

Human Action

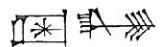
A Treatise on Economics



LUDWIG VON MISES

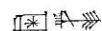
Edited by Bettina Bien Greaves

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tional capital. All the babble of the welfare propagandists aims only at one end, namely, obscuring this point, the point that alone matters. While the accumulation of additional capital is the indispensable means for any further economic progress, these people speak of "oversaving" and "overinvestment," of the necessity of spending more and of restricting output. Thus they are the harbingers of economic retrogression, preaching a philosophy of decay and social disintegration. A society arranged according to their precepts may appear to some people as fair from the point of view of an arbitrary standard of social justice. But it will certainly be a society of progressing poverty for all its members.

For more than a century public opinion in Western countries has been deluded by the idea that there is such a thing as "the social question" or "the labor problem." The meaning implied was that the very existence of capitalism hurts the vital interests of the masses, especially those of the wage earners and the small farmers. The preservation of this manifestly unfair system cannot be tolerated; radical reforms are indispensable.

The truth is that capitalism has not only multiplied population figures but at the same time improved the people's standard of living in an unprecedented way. Neither economic thinking nor historical experience suggest that any other social system could be as beneficial to the masses as capitalism. The results speak for themselves. The market economy needs no apologists and propagandists. It can apply to itself the words of Sir Christopher Wren's epitaph in St. Paul's: *Si monumentum requiris, circumspice.*¹²

¹². If you seek [his] monument, look around.

CHAPTER 36

The Crisis of Interventionism

1 The Harvest of Interventionism

The interventionist policies as practiced for many decades by all governments of the capitalistic West have brought about all those effects which the economists predicted. There are wars and civil wars, ruthless oppression of the masses by clusters of self-appointed dictators, economic depressions, mass unemployment, capital consumption, famines.

However, it is not these catastrophic events which have led to the crisis of interventionism. The interventionist doctrinaires and their followers explain all these undesired consequences as the unavoidable features of capitalism. As they see it, it is precisely these disasters that clearly demonstrate the necessity of intensifying interventionism. The failures of the interventionist policies do not in the least impair the popularity of the implied doctrine. They are so interpreted as to strengthen, not to lessen, the prestige of these teachings. As a vicious economic theory cannot be simply refuted by historical experience, the interventionist propagandists have been able to go on in spite of all the havoc they have spread.

Yet the age of interventionism is reaching its end. Interventionism has exhausted all its potentialities and must disappear.

2 The Exhaustion of the Reserve Fund

The idea underlying all interventionist policies is that the higher income and wealth of the more affluent part of the population is a fund which can be freely used for the improvement of the conditions of the less prosperous. The essence of the interventionist policy is to take from one group to give to another. It is confiscation and distribution. Every measure is ultimately justified by declaring that it is fair to curb the rich for the benefit of the poor.

In the field of public finance progressive taxation of incomes and estates is the most characteristic manifestation of this doctrine. Tax the rich and spend the revenue for the improvement of the condition of the poor, is the principle of contemporary budgets. In the

field of industrial relations shortening the hours of work, raising wages, and a thousand other measures are recommended under the assumption that they favor the employee and burden the employer. Every issue of government and community affairs is dealt with exclusively from the point of view of this principle.

An illustrative example is provided by the methods applied in the operation of nationalized and municipalized enterprises. These enterprises very often result in financial failure; their accounts regularly show losses burdening the state or the city treasury. It is of no use to investigate whether the deficits are due to the notorious inefficiency of the public conduct of business enterprises or, at least partly, to the inadequacy of the prices at which the commodities or services are sold to the customers. What matters is the fact that the taxpayers must cover these deficits. The interventionists fully approve of this arrangement. They passionately reject the two other possible solutions: selling the enterprises to private entrepreneurs or raising the prices charged to the customers to such a height that no further deficit remains. The first of these proposals is in their eyes manifestly reactionary because they believe that the inevitable trend of history is toward more and more socialization. The second is deemed "antisocial" because it places a heavier load upon the consuming masses. It is fairer to make the taxpayers, i.e., the wealthy citizens, bear the burden. Their ability to pay is greater than that of the average people riding the nationalized railroads and the municipalized subways, trolleys, and buses. To ask that such public utilities should be self-supporting, is, say the interventionists, a relic of the old-fashioned ideas of orthodox finance. One might as well aim at making the roads and the public schools self-supporting.

It is not necessary to argue with the advocates of this deficit policy. It is obvious that recourse to this ability-to-pay principle depends on the existence of such incomes and fortunes as can still be taxed away. It can no longer be resorted to once these extra funds have been exhausted by taxes and other interventionist measures.

