

Human Action

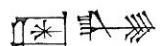
A Treatise on Economics



LUDWIG VON MISES

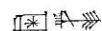
Edited by Bettina Bien Greaves

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The Hampered Market Economy

CHAPTER 27

The Government and the Market

1 The Idea of a Third System

Private ownership of the means of production (market economy or capitalism) and public ownership of the means of production (socialism or communism or "planning") can be neatly distinguished. Each of these two systems of society's economic organization is open to a precise and unambiguous description and definition. They can never be confounded with one another; they cannot be mixed or combined; no gradual transition leads from one of them to the other; they are mutually incompatible. With regard to the same factors of production there can only exist private control or public control. If in the frame of a system of social cooperation only some means of production are subject to public ownership while the rest are controlled by private individuals, this does not make for a mixed system combining socialism and private ownership. The system remains a market society, provided the socialized sector does not become entirely separated from the non-socialized sector and lead a strictly autarkic existence. (In this latter case there are two systems independently coexisting side by side—a capitalist and a socialist.) Publicly owned enterprises operating within a system in which there are privately owned enterprises and a market, and socialized countries, exchanging goods and services with nonsocialist countries, are integrated into a system of market economy. They are subject to the law of the market and have the opportunity of resorting to economic calculation.¹

If one considers the idea of placing by the side of these two systems or between them a third system of human cooperation under the division of labor, one can always start only from the notion of the market economy, never from that of socialism. The notion of socialism with its rigid monism and centralism that vests the powers to choose and to act in *one will* exclusively does not allow of any compromise or concession; this construction is not amenable to any adjustment or alteration. But it is different with the scheme of the market economy. Here the dualism of the market and the government's power of coercion and compulsion suggests various ideas. Is it really peremptory

1. See above, pp. 258–59.

or expedient, people ask, that the government keep itself out of the market? Should it not be a task of government to interfere and to correct the operation of the market? Is it necessary to put up with the alternative of capitalism or socialism? Are there not perhaps still other realizable systems of social organization which are neither communism nor pure and unhampered market economy?

Thus people have contrived a variety of third solutions, of systems which, it is claimed, are as far from socialism as they are from capitalism. Their authors allege that these systems are nonsocialist because they aim to preserve private ownership of the means of production and that they are not capitalistic because they eliminate the "deficiencies" of the market economy. For a scientific treatment of the problems involved which by necessity is neutral with regard to all value judgments and therefore does not condemn any features of capitalism as faulty, detrimental, or unjust, this emotional recommendation of *interventionism* is of no avail. The task of economics is to analyze and to search for truth. It is not called upon to praise or to disapprove from any standard of preconceived postulates and prejudices. With regard to interventionism it has only one question to ask and to answer: How does it work?

2 The Intervention

There are two patterns for the realization of socialism.

The first pattern (we may call it the Lenin or the Russian pattern) is purely bureaucratic. All plants, shops, and farms are formally nationalized (*verstaatlicht*); they are departments of the government operated by civil servants. Every unit of the apparatus of production stands in the same relation to the superior central organization as does a local post office to the office of the postmaster general.

The second pattern (we may call it the Hindenburg or German pattern) nominally and seemingly preserves private ownership of the means of production and keeps the appearance of ordinary markets, prices, wages, and interest rates. There are, however, no longer entrepreneurs, but only shop managers (*Betriebsführer* in the terminology of the Nazi legislation). These shop managers are seemingly instrumental in the conduct of the enterprises entrusted to them; they buy and sell, hire and discharge workers and remunerate their services, contract debts and pay interest and amortization. But in all their activities they are bound to obey unconditionally the orders issued by the government's supreme office of production management. This office (the Reichswirtschaftsministerium in Nazi Germany) tells the shop managers what and how to produce, at what prices and from

whom to buy, at what prices and to whom to sell. It assigns every worker to his job and fixes his wages. It decrees to whom and on what terms the capitalists must entrust their funds. Market exchange is merely a sham. All the wages, prices, and interest rates are fixed by the government; they are wages, prices, and interest rates in appearance only; in fact they are merely quantitative terms in the government's orders determining each citizen's job, income, consumption, and standard of living. The government directs all production activities. The shop managers are subject to the government, not to the consumers' demand and the market's price structure. This is socialism under the outward guise of the terminology of capitalism. Some labels of the capitalistic market economy are retained, but they signify something entirely different from what they mean in the market economy.

It is necessary to point out this fact in order to prevent a confusion of socialism and interventionism. The system of interventionism or of the hampered market economy differs from the German pattern of socialism by the very fact that it is still a market economy. The authority interferes with the operation of the market economy, but does not want to eliminate the market altogether. It wants production and consumption to develop along lines different from those prescribed by an unhampered market, and it wants to achieve its aim by injecting into the working of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of violent compulsion and coercion stand ready. But these are *isolated* acts of intervention. It is not the aim of the government to combine them into an integrated system which determines all prices, wages and interest rates and thus places full control of production and consumption into the hands of the authorities.

