

**ENTREPRENEURSHIP VERSUS COMMUNISM: ECONOMIC CALCULATION,  
(BLACK) MARKETS, & STATIST MENTALITY**Fernando Monteiro D'Andrea\* and João Daniel Ruettimann<sup>Ψ</sup>**Abstract**

Communist political economy is based upon the premise that the private means of production should be abolished, expropriated, and instead be managed by a centralized power representing the people. As such, this methodological oversight thwarts the entrepreneurial function, whose innate, creative, and perennial search for relative improvement is a characteristic of human condition. By applying Austrian School praxeological approach we show how well entrepreneurs, motors of the market economy, fare under command-economies and how they address the socialist institutional handicap. The real exercise of entrepreneurship defies the unreal socialist economic system in three ways: i) it acts as proxy to economic calculation in spite of politburo calculus; ii) it creates consumer's black markets as a corrective to official planned scarcity; and iii) in, the end, by escaping the widespread statist mentality in socialist societies by exercising this latent entrepreneurial function in the most unfavorable conditions. The paper's theoretical approach shows that as much as there are varieties of social order there is a resemblance on the kind of entrepreneurial function, which cannot be eradicated. We employ praxeological and thymological developments to typify and explain the varieties that existed and still exist. Consequently, even in the advent of totalitarian regimes such as Communism, entrepreneurship re-emerges, in the shadows, supplying for consumer's wellbeing under the limits of such societal disorder.

**Keywords:** Entrepreneurship (creative, commutative, destructive); Communism; Socialism; Calculation Debate; Secondary Economy; Black Markets; Statist Mentality

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***Emprendimiento versus comunismo: cálculo económico, mercados (negros) y mentalidad estatista***

**Resumen**

La economía política comunista se basa en la premisa de que los medios privados de producción deben ser abolidos, expropiados y, en su lugar, deben ser administrados por un poder centralizado que represente al pueblo. Como tal, esta supervisión metodológica frustra la función empresarial, cuya búsqueda innata, creativa y perenne de mejora relativa es una característica de la condición humana. Al aplicar el enfoque praxeológico de la Escuela Austriaca, mostramos qué tan bien los empresarios, motores de la economía de mercado, funcionan bajo economías de comando y cómo abordan la desventaja institucional socialista. El ejercicio real del emprendimiento desafía el irreal sistema económico socialista de tres maneras: i) actúa como representante del cálculo económico a pesar del cálculo del politburó; ii) crea mercados negros de consumo como correctivo de la escasez oficial planificada; y iii) al final, genera un escape de la mentalidad estatista generalizada en las sociedades socialistas mediante el ejercicio de la función empresarial latente en las condiciones más desfavorables. El enfoque teórico del documento muestra que, por mucho que haya variedades de orden social, hay una semejanza en el tipo de función empresarial, que no se puede erradicar. Empleamos desarrollos praxeológicos y timológicos para tipificar y explicar las variedades que existieron y que aún existen. En consecuencia, incluso en el advenimiento de regímenes totalitarios como el comunismo, el emprendimiento resurge, en las sombras, proporcionando el bienestar del consumidor bajo los límites de tal desorden social.

**Palabras clave:** Emprendimiento (creativo, conmutativo, destructivo); Comunismo; Socialismo; Debate de cálculo económico; Economía secundaria; Mercados negros; Mentalidad estatista

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## 1. Introduction

One of the most studied phenomena of the 20<sup>th</sup> century was Socialism/Communism<sup>1</sup>. For decades, various debates had this collectivistic approach to social order (political, economic, and ethical) as a serious contender to the market-oriented order. Socialist ideas have been confronted in many ways by libertarians, in philosophy and ethics (Hoppe, 2010); from a sociological perspective (Bohm-Bawerk, 1890; Hayek, 1949, 2001; Mises, 1951); and in economics (Hayek, 1935; Mises, 1990).

This paper aims at revisiting theoretical and practical oversights of command-economy concerning entrepreneurship and the problems that it begets, complementing, whenever possible, with novel contributions. The idea is not to introduce a new praxiological theory of entrepreneurship under communism, but to set foundations to explain the persistence of markets in those social settings. We apply the Austrian subjective value and entrepreneurship analysis to the centrally planned economies, outlining ways in which the existing theory of entrepreneurship explains phenomena that exist(ed) in centrally planned economies.

In particular, we analyze three ways in which entrepreneurship defies the socialist organization and the collectivistic agenda. This is important because entrepreneurs are the engine of the free market that collectivist approaches seek to abolish. By presenting the ways in which individuals exercise the entrepreneurial function under communism, based on some historical data, we collaborate to the literature by explicating the ways in which individual human action in the market defies central economic and social planning, this helps expanding the theory of entrepreneurship and collaborates to the discussion on the theoretical impossibility of centrally planned societies. The paper is light on the use of data, especially because those are very hard to acquire, and focus instead on other approaches to deal with the phenomena.

