
Don Lavoie

The Failures of Socialist Central Planning

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Don Lavoie died in 2001 at the age of fifty from pancreatic cancer. I mention this sad fact because I sincerely believe that had he not had this untimely death, there would be no need for me to write this essay. All readers of *The Independent Review* would have known Lavoie's work. He would have continued to influence students for a generation or two with his teaching and mentorship. And he would have completed his methodological book and his social theory treatise. Lavoie would have become a household name among scholars in the humanities and the social sciences, especially among classical liberals and libertarian intellectuals.

As it is, Lavoie died before the age of social media fully kicked in. We do not have a good record of his lectures on YouTube, and many of his publications remain behind the paywalls of scholarly journals.¹ His two main books, *Rivalry and Central Planning: The Socialist Calculation Debate Revisited* and *National Economic Planning: What is Left?*, became since their publication in the 1980s prohibitively difficult to

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1. There is a lecture, recorded at George Mason University, on Marxism and central planning from the early 1980s (<https://youtu.be/ehLq-da3hkQ>), and Chris Sciabarra has recently released audiotapes of three of Lavoie's talks dealing with immigration (<https://youtu.be/1nolgPIsoWY>) and the failure of socialism (<https://youtu.be/fBZ85cTxE-A>) and a discussion with Bertell Ollman on libertarianism and Marxism (<https://youtu.be/ba2R-UNljGc>). Also see this Mercatus Center video about how Lavoie changed the debate about socialism and central planning (<https://youtu.be/PIqBGVUVKks>).

The Independent Review, v. 28, n. 2, Fall 2023, ISSN 1086-1653, Copyright © 2023, pp. 301-312.

obtain until the Mercatus Center republished them. But Lavoie made serious contributions to Austrian economics and to the analysis of comparative economic systems that were recognized within the mainstream of economic and political science scholarship. In addition, Lavoie made serious contributions, which I will talk about, in the disciplines of philosophy of science, computer science, and social theory.

For those who were mentored by him during their doctoral education, his influence was far more than his written work and spoken words. He set a standard of scholarship and demanded that you live up to that. By the time I entered graduate school in 1984, it was already the common practice for PhD students to submit three essays for their dissertation. These essays could be connected by a common theme, but they need not be. These essays also could be coauthored with faculty members or one's peers in the graduate student cohort. What then was an emerging common practice is now the standard practice in PhD programs from Harvard University and the Massachusetts Institute of Technology down to the least prestigious schools. Lavoie refused to go along with this trend. He insisted that his students write a coherent book for their dissertation project and that they produce it as a single authored work. He was an exacting taskmaster in terms of both quality of argument and effective writing. Chapters would return with either red or green, mostly red, markings and directions on each and every page. When he finally agreed that your chapter was in shape, it was in publish-ready shape. Lavoie remained a constant source of inspiration and encouragement throughout my career.

But it is important to stress that Lavoie was never *just* an economist; he was always much more. And he was an outstanding teacher of philosophy and social theory. He saw the economics of the Austrian school within a broader social theory framework, which he worked hard to articulate as an alternative to the Frankfurt school.

In the spring of 2001, Lavoie received his diagnosis, and within six months he passed away. There were no extensive videotaped interviews, there were no completed books in methodology and social theory, and there would be no more students to learn under his mentorship. His influence was carried forward in the work of his students, namely Emily Chamlee-Wright, Steve Horwitz, David Prychitko, and Virgil Storr. I dedicated my book *The Struggle for a Better World* (Boettke 2021) to Lavoie and his students. But Don Lavoie remains an underappreciated scholar, and I would like to reverse that fate for my teacher, mentor, and friend.

Socialist Calculation

Lavoie earned his PhD in economics in 1981 from New York University. That same year, he began teaching at George Mason University, where he would remain for the next twenty years. His dissertation would eventually be published as *Rivalry and Central Planning* (Lavoie 1985b) by Cambridge University Press. In his revisionist account, Lavoie forcefully concluded that “[Ludwig von Mises’s initial] challenge

was never met” (1985b, 183). Thus, socialist economists, despite their efforts in formal theory to design systems of planning, still needed to address the question: how can resources be rationally allocated without recourse to money prices?

