Trygve Hoff’s Appeal to Ragnar Frisch: Four Letters from 1941

Foreword

Hannes H. Gissurarson¹

Both Trygve Hoff and Ragnar Frisch were born in 1895, both were Norwegians, and both were economists. The exchange of letters published here is remarkable for several reasons. Both men were forceful personalities with clear, uncompromising views.

Hoff graduated in economics from the University of Oslo in 1916, spent a few years abroad and became an economic commentator for Norwegian newspapers in 1920. In 1935 he bought the business magazine Farmand (which in Norwegian means ‘traveling salesman’). Hoff was a classical liberal, and in 1939, before a packed assembly hall at the University of Oslo, he defended a doctoral dissertation (Hoff 1938) on economic calculation under socialism, restating and refining the arguments of Ludwig von Mises (1922) and Friedrich A. Hayek (1935) against the feasibility of central economic planning. He was a firm opponent of totalitarianism, both national socialism and communism. His magazine was banned during the Nazi occupation of Norway.

For a while Hoff was himself imprisoned. In gaol, he worked on a book he was writing on classical liberalism (Hoff 1945). After the war he became somewhat of a voice in the wilderness in Norway, albeit with strong support in the business community. Hoff was a founding member of the Mont Pelerin Society in 1947, and in his magazine he published many articles by other members, including Mises, Hayek, and Milton Friedman, and tirelessly criticized the restrictions on economic

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freedom implemented by the dominant Labour Party. It was quite an event when
in January 1952 he debated Labour Leader Einar Gerhardsen at the Students’
Association in Oslo, using arguments that he used in the November–December
1941 correspondence with Frisch.² Hoff died in 1982.

Frisch completed his doctorate on mathematical statistics at the University
of Oslo in 1926 and taught for some years in the United States, but returned in
1931 to Norway where he was appointed Professor of Economics and Statistics
at the University of Oslo. A year later, he become the Director of the Institute of
Economics at the University, originally financed by the Rockefeller Foundation.
Like Hoff, during the War he was for a while imprisoned by the Nazis. A staunch
socialist, Frisch became influential in Norway in the next few decades, filling the
posts at his Institute with likeminded people and training many economists who
became high officials, academics, or politicians, mostly in the Labour Party. His
closest associate at the Institute, Leif Johansen, was a member of the Norwegian
Communist Party, which was unwaveringly loyal to the Soviet Union. Together,
Frisch and Johansen formed what became known as the ‘Oslo School’ (Eriksen
et al. 2007; Eid 2007). Over the years, Frisch seemed to become more dogmatic
in his views. Nonetheless, he maintained an influential presence in academia,
government, and public discourse, and he was, with Dutch economist Jan
Tinbergen, a first recipient of the Nobel Prize in Economics in 1969. Frisch had
by then abandoned the Labour Party and become a vocal supporter of the Socialist
People’s Party which had been formed in the early 1960s in opposition to Norway’s
pro-Western foreign policy. Frisch died in 1973.

The two main questions discussed by Hoff and Frisch were: Was economic
planning likely to be better in the long run than the free play of market forces? And
might it threaten individual freedom?

Frisch did not necessarily support Soviet-style central economic planning. In
the correspondence with Hoff he was vague about what he wanted himself except
that government, aided by experts (like himself), had to correct what he found to be
obvious market failures. Nevertheless, Frisch was impressed by the Soviet model.
Later, he saw no reason to change his view. In 1961, for example, he wrote: “The
blinders will fall once and for all at the end of the 1960s (perhaps before). At this
time the Soviets will have surpassed the US in industrial production. But then it will
be too late for the West to see the truth” (Sæther et al. 2014, 63). He was far off the
mark. In 1990, the last year of the Soviet Union, her GDP per capita was estimated
to be $6,894, whereas in the United States it was $23,201 the same year (link).

It is true that for decades figures from the Soviet Union showed rapid
economic growth. But those figures were questionable, not only because they

². The debate was widely reported, for example in Nordisk Tidende 1952.
might have been falsified, but also because they did not always reflect reality: for example, capital accumulation in the munitions industry did not improve the living standards of ordinary people; neither did abandoned factories, even if their construction meant a nominal addition to GDP. In his letters to Frisch, Hoff gave several examples of a third reason: the large amount of defective goods in a country where production was not governed by consumer choice. Moreover, rapid economic growth can be achieved without any economic planning. The United States was by no means a perfectly free society, but rapid economic growth took place there without terror or famines as in the Soviet Union. In the United States in 1876, GDP per capita was estimated to be $2,570, increasing in the next twelve years, till 1888, to $3,282, or by $712. In 1928, GDP per capita in the Soviet Union was estimated to be $1,370, increasing in the next twelve years, till 1940, to $2,144, or by $774, about the same as in the comparable period in American history (link).

