the *axiological*, which set out conditions for a perfect social order that are described and worked out in detail (such as in More's 'Utopia') in order to deal with the antinomies of the human condition (i.e. poverty, sickness, death, the necessity of work)<sup>7</sup>; and *telo-axiological* where the two components are immanentized together, being present on both: a conception of the end goal (the Communist paradise), and the knowledge of the method by which this should be brought about.

It is an activist mysticism of the most dangerous kind given that its macabre architecture of deceit leads to a Promethean hybrid that, in its opioid zenith, begets a Gnostic awakening and a path of redemption towards its elaborate and utopian goal. Marxist Second Reality, whose purported goal was the emancipation from the "empire of necessity to the empire of liberty" aimed at an amorphous classless social order, where the principle of order is to give to each according to his needs administered by a prophetic class that leads the messiah-class to its awakening and apocalypse. It surely had its hecatomb, somewhere between 85 and 100 million perished ([COURTOIS et al., 1999](#), p. 10), in the altar of the *Novyi Chelovek*, the sociological super-man. In this transmutation, the world ceases to be a given contingency and becomes an

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<sup>6</sup>"Our ethics are an instrument for destroying the old society of exploiters; a struggle for the consolidation and the realization of Communism is the basis of Communist ethics". ([LENIN, 1965](#))

<sup>7</sup>"It is characteristic of the whole class of these axiological derivatives that they draw up a comparatively lucid picture of the desirable condition, but are concerned only vaguely with the means of bringing it about". ([VOEGELIN, 2004](#), p. 68)

infinitely pliable idea. What is left in this Second Reality is the unquenchable thirst for power, *libido dominandi*, that employs scientific discourse as an ideological tool to legitimize power.

### 1.1 Socialism as Ersatz Economy

The Communist *telo-axiological* mass movement sought the genesis of a new social, economic and ethical order ([DIJILAS, 1957](#)). The purported means of its achievement was the substitution of the “anarchic” and “savage” price mechanism, which signals scarcity by the means of *economic calculus*, by *politburo calculus* to assess *what, to whom, how, when* and *how much* to produce. The crucial oversight being that its plutological analysis emphasizes the administrative function of production (which is mimetic by nature) and that statically determines how to articulate the given factors of production under a pure logic of calculation and without the dynamic factor inherent to real market arrangements. Socialist economic theorists fundamentally misunderstand the relation between the catallactic and the plutological characters of an economy (its condition of *base* and condition of *change* – if we employ dialectic materialism), or its point of foundation and of terminus that combined provide the information for a purely objective<sup>8</sup>, creative, dynamic intercourse with the market process. By missing / erasing the human element, the collectivistic approach disappears with the entrepreneurial function and its inescapable meaning from human reality whenever the social order is complex enough for market phenomena to emerge. Such oversight befell on Lenin ([1965](#), p. 89)<sup>9</sup>:

Comrades, a real ‘executive’ (let me also have a go at ‘production propaganda’) is well aware that even in the most advanced countries, the capitalists and their executives take years—sometimes ten and more—to study and test their own (and others’) practical experience, making innumerable starts and corrections to tailor a system of management, select senior and junior executives, etc., fit for their particular business. That was the rule under capitalism, which throughout the civilised world based its business practices on *the experience and habits of centuries*. **We who are breaking new ground must put in a long, persistent and patient effort to retrain men and change the old habits which have come down to us from capitalism, but this can only be done little by little.** [italics on the original, emphasis ours]

It is a fact that people are heterogeneous and have subjective intention in their actions, which leads to differences in skills among individuals ([ROTHBARD, 2002](#)). Furthermore, every

<sup>8</sup> We relate here to mind-independent signs which can only be objectively relational and suprasubjective in character, i.e. the price. We borrow from Deely ([2009](#), p. 37), “In short, the *being of terminus* of a relation and the *being of foundation* of a relation itself is an intersubjective reality (a categorical relation) an as such dependent upon the inherent, subjective reality *both* of fundament and terminus as modifications of substance.” [italics on the original] and “*objective*, because it exists in awareness as cognized or known; *purely objective*, because apart from that awareness in which it is given it has no being at all, no subjectivity constituting it as independent of the awareness. An *ens rationis*, in contrast to an *ens reale*, is not a being existing subjectively (or intersubjectively) that comes *also* to exist as cognized or known. No. An *ens rationis* is being that *only* exists as cognized or known, whether as such or as rendering interpreted some object of experience as this or that. And to exist as known is the essence of objective being, regardless of what further status the object has subjectively or intersubjectively (that is to say, regardless of whether it *also* exists in the order of *ens reale* as subjectively and not just relatively terminating the relation of manifestation.” ([DEELY, 2009](#), p. 45).

<sup>9</sup> Lenin ([1965](#)) “Once Again On the Trade Unions, the Current Situation and the Mistakes of Trotsky and Buhkarin”, delivered 25 January, 1921.

human being is a concrete consciousness on whose seat lies limited knowledge (intellect) and *phantasiari* (memory, imagination, and evaluation) broadly dispersed and as numerous as they come, signing its decentralized and varied nature, aptitude and excellence. This is so intrinsic of the human condition that it is easily forgotten by some economic schools when they project a *homo oeconomicus* or are, as it happens in our topic, completely inverted and redacted by totalitarian ideological régimes.