In order to derive that conclusion, Lavoie centered his analysis on how the debate was diverted by the preoccupation with static equilibrium modeling, rather than wrestling with the process by which economic coordination through time is achieved. Lavoie began his analysis with a detailed discussion of Karl Marx and the Marxist critique of capitalism. In the late nineteenth and early twentieth centuries, socialism had a particular meaning that was well understood. Its program was tied to the abolition of private ownership in the means of production and the substitution of a comprehensive central plan for the chaotic tug and pull of market activity characterized by prices and profits and losses. The goal was to rationalize production and generate a burst of productivity so that the socialist future would deliver humanity from the “Kingdom of Necessity” to the “Kingdom of Freedom.” Lavoie’s subtle and charitable interpretation of Marxism and the revolutionary project is critical to understanding the initial impetus for Ludwig von Mises to offer his challenge.

Lavoie walked the reader through Mises’s challenge that without private ownership in the means of production, rational economic calculation would become impossible to do, and why this argument is so decisive in its criticism of the socialist project. Not only would socialism by construction eliminate the relative money prices that emerge in the market for the means of production; it would also as a result eliminate profit-and-loss statements. Without these tools of commercial life that serve as “aids to the human mind,” there would be no economic compass. Production would be just so many steps in the dark, the opposite of the promised rationalization. And, as Lavoie demonstrated, Mises applied his critical analysis to both the traditional Marxian mechanics of substituting labor units for prices and the plan to substitute production for direct use rather than exchange. In addition, Mises anticipated various counters to his challenge and, in Lavoie’s rendering, provided the correct response. Absent the functional role played by relative prices and profit-and-loss accounting, economic decision makers would have no way to sort from the array of technological feasible projects those that are economically viable. Such sorting is necessary to eliminate systemic waste in the social system of production. A rational plan must be able to produce more with less, not less with more. That socialism eliminates by construction the very means to engage in rational planning means that it is rendered an incoherent program that promises much but will deliver little by way of economic progress in its operation.

To understand the subsequent evolution of the debate, it was important that Lavoie establish that Mises’s argument concerned the dynamic market process, rather than invoking some image of a perfectly competitive economy. Instead of a static depiction of the economy in which economic forces have all completed their job and equilibrium prices reflect the optimality conditions, Mises was presenting a depiction of the market process, in which the economic forces are hard *at work* as prices guide

future decisions, profits lure entrepreneurs to direct their attention toward some ventures and away from others, and losses discipline economic actors for making the wrong assessment and judgment about investment and methods of production. Economic actors operate in a world of deep uncertainty and must learn to cope with their ignorance and the reality that time's arrow runs in only one direction. Mistakes are costly, but the market process is one of constant adaptation and readaptation to the constantly changing circumstances. This requires economic decision makers to adjust their behavior on multiple margins in order to coordinate their activities with those of others and pursue productive specialization and realize peaceful social cooperation.

Unfortunately, the debate was diverted into statics. Economists had demonstrated in the late 1890s that if socialism was to achieve its purpose, it would have to realize the same optimality conditions that were obtained in the model of general competitive equilibrium. This was known as “formal similarity,” and it was widely recognized by all those trained in neoclassical economics. Optimality conditions and the technical coefficients had to be aligned so that prices reflected the full opportunity costs, and least-cost methods of production were being utilized. Resources, at this point, would be allocated to their highest-valued use. That is the very definition of rational exchange and production. The socialist project was, we must always remember, linked to the *rationalization* of production and, with that, a transformation of social relations throughout society.

Lavoie demonstrated with his detailed examination of the models of market socialism, and his elaboration of the responses articulated not only by Mises but also by F. A. Hayek and Lionel Robbins, that the clash was one of alternative paradigms within neoclassical economics—one focused on equilibrium states and the other focused on the processes that bring about a tendency toward those equilibrium states. In equilibrium, the functional significance of rivalrous competition disappears, but so does a recognition of the critical importance of the institutional infrastructure within which economic life takes place. The challenges raised by Mises, Hayek, and Robbins were not answered but evaded by diverting the conversation into the theoretical possibility of a solution when all the knowledge required to achieve the formal similarity is in the hands of the benevolent and omniscient planner.