The system of the hampered market economy or interventionism aims at preserving the dualism of the distinct spheres of government activities on the one hand and economic freedom under the market system on the other hand. What characterizes it as such is the fact that the government does not limit its activities to the preservation of private ownership of the means of production and its protection against violent or fraudulent encroachments. The government interferes with the operation of business by means of orders and prohibitions.

The intervention is a decree issued directly or indirectly, by the authority in charge of society's administrative apparatus of coercion and compulsion which forces the entrepreneurs and capitalists to employ some of the factors of production in a way different from what they would have resorted to if they were only obeying the

dictates of the market. Such a decree can be either an order to do something or an order not to do something. It is not required that the decree be issued directly by the established and generally recognized authority itself. It may happen that some other agencies arrogate to themselves the power to issue such orders or prohibitions and to enforce them by an apparatus of violent coercion and oppression of their own. If the recognized government tolerates such procedures or even supports them by the employment of its governmental police apparatus, matters stand as if the government itself had acted. If the government is opposed to other agencies' violent action, but does not succeed in suppressing it by means of its own armed forces, although it would like to suppress it, anarchy results.

It is important to remember that government interference always means either violent action or the threat of such action. The funds that a government spends for whatever purposes are levied by taxation. And taxes are paid because the taxpayers are afraid of offering resistance to the tax gatherers. They know that any disobedience or resistance is hopeless. As long as this is the state of affairs, the government is able to collect the money that it wants to spend. Government is in the last resort the employment of armed men, of policemen, gendarmes, soldiers, prison guards, and hangmen. The essential feature of government is the enforcement of its decrees by beating, killing, and imprisoning. Those who are asking for more government interference are asking ultimately for more compulsion and less freedom.

To draw attention to this fact does not imply any reflection upon government activities. In stark reality, peaceful social cooperation is impossible if no provision is made for violent prevention and suppression of antisocial action on the part of refractory individuals and groups of individuals. One must take exception to the often-repeated phrase that government is an evil, although a necessary and indispensable evil. What is required for the attainment of an end is a means, the cost to be expended for its successful realization. It is an arbitrary value judgment to describe it as an evil in the moral connotation of the term. However, in face of the modern tendencies toward a deification of government and state, it is good to remind ourselves that the old Romans were more realistic in symbolizing the state by a bundle of rods with an ax in the middle than are our contemporaries in ascribing to the state all the attributes of God.

3 The Delimitation of Governmental Functions

Various schools of thought parading under the pompous names of philosophy of law and political science indulge in futile and empty

brooding over the delimitation of the functions of government. Starting from purely arbitrary assumptions concerning allegedly eternal and absolute values and perennial justice, they arrogate to themselves the office of the supreme judge of earthly affairs. They misconstrue their own arbitrary value judgments derived from intuition as the voice of the Almighty or of the nature of things.

There is, however, no such thing as a perennial standard of what is just and what is unjust. Nature is alien to the idea of right and wrong. "Thou shalt not kill" is certainly not part of natural law. The characteristic feature of natural conditions is that one animal is intent upon killing other animals and that many species cannot preserve their own life except by killing others. The notion of right and wrong is a human device, a utilitarian precept designed to make social cooperation under the division of labor possible. All moral rules and human laws are means for the realization of definite ends. There is no method available for the appreciation of their goodness or badness other than to scrutinize their usefulness for the attainment of the ends chosen and aimed at.

From the notion of natural law some people deduce the justice of the institution of private property in the means of production. Other people resort to natural law for the justification of the abolition of private property in the means of production. As the idea of natural law is quite arbitrary, such discussions are not open to settlement.

State and government are not ends, but means. Inflicting evil upon other people is a source of direct pleasure only to sadists. Established authorities resort to coercion and compulsion in order to safeguard the smooth operation of a definite system of social organization. The sphere in which coercion and compulsion is applied and the content of the laws which are to be enforced by the police apparatus are conditioned by the social order adopted. As state and government are designed to make this social system operate safely, the delimitation of governmental functions must be adjusted to its requirements. The only standard for the appreciation of the laws and the methods for their enforcement is whether or not they are efficient in safeguarding the social order which it is desired to preserve.

The notion of justice makes sense only when referring to a definite system of norms which in itself is assumed to be uncontested and safe against any criticism. Many peoples have clung to the doctrine that what is right and what is wrong is established from the dawn of the remotest ages and for eternity. The task of legislators and courts was not to make laws, but to find out what is right by virtue of the unchanging idea of justice. This doctrine, which resulted in an

adamant conservatism and a petrification of old customs and institutions, was challenged by the doctrine of natural right. To the positive laws of the country the notion of a "higher" law, the law of nature, was opposed. From the arbitrary standard of natural law the valid statutes and institutions were called just or unjust. To the good legislator was assigned the task of making the positive laws agree with the natural law.