This is precisely the present state of affairs in most of the European countries. The United States has not yet gone so far; but if the actual trend of its economic policies is not radically altered very soon, it will be in the same condition in a few years.

For the sake of argument we may disregard all the other consequences which the full triumph of the ability-to-pay principle must bring about and concentrate upon its financial aspects.

The interventionist in advocating additional public expenditure is not aware of the fact that the funds available are limited. He does not realize that increasing expenditure in one department enjoins restrict-

ing it in other departments. In his opinion there is plenty of money available. The income and wealth of the rich can be freely tapped. In recommending a greater allowance for the schools he simply stresses the point that it would be a good thing to spend more for education. He does not venture to prove that to raise the budgetary allowance for schools is more expedient than to raise that of another department, e.g., that of health. It never occurs to him that grave arguments could be advanced in favor of restricting public spending and lowering the burden of taxation. The champions of cuts in the budget are in his eyes merely the defenders of the manifestly unfair class interests of the rich.

With the present height of income and inheritance tax rates, this reserve fund out of which the interventionists seek to cover all public expenditure is rapidly shrinking. It has practically disappeared altogether in most European countries. In the United States the recent advances in tax rates produced only negligible revenue results beyond what would be produced by a progression which stopped at much lower rates. High surtax rates for the rich are very popular with interventionist dilettantes and demagogues, but they secure only modest additions to the revenue.¹ From day to day it becomes more obvious that large-scale additions to the amount of public expenditure cannot be financed by "soaking the rich," but that the burden must be carried by the masses. The traditional tax policy of the age of interventionism, its glorified devices of progressive taxation and lavish spending have been carried to a point at which their absurdity can no longer be concealed. The notorious principle that, whereas private expenditures depend on the size of income available, public revenues must be regulated according to expenditures, refutes itself. Henceforth, governments will have to realize that one dollar cannot be spent twice, and that the various items of government expenditure are in conflict with one another. Every penny of additional government spending will have to be collected from precisely those people who hitherto have been intent upon shifting the main burden to other groups. Those anxious to get subsidies will themselves have to foot the bill. The deficits of publicly owned and operated enterprises will be charged to the bulk of the population.

1. In the United States the surtax rate under the 1942 Act was 52 per cent on the taxable income bracket \$22,000–\$26,000. If the surtax had stopped at this level, the loss of revenue on 1942 income would have been about \$249 million or 2.8 per cent of the total individual income tax for that year. In the same year the total net incomes in the income classes of \$10,000 and above was \$8,912 million. Complete confiscation of these incomes would not have produced as much revenue as was obtained in this year from all taxable incomes, namely, \$9,046 million. Cf. *A Tax Program for a Solvent America*, Committee on Postwar Tax Policy (New York, 1945), pp. 116–17, 120.

The situation in the employer-employee nexus will be analogous. The popular doctrine contends that wage earners are reaping "social gains" at the expense of the unearned income of the exploiting classes. The strikers, it is said, do not strike against the consumers but against "management." There is no reason to raise the prices of products when labor costs are increased; the difference must be borne by employers. But when more and more of the share of the entrepreneurs and capitalists is absorbed by taxes, higher wage rates, and other "social gains" of employees, and by price ceilings, nothing remains for such a buffer function. Then it becomes evident that every wage raise, with its whole momentum, must affect the prices of the products and that the social gains of each group fully correspond to the social losses of the other groups. Every strike becomes, even in the short run and not only in the long run, a strike against the rest of the people.

An essential point in the social philosophy of interventionism is the existence of an inexhaustible fund which can be squeezed forever. The whole system of interventionism collapses when this fountain is drained off: The Santa Claus principle liquidates itself.

3 The End of Interventionism

The interventionist interlude must come to an end because interventionism cannot lead to a permanent system of social organization. The reasons are threefold.

First: Restrictive measures always restrict output and the amount of goods available for consumption. Whatever arguments may be advanced in favor of definite restrictions and prohibitions, such measures in themselves can never constitute a system of social production.

Second: All varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which—from the point of view of their authors' and advocates' valuations—is less desirable than the previous state of affairs which they were designed to alter. If one wants to correct their manifest unsuitability and preposterousness by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it.

Third: Interventionism aims at confiscating the "surplus" of one part of the population and at giving it to the other part. Once this surplus is exhausted by total confiscation, a further continuation of this policy is impossible.

Marching ever further along the path of interventionism, all those countries that have not adopted full socialism of the Russian pattern

are more and more approaching what is called a planned economy, i.e., socialism of the German or Hindenburg pattern. In regard to economic policies, there is nowadays little difference among the various nations and, within each nation, among the various political parties and pressure groups. The historical party names have lost their significance. There are, as far as economic policy is concerned, practically only two factions left: the advocates of the Lenin method of all-around nationalization and the interventionists. The advocates of the free market economy have little influence upon the course of events. What economic freedom still exists is the outcome of the failure of the measures resorted to by the governments, rather than of an intentional policy.

