



## **Building on no foundation**

– the logical incoherence of nationalisation and its interventionism

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## Introducing Solidarity

Solidarity is one of the oldest trade unions in South Africa. Its origins date back to 1902 and the Witwatersrand mines. Since its inception, Solidarity – formerly the Mine Workers Union (MWU) – has been closely linked to the course of South African history. In the 1990s a number of other trade unions, including the South African Workers Union, joined the MWU and the trade union's name was changed, first to MWU-Solidarity and subsequently to Solidarity.

Solidarity has members in virtually every industry in South Africa. It also has members in a vast number of companies. The main industries in which Solidarity is organised are metal and engineering, mining, electrical, telecommunications, chemical, agriculture and general industries, including tertiary institutions, aviation and other specialised areas.

Solidarity is a trade union in the Christian democratic trade union tradition. The organisation supports and actively promotes, among other things, the rights of workers and trade unions; the supremacy of the Constitution and its founding principles; a capitalist economy and the free market; the rights of minority groups; and limited government.

Solidarity does not support any political party. The organisation is committed to the future of South Africa and firmly believes that the country belongs to all its residents. As such, the trade union supports and promotes debate with all political stakeholders and has no affiliations with any political party.

Solidarity seeks to create democratic spaces for its members in which to live and function independently. The trade union believes in mobilising capital to assist its members and their communities to create their own realities.

Solidarity's value chain is embedded in its basic objective of protecting members through each phase of their lives. The categories in the value chain are children, youth, jobseekers, employees and retired people. The organisation's core functions remain collective bargaining, the protection of members and their jobs and the creation of better conditions of service for members.

## **The logical incoherence of nationalisation and its interventionism – Summary**

While nationalisation has been greatly discussed in recent times, it is just one tactical possibility within a broader strategy of interventionism for the ANC. In this article the question of nationalisation is therefore dealt with as part of an analysis of interventionism which – whatever the ANC's goals with it may be – is of significant importance in itself. It is argued that the interventionist strategy should be analysed on the grounds of coherency and that – if found to be incoherent – a sufficient condition for its rejection would have been met.

The coherency of interventionism is subsequently challenged on five points. Any policy recommendations by the ANC's State Intervention in the Minerals Sector Project (SIMS) commission could be considered incomplete should they not sufficiently address the five concerns. Our approach to the questions of nationalisation and interventionism is independent of any specific, technical analysis and, instead, is focused solely on the coherency of the interventionist proposal itself.

The five points are as follows:

1. There is no way to objectively determine the limits to an interventionist project. While popular beliefs about non-interventionism can keep arbitrary political and bureaucratic preference in check, the ANC appears increasingly to reject these beliefs.
2. When state interventionism cannot be put forward as a reason for the emergence of more-widely-than-ever-before shared prosperity, it is unclear why state interventionism would in present times further it.
3. The methodological approach of interventionism is unscientific in ascribing action not to individuals, but to groups and, as such, lacks an explanation for how any proposed interventions would bring about change in society.
4. In a completely nationalised economy where the government allows no private ownership, there cannot be any prices and, therefore, no sensible economic calculation about coordinating scarce means to fulfil apparently infinite wants. In economies that are not completely nationalised, the disruptions of economic calculations are not escaped, although they might be less severe. However, it remains to be explained how interventionism can replace the information about wants and needs lost in the act of intervening.
5. Knowledge is dispersed throughout society in ways fundamentally inaccessible to central planners and often only comes into existence in the moment of an individual's action. Interventionism is based on the idea that this dispersed information is indeed accessible for use by a central coordinator.

A reader pressed for time might gain most from concentrating on points 4 (The economic calculation problem) and 5 (The knowledge problem).

## A question of coherence

According to the ANC Youth League (ANCYL), “[t]he call for the nationalisation is a principled one”.<sup>1</sup> While much of the ANCYL’s plea also refers to particular circumstances and preferences, it nonetheless purports to be based on principals and not particulars. That is: The ANCYL maintains that its case does not stand or fall by technicalities such as regression analyses or cost/benefit considerations and has a general applicability which is merely illustrated with reference to the mining sector. Consequently, a complete response to the interventionism of nationalisation has to include an investigation into the soundness of the principles said to underlie it.

Calling something a principle is to suggest that it is itself an unshakeable foundation for further arguments. To be useful in this respect, the foundation would have to stand up to close scrutiny of its validity, of which one test can be its logical coherency: can relevant questions be uniquely answered with the use of the statement – not arriving at conflicting conclusions – provided correct logic has been used? It is to ask: can it work on its own terms?