Because of nature itself and the differences among human beings, as societies grow and diversify, individuals naturally start to trade ([MENGER, 2007](#)) as soon as a society reaches a cultural maturity that articulates its ethical tenets in the differentiated and practical symbols of a comprehensive and trustworthy legal system ([CHAMBERLIN; MANISH, 2018](#)).

Communism's fundamental and caricatural misunderstanding of an advanced industrialized free-market society does away with the entrepreneurial function and has as its *telos* industrialization. The economy is seen not as complex by-product of decentralized choices over time, but as the very vessel for earthly salvation from poverty and scarcity, it is little wonder that their technocratic and scientific mythos gave way to the delusion that industrialization by mimetism bereft of the entrepreneurial function and its innovative character, would work without the inconveniences of its intermediary institutions, i.e. private property, firms, and a complex intertemporal and heterogeneous structure of production that reflects the intertemporal subjective preferences of its participants.

Why bother when the lure of rational imitation by a central board gives them promethean powers, as Djilas (1957) observed the problem resides in the new class of bureaucrats who take their victory in the revolution and substitution of the economic actors to an actual understanding of how the economy works. This leads to dogmatism in the economy for the very legitimacy of their command rests on centralized planning, as opposed to decentralized planning made by entrepreneurs. With neither decentralized feedback mechanism, nor any strong incentives for individuals to look for better allocation of productive resources, it is no wonder that this false economy could not compete against its nemesis. Djilas ([1957](#), p. 118–119) states:

The Communist planned economy conceals within itself an anarchy of a special kind. In spite of the fact that it is planned, the Communist economy is perhaps the most wasteful economy in the history of human society. [...] Wastefulness of fantastic proportions was unavoidable [...] – an economy which, in spite of the most complete planning, showed varied and often contradictory internal and external tendencies from day to day? The absence of any type of important suggestion, inevitably leads to waste and stagnation. Because of this political and economic omnipotence, wasteful undertakings cannot be avoided even with the best of intentions. Very little attention is paid to what the cost of these undertakings is to the economy as a whole.

Managerial mimetism led to a phantom of a vestigial market economy, one could say that route work and mimetic industrialization can only signal the quintessential misunderstanding of the central aspect of a market economy, or as in Mises:

Men would preserve the old processes, not because they were rational, but because they were sanctified by tradition. In the meantime, however, changing conditions would make them irrational. They would become uneconomical as the result of changes brought about by the general decline of economic thought. ([MISES, 1951](#), p. 119–120)



As mentioned, the horizon of conscience for any human mind cannot fathom the dynamic totality of all possible and effective options for the economic disposal of goods under conditions of uncertainty and scarcity and with multiple possible uses without economic calculus. In the absence of the dynamic and corrective flow of information across time and across the web of production, the vectors of supply and demand cannot weave the tapestry of economic reality and not coinciding all the intertemporal capital structure is unraveled.

The mendacity in attempting to substitute the marginal theory for the surplus-value is only possible under a revolutionary mindset whose purpose is not to understand the world (theoria) but to transform it (praxis)<sup>10</sup>. The sole criterion that allows for a more efficient allocation of the factors of production for the successful delivery of consumer goods and services relies precisely on the informational sign of profit/loss read by the entrepreneur and abolished by the revolutionary perspective. One can conclude that all productive orientation by *politiburo calculi* was past-looking and *ex ante*. Given then a prior condition of apparent equilibria before the power takeover, the new class created a statistical hologram of how markets operate and tried to replicate it *ad infinitum* by inertia. This was and will forever be a system incapable of adapting to change and given that human order, economic or otherwise, is inherently dynamic. It was bound to fail. So, what then? Once reality sets in, how can this ersatz economy stay for so long?

## 2. The secondary economy

When revolutionaries impose the *politiburo calculi*, reality fights back. The dynamic nature of human societies finds ways to overcome the political impositions and to try, given the many different controls imposed by the state, to provide ways to create and exchange the goods demanded by fellow human beings. Black markets, also known as the informal sector (in capitalist societies) or 'the secondary economy' (in socialist ones), arise as part of the answer.

Broadly defined, the informal, or shadow, economy can be characterized as the one where the production and sale of licit goods and/or services is somehow able to avoid government regulations and taxation; they shadow their regulated and taxed peers with the distinction that their net transaction costs tends to be lower. The criteria used to identify that kind of activity is neither size, profitability, nor illegality, but the absence of state regulation. A few other important characteristics: i) it usually works on cash (or a substitute) and without formal accountability, ii) it is deeply connected to the formal economic activities, iii) it is very diverse (products and services of the most different kinds are found), iv) it is neither capital nor labor intensive since its workers are usually family or close relatives, v) economic entry barriers are usually low, vi) usually there is a lot of specialization and exploitation of niches, vii) protects individuals from (some of the) abuse they might suffer by the "dominant class" (formed by state higher level employees and party officials) while providing them with supplemental wages ([HENKEN, 2005](#)).