The fundamental errors involved in these two doctrines have long since been unmasked. For those not deluded by them it is obvious that the appeal to justice in a debate concerning the drafting of new laws is an instance of circular reasoning. *Delege ferenda* there is no such a thing as justice. The notion of justice can logically only be resorted to *de lege lata*. It makes sense only when approving or disapproving concrete conduct from the point of view of the valid laws of the country. In considering changes in the nation's legal system, in rewriting or repealing existing laws and writing new laws, the issue is not justice, but social expediency and social welfare. There is no such thing as an absolute notion of justice not referring to a definite system of social organization. It is not justice that determines the decision in favor of a definite social system. It is, on the contrary, the social system which determines what should be deemed right and what wrong. There is neither right nor wrong outside the social nexus. For the hypothetical isolated and self-sufficient individual the notions of just and unjust are empty. Such an individual can merely distinguish between what is more expedient and what is less expedient for himself. The idea of justice refers always to social cooperation.

It is nonsensical to justify or to reject interventionism from the point of view of a fictitious and arbitrary idea of absolute justice. It is vain to ponder over the just delimitation of the tasks of government from any preconceived standard of perennial values. It is no less impermissible to deduce the proper tasks of government from the very notions of government, state, law and justice. It was precisely this that was absurd in the speculations of medieval scholasticism, of Fichte, Schelling, and Hegel, and the German *Begriffsjurisprudenz*. Concepts are tools of reasoning. They must never be considered as regulative principles dictating modes of conduct.

It is a display of supererogatory mental gymnastics to emphasize that the notions of state and sovereignty logically imply absolute supremacy and thus preclude the idea of any limitations on the state's activities. Nobody questions the fact that a state has the power to establish totalitarianism within the territory in which it is sovereign. The problem is whether or not such a mode of government is expe-

dient from the point of view of the preservation and functioning of social co-operation. With regard to this problem no sophisticated exegesis of concepts and notions can be of any use. It must be decided by praxeology, not by a spurious metaphysics of state and right.

The philosophy of law and political science are at a loss to discover any reason why government should not control prices and not punish those defying the price ceilings decreed, in the same way as it punishes murderers and thieves. As they see it, the institution of private property is merely a revocable favor graciously granted by the almighty sovereign to the wretched individuals. There cannot be any wrong in repealing totally or partially the laws that granted this favor; no reasonable objection can be raised against expropriation and confiscation. The legislator is free to substitute any social system for that of the private ownership of the means of production, just as he is free to substitute another national anthem for that adopted in the past. The formula *car tel est notre bon plaisir* [for such is our good pleasure] is the only maxim of the sovereign lawgiver's conduct.

As against all this formalism and legal dogmatism, there is need to emphasize again that the only purpose of the laws and the social apparatus of coercion and compulsion is to safeguard the smooth functioning of social cooperation. It is obvious that the government has the power to decree maximum prices and to imprison or to execute those selling or buying at a higher price. But the question is whether such a policy can or cannot attain the ends which the government wants to attain by resorting to it. This is a purely praxeological and economic problem. Neither the philosophy of law nor political science can contribute anything to its solution.

The problem of interventionism is not a problem of the correct delimitation of the "natural," "just," and "proper" tasks of state and government. The issue is: How does a system of interventionism work? Can it realize those ends which people, in resorting to it, want to attain?

The confusion and lack of judgment displayed in dealing with the problems of interventionism are amazing indeed. There are, for instance, people who argue thus: It is obvious that traffic regulations on the public roads are necessary. Nobody objects to the government's interference with the car driver's conduct. The advocates of laissez-faire contradict themselves in fighting government interference with market prices and yet not advocating the abolition of government traffic regulation.

The fallacy of this argument is manifest. The regulation of traffic on a road is one of the tasks incumbent upon the agency that operates

the road. If this agency is the government or the municipality, it is bound to attend to this task. It is the task of a railroad's management to fix the timetable of the trains and it is the task of a hotel's management to decide whether or not there should be music in the dining room. If the government operates a railroad or a hotel, it is the government's task to regulate these things. With a state opera the government decides which operas should be produced and which should not; it would be a *non sequitur*, however, to deduce from this fact that it is also a task of the government to decide these things for a nongovernmental opera.

The interventionist doctrinaires repeat again and again that they do not plan the abolition of private ownership of the means of production, of entrepreneurial activities, and of market exchange. Also the supporters of the most recent variety of interventionism, the German *soziale Marktwirtschaft*, stress that they consider the market economy to be the best possible and most desirable system of society's economic organization, and that they are opposed to the government omnipotence of socialism. But, of course, all these advocates of a middle-of-the-road policy emphasize with the same vigor that they reject Manchesterism and laissez-faire liberalism. It is necessary, they say, that the state interfere with the market phenomena whenever and wherever the "free play of the economic forces" results in conditions that appear as "socially" undesirable. In making this assertion they take it for granted that it is the government that is called upon to determine in every single case whether or not a definite economic fact is to be considered as reprehensible from the "social" point of view and, consequently whether or not the state of the market requires a special act of government interference.