If the call for nationalisation were to fail the test of logical coherence, it could not be called “principled”<sup>2</sup>, because anyone trying to adhere to such “principles” would soon be faced with more than one apparently valid-in-isolation, but irreconcilably conflicting choices. Instead, such a call – irrespective of the emotional commitment to it – and any action based on it would then be arbitrary. That arbitrary powers should not vest in political leaders is here considered to be uncontested.

In response to the debate that started last year following the ANCYL’s call for nationalisation, the ANC this year appointed the State Intervention in the Minerals Sector (SIMS) commission to “undertake a comprehensive review of the various forms of state intervention in the mining and mineral sectors” and to “provide a set of recommendations to the ANC”. Nowhere, however, in the Terms of Reference is instruction to be found that the SIMS commission should evaluate whether there is a case for nationalisation *in principle*. Instead, the commission is instructed to devote attention to international “best practices”, “present legislation and regulations”, “benefits and costs”, “case studies” and various other questions of a technical nature.<sup>3</sup> Indeed, the SIMS commission’s oral presentation to selected stakeholders provided support for such an interpretation<sup>4</sup> and it is in the spirit of asking for technical comments that the request was made to Solidarity to provide input in the SIMS commission’s research project.

In light of the above it is fair to say that the ANC’s definition of nationalisation appears to be that of a tactical proposal within a broader strategy – and whether to execute it or not is merely a technical question. It appears as if the ANC either does not deem it important to consider the principles in the case of nationalisation, or simply has no principled objections to nationalisation.

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<sup>1</sup>(par. 12). ANCYL. August 2010. *Towards the transfer of mineral wealth to the ownership of the people as a whole: a perspective on nationalisation of mines*. ANCYL discussion document.

<sup>2</sup> The ANCYL could be implying that it is simply remaining true to what it sees as the ANC’s historic principles. Whether the ANC or the ANCYL’s principles are at issue here does not detract from the invalidity or validity of calling nationalisation a matter of principle.

<sup>3</sup> ANC. Undated (received July 2011). *State Intervention in the Minerals Sector Project* (Terms of Reference for research). Available from the SIMS commission or the ANC.

<sup>4</sup> 3 August 2011, Johannesburg.

Solidarity is of the opinion that it should not engage with the ANC or its commission in a debate about technical questions before the questions around principles have been thoroughly investigated. To jump straight to technical questions would be to risk endless discussions about various kinds of nationalisation – and whether or not it has positive results – instead of asking whether interventionism (of which nationalisation is but one example) can hold its ground as a durable answer to whatever problems of society. Such a debate would not address the ANCYL or Solidarity's concerns and would not give the ANC greater clarity on some of the most fundamental questions about the nature of society and whether and how its observed characteristics can be influenced.

This article therefore comments on the question of nationalisation by testing the logical coherence of the underlying theory in the spirit of Von Hayek's observation that "[i]t is a *priori* unlikely that an attempt to utilize the conclusions drawn from a certain theory without accepting that theory itself should be successful".<sup>5</sup> If a theory is found to be incoherent, a sufficient condition has been met for the rejection of any recommendations based on that theory.

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<sup>5</sup> Von Hayek, FA. 1931. *Reflections on the pure theory of money of Mr. J.M. Keynes*. Available online at <http://mises.org/daily/2474>.

## Nationalisation as interventionism

As pointed out above, the ANC's SIMS commission opted for a highly technical approach to the question of nationalisation. Indeed, in a meeting between the SIMS commission, Solidarity and other stakeholders<sup>6</sup>, it was made clear by the commission that nationalisation – defined as majority state ownership of mines – is simply one possibility within a range of not entirely dissimilar options. This flows from the commission's Terms of Reference<sup>7</sup>, according to which state majority ownership of mines is not the only form of interventionism considered.

Assessment of options for forms of state intervention will particularly focus on their actual and/or potential socio economic development impact, as well as their feasibility and sustainability given the attitudes and preferences of key social forces involved.

[...] Finally, the project will develop policies and strategy recommendations on various forms of state intervention that will most appropriately address the identified issues affecting apartheid property relations.