Frisch’s theories were however tested not in the Soviet Union but in Norway after the War where the Social Democrats, largely under his influence, pursued much more restrictive policies than their counterparts in the other Scandinavian countries. They reluctantly had to abolish some of their detailed foreign trade regulations when Norway accepted Marshall aid and joined the Organisation of European Economic Cooperation, OEEC (later the Organisation of Economic Co-operation and Development, OECD), and the General Agreement on Tariffs and Trade, GATT. This, according to Arild Sæther and Ib Eriksen (2014, 59), “saved the country from the worst excesses of a regime bent on economic planning.” Nevertheless, extensive economic controls were retained much longer than in other Western countries. The Price Directorate under Wilhelm Thagaard had wide-ranging powers to direct consumption and investment into channels deemed to be in the public interest. In 1953, the Labour government, under fierce criticism from the opposition parties and the business community, abandoned plans to reinforce economic controls. When Norway joined the European Free Trade Association, EFTA, in 1960, she had to go further in reducing foreign trade regulations, but the planners made up for it by continuing strictly to regulate money and credit. Instead of rationing commodities, they rationed credit by keeping interest rates artificially low and directing savings to favoured sectors of the economy.

The record of the Oslo School is however far from impressive. The relevant period of reference must be from 1950 until the mid-1970s, before the Norwegian oil boom. In 1950–1960, average annual economic growth in Norway was 2.6 percent, somewhat lower than the OECD average of 3.3 percent, but similar to that of the other Scandinavian countries. In 1960–1973, economic growth in Norway was 3.7 percent, whereas the OECD average was 4.0 percent. It was less than that of Finland (4.3 percent), on par with that of Iceland (3.7 percent), but slightly more
than that of Denmark (3.5 percent) and Sweden (3.1 percent). This cannot be seen as anything spectacular, despite claims to the contrary (Gerhardsen 1972, 155). Moreover, from 1950 to 1975 investment ratios in Norway were much higher than in most other OECD countries. In 1950–1959 the ratio was on average almost 32 percent, compared to 17 percent in Denmark and 21 percent in Sweden. In 1960–1969, the ratio in Norway was on average 29 percent, compared to 21 percent in Denmark and 23 percent in Sweden. “Year after year Norwegians sacrificed better living (consumption) to pay extra for only average growth rates” (Sæther and Eriksen 2014, 67). It was no coincidence that in the 1980s Norwegian politicians, officials, and economists largely discarded Frisch’s ideas. In the long run, Hoff had been proven right on the economic issue.

The second important question debated by Hoff and Frisch in 1941 was whether a concentration of power in the hands of planners might threaten individual freedom, or in Hayek’s words (1944), whether socialism was “the road to serfdom.” Frisch insisted that he was in favor of freedom of thought, because without it science would just wither away. But he was “unable to accept that this ideal of freedom necessarily presupposes a right of the individual to attend to all his business affairs at will.” In other words, he wanted freedom for scientists to discover and innovate, not for businessmen whom he dismissed as “the unenlightened plutocracy” (Sæther et al. 2014, 49).

Hoff, in parallel, makes arguments about the likely mentality of would-be government planners: that those who sought power most energetically were the people least likely to restrain themselves in using it; that if they were convinced they knew better than others what was in the public interest, they would be reluctant to yield to others; and that if they would not tolerate individual choice in the economy, they most likely would not tolerate individual choice elsewhere. Frisch conceded that there was something in these arguments but effectively chose to ignore them.

Hoff presented the ‘road to serfdom’ thesis three years before Hayek published his famous book. In Italy, the economist Luigi Einaudi (1957/1931) had also made some of the same points in a notable exchange with the philosopher Benedetto Croce (1957/1927), and in Sweden, Eli F. Heckscher (1934) and Gustav Cassel (1934) had warned in no uncertain terms that central planning might lead to tyranny. All of these 20th-century diagnoses and warnings may be seen as the continuation of a great many earlier warnings about the perils of centralization.

Frisch’s challenge to Hoff was revealing: “Would two persons in a boat not find it practical to row in the same rhythm, even if one is a Muslim and the other one a Catholic?” Frisch gives this analogy to suggest that government intervention is analogous to people finding a common rhythm in rowing. But the crucial difference is whether the rhythm is brought about by voluntary mutual adjustments of economic agents or by conforming to commands from above. Hoff’s main
point in his letters to Frisch was that the free market is a forum for separate and independent boating, where each person finds his own rhythm, whereas central planning requires rowing to the beat of the same drummer.

However, can the postwar record of Norway and the other Scandinavian countries not be invoked, as by Jeffery Sachs (2006), against the ‘road to serfdom’ thesis? These countries still seem to be democracies that have maintained civil liberties. First, it should be mentioned that these were not paradises without serpents. In the second place, appearances can deceive. Preferences may be changed not by direct coercion but by raising the costs of defying consensus. Wills can be bent rather than broken. While censorship was abolished in Norway a long time ago, self-censorship may often have been practiced in a country ruled by the same political party for decades. Indeed, a well-known Norwegian historian once labelled the post-war Norwegian state a one-party state (Seip 1963). “I have always believed that this sort of servitude, regulated, mild and peaceful,” Alexis de Tocqueville observed, “could be combined better than we imagine with some of the external forms of liberty” (Tocqueville 2010/1840, IV:1252).