The Austrians' rejoinder to the market socialist led to the refinement of their theory of the entrepreneurial market process by Mises, Hayek, and then Israel Kirzner. *Rivalry and Central Planning* thus took on the role of not only a thorough overview of the debate but also a subtle and sophisticated rendering of the Austrian theory of the market process and the knowledge-generating process of rivalrous competition. Lavoie's book was a professional success, no doubt aided by the timing of its publication. By 1985, word had unambiguously spread throughout the international scientific establishment of economics that the Soviet economy was in shambles. Meanwhile, real existing socialist regimes across the world were undertaking steps to

make themselves decidedly less socialist. Mikhail Gorbachev had begun perestroika, Hungary and Poland had begun privatization, and reforms were well underway in Deng Xiaoping's China. As economists witnessed the collapse of socialism and the apparent triumph of a new era of global liberalism, many wondered why socialism had failed so utterly. Lavoie, in his novel presentation of Mises's and Hayek's more than fifty-year-old arguments, gave them an answer.

National Economic Planning: What Is Left? was a companion volume of Lavoie's that was also published in 1985. A subset of this book is directed at the policy discussions then alive in the United States concerning "industrial policy" to counter the declining industrial sector during the 1980s in middle America. But Lavoie was never a "policy economist," so the book, while providing a detailed criticism of the proposals by Robert Reich and Felix Rohatyn, devoted considerable space to refining what Lavoie dubbed the "knowledge problem" and how the entrepreneurial market process offered effective ways to address this fundamental problem that all systems of exchange, production, and distribution must confront, whereas government planning in all its varieties does not.

In developing this argument, Lavoie drew not only on Mises and Hayek but also on an adjacent figure who operated within their larger circle of midcentury liberal intellectuals—the chemist turned philosopher Michael Polanyi (1951, 1958) and the "growth of knowledge" literature in the philosophy of science. There were two reasons for this intellectual move. First, Polanyi himself had emerged as a strong critic of the socialist experiments during the first half of the twentieth century and had moved from being a world-renowned physical chemist to a philosopher of science as a result of the corruption of science by the totalitarian regimes of the 1930s and 1940s. Science in a free society operated differently from science in a planned society, and scientific inquiry was also a crucial enterprise for the maintenance and progress of a free society. Science had to be safeguarded from corruption, and scientific inquiry must be respected for what it delivers for social progress. To achieve both, Polanyi sought to explain the inner workings of science. In his examination of how scientific inquiry works, Polanyi drew attention to the tacit dimension in science and in the marketplace and the spontaneous order characteristic of both of these human endeavors. His argument aligned with Hayek's discussions of the use of knowledge in society. Second, like Mises and Hayek before him, Lavoie understood that methodology mattered, and it mattered not only in determining what questions were valuable to ask in science but also in what answers were considered acceptable. The formalistic and positivistic ethos of modern economics blocked an understanding among economists of the points Lavoie was raising in his books. So, even while working on these twin books dissecting the problems with socialism and economic planning large and small, he was deeply engaged with the philosophy of science literature and seeking to put the modern Austrian school of economics on firmer philosophical foundations.

Philosophy of Science

Lavoie had to turn to philosophy of science to try to get his scientific peers in economics to ask different questions and accept different answers. The way he did that was to do an accounting of developments in the philosophy of science since World War II. The methodological self-understanding of economists was significantly out of date. Philosophers had moved beyond the positivist vision of science for at least a generation when Lavoie started his career. Not only Polanyi but also Thomas Kuhn had changed our image of scientific progress. The “growth of knowledge” literature was a start for Lavoie, and Imre Lakatos’s notion of scientific research programs would be a good way to frame methodological discussion in economics.

Lavoie’s quest, however, was to draw a tight connection between the philosophy of science and the practice of economics by the Austrian economists. To do this, he did a simple philosophical trajectory analysis. Go back to Mises’s philosophical influences in his understanding of the differences between the human sciences and the natural sciences. Lavoie revisited Mises’s original writings in methodology, first encountering Mises’s student Alfred Schütz and then, pushing further back, Edmund Husserl, who provided the philosophical justification for theoretical inquiry. There were others whom Mises mentioned, such as Wilhelm Dilthey, who Mises thought provided the philosophical justification for the method of history and the cultural sciences in general. Once at the root thinkers, Lavoie then drew the trajectory to where that literature ended up by the 1980s. Lavoie landed on philosophical hermeneutics and the writings of Hans-Georg Gadamer, in particular his treatise *Truth and Method* (Gadamer 1960).