Based on the SIMS commission's presentation and its Terms of Reference, nationalisation can thus be characterised as simply one tactical proposal within a broader strategy of interventionism. While the SIMS commission appears likely to end up not recommending nationalisation, it cannot – given its Terms of Reference which call for interventionist proposals – present objections to nationalisation other than those based on technicalities. While such objections may subsequently be heeded by the ANC, it seems likely that nationalisation will only be rejected in favour of something not essentially different. In this respect the commission's research programme is indeed aptly named the *State Intervention* in the Minerals Sector Project.

Now, it has to be pointed out that all governments are about state intervention. Even the elusive night watchman state – tasked with safeguarding life, liberty and property – is about state interference in aspects of safety, human rights and dispute resolution.

While – for better or for worse – all governments share interventionism, some – the more prosperous and free ones – are constrained by a popular belief in non-interventionism. This belief about what constitutes a state's proper relation to its subjects stands between occasional interference within a rule-of-law framework and legalised plunder<sup>8</sup>. If politicians are constrained by this popular belief, they tend to identify conduct that is prohibited; if not, they tend to identify conduct that is prescribed.

It is this constraining belief that today's interventionists seem to be freed of. Whereas non-interventionism forms the rule from which governments deviate in prosperous and free societies, interventionism appears to have become the rule in South Africa. Nationalisation is approached purely as a technical question – meaning that it will only be rejected if done so in favour of some other tactical move within the interventionist strategy.

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<sup>6</sup> See footnote 3.

<sup>7</sup> See footnote 2.

<sup>8</sup> In 1849 Frederick Bastiat distinguished between legal and illegal plunder, where the former is identified by asking whether there is taken under law from some persons that which belongs to them and given to other persons that which does not belong to those other persons. "See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime." (See page 13 in Bastiat, F. 2010, original 1849. *The Law*. New York: Foundation for Economic Education.)

What could the goal of this strategy of interventionism be and how important is it? While it is certainly possible that there is a genuine commitment to a pursuit of outcomes equality, other possible driving forces that are worth exploring are political self-interest and even current business owners' hope of over-compensation for assets that are nationalised.

However – and maybe counter-intuitively so – the goal here is really less important than the increasingly unrestrained strategy of interventionism itself, which is ultimately inseparably tied to the use of force to settle disputes.

In real life, people steer around their own and others' conflicting goals all the time<sup>9</sup> and, remarkably so, such conflicts are usually resolved in a mutually satisfactory manner. Someone might, for example, want to get bread from a baker without paying for it, while the baker may be unwilling to part with it without receiving compensation. When the person who wants the bread becomes a buyer by offering the baker something in return, like a sum of money, and the baker accepts it, both the baker and the buyer are better off.

In contrast, interventionism is about the use of force – of violence or the threat thereof – in setting off a chain of events where at least one of the parties involved are worse off after than before its conclusion. In other words, whoever employs such force, does so to impose his personal goals on others without proper regard for their wishes.

That interventionism has significant implications irrespective of goals to be achieved, can be illustrated with brief reference to any of history's great tyrants. Tyrants' choice of forcing subjects to act according to their (the tyrants') goals is inextricably linked to the resultant purges of those who wished not to share the prescribed goals. Had the tyrants instead opted for a strategy of convincing people of the value of their goals and inviting their participation, such social disruption would not have taken place.

Whatever the ANC's goals and ideals are with respect to interventionism, it appears to have a strong and increasing commitment to this *modus operandi*. Solidarity finds it disquieting that the question no longer appears to be: where should the state interfere? but: where should the state *not* interfere?

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<sup>9</sup> This is not to say that goals and ideals about desired outcomes are not meaningful – they certainly are. But how one goes about to reach one's goals can be very significant in itself, irrespective of the goals, and this is the focus here.

## 1. The arbitrary-end-to-it-all problem

An argument of principle is about a general statement that contains within itself the rules for its applicability, so that all who understand the general statement should – provided they reason logically – come to the same conclusion about any specific case. If a statement that is intended to be general does not make agreement on how it should be interpreted possible, then all those who once might have tried to stick to such a principle will inevitably end up having to make arbitrary, personal judgements on how to proceed with a given case. If this is shown to be so with regard to the call for nationalisation, then proponents of nationalisation would have to concede that they are proponents of something arbitrary.

That something is arbitrary is not objectionable in itself. Everyday everybody makes arbitrary judgments about many things that colour their lives – they give effect to their preferences that both change over time and need not be applicable to anyone else.