It is difficult to find out how many of the supporters of interventionism are conscious of the fact that the policies they recommend directly lead toward socialism, and how many hold fast to the illusion that what they are aiming at is a middle-of-the-road system that can last as a permanent system—a "third solution" of the problem of society's economic organization. At any rate, it is certain that all interventionists believe that the government, and the government alone, is called upon to decide in every single case whether one has to let things go as the market determines them or whether an act of intervention is needed. This means that they are prepared to tolerate the supremacy of the consumers only as far as it brings about a result of which they themselves approve. As soon as something happens in the economy that any of the various bureaucratic institutions does not like or that arouses the anger of a pressure group, people clamor for new interventions, controls, and restrictions. But for the inefficiency of the law-givers and the laxity, carelessness, and corruption of many of the functionaries, the last vestiges of the market economy would have long since disappeared.

The unsurpassed efficiency of capitalism never before manifested itself in a more beneficial way than in this age of heinous anticapitalism. While governments, political parties, and labor unions are sabotaging all business operations, the spirit of enterprise still succeeds in increasing the quantity and improving the quality of products and in rendering them more easily accessible to the consumers. In the countries that have not yet entirely abandoned the capitalistic system the common man enjoys today a standard of living for which the princes and nabobs of ages gone by would have envied him. A short time ago the demagogues blamed capitalism for the poverty of the masses. Today they rather blame capitalism for the "affluence" that it bestows upon the common man.

It has been shown that the managerial system, i.e., the assign-

ment of ancillary tasks in the conduct of business to responsible helpers to whom a certain amount of discretion can be granted, is possible only within the frame of the profit system.² What characterizes the manager as such and imparts to him a condition different from that of the mere technician is that, within the sphere of his assignment, he himself determines the methods by which his actions should conform to the profit principle. In a socialist system in which there is neither economic calculation nor capital accounting nor profit computation, there is no room left for managerial activities either. But as long as a socialist commonwealth is still in a position to calculate on the ground of prices determined on foreign markets, it can also utilize a quasi-managerial hierarchy to some extent.

It is a poor makeshift to call any age an age of transition. In the living world there is always change. Every age is an age of transition. We may distinguish between social systems that can last and such as are inevitably transitory because they are self-destructive. It has already been pointed out in what sense interventionism liquidates itself and must lead to socialism of the German pattern. Some European countries have already reached this phase, and nobody knows whether or not the United States will follow suit. But as long as the United States clings to the market economy and does not adopt the system of full government control of business, the socialist economies of Western Europe will still be in a position to calculate. Their conduct of business still lacks the most characteristic feature of socialist conduct; it is still based on economic calculation. It is therefore in every respect very different from what it would become if all the world were to turn toward socialism.

It is often said that one half of the world cannot remain committed to the market economy when the other half is socialist, and vice versa. However, there is no reason to assume that such a partition of the earth and the co-existence of the two systems is impossible. If this is really the case, then the present economic system of the countries that have discarded capitalism may go on for an indefinite period of time. Its operation may result in social disintegration, chaos, and misery for the peoples. But neither a low standard of living nor progressive impoverishment automatically liquidates an economic system. It gives way to a more efficient system only if people themselves are intelligent enough to comprehend the advantages such a change might bring them. Or it may be destroyed by foreign invaders provided with better military equipment by the greater efficiency of their own economic system.

2. Cf. above, pp. 305-8.

Optimists hope that at least those nations which have in the past developed the capitalist market economy and its civilization will cling to this system in the future too. There are certainly as many signs to confirm as to disprove such an expectation. It is vain to speculate about the outcome of the great ideological conflict between the principles of private ownership and public ownership, of individualism and totalitarianism, of freedom and authoritarian regimentation. All that we can know beforehand about the result of this struggle can be condensed in the following three statements:

1. We have no knowledge whatever about the existence and operation of agencies which would bestow final victory in this clash on those ideologies whose application will secure the preservation and further intensification of societal bonds and the improvement of mankind's material well-being. Nothing suggests the belief that progress toward more satisfactory conditions is inevitable or a relapse into very unsatisfactory conditions impossible.
2. Men must choose between the market economy and socialism. They cannot evade deciding between these alternatives by adopting a "middle-of-the-road" position, whatever name they may give to it.
3. In abolishing economic calculation the general adoption of socialism would result in complete chaos and the disintegration of social cooperation under the division of labor.