Lavoie’s move had nothing to do with intellectual fashion, nor was it an effort to soften Mises’s harsh methodological pronouncements for a new era; instead, it was an honest and sincere tracing out of the footnotes in Mises to where the current state of the literature was on the foundational arguments Mises had relied upon when making his defense of the uniqueness of the sciences of human action. To Mises, economics was every bit a science as physics; it just followed different epistemological procedures. We are who we study, which gives us unique insight. Our subject is complex phenomena, which presents unique challenges to any effort at the control required in the “model and measure” view of economic science. Where did that line of argument go in the philosophy of science, and where did methodology of the social sciences in particular go after Mises wrote? It led to the “interpretive turn” in the social sciences.

Lavoie’s interpretive turn would challenge the hegemony of mainstream methodology in economics. Lavoie wrote many papers in the philosophy of science, and he edited a volume titled *Economics and Hermeneutics* (1991), but because of his illness he never was able to complete his intended book on the interpretive dimension in economics, which promised to introduce “economists to ideas about the nature of human understanding from contemporary hermeneutical philosophy. Its purpose

is to translate hermeneutics into a language more accessible to the economist, and to suggest many of the profound implications this philosophy may have for modern economics.”² As with Deirdre McCloskey’s *The Rhetoric of Economics* (1985) and subsequent methodological musings, Lavoie’s work might not have changed the practice of day-to-day economists, but it would have, as with McCloskey, made Lavoie’s name permanently imprinted in the field of the philosophy and methodology of economics. The appreciation of his project, and what he was hoping to accomplish, would have grown with his commitment to its promotion. His untimely death prevented that path from being followed. A work not produced is a work not read and talked about. That is what happened with Lavoie. I would like readers to go back and read his papers, and read them in light of how I have framed this as an attempt to update Mises and demonstrate the relevance for a proper grounding of the sciences of human action in a post-positivist era.

As mentioned earlier, Lavoie had focused his analytical attention on “the knowledge problem,” and thus he was concerned deeply not only with the economics of the discovery, dissemination, and utilization of knowledge but also with the nature of knowledge itself—its technical and practical dimensions, its articulate and inarticulate forms. For Lavoie, as an Austrian subjectivist, a major puzzle was to study how the institutions in a society served as guideposts to enable us to escape the trap of solipsism and enjoy the benefits of social cooperation. Rather than some atomistic conception of our confrontation with nature and with others, Lavoie drew attention to intersubjectivity of the tools and practices that serve as “aids to the human mind” so we may coordinate our activities with those of others, so we may live together far better than we ever could in isolation. Lavoie didn’t just come at this from the angle of the socialist calculation debate, nor purely from the philosophy of science perspective. He had a deep connection to these questions through computer science and his early career as a computer programmer.

Computer Science

One of the first books Lavoie made me read when I came to graduate school was Hubert Dreyfus’s *What Computers Can’t Do* (1972). “Strange,” you might say; I certainly did. I was there to study economics and why socialism doesn’t work—it was Lavoie’s survey paper on the calculation debate, which I read during my senior year in college, that originally caught my attention. But I soon learned to appreciate what Lavoie was trying to get at.

Lavoie had graduated from Worcester Polytechnic Institute in 1973 with a BS in computer science and begun a career as a programmer. He had successfully programmed a computer to mimic Bach in playing music. But not jazz. That matters.

2. This is from a description of forthcoming projects drawn from his last updated curriculum vitae, from March 2001.

Like Dreyfus, Lavoie had doubts about what we might call hard artificial intelligence (AI). This was relevant for the calculation argument because with the development of computing technology, there emerged a new confidence that the problem Mises had identified could finally be overcome. The supercomputer could do the job in a matter of minutes, if not seconds, whereas the market, with its clumsy methods of relative price adjustments and profit-and-loss statements, would take forever in comparison. Lavoie wrote a series of papers between 1986 and 1990 carefully arguing that computers could never solve the planner's knowledge problem (see, e.g., Lavoie 1986, 1990). First, the calculation problem was never a computational complexity problem; it was a problem of the contextual nature of knowledge. The knowledge utilized in the market is knowledge of time and place. Outside of that context, the knowledge does not exist. It is not that it is difficult to access; it is that it is nowhere to be found because it was never generated. Second, much of this knowledge is not only contextual and emergent but also tacit in nature. It is the type that cannot be gathered as a statistic.