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<sup>10</sup> As Marx commented on Feuerbach's 11th thesis "[...] in reality and for the practical materialist, i.e., the Communist, it is a question of revolutionizing the existing world, of practically coming to grips with and changing the things found in existence". ([MARX; ENGELS, 1998](#), p. 45)

The phenomenon is present in every society in different degrees, regardless of the approach to social order, in fact it “has turned out not to be an anomaly, but an integral feature of modern capitalism, just as the second economy is not an alien element within contemporary socialism, but one of its basic structural features” (HENKEN, 2005, p. 362). Consequently, those markets are just the manifestation of human reality, of a dynamic market process based on a plurality of needs, wants and desires favoring individual human action in search for higher degrees of satisfaction. In that analysis Baumol’s (1990) insight comes handy to better understand the dynamics of an ersatz economy and its secondary twin. To summarize his hypothesis, given a supply of entrepreneurs of a society, the gradation of how productive the contribution of the entrepreneurial function within them will depend upon the set of relative payoffs a society offers either to productive, unproductive (rent-seeking distributivism), or destructive (organized crime) activities<sup>11</sup>. However, pervasive on all is the manifestation of an entrepreneurial function.

To come back to the main point, all societies are formed by men, but the structuring framework - the formal and informal institutions - that add color to this function will provide different outcomes. The entrepreneurial function is largely subsidiary of a cosmology and how that translates, productively, unproductively or destructively on a given society will be defined by its formal and informal institutional apparatus.

In ersatz economies, the new class seems to have understood that the socialist production system is unable to supply for the population needs. The planning and autarkic nature of the official economy led to yet another inversion of order. If under capitalism the consumer is sovereign and his purchase decisions signals both its physiognomy and its demand by its relative prices, under a command economy it is the Politburo and its planning ministries that signal, by ersatz prices, what the final consumer will have access to. Boettke (1993, p. 65–66) points out the centrality of the *tolkachi* under such schizophrenic system.

Wherever there is a gap, alert economic actors will attempt to grasp the opportunity available for personal gain. In the production process, special middlemen (the *tolkachi*) were relied on to gather resources (inputs) so enterprises could meet plan targets. The *tolkachi* worked on behalf of state enterprises selling surplus commodities on the one hand and purchasing needed products on the other. There emerged an entire secondary supply system around the *tolkachi*. On the consumption side, illicit market transactions attempted to correct for the long queues and poor quality of consumer goods found in the official state stores. Private market activity enhanced consumer well-being by increasing the flow of goods and services available and by offering an additional source of income.

Since officially the means of production are nationalized, and informally they belong to the new class, the price is given *a priori* by a political decision. That approach to ‘pricing’ destroys

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<sup>11</sup> Examples given by Elliot (1995) support the idea that early capitalism in late USSR was far from textbook competitive market processes, his statements make clear that most entrepreneurs in the years close to the fall of the socialist regime were far from being productive. Or as Remnick (1994) said: “The first wave of private businessmen in Russia were no angels.” The same author also presented (1994, Chapter 21) many examples of how market imperfections lead to complaints of the population, especially because of prices and competition from foreign producers and products.

the possibility of suppliers and buyers to signal scarcity. Along the whole *faux* structure of production the wrong information is compounded, and an entropy of mistakes increases along the production structure in order to be in conformity with bureaucrat's commands, instead of the consumers' demands. As Satter ([2001](#), p. 173) explains:

By subjecting economic relations to the circular logic of a closed intellectual system, however, central planning destroyed individual initiative. When the goal is not to produce a usable product but only to fulfill a predetermined plan, the focus shifts from the character of the article being manufactured to quantities – units, tons, kilometers – the only means through which plan fulfillment can be assessed. In the process, workers are turned into robots. If gross output is calculated in rubles, they add useless, expensive details; if it is calculated in weight, they use the heaviest materials; if it is measured in kilometer-hours, they send transports back and forth between distant cities.

Germane here is the fact that under a price system the responsibility for the *veracity, accuracy, and transparency* of the information embedded on the price is accountable to the entrepreneur; it is his tacit knowledge that signals it and whatever loss that he incurs, is his responsibility. To borrow Smith's concerns of a commercial society, truth and trust have precious values in a market system regardless of how petty a single entrepreneur may be. That is not the case under communism, naturally antithetical to truth and that makes it, as Vaclav Havel would have, its first victim. Wastage and widespread theft of the common pool of the official economy is what ensues; this gives rise to a secondary economy based on authorities tolerance (with theatrical alternations of languid or stronger periods of state directives imposition ([HENKEN, 2005](#))).

Secondary economies are so relevant that they are probably the most important feature of this type of ersatz economy since inevitably the market reality sets in to correct the mandarins' statistical folly of plans. Authority's tolerance happens because the "second economy helps to alleviate consumer shortages and bureaucratic bottlenecks. It also acts as a social mollifier, channeling dangerous political frustrations into consumerism, swindling, or petty corruption." ([SAMPSON, 1987](#), p. 493). In the end, the regime relies on goods and services provided by the second economy to overcome its internal inconsistencies, to make up for its inefficiencies and, maybe counterintuitively, to sustain its coercive position because, as Henken ([2005](#), p. 366–367) states:

the existence of a flexible second economy (providing employment and efficient production) within the official planned economy provides state socialism with a very convenient, if potentially corrosive, subsidy. [...] an important, if largely unintended consequence of widespread private entrepreneurial activity is the preservation of a flawed state socialist system.

Under a socialist economy, it is the shadow that projects the body inasmuch, as the secondary economy contributes a lot to alleviate the scarcity imposed by the official system which helps to perpetuate the regime, by solving daily problems and alleviating the prevalent conditions of deprivation and fabricated scarcity. Finally, one can understand how paramount the existence of entrepreneurship given that, even if a social order forcibly attempts to get rid of the market, they will begrudgingly survive and will end up exerting their economic function, albeit one that is thwarted and not necessarily productive or innovative as it could be given that its primary aim under such régime is survival, not wealth creation per se.