Thirdly, Hoff presented a warning, not a prediction, and it was a warning directed against the idea of central economic planning rather than against the network of petty economic restrictions which was developed in postwar Norway. To some extent, Social Democrats in the Nordic countries heeded the warnings presented by Hoff, Hayek, and other economic liberals. The economies of the Nordic countries remained relatively free. Fourthly, the Nordic conservative-liberal tradition of liberty under the law was strong enough not only to withstand the assault of kings during the Middle Ages, but also of socialists in the twentieth century. The difference was that the kings based their claim to absolute power on the grace of God and the socialists on the grace of the People. The three crucial factors enabling the Nordic nations to maintain their liberties were the rule of law, an open economy, and social cohesion.

About the text: The four letters translated here appear in in Trygve J. B. Hoff, Tanker og Ideer (Oslo: Aschehoug, 1975), pp. 49–65; they are the only letters between the two men in that volume and, to my knowledge, that passed between them. The letters are provided in full. All of the footnotes are mine. The two minor in-text insertions by me are in square brackets, giving original-language names of two periodicals referred to.

3. For example, after the war the Norwegians passed retroactive laws against collaborators despite a clear constitutional stipulation that no law could be given retroactive effect. They sent their most famous novelist to a lunatic asylum, although he was obviously sane as he subsequently demonstrated with a book about this experience (Hamsun 1949). They treated Norwegian girlfriends of German soldiers with great cruelty (Aarnes 2018). During the Cold War, the ruling Labour Party used the secret service against its enemies, mostly communists (Lund 1996).
References


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1. Hoff to Frisch

Oslo, 4 November 1941.

Professor Ragnar Frisch
Ris, Vinderen.

Dear Frisch,

You said some time ago that your goal was ‘a planned economy and a free culture.’ For indisputable reasons you have a lot of influence, and since you might have an impact on the people determining the future of our country, I would like to make a few comments.

I also have a free culture as a main goal. But I am convinced that we will not achieve this under a planned economy. We have to choose.

I indeed recognize that you ride a big and powerful wave when you wish for a planned economy. Planning is not only the objective of the totalitarian states, but businessmen in democratic societies also push for it at full speed.

Partly, businessmen want to eliminate a troublesome factor, competition (even if it means their disappearance as independent businessmen). And partly, they are influenced by the war economies and totalitarian propaganda. Your proposal of a planned economy will therefore not meet much resistance from them.

The last time we spoke you expressed some qualifications about the extent of planning. This is a crucial point. When you nevertheless insist on a planned economy, I must assume that you are not only proposing anti-trust laws and traffic controls, but some more extensive planning, an economy directed according to a plan.

1. The four letters in the original Norwegian are published in Trygve J. B. Hoff, Tanker og Ideer (Oslo: Aschehoug, 1975), 49–65.
2. University of Iceland, 101 Reykjavik, Iceland.
You know my own point of view so I shall be quite brief. It is based on the psychological fact that human beings have difficulties in being tolerant on one sphere (such as culture) when they have at the same time to be intolerant and issue orders on another sphere (such as the economy).

Moreover, I am in general skeptical about the concentration of power, as psychologically power seems to create the need for ever more power. And planning the economy in our modern complex world requires concentrated power.

Finally, the people doing the planning will find it easy to identify their own interests as the public interest and to regard any criticism of them and of planning as socially harmful. Then it gets going. First, they will try and control the press and then logically turn to the arts and sciences. I would not defend the assertion that there is only a difference of degree between currency controls and concentration camps, but I would not deny, either, that there is quite a lot of truth in it.

This is not mere speculation. The tendency to control culture once the economy has been brought under control is as discernible in our modern planners as it was in the ancient despots. We had a typical example in 1935 when Ole Colbjørnsen, Member of Parliament, in The Workers’ Paper [Arbeiderbladet] threatened your colleague Professor Wilhelm Keilhau with dismissal for having dared to object to central planning.3

In the case that this is not sufficient to you, and because I regard this as being of the utmost importance, I am going to cite some people whom you would accept as serious commentators.

Professor Bernard Lavergne writes:

Central planning leads directly to political dictatorship in the same way as it presupposes economic dictatorship. Because of its internal momentum the regime will not survive unless it can acquire both political and administrative authority. This has been the case in all totalitarian states and also in the countries which have just embarked on this course. Every planned economy tends to be more and more complex and commandeering. To implement the plan inevitably the state has to be dictatorial. … The political and the economic dictatorship require and condition each other. Have the supporters of democracy and central planning thought of this necessary connection?4

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3. Ole Colbjørnsen (1897–1973) was a Norwegian economist, journalist, and vocal advocate of central economic planning in Norway. Wilhelm Keilhau (1888–1954) was a Norwegian historian and economist, Professor of Economics at the University of Oslo and, like Hoff, a strong opponent of central economic planning.