If Lavoie had lived longer, I am sure he also would have stressed that the market process as characterized as one of adaptation and readaptation to constantly changing circumstances presents to us as what is called a “wicked learning environment”—one in which the parameters are relatively free. What computers can do is process information in “kind learning environments”—those in which the parameters are fixed. In such a world, the algorithms that are finite and known (even if absurdly numerous) just need to be sorted with speed. Computers can do that—for example, in playing chess. But in those “wicked environments,” the adaptations and adjustments require a skillful adjudication between a variety of past experiences and imagined responses, and through some combinatorial thinking, creative and novel adaptations emerge to tackle the problem at hand—for example, in playing soccer. Computers can expertly play chess, but they only badly and without much agility play soccer. Is that a technological question, or is it an essential element associated with comparing action within a world of fixed parameters with action within a world of free parameters? Lavoie's argument was that this was not just a technological issue but essentially one related to the nature of the knowledge to be utilized by the actors to effectively execute their plans. A world of creativity and novelty, or, in other words, a world of entrepreneurship, cannot be reduced to algorithms.³

In his work on computing technology, Lavoie drew attention to the property rights system evident in object-oriented programming, the way knowledge is utilized in complex computer networks, the entrepreneurial alertness and creativity demonstrated in the imagining of future computational markets by programmers, and most interestingly, given our earlier discussion, the necessitated shift in perspective toward

3. See a description of what Lavoie began pursuing in the fall of 1989 at <http://www.philsalin.com/hth/hth.html>. And this article from *Reason* explains how far Lavoie was ahead of the curve in this regard: <https://reason.com/video/2020/10/07/before-the-web-the-1980s-dream-of-a-free-and-borderless-virtual-world/>.

AI once a spontaneous order approach is pursued. Traditional AI was dominated by an “expert systems” approach, which treated intelligence as an algorithmic and mechanical process. But, Lavoie stressed, this is not “intelligence”; intelligence in the market process perspective is related to learning, creativity, and imagination. So, rather than an expert systems approach to AI, the alternative approach builds on work in neural network theory. This alternative approach goes by the name “emergent AI.”

Social Theory

The Austrian economists in Vienna were all educated within the context of the School of Law at the University of Vienna. Their first degrees were in some hybrid of jurisprudence and political science. It was in their second degree that they might specialize in technical economics. They saw themselves as students of civilization. That is both a radically different background from their scientific counterparts in the United Kingdom and the United States and a training that would be most difficult to shake off even in the era of scientism. Lavoie embraced his role as a social theorist grounded in economics. His social theory was worked out in the context of the grand debate over socialism. No doubt, this debate had technically positive economic components to it, but it also would inevitably touch on the major components of normative political economy and social philosophy.

In *National Economic Planning* (1985a), Lavoie devoted an entire chapter to laying out his vision of a radical libertarian society in the wake of the failure of socialism to escape the militaristic and totalitarian trap. “What was wrong with the Russian revolution,” Lavoie wrote (1985a, 238), “was the very direction in which it was trying to go, while what was wrong with the American one was that its leaders did not carry it far enough in the right direction in which it pointed them. Our task now, therefore, is to complete the American revolution.” Lavoie concluded by stating, “Unlike the failed Marxist utopia of Planning, the Jeffersonian Market-guided society is a workable ideal, an ideal that when properly understood is far more consistent with the humanitarian and internationalistic values of the Left” (1985a, 238).

Lavoie in this chapter also explained that vestiges of a mercantilist system of special privileges, and not a laissez-faire economy, were the root cause of our nation’s shame in the massacre of Native Americans, the enslavement of blacks, and the restrictions of the rights of women. It was monopoly control over money and credit that produced the Great Depression. It was the violation of property rights by favored business elites that led to pollution, and it was the mercantilist policies of protection for the monied elites that led to our perpetual involvement in foreign wars. Free-market capitalism, Lavoie argued, would deliver us from this fate of playing into the hands of the citadels of power. The creative powers of a free civilization are the greatest threat to the ideology of power and privilege. The spontaneous forces of the market process will deliver to humanity peace and prosperity if they are permitted to operate freely.

The alternative radical ideology of planning produces the militaristic state. “The theory of planning was, from its inception, modeled after feudal and militaristic organizations. Elements of the Left tried to transform it into a radical program, to fit into a progressive revolutionary vision. But it doesn’t fit. Attempts to implement this theory invariably reveal its true nature. The practice of planning is nothing but the militarization of the economy.” (Lavoie 1985a, 230). Our hope for a just and humane world must, Lavoie argued, move in the direction of true radical free markets.