Albeit, at first sight, the historical discussion of command-economy communism may appear unimportant given the collapse of the U.S.S.R., we must also bring to mind its second, more subtle, and more resilient socialist phase presently seen mostly in the Chinese Communist Party, leading the second largest economy in the world at the time of our writing. The discussion, therefore, is poignant given that centralized planning still beleaguers and challenges the free world. To wit, the régime has artfully employed its dialectical materialist mindset to aptly tap on the market-process's wealth creation capacity and its corollary entrepreneurial function, first endeavored by Lenin's NEP, in order to consolidate and expand its totalitarian scientific and materialist social order to a "state-of-the-art" level hitherto unseen by its defunct sister régimes.

Tismăneanu (2015) defines Communism as a secular religion. Its aspiration to foster a new civilization and a new man can be characterized by three distinguishing elements. Its aversion to history and hostility to memory renders it *mnemophobic*. All its institutions must reshape

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<sup>1</sup> Although its tactics vary, we use them interchangeably since the end-goal is convergent.

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an uncertain past to an everlasting present aiming at a certain and inevitable future. It is also *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 byproduct of contingent and derivative modes of production. It also despises the human spirit, *noûs*, reason why it is *noophobic* as well. The novelty lies in the type of evil that it spawns, one that falsifies good in the name of universal happiness, it destroys morality by instrumentalizing it onto a falsification of the good.

Del Noce (2015, 2017) complements defining totalitarianism as the absolutization of politics whereby every aspect of reality is politically interpreted and as such all aspects of social life (law, education, medicine, family, etc.), lose their symbolic or ideal significance and are dumbed down, rendered devoid of any finality beyond the satisfaction of immanent needs. It happens when culture, which renders the transcendent hermeneutics of meaning for a social order, is subordinate to politics (2015, p. 87, 2017, p. 23). This divorce from transcendence renders the individual dependent upon society and no other authority but the temporal one must exist.

Voegelin (2004) also understood Communism as an expression of an ersatz religion, where ‘ersatz’ is an artifice, a mimetic synthesis. The world, in this transmutation, ceases to be a given contingency and becomes an infinitely pliable idea. What is left in this Second Reality is the unquenchable thirst for power that employs scientific discourse as an ideological tool to legitimize power.

The totalitarian regimes and their collectivistic approaches to economics (communism, Nazism, and the various types of social democracy included), all - implicitly or explicitly - suggest that the self-interest of the owners of capital, the bourgeoisie, will cause them to exploit the owners of manpower, the proletariat. To avoid that exploitation and equilibrate the issue an external force, the state (the party, the movement or any other representative entity), ought to control the means of production (either partially or completely). These *ersatz religio* begat dysfunctional social orders that displayed a variety of *means*, not ends. The most direct command-economies have fallen under the weight of their own constructs; other indirect models, however, still show their resilience.

To exemplify this communist approach, one can refer to Engels (1874, p. 14): “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”; or Marx himself, “[in communism,] 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.” (1848, Chapter 10). This concept ended up in in the Constitution of the Soviet Union (explicitly in articles 5, 6, 7, 10 and 131) (Union of Soviet Socialist Republics, 1936). From a pure

theoretical communist standpoint, all means of production should belong to the community and be put into use by the government in favor of the society.

The libertarian critique of communism starts from the concept of property. It is not the goal of this paper to rephrase the discussion (see Hoppe, 2010; and Rothbard, 2002), suffice is to say that property can only arise when scarcity exists. Hence, from the libertarian standpoint, socialism is “an institutionalized interference with or aggression against private property and private property claims.” (Hoppe, 2010, p. 10).

Prudence alerts us to reckon that there can be neither pure socialist nor capitalist social orders, only degrees of interventionism. But Mises (1951, p. 56) says that there is no need of formal ownership by the state for a socialist system to take place, limitation of property rights perform the same task. It is possible for the control upon investment – a quintessential entrepreneurial quality – to be centralized by the state, whilst private property slowly shifts to use of rentable assets; i.e. a taxable intensity of use of a given asset (transport, housing, data, etc.) whose flow is controlled by providers tacitly approved by the government itself. The hampered market maintains its institutions, albeit its *spirit*, its *logos* (ordering principle), is thwarted.

Following these insights, to accomplish our objective, we start by discussing entrepreneurship theory. We then briefly overview the economic calculation problem and its connection to the theory of entrepreneurship; discuss black markets (or secondary economy) that persists in every hampered economy; and talk about the statist mentality that dominates (former) socialist societies, and how it makes harder for individuals to escape the collectivistic agenda even after the onset of communist governance. We close with suggestions and implications to societies in which the collectivistic logic that underlies communism is still prevalent. Given that this is no concluding study, but the beginning of an inquiry, our analysis is mostly done theoretically, albeit based in some empirical evidence.