All these champions of interventionism fail to realize that their program thus implies the establishment of full government supremacy in all economic matters and ultimately brings about a state of affairs that does not differ from what is called the German or the Hindenburg pattern of socialism. If it is in the jurisdiction of the government to decide whether or not definite conditions of the economy justify its intervention, no sphere of operation is left to the market. Then it is no longer the consumers who ultimately determine what should be produced, in what quantity, of what quality, by whom, where, and how—but it is the government. For as soon as the outcome brought about by the operation of the unhampered market differs from what the authorities consider "socially" desirable, the government interferes. That means the market is free as long as it does precisely what the government wants it to do. It is "free" to

do what the authorities consider to be the "right" things, but not to do what they consider the "wrong" things; the decision concerning what is right and what is wrong rests with the government. Thus the doctrine and the practice of interventionism ultimately tend to abandon what originally distinguished them from outright socialism and to adopt entirely the principles of totalitarian all-around planning.

4 Righteousness as the Ultimate Standard of the Individual's Actions

According to a widespread opinion it is possible, even in the absence of government interference with business, to divert the operation of the market economy from those lines along which it would develop if left to exclusive control by the profit motive. Advocates of a social reform to be accomplished by compliance with the principles of Christianity or with the demands of "true" morality maintain that conscience should also guide well-intentioned people in their dealings on the market. If all people were prepared not only to concern themselves about profit, but no less about their religious and moral obligations, no government compulsion and coercion would be required in order to put things right. What is needed is not a reform of government and the laws of the country, but the moral purification of man, a return to the Lord's commandments and to the precepts of the moral code, a turning away from the vices of greed and selfishness. Then it will be easy to reconcile private ownership of the means of production with justice, righteousness, and fairness. The disastrous effects of capitalism will be eliminated without prejudice to the individual's freedom and initiative. People will dethrone the Moloch capitalism without enthroning the Moloch state.

The arbitrary value judgments which are at the bottom of these opinions need not concern us here. What these critics blame capitalism for is irrelevant; their errors and fallacies are beside the point. What does matter is the idea of erecting a social system on the twofold basis of private property and of moral principles restricting the utilization of private property. The system recommended, say its advocates, will be neither socialism nor capitalism nor interventionism. Not socialism, because it will preserve private ownership of the means of production; not capitalism, because conscience will be supreme and not the urge for profit; not interventionism, because there will be no need for government interference with the market.

In the market economy the individual is free to act within the orbit of private property and the market. His choices are final. For his fellow men his actions are data which they must take into account

in their own acting. The coordination of the autonomous actions of all individuals is accomplished by the operation of the market. Society does not tell a man what to do and what not to do. There is no need to enforce cooperation by special orders or prohibitions. Noncooperation penalizes itself. Adjustment to the requirements of society's productive effort and the pursuit of the individual's own concerns are not in conflict. Consequently no agency is required to settle such conflicts. The system can work and accomplish its tasks without the interference of an authority issuing special orders and prohibitions and punishing those who do not comply.

Beyond the sphere of private property and the market lies the sphere of compulsion and coercion; here are the dams which organized society has built for the protection of private property and the market against violence, malice, and fraud. This is the realm of constraint as distinguished from the realm of freedom. Here are rules discriminating between what is legal and what is illegal, what is permitted and what is prohibited. And here is a grim machine of arms, prisons, and gallows and the men operating it, ready to crush those who dare to disobey.

Now, the reformers with whose plans we are concerned suggest that along with the norms designed for the protection and preservation of private property further ethical rules should be ordained. They want to realize in production and consumption things other than those realized under the social order in which the individuals are not checked by any obligation other than that of not infringing upon the persons of their fellow men and upon the right of private property. They want to ban those motives that direct the individual's action in the market economy (they call them selfishness, acquisitiveness, profit-seeking) and to replace them with other impulses (they call them conscientiousness, righteousness, altruism, fear of God, charity). They are convinced that such a moral reform would in itself be sufficient to safeguard a mode of operation of the economic system, more satisfactory from their point of view than that of unhampered capitalism, without any of those special governmental measures which interventionism and socialism require.

The supporters of these doctrines fail to recognize the role which those springs of action they condemn as vicious play in the operation of the market economy. The only reason why the market economy can operate without government orders telling everybody precisely what he should do and how he should do it is that it does not ask anybody to deviate from those lines of conduct which best serve his own interests. What integrates the individual's actions into the whole of the social system of production is the pursuit of his own purposes.

In indulging in his "acquisitiveness" each actor contributes his share to the best possible arrangement of production activities. Thus, within the sphere of private property and the laws protecting it against encroachments on the part of violent or fraudulent action, there is no antagonism between the interests of the individual and those of society.

The market economy becomes a chaotic muddle if this predominance of private property which the reformers disparage as selfishness is eliminated. In urging people to listen to the voice of their conscience and to substitute considerations of public welfare for those of private profit, one does not create a working and satisfactory social order. It is not enough to tell a man *not* to buy on the cheapest market and *not* to sell on the dearest market. It is not enough to tell him *not* to strive after profit and *not* to avoid losses. One must establish unambiguous rules for the guidance of conduct in each concrete situation.

Says the reformer: The entrepreneur is rugged and selfish when, taking advantage of his own superiority, he underbids the prices asked by a less efficient competitor and thus forces the man to go out of business. But how should the "altruistic" entrepreneur proceed? Should he under no circumstances sell at a price lower than any competitor? Or are there certain conditions which justify underbidding the competitor's prices?