As a final point, secondary markets illustrate the real face of the humane individuality, they show that completely despising men of their nature and putting in place something completely different is a very hard, perhaps impossible task to be fully accomplished. This is not to say, however, that all efforts of the collectivistic approach are in vain, proof of that is the persistence of the statist mentality, a perverse characteristic of (former) communist societies.

### 3. The statist mentality

Mises (1956; 1974, Chapter 2) and Hayek (2001) talk about the anti-capitalistic mentality, but this and the statist mentality are not the same. Mises's and Hayek's analyses took the perspective of a non-communist society in which interventionism was on the rise<sup>12</sup>. Such an approach cannot be fully applied to understanding the statist mentality that forms in individuals living under socialist (not capitalist) regimes<sup>13</sup>. Those two mentalities have many similarities, but originate in different settings. The formation of that statist mentality, to Novaković and Dostanić (2018), is related to both the rigidity of the socialist regime and its origins.

As for the rigidity, less horrendous socialist policies (socialism with a 'human-face'), bring very relevant short-term benefits for individuals under the regimes, but the long-term consequences can be very bad because the socialistic ways find deeper roots in the psyche of the individuals. Sterner forms of communism are disastrous in the short-term, but it might have paradoxically good long-term consequences because, conversely, "the [individual] mentality in question is healthier and less polluted", i.e. because of the hardness that the individual has to face in his everyday life, he tends to grow skeptical of the regime. Evidence of this kind of reality can be seen in the works of many soviet dissidents, Solzhenitsyn's being some of the best examples. Paradoxically, populations living in more overt communist systems might have better economic and social prospects for their post-socialist future.

The origins of the socialistic rule are the second great factor to determine the development of the statist mentality. Socialist regimes that rise from within the society itself tend to be more easily accepted and to grow deeper roots, whereas those imposed from an external power tend to face more resistance. Moreover, in former cases, socialism tends to crystalize on the people's mindset and, instead of a qualitative transition to capitalism what usually happens is a quantitative transformation from one harsher form of socialism to another one, supposedly more polite and efficient. The cases of Russia, China, Vietnam, Cuba and Venezuela are examples. In those cases, in spite of the decades-long continuous attacks on pretty much all kinds of liberties, a considerable part of the population has been convinced that socialism,

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<sup>12</sup> Works such as Cachanosky (2018) to Argentina, Acevedo, Cirocco and D'Andrea (2018) to Venezuela, Caldeira (2009) to Brazil and Novaković and Dostanić (2018) to Serbia, among many others, show, from different perspectives, how societies that did not have socialist governments ended up with anti-capitalistic (or statist, depending on the case) mentalities and how this affected their development.

<sup>13</sup> As a side note one on the psychological consequences of that kind of mentality, one can also refer to the Reminick's (1994, Chapter 11) discussion that states that "It was a miracle, after seven decades of murder and repression, that there was any intelligentsia left at all." And that living the double life, with "that split way of thinking" was possible for a while, but then things start to fall apart and you start to degenerate and to say [and think] only what is permitted, the rest of the conscience and soul decays.

albeit the 'true one', is the way to organize society. There seems to be a kind of institutional stickiness ([BOETTKE; COYNE; LEESON, 2008](#)) in the populations that suffer from that kind of attack. To make matters worse, a "mixture of softness and autochthony [self-inflicted socialism] is peculiarly detrimental for transitional societies" ([NOVAKOVIĆ; DOSTANIĆ, 2018](#), p. 3).

The statist mentality develops in a socialist arrangement and has, at its core, a passive individual, who claims 'rights'. Given that power is concentrated, the rights are to be enforced by the representatives, the state apparatchik. The statist mentality transfers the responsibilities of decision making to small subset of individuals in the ruling elite, that act disguised as 'the party' or 'the state'. The approach nullifies personal responsibility and transforms the human being in a serf of the willingness of the individuals that control power. When that happens, the causal nexus between freedom and responsibility, act and consequence, vanishes. For example, wherever a statist mentality is prevalent, people tend to believe that firms exist to pay wages (and not to generate value and increase the options from which to choose) and 'socializing the losses' from business failures is the norm. The state is seen as the caretaker of an individual's life, and, because of that, people who are less talented, less industrious, or simply less lucky, ought to be compensated by the state in the name of those who, for whatever reason, have been more successful. Ultimately, the state is entitled to protect the individual from the uncertainties of life.

In that realm, entrepreneurs, however infected by the statist mentality themselves, defy the communist agenda by reassuming their role of original carriers of the burdens of uncertainty looking for improvements in their own lives. When doing so, they assume responsibility and reposition themselves as individuals in the center of economic and social development, in the center of the market process more broadly. Furthermore, when successful, they show that the narrative upheld by the apparatchiks does not (always) hold, i.e. it is not only by being a serf of the state that one can improve its own life. Entrepreneurial action shows that individuals are capable, even without government support, and many times against it, to overcome difficulties, face uncertainty and thrive (albeit usually to a much lesser extent when compared to their counterparts in less interventionist societies).

Moreover, and in spite of the prevalent statist mentality, different scholars affirm the importance of the entrepreneurial action to the success of transition economies. McMillan and Woodruff ([2002](#)) show that, when the government steps back, markets develop and that "the success or failure of a transition economy can be traced in large part to the performance of its entrepreneurs" ([2002](#), p. 154). Ibrahim and Galt ([2002](#), p. 112) say that entrepreneurs in transition economies usually start small and are either experienced former state officials with personal connections, or educated young businessmen with limited access to resources.