## 2. Entrepreneurship as judgment under uncertainty

The Austrian school positions the entrepreneur as the center of economic action (Foss & Klein, 2012; Kirzner, 1973, 1979; Mises, 1998). Kirzner (1973) sees the entrepreneur as the organizing agent of the market process, the one that brings prices from a prior state of disequilibrium to probable equilibrium in his exercise of the ultimate knowledge, entrepreneurial alertness. His entrepreneur acts under uncertainty and is alert to profit opportunities (within and without the production possibility frontier - PPF)<sup>23</sup>. His various

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<sup>2</sup> “Not only may production offer scope for discovery of new products worthwhile producing, and new methods of producing known products. Producers may discover, in addition, new sources of supply for given input services, and new attitudes on the part of known suppliers of given input services (permitting their acquisition at lower prices). All of these discoveries continually modify not only the prices of products, but also the prices of inputs.” (Kirzner, 2016, p. 83).

<sup>3</sup> For discussions on the Kirznerian approach to entrepreneurship see Kirzner (2009, 2016), Rothbard (1985) and Phelan (2016).

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contributions, however, form one of the two lines of entrepreneurship studies in the Austrian tradition, this is the one, while recognizing its theoretical importance, that we will not focus on.

Instead, the paper analyzes the entrepreneurship phenomena from a second Austrian tradition, one that sees the entrepreneur as the individual who imagines a future and uses resources to try to transform the reality in that direction. The agent's role is connected to: using judgment, (re)uniting different resources under his (at least partial) ownership, and deciding what to do with them while facing the underlying market uncertainties (Foss & Klein, 2012). Foss & Klein's (F&K's) entrepreneurs are responsible for guiding the changes in society through acquiring and applying tangible and intangible resources. By so doing they serve as the crucial cornerstone of the intertemporal and heterogeneous structure of production. In this theoretical approach, entrepreneurs become the nexus connecting macro and microeconomic phenomena by the means of their imagined plan whose *logos* is expressed by the unique arrangement of resources specifically organized by an individual who interprets the data of the market from his entrepreneurial insight.

F&K's approach sees profit opportunities as subjective and dependent upon entrepreneurial judgment and action, different people in the same circumstances will act differently because of subjective knowledge and because they foresee different possible futures. Opportunities depend not only on the market, but also mainly on the agent whose future possibilities are limited only by his ability to foresee what he aims to achieve.

Kirzner's and F&K's approaches can be seen as complementary (BoStaph, 2013; Phelan, 2016) and we build on the second one to, in the next three sessions, discuss the way in which entrepreneurs defies the existence/prevalence of collectivistic systems.

### 3. Economic calculation under socialism

Mises's (1990) "Economic Calculation in the Socialist Commonwealth" is the classic and still the most well organized refutation to the socialist economic agenda (Barbieri, 2013), he continued his arguments later on (1951, pp. 111–145, 1998, pp. 694–706). Hayek (1935, 1948) presented the state of the debate at the time as well as complementary insights and others collaborated: Rothbard's (2004, Chapter 12), Lavoie's (1985) and Kirzner's (2006) are noticeable.

The discussion has two main lines: the economic calculation one and the dispersal of knowledge (Yeager, 1994). Both sides implicitly assume that socialism carries an inherent incentive problem that, if it could be solved, socialism could, potentially, be as productive as capitalism. In capitalism, through profit and loss mechanisms, the price system provides the incentives to produce, 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."

Mises' (1951, 1990, 1998) starts from the human action axiom whereby all individuals act based upon a transitive heuristic to always decrease discomfort in their pursuit of a (subjectively defined) goal. Given that some of those actions are manifest in the realm of catallactics, the market process is entrepreneurial and not managerial<sup>4</sup>.

In that process, creation and destruction of businesses and production processes are daily occurrences that cannot be exogenously understood (D'Andrea & Mazzoni, 2019). Mises concludes that it is impossible to allocate properly capital without market prices. In other words, the price signal is both *plutologic* and *catallactic* inasmuch as it considers the objective utility value of the available factors of production within a given economy *subjectively* considered and valued by different and dynamic entrepreneurial plans. More specifically, the abstraction of equilibrium prices yielded by mathematical equations are rendered useless because the market is a dynamic process that occurs under uncertainty. 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 market and without the static, timeless, aggregative *fictae* necessary to understand it retrospectively.

In a nutshell, one cannot centralize the *know-how*, *know-who*, *know-where*, and *know-what* imagined by entrepreneurial *logos* 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.

In hindsight of a modern industrial economy, the rational allocation of resources is impossible without economic calculation using real prices. Since capital goods cannot be exchanged under socialism, it is impossible to achieve those prices and, therefore, the socialist arrangement is unable to calculate the costs of production for the goods it produces. Consequently, socialist planners are incapable of knowing the most valuable uses for scarce resources with multiple uses under their control and, therefore, a pure socialist economy can never be attained. By abolishing the fundamental preconditions to a healthy market process, private property in all stages of production and freedom to exchange, socialism nullifies economic calculation.