But if arbitrary matters are mistaken for matters of principle, there is bound to be much disagreement on the course of action in any given case. In fact, if some of those involved remain convinced that they are dealing with a matter of principle, they are likely to resort to extreme measures – including violence and the threat thereof – to realise whatever arbitrary preference they mistake for a principle imperative.

The ANCYL's list of six “vital components” to understanding its call for the nationalisation of mines boils down to the following:

1. Nationalisation is just one step in the process of “democratizing” the commanding heights of the economy.
2. Nationalised industries should operate on a corporatist model built around values and principles similar to those of private companies.
3. It is debateable whether public ownership should be limited to “monopoly industries”.
4. Nationalisation is the “opposite” of privatisation and can have many forms, as long as the government ends up in control.
5. There is no hard and fast rule for whether compensation should be paid for nationalised companies – it will be determined on a case by case basis.
6. The call for nationalisation is a principled one. It is not dependent on whether commodity prices go up or down, but is based on “strategic considerations” and the need to strengthen the state, to direct the economy through resource allocation to priority sectors and to fill the state's coffers.

It is in the sixth item that the ANCYL tries to present the case for nationalisation as a matter of principle.<sup>10</sup> Nothing besides the statement that it is so, however, could lead the reader to suspect, based on these six “vital components,” that there is a generalisable case for nationalisation – a principle – at play. Instead, the ANCYL makes it clear right from the start that the mines are simply one strategic sector of the economy: “The document is aware that various other strategic sectors of the economy should be transferred to the ownership of the people as a whole, yet thematically focusing on the transfer of Mineral wealth to the ownership and benefit of the people as a whole. [sic]”

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<sup>10</sup> See footnote 1.

Indeed, the ANCYL is committing the error of mistaking its preferences for principles. There is no clear reason why, after the mines, everything else should not be nationalised as well – apart from that it has not been earmarked for nationalisation by the ANCYL.

If decision makers are not guided by a principle, then a policy of state control will not enable the state to act as a custodian of the people's wealth, since different decision makers will not be able to reach a mutually acceptable conclusion on matters at hand. In fact, over time the same decision maker will not even be able to make compatible interventions. In the absence of a principle, there will be only the personal preferences of whoever is in power at a specific point in time that are enacted under the cloak of claims about principle. Whatever consensus is reached comes only through the alignment of preferences, whether happily coincidental or under fleeting alignment of the beliefs of decision makers (not "the people").

The ANC, on the other hand, is not clear about approaching nationalisation as a matter of principle. In fact, it appears that the ANC is of the view that nationalisation is precisely not a matter of principle.<sup>11</sup>

But whether one mistakes nationalisation or any similar form of interventionism for a matter of principle, as the ANCYL does, or sees it as a tactical option to consider pragmatically, as the ANC does, one cannot escape the problem of logical incoherency.

This logical incoherency will prevent anything but personal preference, on the side of the decision makers, to stand in the way of total nationalisation, that is, of complete interventionism. These preferences might of course be influenced by, for example, lobby groups outside government and the dynamics of party politics, but the policy environment will tend to be progressively arbitrary and increasingly totalitarian, given the disregard for the idea of limited government and its constraints alluded to earlier.

Any recommendations for interventionism by the SIMS commission should be accompanied by an explanation of the generalisable principles behind those recommendations, explaining how the adherents to interventionism can come to non-arbitrary conclusions about where nationalisation begins and ends.

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<sup>11</sup> See footnote 3.

## 2. The not-of-human-design problem

In the early days of the science of economics, Adam Ferguson, in trying to understand the hitherto unexplained emergence of increasingly widespread prosperity, remarked: “Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design.”<sup>12</sup>

Ferguson’s statement was an attempt to explain the apparent puzzle that widespread prosperity – at the time of the kind never before thought possible – could come about without anyone having planned it centrally. In fact, it came about precisely when the grand plans of kings and kinglike religious rulers were receding in influence and when a flurry of human action was unleashed that saw many people planning more freely for themselves, instead of submitting to the central plans of alleged philosopher kings.

The vastly more prosperous times of today – limited only if measured against what we hope could be the case tomorrow – is similarly the result of human action, but not of any single human design. This fact is surprisingly widely recognised, even if only implicitly so. In fact, it is a core concern of the proponents of interventionism that the state has always undertaken far too little design of the economy. Even more emphatically so: it is quite difficult to imagine that socialists, for example, could accuse the monarchic rulers at the time of Ferguson to be guilty of designing an economy that would bring about more income equality and increased prosperity for workers – a situation that did indeed emerge.