I suppose that you are familiar with the conditions in totalitarian states—we are becoming acquainted with them in our own country as well—but just to make sure I cite a report on the organization of the German economy: "The national socialist movement identifies with the state and seeks in the public interest totally to control society in all its sectors and to the utmost extent." \(^5\)

The most comprehensive documentation of the interference by totalitarian states in scientific and cultural affairs is to be found in *Annals of the American Academy*. It covers both the situation in Germany and the Soviet Union and is quite valuable. \(^6\)

"It is not a mere coincidence that the cult of a directed civilization should be accompanied by a general foreboding that modern civilization is doomed," Walter Lippmann writes in *The Good Society*. \(^7\) Frank H. Knight comments that a regime of collectivism will inevitably be a dictatorship, a tyranny over the whole cultural and personal life of man as well as over economic activity, however defined. \(^8\) And: "It is reasonable to suppose that the actual human beings in charge of the system would have to adopt this course whether they wanted to or not; and will anyone argue that those who would gravitate into positions of such power would be persons who would abhor the exercise of power beyond the carefully considered necessities of the situation?\(^9\)"

Knight also writes: "It seems to me certain: (a) that the governing personnel in a socialistic state would be in a position to perpetuate themselves in power if they wished to do so; (b) that they would be compelled to assume permanence of tenure and freedom from the necessity of seeking frequent re-election as a condition of administering the economic life of a modern nation, even if they did not wish to do so; and (c) that they would wish to do so—that we cannot reasonably imagine...

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8. Frank H. Knight, Lippmann’s *The Good Society*, *Journal of Political Economy*, 46:6 (1938), 865. In his letter, Hoff quoted from memory some of the passages in Knight’s 1938 articles. Here the references are to the original.
political power on the scale involved falling into the hands of persons of whom this would not be true. 10

In another passage, Knight writes that ‘the probability of the people in power being individuals who would dislike the possession and exercise of power is on a level with the probability that an extremely tender-hearted person would get the job of whipping-master on a slave plantation.’ 11

Walter Sulzbach writes in an article on ‘Tolerance and the Economic System’:

The very essence of the conception of planning is that a design can be adopted to which the people will thereafter conform. That is equivalent to saying that a democratic people cannot have a planned economy, and that so far as they desire a planned economy they must suspend responsible government. A socialist government can solve this difficulty only by forbidding free discussion and by insisting on the acceptance of the belief in the superior wisdom of the government. 12

Professor J. M. Keynes wrote in 1933 an article called ‘National Self-Sufficiency’ where he recommended autarchy, in other words a soft version of planning. Nonetheless Keynes realizes that a possible consequence might be intolerance and suppression of criticism. Keynes says that if this would be the result, he would start again preaching the ideals of the 19th century. 13 But how would he have the opportunity if the access to criticism has been blocked? You can find more comments in Professor Louis Rougier’s book, Les Mystiques Economiques, and in articles by Professors Röpke and Rüstow in Die Friedens-Warte. 14

Generally speaking, it is hopeless to persuade people to change their minds. The reason why I make the effort to write to you—besides the fact that I consider this matter to be of utmost importance—is that I know you are ready to be convinced by valid arguments and solid facts. Both do exist in this case.

10. Frank H. Knight, Socialism: The Nature of the Problem, Ethics, 5:3 (1940), 264.
The conclusion is in my opinion inevitable: If you want to regulate the economy, you will soon have to regulate the world of ideas. This prepares the way to the totalitarian state. If you want to fight for the freedom of expression, you also have to fight for a free economy. This is the same front.

Greetings,

Trygve J. B. Hoff.

PS. As mentioned, I take the liberty to send copies of this letter to a few common acquaintances.  
PPS. And finally, a reminder: ‘Political liberty can survive only within an effectively competitive economic system,’ Professor Henry C. Simons writes.15

2. Frisch to Hoff

Oslo, 10 November 1941.

Director Trygve Hoff
Oslo

Dear Hoff,

‘Economic regulation and freedom of expression’

Thank you for your letter from 4 November referring to our discussions some time ago.

In the interest of clarity, I will also permit myself to express my opinions in a letter. I support—just like you—as much freedom and individuality as possible in the world of ideas. The experience of centuries has for example shown us that without it science will just wither away. Science cannot survive without continually vigorous and independent critical thought and new questions. Therefore, I am willing to fight for my neighbor’s right to say what he says, even when he says he is disagreeing with me. The same applies to the other highest forms of human flourishing. Altruism and self-sacrifice are for example only possible under freedom.

I am however unable to accept that this ideal of freedom necessarily presupposes a right of the individual to attend to all his business affairs at will. Would two persons in a boat not find it practical to row in the same rhythm, even if one is a Muslim and the other one a Catholic?