In short, Mises argument shows that a pure socialist economy is impossible because a single entity controls all the means of production either legally by proxy or via direct power. All the economic resources in that particular territory are trapped in a *plutological* cage the consequence of which is the destruction of the market process. The *Homo Sovieticus* is left with nothing but his clothes and furniture. This is the logical outcome of the primacy of *use* and *need* whenever they substitute the price system.

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<sup>4</sup> Management pertains to plutology or how to best organize the available wealth within the economy, hence it pertains to the economics of production; it is but one half of the economic reality complemented by catallactics, which is the economics of exchange. See Bylund (2018).

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Hayek's (1935, Chapter V) argument, on the other side of the discussion, stresses the knowledge problem. While confronting the mathematical solution to socialism (the most well-known response to Mises' arguments at the time), Hayek accepts that there is no logical contradiction in the assumption that, if all information needed to simulate the market process were attainable, then yes, socialism would be possible. He focuses on the impossibility of acquiring that information in the first place. He also stated that adopting a mathematical solution without all possible variables would lead to worse solution than the market one (Barbieri, 2013, pp. 150–152).

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

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

The Misesian argument is directly related to the entrepreneurial role, it is he who judges how to organize sundry elements. Not only is private property necessary for that, but it is an instrumental extension of acting man's purposeful action on the world.

The Hayekian argument derives from an equilibrium / Evenly Rotating Economy (ERE)<sup>5</sup> perspective in which entrepreneurial action would not exist as the Austrian theory conceives it. 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 curves of supply and demand because all relevant information could conceivably be statistically apprehended and, therefore, mathematized.

In summary, entrepreneurs defy the socialist theory in the calculation problem in one very specific manner: human action is spontaneous, subjective, and self-interested. Socialism's chiliastic anti-anthropology loses sight of that fundamental human condition. And if it may be true that some human behaviors might be somewhat predictable, it is not possible to achieve apodictic certainty and scientifically predict - as an infallible law of dialectical materialism - the course of history. Alternatively, the Misesian argument is centered upon the aprioristic willingness of men to improve their own standard of living when they intercourse on the market. Either way, economic calculation is rendered meaningless without entrepreneurial action.

More specifically, in centrally planned economies, government imposed 'prices' do not reflect market valuations, but political ones. Entrepreneurial action will deal with those 'prices', and will act not only using them, but also real market prices that reflect how scarce and valuable goods actually are in the eyes of consumers. Socialist managers, consequently, cannot say to engage in economic calculation, since they do not actually own property nor

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<sup>5</sup> Rothbard (2004, p. 616) explains that Barone's defense of mathematical socialism could indeed work, but only in an ERE, which is, clearly, not the reality of the market process.

are accountable for profits or losses, as we have said, managerial action is ‘mimetic’ and seeks to emulate entrepreneurial action leaving aside some of its most important features.

The following section builds on Ruettimann (2020)’s discussion on the importance of culture to entrepreneurship to better understand the role of the secondary (or shadow) economy that makes it possible for a socialist political organization to stay in power.

#### 4. (Black) Markets

The communist telo-axiological mass movement (Voegelin, 2004) sought the genesis of a new social, economic and ethical order (Djilas, 1957, Chapter 1). 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* in order to better assess *what* to produce, to *whom*, *how*, *when* and to *how many*. It crucially uses the *plutological* analysis and puts an emphasis on the managerial function. They fundamentally mistake the triadic relation between a catallactic and *plutological* character of an economy, which is to say its endogenous condition and exogenous condition of *change* (employing dialectic materialism) or its point of foundation and of terminus that, combined, provide the information for a purely objective, creative, dynamic intercourse with the market process. By erasing the human element, socialism misses the entrepreneurial function and its inescapable triadic meaning from human reality whenever the social order is complex enough for the division of labor and market phenomena to emerge.

Men are different by a matter of accident or manifestation, this heterogeneity of subjective intentions, leads to differences in skills and capacities (Rothbard, 1998). Furthermore, every 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. Due to those inherent differences, as societies grow, individuals naturally start to diversify and trade (Menger, 2007).

In the specific cases of socialist societies, while the government pretends to control all economic activity, it, at the same time, accepts that (as seen in the previously discussed Misesian argument) that this is not possible. The socialist ideal does away with the entrepreneurial function and has as its *telos* industrialization. Is it little wonder that their technocratic and scientific mythos gave way to the delusion that industrialization by *mimetism* bereft of the entrepreneurial function would work without the inconveniences of its intermediary institutions (private property, firms, and the intertemporal and heterogeneous structure of production)?