At the same time, Hellman, Jones and Kaufmann ([2003](#)) call the attention to the phenomena of economic capture by the former (and, many times, present) (quasi) state officials. That appropriation generates rents that are sold to somewhat private firms, which usually hold many ties to the state itself. Consequently, it would be naïve to believe that former apparatchiks will suddenly become well-intended and law-abiding entrepreneurs and will leave behind everything that gave them their social status and position. In that sense, it is important to remember Baumol's ([1996](#)) unproductive entrepreneurship action and its relationship to rent seeking, including in the event of business failure in transition economies. The existence of



those facts of society imposes yet more difficulties to the unconnected entrepreneurs, since they will have to face the natural market uncertainties, augmented by the usual lack of macroeconomic stability common to transition economies, while, at the same time, dealing with non-catalactics related complexities in order to have a chance of success.

The statist mentality is the biggest obstacle to societies that are trying to leave socialism and, if it ever reaches the very core of a society then, most probably, the transition from socialist to a more free society is already impossible ([NOVAKOVIĆ; DOSTANIĆ, 2018](#)). Entrepreneurs face the statist mentality by acting and facing uncertainty and, again, it is important to remember Baumol ([1990; 1996](#)), most entrepreneurial action under societies in which the statist mentality is dominant will not be productive, but unproductive, and, many times, even destructive. The path from a socialist regime to an entrepreneurial society tends to be long and full of economic, sociological and psychological obstacles<sup>14</sup>.

## 4. Entrepreneurs and economic calculation

Mises, Hayek and Robbins represent the core of the Austrian arguments against the possibility of a socialist economic system ([BARBIERI, 2013](#)). But Mises' ([1990](#)) classic "Economic Calculation in the Socialist Commonwealth" is still the best refutation of the socialist idea on economics ([BARBIERI, 2013; ROTHBARD, 1991](#)), Mises continues his arguments in "Socialism" ([MISES, 1951](#), p. 111–145) and Human Action ([MISES, 1998](#), p. 694–706). Hayek's contribution, especially the third chapter on "Socialist Calculation III, Competitive 'Solution'" ([HAYEK, 1948](#), p. 181–208) is also very relevant with insights that complement Mises' ideas.

In summary, there are two main lines of discussion: one centered on economic calculation and another on the dispersal of knowledge ([HOPPE, 1995; SALERNO, 1994; YEAGER, 1994](#)). A common standpoint for both implicitly assumes that socialism carries an inherent incentive problem and that, if that problem could be solved, then socialism could be as productive as the market system. In capitalism, profit and loss provide the incentives to supply, but how would that happen in socialism? The classic socialist answer is somehow along the lines that "the new socialist man would work for the community welfare and not monetary profit".

### 4.1 Arguments by Mises and Hayek

Given that some human actions are manifest in the realm of catalactics, the market process is inherently entrepreneurial<sup>15</sup>. Rise and fall of businesses and production processes are endogenous occurrences that cannot be exogenously understood. Mises explains that it is impossible to allocate capital without market prices. In other words, prices serve as signals

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<sup>14</sup> "We never understood just how deep the psychology of Bolshevism is in every one of us [...]. "The harder we try to push, the harder that psychology pushes back". ([REMKNICK, 1994](#), Chapter 21)

<sup>15</sup> Management pertains to plutology or how to best organize the available wealth within the economy, hence it pertains to the economics of production and technological information (objective utility value); it is but part of the economic reality complemented by catalactics, the economics of exchange whose information is economic instead (hence relative and subjective). One is ex ante (production for use), whereas another is ex post (production for exchange). See also Bylund ([2018](#)).

which are both plutologic (*ex ante*) and catallactic (*ex post*) inasmuch as they consider the objective utility value of the available factors of production subjectively considered and valued by different and dynamic plans that change in tandem with relative scarcity as time goes by.

Pure socialism abolishes the fundamental preconditions to a healthy market process: private property and freedom to exchange, by doing so, it nullifies economic calculation. In socialism, all economic resources are trapped in a plutological cage, the consequence of which is the destruction of the market process, without markets to compare the value of goods it is impossible to have prices; without prices it is not possible to calculate<sup>16</sup> (ROTHBARD, 2004, p. 615).

By abolishing private property of the means of production, socialism equally obliterates all the subsidiary constellation of property types and incomes. If private ownership is the root of all problems, then ownership of land, homes, or buildings, money and savings, must be expropriated as well as the derived incomes; when that happens, the intertemporal allocation of preferences is made impossible and time itself is nationalized. Political privilege and advantage take over economic privilege. The *homo sovieticus* is left with nothing but his clothes and furniture, in other words, an ideological kind of chattel. This is the logical outcome of the primacy of **use** and **need** whenever they substitute the price system – see Besançon (1998, p. 25) for the relevance of expropriation under communism. Bereft of ownership and possibility of exchange, man cannot generate prices and the market process disappears.