To the ANCYL, economic freedom – something Mr Julius Malema says is painfully lacking in this country – is to be attained once the state assumes a designer’s role.<sup>13</sup> To the ANC, the state plays a similarly pivotal role in correcting the wrongs of *laissez-faire*.

But more than just expressing a preference for intervention, any proposal by the SIMS commission should account for a theory of why, when prosperity’s emergence cannot be (and is not, as far as can be gathered from the SIMS commission’s Terms of Reference and the ANCYL policy document) attributed to central planning, a point has now been reached that there is a case for increasing interventionism. In the absence of such a theory, the case for interventionism will not only be arbitrary and without end (that is, totalitarian), but also without justification for initiation.

<sup>12</sup> Ferguson, Adam. 1767. *An Essay on the History of Civil Society*. The Online Library of Liberty: T. Cadell, London. pp. 205.

<sup>13</sup> Hlongwane, S. 19 June 2011. ANCYL Conference, day 4: “Malema waves a big new stick”. Available from <http://dailymaverick.co.za/article/2011-06-19-ancyl-congress-day-4-malema-waves-a-big-new-stick>.

### 3. The methodological individualism problem

In order to give coherent guidance to decision makers, any theory of interventionism – understood as direction of the economy by the state – would have to include a conceptualisation of action. If the decision makers wish to have certain outcomes realised, they have to base their policies on some conception of the mechanics of that change: where will the actions that transform the economy, based on the decision makers' prescriptions, come from?

With regard to conceptions of social change, a distinction can be drawn between methodological individualism and methodological collectivism. Methodological individualism bases economic phenomena on the actions of individuals; methodological collectivism bases phenomena on the actions of groups. If it should be that decisions based on assumptions about the one would be very different from those based on the other, then such incompatibility would mean that a mistaken adherence to at least one would lead its adherents astray – to a position where their intentions are at odds with the results achieved.

Methodological collectivism underpins the interventionism of nationalisation. It supposes that a very concrete grasp of groups is possible – that groups can be clearly and durably identified and, indeed, that social phenomena are the result of a group itself acting and not of the individuals in the group acting in concert. Groups constitute the unit of analysis: aspirations, experiences and actions of individuals are viewed as resulting from those of collective entities such as workers, communities, “the people”, capitalists, leaders, owners, whites, blacks and so on.

The notion of an individual, say the critics, is an empty abstraction. Real man is necessarily always a member of a social whole. It is even impossible to imagine the existence of a man separated from the rest of mankind and not connected with society. Man as man is the product of a social evolution. His most eminent feature, reason, could only emerge within the framework of social mutuality. There is no thinking which does not depend on the concepts and notions of language. But speech is manifestly a social phenomenon. Man is always the member of a collective. As the whole is both logically and temporally prior to its parts or members, the study of the individual is posterior to the study of society. The only adequate method for the scientific treatment of human problems is the method of universalism or collectivism.<sup>14</sup>

That methodological collectivism underpins the ANCYL's views is evident from its documentation. Not only is it filled with references to collective wholes, but individual concerns are expressly juxtaposed with collective concerns:

The weakness with South Africa's share model is that it benefits few individuals instead of large communities and the people as a whole. Whilst the intention to integrate historically disadvantaged individuals into mining is noble, it should not be pursued at the expense of the entire population and communities. The principle should forever be people sharing in the country's wealth.<sup>15</sup>

<sup>14</sup> Von Mises, L. 1949. *The Epistemological Problems of the Science of Human Action* in *Human Action*. Available online at <http://mises.org/humanaction/chap2sec4.asp>.

<sup>15</sup> (par. 50). ANCYL. August 2010. *Towards the transfer of mineral wealth to the ownership of the people as a whole: a perspective on nationalisation of mines*. ANCYL discussion document.

This is not simply a statement to indicate that the interest of the individual should not jeopardise that of groups – it fundamentally reveals a view that groups can be used as units of social analysis without reference to individuals.