Why bother when the lure of rational imitation by a central board gives them almighty powers? As Djilas (1957) observed, the problem resides in the new class of party bureaucrats who tend to believe that their arrival to power and successful control of the formal economy equals the actual apprehension 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

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to the decentralized type made by entrepreneurs in firms. With no decentralized feedback mechanism, nor any actual incentive for the entrepreneur to better allocate resources, it is no wonder that this false economy could not compete against its nemesis. Consequently, managerial *mimetism* led only to a phantom of a vestigial market economy, signaling the quintessential misunderstanding of its economy crucial aspect (Mises, 1951, pp. 119–120).

As previously seen, the horizon of conscience for any human mind (or of the union of all of them, for that matter) cannot fathom the dynamic totality of all possible and effective options for the allocative deployment of scarce goods. Only by using economic calculation individuals are capable of trying to solve the various problems and pricing of goods. Without that, the vectors of supply and demand cannot weave the tapestry of economic reality.

Because of the inherent fixed nature of a pure socialist society it is possible to conclude that all productive orientation by *politburo calculi* was - is and will be - past-looking and *ex ante*. Because the system lacks the fundamental element of change, it is incapable of adapting and developing, and given that human order (economic or otherwise), is fundamentally dynamic, the system is bound to fail. What then? Once reality sets in, how can countries remain for so long under this “economic simulation”?

Black markets, also known as shadow markets, the informal sector (in capitalist societies), or ‘the secondary economy’ (in socialist ones) are the answer. They are actual markets and are present in every society, regardless of the approach to social order, they “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).

Broadly defined, the informal economy can be characterized as the one where the production and sale of licit goods and/or services is able to avoid government regulations. The absence of state regulation is the sole defining criteria. A few other important characteristics: i) it usually works on cash (or equivalent) and off the books, ii) it is deeply connected to the formal economic activities, iii) it is very diverse internally (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, among others (Henken, 2005).

In centrally planned economies, the new class seems to have understood that the socialist production system is unable to fulfil the material needs of individuals. Since officially the means of production are collectivized, and informally are property of the new class – Remnick (1994) offers many examples of that – this means that the amount of money to be exchanged by any good offered by the formal production system is given by a political decision, not discovered and understood a priori.

This kind of economic arrangement, of course, undermines individual initiative by doing away with the basis over which suppliers and buyers signal the quantum of production that is needed, when and where. Private endeavors frequently relied on the socialist sector to get their raw material and other inputs, but were usually in disadvantage or even excluded, especially when it came to scarce items (Bohnet & Jaehne, 1989, p. 91)

The catallactic interactions however, remained as features of the market process based on a plurality of needs, wants and desires favoring individual human action in search of higher degrees of satisfaction. Our contribution is in line with Baumol' (1990) classification of entrepreneurs according to how productive to society their actions will be, centralized institutions will provide the bases for emergence of specific types and combinations of entrepreneurs.

The Soviet cultural matrix aspired to the *Novyi Chelovek*, the sociological superman of Socialism, but got the highly external LOC and low self-efficacy *Homo Sovieticus* instead (Ruettimann, 2020). By the mid-1980's, soviet authorities knew that over a quarter of total production in value terms was attributable to "sideline activities carried out by farmers working in agricultural cooperatives (*kolchos*) or on state-managed estates (*sovchos*), but has been tolerated politically" (Bohnet & Jaehne, 1989, p. 88), black markets. The red tape and mindset of that social disorder meant that, reform laws notwithstanding, it was better to stay underground given the structure of counter-incentives. The whole Soviet bureaucracy created incentives for bureaucrats to sabotage the liberalization initiative for fear of higher autonomy from private business. They resorted to petty chicanery when licenses were applied for, the levying of additional charges and downright bureaucratic obstruction of production processes. The option to operate on a black-market under a *police state*, then, seemed superior.

There are many cases where this would still appear to be a superior alternative to formally establishing individual enterprises or cooperatives. One difficulty which arises, for example, is that whenever an individual business or voluntary cooperative purchases any single item priced above 10,000 rubles, it has to provide evidence of where it obtained the necessary funds. This stipulation, which is part of the Law on Non-earned Income, is regarded by many potential entrepreneurs as an instrument for keeping watch over private economic activities, or indeed positively obstructing them. To add to that, income from individual private enterprises is still taxed at a noticeably higher rate than earned income from the socialist sector, quite apart from the taxes which are evaded altogether in the black economy. (Bohnet & Jaehne, 1989, p.91) [italics in the original]

What was left at the official and unofficial higher echelons was basically a monopoly, a syndicate of cartels. An ersatz economy of a web-like cartel of hierarchically arranged feudal monopolies with a formal above the table ideological economy (used to legitimize the system) and a large under the table black market, a real underground catallaxy. As Boettke (1993) writes, those with the political power to control the monopolies by appointment within the central planning bureaucracy simply represented the central office of an elaborate

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“system of interlocked industrial cartels in the Soviet economy” (p.69). The role of the industrial ministries was de facto to establish barriers against competition from other producers.