You quote a lot of authors who hold that freedom of thought cannot be separated from economic freedom. There is of course something to what those authors mention, but permit me to say that these ‘proofs’ do not in general have any impact on me. Because I remember comparable proofs in a different cause. In the years before the present war many books were written—including books with many quotations from other authors—with ‘proofs’ that the Russian type of central planning was inefficient. Whatever one may think about spiritual life under the Soviet system—on which I shall not comment in this connection—there were those who ‘proved’ that this system was not only technically and economically inferior to the competitive system, but that it was also such a failure that it would sooner or later fall like a house of cards. I can for example mention that in a doctoral dissertation a while ago at our university it was seriously asserted that the utilization of capital goods under central planning would be so chaotic that molybdenum might be used to make toy swords instead of ordinary swords.\textsuperscript{16} A war for five months has demonstrated how much those ‘proofs’ are worth.\textsuperscript{17} The Soviet system has both technically and institutionally shown a strength which has surprised the world. There is reason to believe that despite everything the molybdenum found its way to the real swords, and in this connection, it is not far off to compare Russia’s technical and institutional performance now with her performance in the previous war.

This is not at all said in order to glorify the Soviet system. There is much good and bad to be said about it. This is just said in order to characterize a certain kind of ‘proofs’ and to explain why I must be skeptical about this although I try hard to keep an open mind.

Personally I believe that we are entering a period where more developed forms of economic regulation will force themselves upon us. They are inevitable—and I believe appropriate—reactions against the defects which had emerged. The monstrous distortions of the Great Depression in the 1930s: the deliberate destruction of goods, the persistent unemployment and machines standing still in a world of distress, they could in my opinion to a large extent be traced to some ‘individualistic’ features of our economic system.

Now this has to be corrected, but it does not imply that the period of regulation has to last forever. Perhaps it will only last until in a natural process businessmen become sufficiently enlightened and public spirited that a return to economic liberalism ‘on a higher level’ will take place.

I am not dogmatic and I reserve the right to judge each of the new regulatory

\textsuperscript{16} Trygve Hoff, \textit{Economic Calculation}, pp. 91 and 329.
\textsuperscript{17} Frisch is of course referring to the war on the Eastern Front which began when Hitler invaded Russia on 22 June 1941.
measures from a practical point of view. I do not desire regulation for its own sake. I would prefer that a sufficient coordination would be achieved without interference, but I would not either shy away from regulation where it turns out to be necessary. In principle, I would say that regulations to the greatest extent possible should be in the form of ‘rules of the game,’ in other words general prescriptions about price calculations, methods of exchange, use of bank accounts and so on, and not in the form of ‘guardianship,’ in other words not authorities which interfere with the daily operations of enterprises. When regulations are in the form of ‘rules of the game,’ there is least danger that they will threaten freedom of thought. This is like improving the machine instead of watching over the machinist. I believe that there are many opportunities for such improvements. But it presupposes quite much greater skill in managing the social and economic machinery than our businessmen and politicians have had. Therefore I believe that the time ahead will demand much of political economy, and especially of what we are now calling econometrics and national accounting.

With regards, Ragnar Frisch.

PS: I send you a few copies of this letter if you want to forward it to some of those to whom you sent copies of your own letter. I have myself sent a few copies to some common acquaintances. R. F.

3. Hoff to Frisch

Oslo, 22 November 1941.
H/JR

Personal

Professor Ragnar Frisch
Oslo

Dear Frisch:

On the Subject of the Discussion.

You have to be so kind as to explain what you mean by economic regulation if we are to get any result out of the main question (to what extent freedom of thought is compatible with economic regulation).

You say that you would like ‘general prescriptions about price calculations, methods of exchange, use of bank accounts and so on.’ What do those prescriptions mean? And what does ‘so on’ mean? Words are of little use if their meaning
is not clear. In Germany, private enterprise is supposed to be maintained whereas a Swedish observer (sympathetic) writes this year that ‘the government directives often seem in practice to be commands.’

If you only mean by ‘rules of the game’ decisions that one should for example determine prices according to costs rather than according to repurchase prices, and that factories should be obliged (or not obliged) to use wholesale dealers, then this will have economic and material consequences, but not necessarily consequences for freedom of thought.

If on the other hand your ‘rules of the game’ mean that businessmen may not use their bank accounts for purchases when they think that there are opportunities, or to buy from whomever they choose or to sell to whomever they choose, and that they may not charge the prices which offers and demand and risk determine, then we find ourselves in a coercive society which will, as both theoretical considerations and the empirical evidence tell us, present very limited possibilities for your ‘as much freedom and individuality as possible in the world of ideas.’

On your aside comments.

I am happy with your aside comments. They raise interesting questions which deserve a better analysis.

On Freedom of Thought.

You embrace Voltaire’s noble exclamation: ‘I disagree strongly with what you say but I would die defending your right to say it.’ This is also my motto, but would Voltaire also have defended this right against opponents who wanted to destroy freedom of thought? Against opponents who would not allow Voltaire to express his opinions, who would have burned his books, and locked him up, or made any discussion of ideas impossible? And would you?

You say that you are willing to fight for your neighbor’s right to say what he says, even when he says he is disagreeing with you. If I had known this, then I would have asked for your help in influencing your associate in political economy, Ole Colbjørnsen, who consistently refuses to publish factual corrections in the Workers’ Daily [Arbeiderbladet] and who even refuses to print your colleague Professor Keilhau’s responses to attacks.