The SIMS commission's Terms of Reference do not openly exhibit the same approach, but do so implicitly. It is only if groups are assumed to be fixed that interventionism is at all conceivable as workable. Interventionism is dependent on not identifying dynamic building blocks to static aggregates like "the mine owners", "the mineworkers", "the poor", "the disadvantaged" and "the previously advantaged." If there was recognition of individual mobility in and out of group associations, individuals having multiple group memberships and the non-concreteness of group definitions, the task at hand would have been vastly more complex. The aspirations of the interventionist project – the alteration of group hierarchy in society and not the alteration of individual positions – depend for their fulfilment on the convenient simplification of society into static groups that can conceivably be managed.<sup>16</sup>

But is collectivism as a methodology coherent? Is it indeed so that society is temporally prior to any living individual and therefore the ultimate unit of analysis for social phenomena? Two important responses to this question should be considered: 1) Collectives are recognised by the actions of, and operate always through, the intermediacy of individuals – if individuals change their behaviour and simultaneous associations to multiple groups, the characteristics of groups change; and 2) "there is not the slightest connection between [methodologically] individualistic science and political individualism."<sup>17</sup>

#### 1. Acting individuals constitute collectives

Von Mises explains why individualism as a scientific methodology is acceptable and collectivism is not<sup>18</sup>:

Now the controversy whether the whole or its parts are logically prior is vain. Logically the notions of a whole and its parts are correlative. As logical concepts they are both apart from time.

[...] A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. It is the meaning which the acting individuals and all those who are touched by their action attribute to an action, that determines its character. It is the meaning that marks one action as the action of an individual and another action as the action of the state or of the municipality. The hangman, not the state, executes a criminal. It is the meaning of those concerned that discerns in the hangman's action an action of the state. A group of armed men occupies a place. It is the meaning of those concerned which imputes this occupation not to the officers and soldiers on the spot, but to their nation. If we scrutinize the meaning of the various actions performed by individuals we must necessarily learn everything about the actions of collective wholes. For a social collective has no existence and reality outside of the individual members' actions. The life of a collective is lived in the actions of the individuals constituting its body. There is no social collective conceivable which is not operative in the actions of some individuals. The reality of a social integer consists in its directing and releasing definite actions on the part of

<sup>16</sup> See also the Knowledge Problem below.

<sup>17</sup> Schumpeter, J. 1908. *Methodological Individualism*. 1980 Translation into English available online at [http://mises.org/books/schumpeter\\_individualism.pdf](http://mises.org/books/schumpeter_individualism.pdf).

<sup>18</sup> See footnote 13.

individuals. Thus the way to a cognition of collective wholes is through an analysis of the individuals' actions.

[...] Those who want to start the study of human action from the collective units encounter an insurmountable obstacle in the fact that an individual at the same time can belong and – with the exception of the most primitive tribesmen – really belongs to various collective entities. The problems raised by the multiplicity of coexisting social units and their mutual antagonisms can be solved only by methodological individualism.

Elsewhere in the chapter Von Mises makes it clear that acceptance of methodological individualism is most certainly not to reject the existence and importance of social associations:

It is uncontested that in the sphere of human action social entities have real existence. Nobody ventures to deny that nations, states, municipalities, parties, religious communities, are real factors determining the course of human events. Methodological individualism, far from contesting the significance of such collective wholes, considers it as one of its main tasks to describe and to analyze their becoming and their disappearing, their changing structures, and their operation. And it chooses the only method fitted to solve this problem satisfactorily.

## 2. The difference between political and methodological individualism

In 1908, after what he called the political defeat of individualistic liberalism by social political efforts, Joseph Schumpeter argued that, desirable or not as that may be as a political outcome, it did not detract from the scientific validity of methodological individualism. In fact, whatever one's preference for the characteristics of society, any attempt to realise it would have to be based on methodological individualism.

[I]t is important to realise that there is not the slightest connection between individualistic science and political individualism. [...] It is impossible to derive any arguments from the theory [of methodological individualism], either for or against political individualism. We are therefore fully in agreement with any objection that is raised against the misuse of the theory to defend indifference to social misery. However, it would be wrong to reject the theory for this reason alone.

[...] [W]e must strictly differentiate between political and methodological individualism, as the two have virtually nothing in common. The former starts from the general assumption that freedom, more than anything, contributes to the development of the individual and the well-being of society as a whole and puts forward a number of practical propositions in support of this. The latter is quite different. It has no specific propositions and no prerequisites, it just means that i[t] bases certain economic processes on the actions of individuals. Therefore the question really is: is it practical to use the individual as a basis and would there be enough scope in doing so, or would it be better, in view of specific problems and the national economy as a whole, to use society as a basis. This question is purely methodological and involves no important principle. The socialists can answer it in terms of methodological individualism and the political individualists in terms of their social conception of things, without getting into conflict with their convictions.<sup>19</sup>

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<sup>19</sup> See footnote 15.