Says the reformer on the other hand: The entrepreneur is rugged and selfish when, taking advantage of the state of the market, he asks a price so high that poor people are excluded from purchasing the merchandise. But what should the "good" entrepreneur do? Should he give away the merchandise free of charge? If he charges any price, however low, there will always be people who cannot buy at all or not so much as they would buy if the price were still lower. What group of those eager to buy is the entrepreneur free to exclude from getting the merchandise?

There is no need to deal at this point of our investigation with the consequences resulting from any deviation from the height of prices as determined on an unhampered market. If the seller avoids underbidding his less efficient competitor, a part at least of his supply remains unsold. If the seller offers the merchandise at a price lower than that determined on an unhampered market, the supply available is insufficient to enable all those ready to expend this lower price to get what they are asking for. We will analyze later these as well as other consequences of any deviation from the market prices.² What we must

². See below, pp. 758-67.

recognize even at this point is that one cannot content oneself simply by telling the entrepreneur that he should *not* let himself be guided by the state of the market. It is imperative to tell him how far he must go in asking and paying prices. If it is no longer profit-seeking that directs the entrepreneurs' actions and determines what they produce and in what quantities, if the entrepreneurs are no longer bound by the instrumentality of the profit motive to serve the consumers to the best of their abilities, it is necessary to give them definite instructions. One cannot avoid guiding their conduct by specified orders and prohibitions, precisely such decrees as are the mark of government interference with business. Any attempt to render such interference superfluous by attributing primacy to the voice of conscience, to charity and brotherly love, is vain.

The advocates of a Christian social reform pretend that their ideal of greed and profit-seeking tamed and restrained by conscientiousness and compliance with the moral law worked rather well in the past. All the evils of our day are caused by defection from the precepts of the church. If people had not defied the commandments and had not coveted unjust profit, mankind would still enjoy the bliss experienced in the Middle Ages when at least the elite lived up to the principles of the Gospels. What is needed is to bring back those good old days and then to see that no new apostasy deprives men of their beneficent effects.

There is no need to enter into an analysis of the social and economic conditions of the thirteenth century which these reformers praise as the greatest of all periods of history. We are concerned merely with the notion of *just* prices and wage rates which was essential in the social teachings of the doctors of the church and which the reformers want to raise to the position of the ultimate standard of economic conduct.

It is obvious that with theorists this notion of just prices and wage rates always refers and always referred to a definite social order which they considered the best possible order. They recommend the adoption of their ideal scheme and its preservation forever. No further changes are to be tolerated. Any alteration of the best possible state of social affairs can only mean deterioration. The world view of these philosophers does not take into account man's ceaseless striving for improvement of the material conditions of well-being. Historical change and a rise in the general standard of living are notions foreign to them. They call "just" that mode of conduct that is compatible with the undisturbed preservation of their utopia, and everything else unjust.

However, the notion of just prices and wage rates as present to the

mind of people other than philosophers is very different. When the non-philosopher calls a price just, what he means is that the preservation of this price improves or at least does not impair his own revenues and station in society. He calls unjust any price that jeopardizes his own wealth and station. It is "just" that the prices of those goods and services which he sells rise more and more and that the prices of those goods and services he buys drop more and more. To the farmer no price of wheat, however high, appears unjust. To the wage earner no wage rates, however high, appear unfair. But the farmer is quick to denounce every drop in the price of wheat as a violation of divine and human laws, and the wage earners rise in rebellion when their wages drop. Yet the market society has no means of adjusting production to changing conditions other than the operation of the market. By means of price changes it forces people to restrict the production of articles less urgently asked for and to expand the production of those articles for which consumers' demand is more urgent. The absurdity of all endeavors to stabilize prices consists precisely in the fact that stabilization would prevent any further improvement and result in rigidity and stagnation. The flexibility of commodity prices and wage rates is the vehicle of adjustment, improvement, and progress. Those who condemn changes in prices and wage rates as unjust, and who ask for the preservation of what they call just, are in fact combating endeavors to make economic conditions more satisfactory.

It is not unjust that there has long prevailed a tendency toward such a determination of the prices of agricultural products that the greater part of the population abandoned farming and moved toward the processing industries. But for this tendency, 90 per cent or more of the population would still be occupied in agriculture and the processing industries would have been stunted in their growth. All strata of the population, including the farmers, would be worse off. If the scholastic doctrine of the just price had been put into practice, the thirteenth century's economic conditions would still prevail. Population figures would be much smaller than they are today and the standard of living much lower.

Both varieties of the just price doctrine, the philosophical and the popular, agree in their condemnation of the prices and wage rates as determined on the unhampered market. But this negativism does not in itself provide any answer to the question of what height the just prices and wage rates should attain. If righteousness is to be elevated to the position of the ultimate standard of economic action, one must unambiguously tell every actor what he should do, what prices he should ask, and what prices he should pay in each concrete case, and

one must force—by recourse to an apparatus of violent compulsion and coercion—all those venturing disobedience to comply with these orders. One must establish a supreme authority issuing norms and regulating conduct in every respect, altering these norms if need be, interpreting them authentically, and enforcing them. Thus the substitution of social justice and righteousness for selfish profit-seeking requires for its realization precisely those policies of government interference with business which the advocates of the moral purification of mankind want to make superfluous. No deviation from the unhampered market economy is thinkable without authoritarian regimentation. Whether the authority in which these powers are vested is called lay government or theocratical priesthood makes no difference.