Hopefully you agree that in a society where a large segment of the population becomes insular and dull by only reading one party organ, freedom of thought becomes illusory when the party organs refuse to publish divergent opinions.

One might ask whether the law on the freedom of the press and of assembly should not be complemented by a stipulation that would oblige editors and

organizers to provide opportunity for people with divergent opinions to express them.

*On the Soviet System versus the Competitive System.*

As an explanation of your unwillingness to accept my arguments and of those whom I quote, you refer to Soviet Russia’s effort during the war.

As will be seen below, I am quite happy that you refer to Soviet Russia, but the example is irrelevant.

You contrast the competitive system with the Soviet system of central planning during a war. The comparison should of course be made between the two systems in peace, in the case when, if I may quote you, ‘the total value of output in the communist system would be used to achieve the greatest possible welfare for the total population.’

Economic planning becomes quite different and much easier during a war, because it then has just one goal, to win the war, because all the available instruments have to be directed towards that goal, and because the military experts can then create preference functions to achieve the optimal utilization of the resources available.

To quote myself: ‘If, for example, the society takes as its only aim the development of a war machine of a certain size ... , a military central authority will, presumably, be able better than any other to determine the relative value of existing resources in the light of *this particular aim.* The task of the military authorities will be considerably easier, if they can disregard questions of satisfying the wishes of the individuals.’

There are economic experts (for example Professor Rüstow) who consider free competition to be superior and indispensable also in wartime because varying prices will reveal to the military command which raw materials are scarce, but I am not going to discuss that.

I conclude that central economic planning using coercion is most effective in war (and when the task is to eliminate economic variables for econometricians), but I repeat that the premise of war is not acceptable when central planning is being compared to free competition.

Even if it had been acceptable, your reference would not have had any force because of the unrealistic simplification you are making.

The power of the Soviet military operations is also caused by several other factors of which I mention the following: that Soviet Russia was with Germany

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the most militarized state in the world, that the youth are brought up as warriors and that the soldiers constitute a privileged (well-fed and well-equipped) class. In addition, one could mention psychological factors such as the fanatical patriotism of the Russians, their Messianic belief that they will save the world (through communism) and their strange and barbaric destructive urge which has made possible the complete and extraordinary destruction of cities, factories and resources (a very important factor). It is also well known that conditions of climate and nature have played a role.

But the munitions? Yes, they have been both good and not so good. I have personally spoken with people who watched the Russian troops in the Baltic countries and who are very critical of their equipment. In his book, *Red Flood Rising*, the representative of the Red Cross in Lithuania, Ignas J.–Scheynius, writes:

> We sum up our observations about the ability of the red transport vehicles and war machines to reach their destinations. The total number of vehicles on the roads is difficult to estimate but it may be as much as seven thousand. The vehicles pausing for repairs are according to my calculations about 61 percent. Wooderson [another Red Cross employee] is more cautious, his estimate is only 59.5 percent. … After a week I can compare the estimates of Wooderson and me to those of a Lithuanian engineer working in munitions. He has made observations in many places and on many occasions, concluding that on average 60 percent of the Soviet military vehicles come to a self-induced standstill on the roads. He considers the causes to be the following: second-rate material, defective manufacturing, inadequate care and poor organization of the repairs.

> Even if most of the Russian weapons would be first class (as I believe), this would not say much about the Soviet system, because the aeroplanes and the weapons are partly imported and partly manufactured on the base of foreign patents and with foreign machinery.

> In times when the Soviets were regarded as allies, they were quite adroit in obtaining expert advice and patents. For example, they got the ‘Hispano-Suiza’ patents for aeroplane motors from France and Curtiss-Wright patents from the United States. Presumably you would agree that weapons and aeroplanes obtained on this basis tell us more about the cleverness and foresight of Soviet diplomats than anything else.

21. Ignas Jurkunas (1889–1959) was a Lithuanian diplomat and author who wrote under the pen name Ignas Seinius. He changed the name to Scheynius when he fled to Sweden in 1940, having served for a while for the Red Cross in Lithuania. His book, *Den röda floden stiger* (Stockholm: Bonniers, 1940), has been republished under the name *Stalin ockuperar Litauen 1940* (Hallstavik: Svenskt militärhistoriskt bibliotek, 2008).
You mention people who have ‘proved’ that the Soviet system is inefficient and so inferior to the system of free competition that ‘it must sooner or later collapse like a house of cards.’ Are you not attacking a strawman which you have yourself invented? I know nobody who has asserted this.

Since you are obviously referring to me—although you are polite enough not to mention my name—I may mention that I have written almost the opposite, namely that ‘a socialist society with workers, material and engineering ability can build factories, workshops, and power stations, and produce consumer goods. Nor is there anything to prevent the managers, whether impelled by force or reward, from conducting them with technical efficiency. … The question, however, is not whether factories can be built and efficiently conducted, but whether the factors of production could have been put to a more advantageous use by employing them elsewhere.’