More specifically, the abstraction of equilibrium prices yielded by mathematical equations suggested by some of the most well know socialist responses to Mises's arguments is rendered useless because the market is a dynamic process. Its plutologic character, fuel to the conceit of omnipotent economic planners, is a fundament **derived of** essentially subjective, potentially coordinating, iterative and adaptive plans dispersed throughout the economy and without the static, timeless, aggregative *fictae* necessary to understand it retrospectively. The intellection of Austrian economics lies in the fact that an advanced industrial society can only be understood as a dynamic process wherein production and exchange, plutology and catallactics, the scarcity of production factors and the unbound human creativity are quintessential elements that cannot be separated in its integral reality. Thus, however sophisticated, equations are incapable of either gauging or fathoming change in tastes, technology or methods of production; the accounting magnitudes of profit or losses that signal, at a given *interregnum*, how best to adjust the heterogeneous and intertemporal structure of production by the entrepreneur to serve the consumer; or the changes in kind of capital goods required for different production processes.

In a nutshell, one cannot centralize the *know-how*, *know-who*, *know-where*, and *know-what* imagined by entrepreneurial *logos* (the principle of order) and set to execution in the expectation that this probable imagined future comes to fruition in the actual real market provided that her "*how much*" or "*at what cost*" intellection is confirmed or not by the consumer.

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<sup>16</sup>Rothbard (2004, p. 615) says: "it does not make any difference whether that one agent is the State or one private individual or private cartel. Whichever occurs, there is no possibility of calculation anywhere in the production structure, since production processes would be only internal and without markets. There could be no calculation, and therefore complete economic irrationality and chaos would prevail, whether the single owner is the State or private persons".

In a modern industrial economy, the rational allocation of resources is impossible without economic calculation that use real market prices, the “rational” and “efficient” agent: the party-state, is, consequently not rational at all. As Boettke ([1993](#), p. 60) writes, the Supreme Council of National Economy (VSNKh) misunderstood this by omitting the whole picture and preferring production for use (*ex ante*):

Theoretically, *ex ante* coordination would better serve the interests of society by eliminating the waste and inequities in economic affairs associated with the *ex post* coordination of economic plans by the price system. By bringing economic decisions under conscious regulation, the planning apparatus was supposed to balance the supplies and demands for society’s scarce resources in a more effective manner than accomplished by the price system.

Since capital goods cannot be exchanged, it is impossible to set prices that express scarcity, therefore, the socialist apparatus is unable to calculate costs; which leads to the impossibility of knowing the most valuable uses for the resources, a pure socialist economy is impossible, as Mises ([1998](#), p. 691–692) says:

The essential mark of socialism is that one will alone acts. It is immaterial whose will it is [...]. The main thing is that the employment of all factors of production is directed by one agency only. One will alone chooses, decides, directs, acts, gives order. The distinctive mark of socialism is the oneness and indivisibility of the will directing all production activities within the whole social system.

Hayek stresses the knowledge problem, in the mid 1930’s, he translated and published papers on the economic calculation debate, as well as some of his own additions, from German into the English speaking world ([HAYEK, 1935](#)). He kept contributing to the debate ([BARBIERI, 2013](#)). While confronting the mathematical solution to socialism, then the most well-known response to Mises’ arguments, Hayek accepts that there is no logical contradiction in the assumption that, if all information needed to prepare the equations that would simulate the market process were attainable, then yes, socialism would be possible.

His argument derives from an equilibrium/Evenly Rotating Economy (ERE)<sup>17</sup> perspective in which entrepreneurial action would not exist as the Austrian theory conceives. He, however, focuses on the impossibility of acquiring the knowledge to prepare the equations in the first place, it would be, in practice, impossible to acquire the information and, should it be acquired somehow, it would be equally impossible to solve the equations to find the solutions. For Hayek, adopting a mathematical solution that would not consider all the nuances present in a real markets would lead to an inferior solution when compared to the market itself ([BARBIERI, 2013](#), p. 150–152) and thus, given the impossibility of acquiring all the necessary knowledge, the market solution should be preferred to the mathematical one.

However different these two lines of argument may be, they hold coincidences from the standpoint of the entrepreneurial function.

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<sup>17</sup>Rothbard ([2004](#), p. 616) (at least partially) agrees with Hayek and explains that Barone’s defense of mathematical socialism would indeed work, but only in an ERE, which does not reflect the reality of the market.

## 4.2 Entrepreneurs and the response to the impossibility of calculation under socialism

The Misesian argument is directly related to the entrepreneurial role in the economy, since the entrepreneur is the economic agent responsible for organizing productive resources; he is the one who judges how to organize sundry elements, at his expense, he faces uncertainty and attempts to abridge it in search for economic profit (FOSS; KLEIN, 2012). Not only is private property necessary for that, but it is an instrumental extension of acting man's purposeful action on the world for it expresses his *homo faber* aspect.

In the equilibrium/ERE Hayekian perspective it would be possible to predict all actions by all actors to eternity and to model those into a set of mathematical equations. In other words, by knowing the wherewithal of the productive process, a.k.a plutology, it is possible to do away with the entrepreneurial function and administer the several curves of supply and demand because all relevant information concerning the economic activity can be statistically apprehended and, therefore, mathematized by *tantonement*.

It is true that some human behaviors manifest as habits and might be predictable, it is impossible, however, to predict, at the same time, the course of history and know the future. In this sense, we come to understand the Hayekian argument whereby it is impossible to predict, within a catallaxy, at any given point in time what human beings will actually do. Marxist and Leninist pedagogy of lies (pace Besançon) can be understood as a transcendent utopian project whose secular soteriology prescribes to the Party-State angel-like qualities beyond the realm of man suffused with its mystique of progress, its technocratic materialistic verve, atheist ethos and the magic of scientific infallibility upon a world destined to be an earthly paradise<sup>18</sup>. The Misesian argument, alternatively, centers upon the aprioristic willingness of men to improve their own living standards when intercouring on the market.