The reformers, in exhorting people to turn away from selfishness, address themselves to capitalists and entrepreneurs, and sometimes, although only timidly, to wage earners as well. However, the market economy is a system of consumers' supremacy. The sermonizers should appeal to consumers, not to producers. They should persuade the consumers to renounce preferring better and cheaper merchandise to poorer and dearer merchandise lest they hurt the less efficient producer. They should persuade them to restrict their own purchases in order to provide poorer people with the opportunity to buy more. If one wants the consumers to act in this way, one must tell them plainly what to buy, in what quantity, from whom, and at what prices; and one must provide for enforcing such orders by coercion and compulsion. But then one has adopted exactly that system of authoritarian control which moral reform wants to make unnecessary.

Whatever freedom individuals can enjoy within the framework of social cooperation is conditional upon the concord of private gain and public weal. Within the orbit in which the individual, in pursuing his own well-being, advances also—or at least does not impair—the well-being of his fellow men, people going their own ways jeopardize neither the preservation of society nor the concerns of other people. A realm of freedom and individual initiative emerges, a realm in which man is allowed to choose and to act of his own accord. This sphere of freedom, by the socialists and interventionists contemptuously dubbed "economic freedom," is alone what makes any of those conditions possible that are commonly called freedoms within a system of social cooperation under the division of labor. It is the market economy or capitalism with its political corollary (the Marxians would have to say: with its "superstructure"), representative government.

Those who contend that there is a conflict between the acquisitiveness of various individuals or between the acquisitiveness of individ-

uals on the one hand and the commonweal on the other, cannot avoid advocating the suppression of the individuals' right to choose and to act. They must substitute the supremacy of a central board of production management for the discretion of the citizens. In their scheme of the good society there is no room left for private initiative. The authority issues orders and everybody is forced to obey.

5 The Meaning of Laissez Faire

In eighteenth-century France the saying *laissez faire, laissez passer* was the formula into which some of the champions of the cause of liberty compressed their program. Their aim was the establishment of the unhampered market society. In order to attain this end they advocated the abolition of all laws preventing more industrious and more efficient people from outdoing less industrious and less efficient competitors and restricting the mobility of commodities and of men. It was this that the famous maxim was designed to express.

In our age of passionate longing for government omnipotence the formula *laissez faire* is in disrepute. Public opinion now considers it a manifestation both of moral depravity and of the utmost ignorance.

As the interventionist sees things, the alternative is "automatic forces" or "conscious planning."³ It is obvious, he implies, that to rely upon automatic processes is sheer stupidity. No reasonable man can seriously recommend doing nothing and letting things go as they do without interference on the part of purposive action. A plan, by the very fact that it is a display of conscious action, is incomparably superior to the absence of any planning. *Laissez faire* is said to mean: Let the evils last, do not try to improve the lot of mankind by reasonable action.

This is utterly fallacious talk. The argument advanced for planning is entirely derived from an impermissible interpretation of a metaphor. It has no foundation other than the connotations implied in the term "automatic" which it is customary to apply in a metaphorical sense for the description of the market process.⁴ Automatic, says the Concise Oxford Dictionary,⁵ means "unconscious, unintelligent, merely mechanical." Automatic, says Webster's Collegiate Dictionary,⁶ means "not subject to the control of the will, . . . performed without active thought and without conscious intention or direction." What a triumph for the champion of planning to play this trump card!

3. Cf. A. H. Hansen, "Social Planning for Tomorrow," in *The United States after the War* (Cornell University Lectures, Ithaca, 1945), pp. 32-33.

4. See above, pp. 315-16.

5. (3d ed. Oxford, 1934), p. 74.

6. (5th ed. Springfield, 1946), p. 73.

The truth is that the alternative is not between a dead mechanism or a rigid automatism on one hand and conscious planning on the other hand. The alternative is not plan or no plan. The question is whose planning? Should each member of society plan for himself, or should a benevolent government alone plan for them all? The issue is not *automatism versus conscious action*; it is *autonomous action of each individual versus the exclusive action of the government. It is freedom versus government omnipotence.*

Laissez faire does not mean: Let soulless mechanical forces operate. It means: Let each individual choose how he wants to cooperate in the social division of labor; let the consumers determine what the entrepreneurs should produce. Planning means: Let the government alone choose and enforce its rulings by the apparatus of coercion and compulsion.

Under *laissez faire*, says the planner, it is not those goods which people "really" need that are produced, but those goods from the sale of which the highest returns are expected. It is the objective of planning to direct production toward the satisfaction of the "true" needs. But who is to decide what the "true" needs are?