In summary: the methodological approach of interventionism – of the kind that is aimed at the rearrangement of groups and not individuals – is irreconcilable with the real nature of social change. Importantly, however, it is not necessary to reject a social and political view of society in favour of an atomistic view when one accepts the scientific appropriateness of methodological individualism.

In making a complete recommendation on strategic intervention in the economy, the SIMS commission would have to present a case for why it is sound in methodological individualist terms, or present an alternative model of social change to replace and disprove the apparent scientific validity of methodological individualism.

#### 4. The economic calculation problem

In 1920, Ludwig von Mises examined socialism in the seminal essay, *Economic Calculation in the Socialist Commonwealth*, in which he argues that rational economic decision making under conditions of socialism is impossible. The publication of this essay led to the famous Socialist Calculation Debate in which Von Mises received opposition from, notably, Polish economist Oskar Lange.

Importantly, Von Mises's argument was not dependent on a particular view of human nature – whether humans are at their core good, bad or something else. It was an attempt to demonstrate with pure logic that there are terminal contradictions within the interventionist proposal that Von Mises called socialism. Although writing about “full-blown socialism, where the state is the sole owner of the means of production”,<sup>20</sup> Von Mises's argument holds for the socialised parts of semi-interventionist economies as well, as we will see later.

At its core, the socialist idea is an objection to the way resources are distributed in society through the non-centrally regulated price mechanism. The socialist ideal is to have resources allocated not in this manner, but according to other measures as determined and evaluated by bureaucratic agents who are sincerely interested in the welfare of others. Von Mises pointed out that this ideal of getting rid of prices will erase the systematic information the (well-meaning) bureaucratic agents need in order to allocate always scarce resources to the apparent unlimited wants in society: “Where there is no free market, there is no pricing mechanism; without a pricing mechanism, there is no economic calculation.”<sup>21</sup>

In his argument, Von Mises was so successful at demonstrating the need for prices in economic calculation that the point was conceded by prominent socialists of the time, including Oskar Lange, who then tried to counter with a mixed economy argument, not unlike versions proposed in 2011.

In the Lange model, the economy has a free market for consumption goods. The production sphere is organized into enterprises and branches, and there is a Central Planning Board. The bosses of enterprises are required to establish production plans in exactly the same way the private entrepreneurs would do – in a way that minimizes costs and makes marginal cost equal to price. The Central Planning Board determines the rate of investment, the volume and structure of public goods, and the prices of all inputs. The rate of investment is established by equating the demand and supply of capital goods. The Board raises the prices when the demand is not satisfied and lowers them when supply is too large.<sup>22</sup>

Today very few people still hold on to the full-blown, no-prices socialism that even Lange conceded cannot work. Virtually all calls for interventionism are aimed at some kind of mixed economy where bureaucrats manage some supposedly important part of the economy that cannot be managed by private initiative within a system of non-centrally regulated<sup>23</sup> prices.

<sup>20</sup> Kochanowicz, J. 1990. Introduction to the 1990 Edition of *Economic Calculation in the Socialist Commonwealth*. Available online at <http://mises.org/econcalc/inthised.asp>.

<sup>21</sup> Von Mises, L. 1920. Chapter 3: Economic Calculation, in *Economic Calculation in the Socialist Commonwealth*. Available online at <http://mises.org/econcalc/ch3.asp>.

<sup>22</sup> Kochanowicz, J. Idem.

<sup>23</sup> Prices are always regulated, whether centrally (by bureaucrats) or non-centrally (by the billions of people who ask, make, accept and reject prices every moment of every day).

Von Mises's argument about the untenability of socialism is not only applicable to the total interventionism of state ownership of all means of production, but also to partial interventionism. If state ownership (or state control) of all the means of production disrupts totally the information conveyed by prices – which is necessary for the application of means to ends and satisfaction of wants, that is, rational economic decision making – then, *mutatis mutandis*, it does so too for partially socialised societies. The partial disruption will be in those areas where prices are prevented by interventionism from conveying the correct information about wants and scarcity in society.

As remarked earlier, all states are about some measure of interventionism. The more prosperous ones, however, are those where the dominant social belief is one of non-interventionism and, as such, have comparatively few state interventions. The burden of these interventions can be carried by the relatively free economy where prices can form to convey the information about wants and satisfactions for entrepreneurs and philanthropists to act on.

Von Mises's challenge to economic calculation in the interventionist economy is one that has to be countered successfully by the SIMS commission if it wishes to give any footing to its envisaged recommendations about specific state interventions.