The Soviet social system of production was characterized by the pseudo-reality of a rational, hierarchical planned economy, co-existing with the reality of plan failure and illicit corrective measures on both the producer and consumer side of the market. The Soviet system not only relied on the decentralized decisions of thousands of economic actors to coordinate plans that were supposed to be prereconciled by the organs of central administration, but it also remained at heart a commodity production economy. (p.69)

Along the whole *faux* structure of production of this closed economy, at each stage, the wrong information is compounded, and the quantity of mistakes increases along it so as to be in conformity with what the bureaucrat wants, instead of a consumer (Satter, 2001). The toleration of the shadow economy can be better understood by reproducing some data from Bohnet and Jaehne’s (1989), which expresses the share of informal businesses that supplied the necessary goods out of the official rationing: 26% of the overall agriculture in the USSR was coming from underground businesses, including 29% of the eggs, 30% of the meat, 61% of the potatoes and 30% of the vegetables.

Germane here is the fact that under a price system the responsibility for the information embedded on the price is accountable solely to entrepreneurial judgement; it is the entrepreneur’s tacit knowledge that signals it and whatever loss that he incurs is his responsibility. Truth and trust are precious under a market system, this is not the case under a communist society, one that is antithetical to truth and that makes it, to quote Havel, its first victim.

What ensues is wastage and widespread theft of the official economy’s common pool; this opportunity gives rise to oligopolies as well as a shadow economy and it is precisely based on that why authorities usually tolerate the existence of this economic arrangement - with theatrical alternations of languid or stronger periods of state directives imposition (Henken, 2005). This is probably the most important characteristic of this type of ersatz economy since inevitably the market reality sets in to correct the mandarins’ statistical folly of quinquennial plans.

Tolerance to markets takes place for a very pragmatic reason: the “second economy helps to alleviate consumer shortages and bureaucratic bottlenecks in all these societies. 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 socialist regime relies on it to overcome its internal economic inconsistencies, to make up for its inefficiencies and, maybe counterintuitively, to maintain the coercive regime in power.

Under a socialist economy, it is the shadow that projects the body inasmuch as the secondary economy contributes to correct the official economy and by alleviating the daily problems that individuals face, help them support the almost unbearable conditions of deprivation. The

existence of a secondary market helps, in the end, to perpetuate a criminal regime. Finally, one can understand how paramount the existence of a secondary economy is in socialist states given that even if a social order forcibly attempts to get rid of a market reality it will begrudgingly survive and allow entrepreneurs to exert their function, albeit one that is equally thwarted and not necessarily productive or innovative given that the primary aim of it under such régime is pure survival.

Again, highly external LOC and low self-efficacy operates on inadequate institutional setting which cannot fully provide neither macro-economic certainty nor the proper wherewithal for business creation and development (access to credit, skilled labor, resources and suppliers, etc.). Which leads to the low probability of productive/innovative entrepreneurship to arise, exceptionally on the military industries of the system, and to the overall emergence of mired distributive or destructive kinds of the entrepreneurial function, neither of which leads to proper capital development. Kornai (2008, p. 33) wrote about how the command-economy fosters a myopic entrepreneurial function.

Myopic behavior is also encouraged by the social environment of the private sector. Private firms are typically indifferent to building up a solid clientele, because their owners feel they may not even be in business in a year's time. In an extreme case, the overall environment of a sellers' market may prompt private firms to be downright dishonest with customers and reap the largest possible one-off profit. Since consumers are used to queues and shortages in the state-owned sector, it is generally easy for private firms to keep their customers, though their employees may be hardly more forthcoming or polite than their counterparts in the state-owned sector, if there is one. Instead of raising overall standards of service of sellers under state ownership in the direction of those of a buyers' market, the standards of new small private ventures drop to those of sellers in a chronic shortage economy.

Thusly contrived and handicapped, all that they have left is mimetic or horizontal growth of services and goods already in existence, if not stolen from less interventionist societies, and a cartel-like syndicate that survives from foreign market transactions.

### **5. Statist Mentality and the Transition to a Less Interventionist Economy**

Mises (1956, 1974, Chapter 2) and Hayek (2001) discussed the 'anti-capitalistic' mentality from the standpoint of a capitalist state, this and the statist mentality cannot be understood as the same. The analysis made by the aforementioned used the perspective of a non-communist (however interventionist and non-laissez-faire) society being inflicted by the anti-capitalist mentality<sup>6</sup>. This approach cannot be fully applied to understand the statist mentality that forms in individuals living within socialist regimes. Both anti-capitalistic and statist mentalities have similar outcomes, but originate in different settings. The formation of the later, according to Novaković and Dostanić (2018), is related to both the rigidity of the regime

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<sup>6</sup> Works such as Cachanosky (2018) to Argentina, Acevedo, Cirocco & D'Andrea (2018) to Venezuela, Caldeira (2009) to Brazil and Novaković & 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.