Thus, for instance, Professor Harold Laski, the former chairman of the British Labor Party, would determine as the objective of the planned direction of investment "that the use of the investor's savings will be in housing rather than in cinemas."⁷ It is beside the point whether or not one agrees with the professor's view that better houses are more important than moving pictures. It is a fact that the consumers, in spending part of their money for admission to the movies, have made another choice. If the masses of Great Britain, the same people whose votes swept the Labor Party into power, were to stop patronizing the moving pictures and to spend more for comfortable homes and apartments, profit-seeking business would be forced to invest more in building homes and apartment houses and less in the production of expensive pictures. It was Mr. Laski's desire to defy the wishes of the consumers and to substitute his own will for that of the consumers. He wanted to do away with the democracy of the market and to establish the absolute rule of the production tsar. Perhaps he believed that he was right from a higher point of view, and that as a superman he was called upon to impose his own valuations on the masses of inferior men. But then he ought to have been frank enough to say so plainly.

All this passionate praise of the supereminence of government action

7. Cf. Laski's broadcast, "Revolution by Consent," reprinted in *Talks*, X, no. 10 (October, 1945), 7.

is but a poor disguise for the individual interventionist's *self-deification*. The great god State is a great god only because it is expected to do exclusively what the individual advocate of interventionism wants to see achieved. Only that plan is genuine which the individual planner fully approves. All other plans are simply counterfeit. In saying "plan" what the author of a book on the benefits of planning has in mind is, of course, his own plan alone. He does not take into account the possibility that the plan which the government puts into practice may differ from his own plan. The various planners agree only with regard to their rejection of laissez faire, i.e., the individuals' discretion to choose and to act. They entirely disagree with regard to the choice of the unique plan to be adopted. To every exposure of the manifest and incontestable defects of interventionist policies the champions of interventionism react in the same way. These faults, they say, were the results of spurious interventionism; what we are advocating is good interventionism, not bad interventionism. And, of course, good interventionism is the professor's own brand.

Laissez faire means: Let the common man choose and act; do not force him to yield to a dictator.

6 Direct Government Interference with Consumption

In investigating the economic problems of interventionism we do not have to deal with those actions of the government whose aim it is to influence immediately the consumer's choice of consumers' goods. Every act of government interference with business must indirectly affect consumption. As the government's interference alters the market data, it must also alter the valuations and the conduct of the consumers. But if the aim of the government is merely to force the consumers directly to consume goods other than what they would have consumed in the absence of the government's decree, no special problems emerge to be scrutinized by economics. It is beyond doubt that a strong and ruthless police apparatus has the power to enforce such decrees.

In dealing with the choices of the consumers we do not ask what motives induced a man to buy *a* and not to buy *b*. We merely investigate what effects on the determination of market prices and thereby on production were brought about by the concrete conduct of the consumers. These effects do not depend on the considerations which led individuals to buy *a* and not to buy *b*; they depend only on the real acts of buying and abstention from buying. It is immaterial for the determination of the prices of gas masks whether people buy them of their own accord or because the government forces every-

body to have a gas mask. What alone counts is the size of the demand.

Governments which are eager to keep up the outward appearance of freedom even when curtailing freedom disguise their direct interference with consumption under the cloak of interference with business. The aim of American prohibition was to prevent the individual residents of the country from drinking alcoholic beverages. But the law hypocritically did not make drinking as such illegal and did not penalize it. It merely prohibited the manufacture, the sale and the transportation of intoxicating liquors, the business transactions which precede the act of drinking. The idea was that people indulge in the vice of drinking only because unscrupulous businessmen prevail upon them. It was, however, manifest that the objective of prohibition was to encroach upon the individuals' freedom to spend their dollars and to enjoy their lives according to their own fashion. The restrictions imposed upon business were only subservient to this ultimate end.

The problems involved in direct government interference with consumption are not catalectic problems. They go far beyond the scope of cataleactics and concern the fundamental issues of human life and social organization. If it is true that government derives its authority from God and is entrusted by Providence to act as the guardian of the ignorant and stupid populace, then it is certainly its task to regiment every aspect of the subject's conduct. The God-sent ruler knows better what is good for his wards than they do themselves. It is his duty to guard them against the harm they would inflict upon themselves if left alone.

Self-styled "realistic" people fail to recognize the immense importance of the principles implied. They contend that they do not want to deal with the matter from what, they say, is a philosophic and academic point of view. Their approach is, they argue, exclusively guided by practical considerations. It is a fact, they say, that some people harm themselves and their innocent families by consuming narcotic drugs. Only doctrinaires could be so dogmatic as to object to the government's regulation of the drug traffic. Its beneficent effects cannot be contested.

However, the case is not so simple as that. Opium and morphine are certainly dangerous, habit-forming drugs. But once the principle is admitted that it is the duty of government to protect the individual against his own foolishness, no serious objections can be advanced against further encroachments. A good case could be made out in favor of the prohibition of alcohol and nicotine. And why limit the government's benevolent providence to the protection of the individ-

ual's body only? Is not the harm a man can inflict on his mind and soul even more disastrous than any bodily evils? Why not prevent him from reading bad books and seeing bad plays, from looking at bad paintings and statues and from hearing bad music? The mischief done by bad ideologies, surely, is much more pernicious, both for the individual and for the whole society, than that done by narcotic drugs.