Here we return to another of your points, the assertion which seems to have troubled you so much: that Soviet central planning might lead to the use of molybdenum for toy swords. There is no reason however to despair because the doctoral candidate in question was right (as anyone who makes the effort to study the actual situation can easily confirm).

Leonard Hubbard who lived for many years in Russia writes: ‘For example a factory may use large quantities of rather scarce raw materials which would be needed in another enterprise producing more useful goods.’

The French economist Dr. Robert Mossé who is sympathetic to socialism, in 1939 published a book based on studies in Soviet Russia (which incidentally confirmed the correctness of the doctoral candidate mentioned above). Mossé writes: ‘The Soviet system does not take into account natural resources in their raw state and this makes impossible the rational allocation of resources to alternative uses, with enormous waste as a result.’

Is it possible to get closer to the molybdenum toy swords?

And here you can get a taste of the efficiency of the system:

Pravda reports (8 August 1936) that of 9,992 automobiles examined, 1,958 turned out to be defective.

Pravda reports (23 September 1936) that 1,300 out of 2,345 chairs produced were unusable.

Pravda reports (18 November 1936) that according to plan the main gramophone records factory in Nojevik was supposed to deliver four million records

22. Hoff, Economic Calculation, 190.
in 1935. It delivered 1,992,000 of which 309,800 were unusable. The number of rejected gramophone records in 1936 was on the increase. It was 156,200 in the first quarter, 259,400 in the second quarter, and 614,000 in the third quarter. In October 1936, 607,000 records were rejected.

In Pravda (23 September 1936) Professor Burdenko complains about the inferior quality of surgical equipment.25

Pravda reports (4 November 1936) that 99 percent of the copybooks produced in the factory ‘Heroes of Labour’ were unusable.

Izvestia reports (12 December 1936) that 8,000,000 copybooks had to be thrown away in Rostov.

Do you believe this could happen in the system of free competition?

The inefficiency is not limited to the year 1936. Readers of Russian newspapers confirm that similar denunciations are made every year. Here is an extract of a long article the Soviet Commissar of Finance, Comrade Zverev,26 writes in Pravda on 15 May 1939:

The Noginsky gramophone records factory has used too much of the material which can be used to produce gramophone records. … Instead of 230 g a record it uses on average 280 g. As a result, the factory produced 10,233,000 less than planned. … In several enterprises belonging to the People's Commissariat for Machine Production the loss from rejected products is just as big in 1938 as it was in 1937. In the factory Kommunar (agricultural equipment) the loss from unusable products in 1938 amounted to 98 percent of the cost.

The newspaper Komsomolskaya Pravda reports on 17 May 1939:

The foundry guild was commissioned to cast eight cylinders for a servo motor. The deadline has long since been passed, but now only 5 of them have been cast, out of which 4 have been rejected. Of 47 shovels 23 have been rejected.

The Water Transport writes in May 1939:

There is no fight against delays and breakdowns. The fleet is not ready. The work on the largest Volga wharf has come to a halt. The lack of discipline aboard the ships is terrible. Carelessness and economic ignorance are common.

25. Nikolay N. Burdenko (1876–1946) was Professor of Neurosurgery at Moscow State University.
Do you believe that this could take place in a system of free competition? And these are not single instances. There are thousands of them. And remember that here we are talking about inefficiency in a sphere where you yourself have indicated a natural goal: to produce the greatest fulfilment of human needs possible for the whole population.

The results are even sadder when spiritual life is concerned although you say that you are not going to comment on it. I will therefore not dwell on it, but should we not discuss the effects of central economic planning on spiritual life?

*Economic Regulation and Monstrous Distortions.*

As an argument for more regulation of economic life, you refer to ‘the monstrous distortions of the Great Depression in the 1930s: the deliberate destruction of goods, the persistent unemployment and machines standing still,’ because you believe that they could ‘to a large extent be traced to some “individualistic” features of our economic system.’

It is here that I get troubled. I have heard and seen this assertion hundreds of times from economists supporting central planning and from would-be economists. A long time ago I realized that the case against the efficiency of the system of free competition is made by people who do whatever they can to obstruct the free economy (with the result that it has not stood a fair chance in Europe in the last twenty years). But I had not expected to hear this assertion from you.

I am sorry that I have to say that the truth is quite the opposite of what you assert. The monstrous distortions are caused by not allowing individual adjustments and free competition to operate. Minimum prices have been set—often imposed from above—which have affected both demand and supply, so that the pileup of goods—and consequently their destruction—has been inevitable.

Do you not know that it was with the consent of the Brazilian government that a lot of the coffee supply was destroyed? Do you not know that stipulations in the ‘Agricultural Adjustment Act’ in America led to wheat being burnt and six million piglets being slaughtered? This is indeed the case, and if you are in doubt, I can refer you to the existing literature on the topic, including reports from the Economic Committee of the League of Nations.

Your letter suggests that you believe these ‘monstrous distortions’ are derived from the Great Depression. This is not so. Price interferences (with pileups as results) have taken place in various countries since 1906, and the American stipulations which led to the pileup of goods, burning of wheat and slaughtering of piglets were introduced in 1929, long before the swing downwards.