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and its origins. But how do entrepreneurs defy this widespread anti-market mentality prevalent in most modern societies? What are the implications for the understanding of the entrepreneurial role? Before answering those questions, it is necessary to further elaborate on the theme.

Novaković and Dostanić (2018) say about the rigidity that less harsh socialist policies, socialism with a “human face”, bring important short-term benefits for servile individuals, however, the long-term consequences are questionable because the roots for socialism become deeper. Sterner forms of communism are disastrous in the short-term, but might have paradoxical long-term unintended consequences because, conversely, “the [individual] mentality in question is healthier and less polluted”. Evidence of this kind of reality can be seen in the literature works of many dissidents, Solzhenitsyn’s setting the most well know example. 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 a second important factor to determine the development of the statist mentality. Regimes chosen from within tend to be accepted more easily whereas those imposed from outside or by conquest tend to face more resistance. Moreover, in latter cases, socialism tends to crystalize on the people’s mindset and, instead of a qualitative transition to capitalism we have a quantitative transformation from one form of socialism to another, supposedly more efficient. Examples of this kind can be found on Russian, Chinese, Vietnamese, Cuban, Bolivian, Angolan and Venezuelan populations, among others, in which, in spite of the attacks on pretty much all kinds of liberties, an important parcel of the population has been convinced that socialism, albeit the ‘true one’, is the best way of organizing society. This is an illustrative example of how hard it is to get rid of institutional stickiness (Boettke, Coyne, & Leeson, 2008), and a “mixture of softness and autochthony is peculiarly detrimental for transitional societies” (Novaković & Dostanić, 2018, p. 3).

A parenthetical paragraph on the People’s Republic of China is worthy given its prominent geopolitical rank. Since Deng Xiaoping’s Three Represents’ theory<sup>7</sup> (Marxism-Leninism, Maoism, and his own theory of socialism with a Chinese characteristic) that the ideological ground for the CCP has been prepared to deal instrumentally with the benefits of a free-market economy. As opposed to Gorbachev’s USSR, the Chinese Politburo better understood the significance of the entrepreneurial function and of private property to fulfill its needs as expressed by the four modernizations program (the development of agriculture, industry, science and technology, and defense). They also grasped another fundamental point, the

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<sup>7</sup> “The Scientific Outlook on Development is a continuation and development of the important thoughts on development advanced by the previous three generations of central collective leadership of the CPC and a concentrated expression of the Marxist world outlook and methodology with regard to development. It is a scientific theory that is in the same line as Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the important thought of Three Represents and keeps up with the times. It is an important guiding principle for China’s economic and social development and a major strategic thought that we must uphold and apply in developing socialism with Chinese characteristics.” (Jintao, 2007)

significance of savings and investment for economic growth. In the PRC case, the socialist *modus operandi* liberalized the lower and mid-level echelons along the production structure of the Chinese private economy, seen by them as the external condition of change, to foster their centrally-planned long-term goals, which is considered to be the internal condition of change. This with ample Western investment and technological theft by covert means (obligatory joint ventures and disrespect for intellectual property, for example). Hence, the system and attributes of a market process have been tactically instrumentalized by the party because they perceived in this dialectical contradiction the means to move forward. Fascist political economy with forced savings (private firms ought to re-invest at least 50% of post-tax profits) certainly leads to malinvestments, but it has managed to buy time and augment the reserve fund, enabling the regime to achieve its goals, learn and apply advanced interventionist policies as done by the Western peers whilst emulating its market institutions and, most importantly, rearm their army and tighten the grip of the Politburo over the Chinese nationals.

The set of symbols and ideas that populate the imagination of the statist mentality arise from the Rationalist materialist mindset. On the higher echelons of the new Class this mnenophobic, noo-phobic and axio-phobic ersatz religio leads to a radical immanentist, technocratic and scientific worldview that begets a totalitarian polity where *centralization* is the leitmoitf. Alternatively, on the lower rungs of social strata, we observe the apathy of highly external LOC and low-self efficacy that typifies statist mentality. It develops in a socialist society and has, at its core, a passive individual, who claims ‘rights’ that are to be enforced by the enlightened paternalistic state. This mentality transfers the decision making to the ruling elite and stymies personal responsibility. Therefore, the causal nexus between freedom and responsibility, act and consequence, disappears, this is specifically where the entrepreneur sets back in. The statist mentality can be considered the biggest obstacle to societies trying to abandon socialism and if that ever reaches the very core of a society then probably the transition has already lost its meaning (Novaković & Dostanić, 2018).

In a society where the statist mentality is prevalent, business failure and consequent losses tend to be “socialized” because most people believe that firms exist to pay wages, that the state must be the caretaker of personal lives, and that people who are less talented, less industrious, or unlucky ought to be compensated by those who are more so. Ultimately, in these societies the state is entitled to protect the individual from the inherent uncertainties of life.