In summary, entrepreneurs defy the socialist theory in the calculation problem in one very specific and basic manner: human action is dynamic, spontaneous, subjective, and self-interested. Because of socialism's chiliastic anti-anthropology, it loses sight of that fundamental condition. The socialist approach to economics does not stand the test of real human societies, especially because economic calculation is only possible where entrepreneurial action can flourish.

In that realm, due to their materialistic and atheist worldview, Marxist made a societal inversion of order. The superstructure is not a miasmatic byproduct of circumstantial material configurations of the means of production<sup>19</sup>; alas, the opposite happens, meaning that *first*

<sup>18</sup> As in the Federalist Papers: "It may be a reflection on human nature, that such devices should be necessary to control the abuses of government. But what is government itself, but the greatest of all reflections on human nature? If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself". (HAMILTON; MADISON; JAY, 2009)

<sup>19</sup> "The phantoms formed in the brains of men are also, necessarily, sublimates of their material life-process, which is empirically verifiable and bound to material premises. Morality, religion, metaphysics, and all the rest of ideology as well as the forms of consciousness corresponding to these, thus no longer retain the semblance of independence. [...] It is not consciousness that determines life, but life that determines consciousness". (MARX; ENGELS, 1998, p. 42)

we have a symbolic and semiotic structure provided by culture which fosters a cosmology and self-interpretation of society that sheds light on political, economic and ethical spheres. Adam Smith foresaw the ills that a commercial society might beget which led him to concerns to be addressed on both *The Theory of Moral Sentiments* and on *The Wealth of Nations*. The loss of a sense of *community*, alienation; and the inhibition of our capacity for sympathy and an indifference to the condition of our inferiors as a consequence of our solicitude for superiors ([HANLEY, 2011](#), p. 52). Briefly and at his worst, commercial man yields to vices such as selfishness, restlessness, anxiety, inauthenticity, duplicity, mediocrity, alienation, and indifference. The crucial insight is that if the market is a process, it will either reflect an order or disorder of the predominant type of human beings (*topoi*) acting on it. Hence Smith's concern with a moral philosophy for a commercial society – wholly ignored by Marx and his followers – focused on how to foster virtues such as justice, prudence (*phronesis*), good temperance (*sophrosune*), thrift, industriousness, trustworthiness among others – that would sustain a healthy market economy.

Röepke ([1998](#), p. 125–126) followed similar lines to underscore the structuring framework for a healthy, advanced and free industrious society. More recently, McCloskey ([2007](#), p. 349–350) ventured on the ethos of a bourgeois society which informs its framework for action, its pedagogy of being. The author sums up a different tableau of bourgeois virtues composed of variations of the cardinal virtues (courage, temperance, justice, prudence, faith, hope, and love):

The bourgeois virtues [...], might include enterprise, adaptability, imagination, optimism, integrity, prudence, thrift, trustworthiness, humor, affection, self-possession, consideration, responsibility, solicitude, decorum, patience, toleration, affability, peaceability, civility, neighborliness, obligingness, [...].

It becomes clear that to the Communist project, economic science is but a *justification* and *rationalization* of its revolutionary praxis that happens to be completely unmoored from reality. Communism is first and foremost a cosmology, a mindset that frames action and the *modus operandi* of a society and, consequently, of its economy. The case of the three Chinas (Hong Kong, Taiwan, and mainland), or the two Koreas, provide good examples of different outcomes provided by different mindsets. In other words, world-building is a manifestation of a peculiar type of conscience widespread in the minds of individuals. Bequeath the groups that share a cultural heritage but who have developed different mindsets, with the same intertemporal capital structure at the outset and there is no guarantee that the outputs will be the same. A different mindset is driven, in action, by a different ethics to be actualized with divergent virtues and ends to be attained. These ethical systems will generate different institutional frameworks to cope with reality. The source of ethics is founded upon the proper discovery of cosmogonic symbolism that best expresses human life in the form of an *anthropic principle*.

If a society gets this wrong, that is to say, radically at odds with the essence of human condition, then it will not last for long. Lo and behold, what is an entrepreneur but a man within a specific society, under a specific cosmology and *ethos*? And in order to better understand what entailed in reality when a society decides to abolish *economic calculation* for *politburo calculation* we must summarize what Communism really was and is before properly understanding what kind of role the entrepreneurs might play.



## Conclusion

Many theoretical approaches claim to explain the origins and consequences of economic and social development. In a communist social arrangement, due to its inherent managerial (instead of entrepreneurial) approach, there is a tendency to consume, instead of create, capital. Capital consumption will lead inevitably to a reduction in the standards of living of the people wherever the socialist program is implemented ([BYLUND, 2018](#)). To avoid the net consumption of capital, and allow for economic and social development, institutional preconditions are necessary ([ASLUND, 2012](#); [CHAMBERLIN](#); [MANISH, 2018](#)), but not sufficient. Only the action of successful entrepreneurs can possibly lead to an improvement on the average standard of living by creating new production processes and pushing further the boundaries of market ([BYLUND, 2016](#); [D'ANDREA, 2019](#)).

It is necessary to recognize that evasive entrepreneurs, when defying the formal institutions of the socialist arrangement are still operating within informal institutional boundaries, their means and ends are legitimate to at least subgroups of society and the relevance of that kind of evasive entrepreneurship is even greater in when institutions are organized in a way to stop entrepreneurial action ([ELERT; HENREKSON, 2016](#), p. 97-98).