This passion for a just world grounded in respect for persons and property, which would afford dignity to all and recognize their fundamental human rights, is evident throughout Lavoie’s writings. His forays into philosophical hermeneutics led him to consider the ideal speech community as an example of the free interaction of individuals resulting in the growth of knowledge through mutual learning. Lavoie was romantic about ideal philosophical inquiry. Mutual respect and learning, and thus the possibility of a fusion of horizons, was possible in a “good conversation.” The rules that would frame such a conversation could perhaps provide a demonstration to us of the rules that should govern all our social interactions. Lavoie’s libertarianism was “dialogical” because it wasn’t deductive, and it wasn’t utilitarian. It was, instead, gentle and humane, grounded in our mutual respect and desire to learn from one another. The endless stream of fresh and new knowledge exhibits creativity and novelty, and we discover better ways to cooperate with one another, better ways to produce, to tinker on margins that result in life-changing innovations. Like Michael Polanyi, Lavoie saw the relationship between the progress we see in the free inquiry of science, the prosperity of a free economy, and the justice of a free society.

As with the book on methodology, Lavoie had long planned to publish a book on social theory, titled “Understanding Political Economy,” which, sadly, we are also denied because of his untimely death. In an undated memo, he described this work as follows: “Working on a book entitled Understanding Political Economy which involves a fairly comprehensive critique and re-interpretation of the Austrian school of economics, especially Menger, Mises, Lachmann, Kirzner, and Hayek. It will refer extensively to Marxism, especially the school of critical theory, and its leading contemporary representative, Jürgen Habermas, in an attempt to show that some of the key philosophical aims of critical theory are better achieved in the Austrian approach to economics than they are in Marx’s own economics.”

Again, had this book been on our shelves, Lavoie would have been read more widely and remembered more deeply than has been the case. As it is, the most coherent statement we have is chapter 7 in *National Economic Planning: What Is Left?* (Lavoie 1985a), but that was published before his thinking had matured and been refined by his sojourns in philosophy, computer science, and cultural studies. Given where the intellectual world has gone in the years since his death, it is easy to see just how ahead of his time Lavoie was in social theory as well.

Conclusion

This essay has a rather straightforward purpose—give a sweeping overview of the work of Don Lavoie, who I believe is significantly underappreciated, so readers today may take the time to read his work, learn from it, and grow in their appreciation of it. I have spoken of the loss the intellectual world had as a result of Lavoie’s death at the young age of fifty. I want to end on a more personal note. Don’s death meant that a loving husband and devoted father of three young children was gone. A dear friend was lost. A dedicated teacher and mentor to so many. Don Lavoie was a good man. It is tragic when anyone dies young; it is especially tragic when it is someone who gave so much to his family and community. I was asked to speak at his memorial on behalf of all who were Don’s students. It was very hard for me to first find the appropriate words and to then deliver them that day (Boettke 2002).

In the years since, I have developed a unique and deep bond with my cohort of Don’s students: Steve Horwitz (who also, sadly, has passed), Dave Prychitko, Emily Chamlee-Wright, and Virgil Storr. In a real sense, they are my intellectual brothers and sister, and Don was our doctoral father. Don’s voice has been kept alive for me all these years through them, in their lectures, in their writings, and most of all in their kindness, gentleness, and humanity toward others. Don wanted us to be the sort of scholars he could be proud of. He was a romantic about the scholarly life, and he had exacting standards that one had to match to be accepted into his circle. I just hope that I have been able to give you a glimpse of this Lavoie training in this essay, and that when you do sit down to read him, and read him carefully, you will see what I am talking about. Before meeting him, I had never met anyone who took so much joy in the act of reading, of learning in discussion, and in the pure pleasure in figuring things out. Don the man, Don the teacher, Don the scholar played a huge positive role in my life. It is my sincere hope that in reading this essay, you have gained a sense of who he was and why he was so important to his students and to Austrian economics and the social theory project of true radical liberalism.

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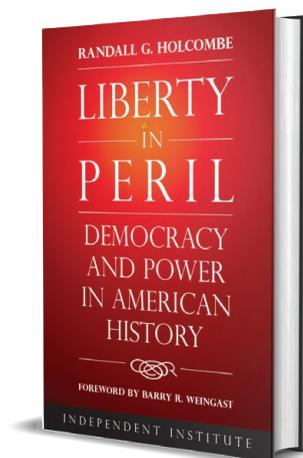
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