In that realm, entrepreneurs, however infected by the statist (and anti-capitalistic) mentality themselves, defy the communist agenda by reassuming their role of original carriers of uncertainty looking for improvements in their own lives. By doing so, the entrepreneurs push away the state and reposition the individual at the center of economic and social development. Furthermore, when successful, they show that the narrative upheld by the apparatchiks does not hold, they show that individuals are capable, even without government support and, most of the times, against the legislation, to overcome difficulties, face uncertainty and thrive.

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Many scholars dealt with the importance of entrepreneurs to the success of a transition from socialism to capitalism. McMillan and Woodruff (2002) show that, when the government steps back, markets develop and “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 entrepreneurs usually start small and come from two sources: either they are former state officials with experience and personal connections, or they are educated young businessmen with limited access to resources. We cautiously add, however, that these entrepreneurs do not come ex nihil, they grow up under a specific culture with a variety of predominant animating spirits that gives the shape and color of their entrepreneurial function (Ruettimann, 2020).

Hellman, Jones and Kaufmann (2003) talk about the phenomena of economic capture by the former (and, many times, present) state officials. That appropriation generates rents that are sold to somewhat private firms, usually with many ties to the state itself derived from the communist times. This imposes yet more difficulties to the unconnected entrepreneurs. The usual lack of macroeconomic stability is yet another problem to entrepreneurs.

In answering the previously posed questions, one can say that entrepreneurs face the statist mentality by acting under uncertainty, because of the aforementioned reasons, that uncertainty is even greater than their peers who operate on less interventionist economies. As for the implications for the entrepreneurial role, the statist mentality is defied by individuals in the pursuit of their of subjective satisfaction, in spite of the difficulties further imposed by the regime, people will act entrepreneurially (they will use some kind of money to commercialize products and services with fellow citizens searching for psychic profit).

### 6. Conclusion

This work contributes to the efforts of Colombatto (2002) that suggest that an individualistic approach to the study of transition economies is needed. In that regard, the study of ‘productive entrepreneurship’ (Baumol, 1990) has yet a lot to contribute to the understanding of the set of changes that happen in societies when they transition from socialism to a less interventionist approach. However, our efforts do not exhaust the matter, in addition to our perspective, future works can endeavor to present historical and quantitative data to strengthen the idea, quantitative approaches are also welcome. We hope that the arguments outlined here lay the foundations for the next steps.

The cardinal sin of a socialist economic theory resides in taking the *managerial function* to the *entrepreneurial function*. As such, it can only emulate entrepreneurial action. Socialism is an ersatz order inasmuch as it imitates life in all its aspects. It is paradoxical that a society oriented to an inevitable future had been, in reality, obsessed with a static and eternal present. Communist Second Reality is only triumphant under the reign of lie and economic decline. No one, perhaps, has best described with keen profundity this paradox than 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 he 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 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,

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 nonevents that obliterate the past and future alike with the intent, as in a *perpetuo immobile*, of safeguarding society from the uncertainty of life. One loses track of historical meaning, as Havel writes:

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. (Havel, 1992, p. 334)

Lastly, we can surmise that 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 the institutional arrangement. Even in extremely regulated environments that give rise to the passive, servile, irresponsible, and imbecile *homo sovieticus* will witness, in spite of all perils, individuals identifying profit opportunities to improve their life conditions, hence exercising entrepreneurialism (Satter, 2001, pp. 183, offers an example). But we should thread carefully on our conclusions for the nature of the entrepreneurial function in a society founded by lies is a vestigial, stunted one. As Satter (2001, p. 309) points:

The collapse of a fictitious universe, however, did not change the underlying psychological traits of a people who, for seventy years, had been subordinated to a false idea and, in the process, had lost all appreciation of transcendence. These traits include a drive to live in a world of illusions, a tendency to see individuals as interchangeable, and a proclivity for reducing everyone to the same level.

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A lot remains to be said about the importance of entrepreneurs in socialist states, mostly due to problems with collecting accurate, reliable data<sup>8</sup>. We believe, however, that furnishing our theoretical skeleton with future quantitative and qualitative muscle may open the road for others to endeavor in this analytical stream

Entrepreneurs defy, to a degree, the socialist regimes by reestablishing catallactic reality as they produce goods and services deemed necessary by the population that are not provided by the state-owned organizations. By so doing, they 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). Havel and other dissidents would not go that far, simply stating the truth is enough to threaten the edifice of Communism. We leave, however, pondering on the importance of entrepreneurs on current statist Leviathans of a socialist bent, which could be, hopefully, further explored by our small contribution.

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<sup>8</sup> “Reliable data on private economic activity in the Soviet Union were largely non-existent until the early 1980s. It is only in recent years that the authorities' restrictive information policy has been relaxed somewhat. Even today, however, the statistics which are published are unsystematic both in their timespan and content, so only limited comparisons are possible.” Bohnet & Jaehne, p.89-90

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