If you however want to discuss the problems of depression and unemployment, then I am willing to do so, but then we must dig deeper and confirm the goals and premises (for example whether or not there should be a free choice between
trades and workplaces, and whether or not society should encourage economic growth, and so on).

Speaking of unemployment, are you aware of the enormous progress in the agro-biological field? The doubling of plant chromosomes is considered to be as momentous as the invention of the steam engine. Do you know that to cultivate a bushel of wheat today only requires two-fifths of the working hours required in 1914–1918?²⁷

If government wants to maintain the number of people employed in agriculture by regulation and minimum prices, then it is obvious that the result will be unemployment (unless the wheat will be used in industrial production—or as fuel).

**Liberalism.**

You suggest that ‘a return to economic liberalism “on a higher level” will take place’ when ‘in a natural process businessmen become sufficiently enlightened and public spirited.’

I have also hoped for the return to a new liberalism, but probably it is a different one from that which you wish for. I have hoped for a liberalism with regulation to ensure free competition and the price mechanism, and thus to frustrate the attempts of businessmen, with or without government support, to form monopolies, cartels and price arrangements in order to exploit the consumers.

I do not know what you mean by businessmen being ‘public spirited.’ If you are thinking about the awareness by industrialists and merchants of their group interests, I can assure you that this awareness is certainly there. After receiving help from the Thagaards of various countries,²⁸ they will be even keener on eliminating free competition than in Adam Smith’s times.

If you use ‘public interest’ in a political sense, something akin to ‘Gemeinnutz,’²⁹ then we have some experience to guide us if you will make the effort to study it.

**Conclusion.**

I have enjoyed our exchange of ideas as a contribution to a real discussion. From a scholarly point of view I am happy to have alerted our only professor of political economy to circumstances of which one must know in order to discuss

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²⁷. *Farm Economics*, 124 (April 1941), 3115. Published by New York State College of Agriculture at Cornell University.

²⁸. Wilhelm Thagaard (1890–1970) was a Norwegian lawyer and public servant. He was Director of the Price Directorate from 1940 to 1960. A law from 1945 was often named after him, Lex Thagaard, which gave extensive powers to the Price Directorate. It was abolished in 1953, when the Labour Party had to give in after a bitter confrontation with the business community and the Conservative Party.

²⁹. ‘Gemeinnutz’ was the slogan of the German Nazi Party, ‘Gemeinnutz geht vor Eigennutz.’
these important and urgent questions.

‘Sub specie futurae,’ from the point of view of the future, this exchange of ideas has however been quite dispiriting because it has made me realize that national socialism will triumph—quite independently of the military outcome of the war.

For reasons which it would take too long to explain here, I still maintain a small hope about neo-liberalism, but the odds are against it given how the extraordinary lessons of the interwar period have been passed by.

It is not to be expected that the many economists supporting central planning because they seek power, will change their opinions. There is little reason, also, to rely on the business community, although I had not anticipated that it would so quickly and so strongly be influenced by the authoritarian mindset and autarchic arguments.

But I had put some hopes into political economists of an independent mind who were not seeking any personal gain. When I nevertheless see what an outstanding representative of this group can write without knowledge of the facts, I must agree with Professor Simons when he says: ‘The real enemies of liberty are the naïve advocates of managed economy or national planning.’

Greetings,
Trygve J. B. Hoff.

4. Frisch to Hoff

Oslo, 18 December 1941.

Dear Hoff,

Thank you for your long letter (produced as a duplicate) of 22 November. I apologize that I did not reply earlier.

In my response to your first message (on 4 November) I did not, contrary to what you asserted, discuss the Soviet system in war. I referred to what we can conclude about the Soviet system in the years preceding the war, precisely in the period under discussion in your doctoral dissertation for which your many quotations are relevant. The evidence shows that ‘proofs by quotations’ about Soviet Russia in this period are in vain. You must forgive me that this makes me in general skeptical about ‘proofs by quotations’.

Incidentally, I have no occasion to continue this discussion although it has been entertaining.

Greetings,
Ragnar Frisch.

PS. A short paper is attached. Sent by delivery.

About the Authors

Trygve Hoff (1895–1982) graduated in economics from the University of Oslo in 1916, became an economic commentator for Norwegian newspapers, and in 1938 completed a doctoral dissertation on economic calculation under socialism. After the Second World War he became somewhat of a classical liberal voice in the wilderness in Norway. Hoff was a founding member of the Mont Pelerin Society in 1947. In his magazine he published many articles and criticized restrictions implemented by the dominant Labour Party.

Ragnar Frisch (1895–1973) completed his doctorate on mathematical statistics at the University of Oslo in 1926 and later became Professor of Economics and Statistics at the University of Oslo and Director of the Institute of Economics at the University. A democratic socialist, Frisch became influential in Norway in the next few decades, filling the posts at his Institute with likeminded people and training many economists who became high officials, academics, or politicians, mostly in the Labour Party. He was, with Dutch economist Jan Tinbergen, a first recipient of the Nobel Prize in Economics in 1969.