## 5. The knowledge problem

In 1945, Friedrich von Hayek contributed markedly to the pool of challenges to interventionism with his article “The use of knowledge in society”.<sup>24</sup> His observations are worth quoting at length.

What is the problem we wish to solve when we try to construct a rational economic order? On certain familiar assumptions the answer is simple enough. If we possess all the relevant information, if we can start out from a given system of preferences, and if we command complete knowledge of available means, the problem which remains is purely one of logic. That is, the answer to the question of what is the best use of the available means is implicit in our assumptions. [...]

This, however, is emphatically *not* the economic problem which society faces. [...]

“The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate given” resources – if “given” is taken to mean given to a single mind which deliberately solves the problem set by these “data”. It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality.

According to Hayek, knowledge is: a) dispersed throughout society in ways fundamentally inaccessible to central planners; and b) often only comes into existence at the moment that a person acts. Consequently, no central planner, no interventionist – not even if he had the capacity of Laplace’s all-knowing “intellect”<sup>25</sup> – would be able to calculate and make the decisions that constitute a rational economic order, that is, a society.

Hayek goes on to point out that it is quite obvious that planning should be done in the economy; the controversy concerns whether there should be plans by the many, or plans by the few.<sup>26</sup>

In ordinary language we describe by the word “planning” the complex of interrelated decisions about the allocation of our available resources. All economic activity is in this sense planning; and in any society in which many people collaborate, this planning, whoever does it, will in some measure have to be based on knowledge which, in the first instance, is not given to the planner but to somebody else, which somehow will have to be conveyed to the planner. The various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process, and the problem of what is the best way of utilizing knowledge initially dispersed among all the people is at least

<sup>24</sup> Von Hayek, FA. (1945) *The use of knowledge in society*. American Economic Review. Available online at <http://www.econlib.org/library/Essays/hykKnw1.html#bottom>.

<sup>25</sup> Pierre-Simon Laplace wrote in 1814 what was to be possibly the first articulation of scientific determinism, where he postulated that, had there existed an intellect with enough knowledge of the components of nature, then past, present and future will all be equally clear as daylight to that intellect. This intellect is sometimes referred to as “Laplace’s demon”.

<sup>26</sup> The latter part of this sentence is drawn from John Papola’s economic rap video about the ideas of John Maynard Keynes and Friedrich von Hayek.

one of the main problems of economic policy – or of designing an efficient economic system.

The answer to this question is closely connected with that other question which arises here, that of who is to do the planning. It is about this question that all the dispute about “economic planning” centers. This is not a dispute about whether planning is to be done or not. It is a dispute as to whether planning is to be done centrally, by one authority for the whole economic system, or is to be divided among many individuals. Planning in the specific sense in which the term is used in contemporary controversy necessarily means central planning – direction of the whole economic system according to one unified plan. Competition, on the other hand, means decentralized planning by many separate persons. The halfway house between the two, about which many people talk but which few like when they see it, is the delegation of planning to organized industries, or, in other words, monopolies.

Whether it is total nationalisation whereby everything becomes state owned, or whether it is the granting of monopolistic power to certain firms to the exclusion of others, or some other form of idealised interventionism, Von Hayek’s challenge remains applicable.

Without answering Von Hayek, showing how the interventionism of nationalisation or a related form is not fundamentally doomed because of this knowledge problem – the inability to centrally calculate that which has a dispersed nature – no recommendation for interventionism can be considered authoritative.

## In closing

This article has pointed out that nationalisation is, for the ANC, simply one tactical possibility within a broader strategy of interventionism. Whatever the ANC's goals with interventionism might be, Solidarity's primary concern is with the interventionist strategy itself, which – freed from the constraints of a popular belief in non-interventionism – is about politicians forcefully moulding society to whatever arbitrary blueprint they happen to consider to be good.

On each of five distinct grounds, Solidarity concludes that this interventionism is logically incoherent. We are convinced that a commitment to a logically incoherent strategy will necessarily lead to conflict within the ranks of those trying to impose goals based on that strategy and that whatever goals have been declared will not be achieved.

We believe that, in determining the incoherency of the interventionist strategy, a sufficient condition has been met for rejecting the recommendations based on it – including the nationalisation of mines. We would consider any policy recommendations on “strategic interventionism in the minerals sector” by the SIMS commission as building on no foundation, should they not be accompanied by a reply to each of our findings about the flawed logic behind interventionism.