The cardinal sin of a socialist theory resides in taking the *administrative function* to the *entrepreneurial function*. Being such, it can only emulate dynamism, never actually have it. Socialism is an ersatz order inasmuch as it tries to imitate all aspects of life. It is paradoxical that a society oriented to a paradise-like future had been, in reality, obsessed with a static, eternal present. Moreover it is full of institutional contradictions ([ELERT; HENREKSON, 2016](#), p. 103), since it tries to change man's nature by imposing upon it a social organization that is not coherent to its internal calls. Communist Second Reality is only triumphant under the reign of lie and economic stagnation. As Vaclav Havel described with keen profundity in "The Power of the Powerless" and "Stories and Totalitarianism" ([HAVEL, 1992](#)); that under such régime time itself is nationalized resulting in life as farce completely bereft of innovation and change. There was a gap between the stated goals of this post-totalitarian system (as Havel would characterize it) and those of its individuals; whereas the latter in essence moves towards a diverse, self-organized and independent constitution the former demands a binding conformity, uniformity, and discipline. Whilst life seeks out to create novel and improbable structures, post-totalitarian systems strive to cage it under more predictable and probable stages. In a ghost economy that spawns economic wraiths they are but mere accounting consuming units dispossessed of the sovereignty of the consumer; there is no room for innovation or change, as he puts:

Because the regime is captive to its own lies, it must falsify everything. It falsifies the past. It falsifies the present, and it falsifies statistics. It pretends not to possess an omnipotent and unprincipled police apparatus. It pretends to respect human rights. It pretends to persecute no one. It pretends to fear nothing. It pretends to pretend nothing ([HAVEL, 1992](#), p. 136).

Time itself becomes perfectly circular, a succession of non-events that obliterate the past and future alike with the intent, as in a *perpetuo immobile*, of safeguarding individuals from the

uncertainties of life. One loses track of historical meaning, as in “Stories and Totalitarianism” ([HAVEL, 1992](#), p. 334).

The fundamental pillar of the present totalitarian system is the existence of one central agent of all truth and power, an institutionalized ‘rationale of history’, which becomes, quite naturally, the sole agent of all social activity. Public life ceases to be an arena where different, more or less autonomous agents square off, and becomes no more than the manifestation and fulfillment of the truth and the will of this simple agent. In a world governed by this principle there is no room for mystery; ownership of complete truth means that everything is known ahead of time. [...] Totalitarian power brought bureaucratic order into the living disorder of history and thus effectively anesthetized it. In a sense, the government nationalized time.

The existence of the secondary economy is proof of the market process’ resilience and widespread existence, as well as the inescapable economic role of the entrepreneur, however it may manifest itself according to what societal payoffs are prized, concealed or otherwise<sup>20</sup>. The theoretical impossibility of economic calculation under a centralized regime and, finally, the widespread statist mentality in (post) communist regimes were also discussed. In those three ways, entrepreneurs, by facing uncertainty in their actions, defy socialism with reality.

Even in extremely regulated environments - that give rise to the passive, servile, irresponsible, and imbecile *homo sovieticus* – one will witness, in spite of all perils, individuals identifying profit opportunities to improve their life conditions, hence exercising entrepreneurialism<sup>21</sup>. But one should be careful with conclusions for the nature of the entrepreneurial function in a society founded by lies is a vestigial, stunted one, for example, 40% of businessmen were engaged in some corruption ([REMINICK, 1994](#), p. 732).

By being entrepreneurs, those individuals are acting not only in the realm of economics, but also politically “since the functioning of the second economy poses a potential threat to the monopoly of planning - the unidirectional link from the polity to the economy - the second economy represents a terrain of political struggle “per se””. ([PORTES; BÖRÖCZ, 1988](#), p. 19), something in similar lines could be said about the economic calculation and the statist mentality. Havel and other dissidents would not go that far, simply stating the truth is enough to threaten the edifice of Communism.

Finally, there are many discussions on socialism and may more on entrepreneurship, some touch both topics, but none, to the best of our knowledge, tried the approach that has been presented here. We also contributed to Elert and Henrekson ([2016](#), p. 109) call to uncover other motives, other than profits, for evasive entrepreneurship, in our case the most relevant one is survival itself. Future research could use the hints provided through the paper to try to better

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<sup>20</sup> “The factory that assembled the cranes was dissatisfied with the Genichesk production, but it accepted the spindles anyway, knowing that if it exercised its right to refuse, it would not get anything. In fact, the conditions in the Genichesk factory were no different from those in other factories, and, as a result, Soviet machines built with hundreds of faulty components were always of poor quality and often did not work at all”. ([SATTER, 2001](#), p. 183)

<sup>21</sup> “There were workers in the repair shop who were responsible for fixing the machines, but they were busy with private jobs. They fashioned exhaust pipes, hot-water tanks, and the borders for graves – all of which sold privately. The bosses did not object, because they received a cut from the proceeds”. ([SATTER, 2001](#), p. 183)

understand (former) socialist or ‘capitalist’, albeit very interventionist, societies. Discussions on how entrepreneurs are working in Venezuela, North Korea and Cuba, as well as ideas on how the anti-capitalistic mentality affect the development of places such as Argentina, many parts of Africa and former soviet-republics are still needed.

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