These fears are not merely imaginary specters terrifying secluded doctrinaires. It is a fact that no paternal government, whether ancient or modern, ever shrank from regimenting its subjects' minds, beliefs, and opinions. If one abolishes man's freedom to determine his own consumption, one takes all freedoms away. The naïve advocates of government interference with consumption delude themselves when they neglect what they disdainfully call the philosophical aspect of the problem. They unwittingly support the case of censorship, inquisition, religious intolerance, and the persecution of dissenters.

In dealing with the catalactics of interventionism we do not discuss these political consequences of direct government interference with the citizens' consumption. We are exclusively concerned with those acts of interference which aim at forcing the entrepreneurs and capitalists to employ the factors of production in a way different from what they would have done if they merely obeyed the dictates of the market. In doing this, we do not raise the question of whether such interference is good or bad from any preconceived point of view. We merely ask whether or not it can attain those ends which those advocating and resorting to it are trying to attain.

Corruption

An analysis of interventionism would be incomplete if it were not to refer to the phenomenon of corruption.

There are hardly any acts of government interference with the market process that, seen from the point of view of the citizens concerned, would not have to be qualified either as confiscations or as gifts. As a rule, one individual or a group of individuals is enriched at the expense of other individuals or groups of individuals. But in many cases, the harm done to some people does not correspond to any advantage for other people.

There is no such thing as a just and fair method of exercising the tremendous power that interventionism puts into the hands of the legislature and the executive. The advocates of interventionism pretend to substitute for the—as they assert, "socially" detrimental—effects of private property and vested interests the unlimited discretion of the

perfectly wise and disinterested legislator and his conscientious and indefatigable servants, the bureaucrats. In their eyes the common man is a helpless infant, badly in need of a paternal guardian to protect him against the sly tricks of a band of rogues. They reject all traditional notions of law and legality in the name of a "higher and nobler" idea of justice. Whatever they themselves do is always right because it hurts those who selfishly want to retain for themselves what, from the point of view of this higher concept of justice, ought to belong to others.

The notions of selfishness and unselfishness as employed in such reasoning are self-contradictory and vain. As has been pointed out, every action aims at the attainment of a state of affairs that suits the actor better than the state that would prevail in the absence of this action. In this sense every action is to be qualified as selfish. The man who gives alms to hungry children does it, either because he values his own satisfaction expected from this gift higher than any other satisfaction he could buy by spending this amount of money, or because he hopes to be rewarded in the beyond. The politician is, in this sense, always selfish no matter whether he supports a popular program in order to get an office or whether he firmly clings to his own—unpopular—convictions and thus deprives himself of the benefits he could reap by betraying them.

In the terminology of anticapitalism the words *selfish* and *unselfish* are used to classify people from the point of view of a doctrine that considers equality of wealth and income as the only natural and fair state of social conditions, that brands those who own or earn more than the average as exploiters, and that condemns entrepreneurial activities as detrimental to the commonweal. To be in business, to depend directly on the approval or disapproval of one's actions by the consumers, to woo the patronage of the buyers, and to earn profit if one succeeds in satisfying them better than one's competitors do is, from the point of view of officialdom's ideology, selfish and shameful. Only those on the government's payroll are rated as unselfish and noble.

Unfortunately the officeholders and their staffs are not angelic. They learn very soon that their decisions mean for the businessmen either considerable losses or—sometimes—considerable gains. Certainly there are also bureaucrats who do not take bribes; but there are others who are anxious to take advantage of any "safe" opportunity of "sharing" with those whom their decisions favor.

In many fields of the administration of interventionist measures, favoritism simply cannot be avoided. Take, for example, the case of export or import licenses. Such a license has for the licensee a definite cash value. To whom ought the government grant a license and to whom should it be denied? There is no neutral or objective yardstick available to make the decision free from bias and favoritism. Whether

or not money changes hands in the affair does not matter. The scandal is the same when the license is given to people who have rendered or are expected to render other kinds of valuable services (e.g., in casting their votes) to the people upon whom the decision depends.

Corruption is a regular effect of interventionism. It may be left to the historians and to the lawyers to deal with the problems involved.⁸

8. It is usual today to plead the cause of communist revolutions by denouncing the attacked non-communist government as corrupt. Thus one tried to justify the support that a part of the American press and some of the representatives of the American Administration gave first to the Chinese communists and then to those of Cuba by calling the regime of Chiang Kai-shek and later that of Batista corrupt. But from this point of view, every communist revolution against a government that is not fully committed to laissez faire appears as justified.

CHAPTER 28

Interference by Taxation

1 The Neutral Tax

To keep the social apparatus of coercion and compulsion running requires expenditure of labor and commodities. Under a liberal system of government these expenditures are small compared with the sum of the individuals' incomes. The more the government expands the sphere of its activities, the more its budget increases.

If the government itself owns and operates plants, farms, forests, and mines, it might consider covering a part or the whole of its financial needs from interest and profit earned. But government operation of business enterprises as a rule is so inefficient that it results in losses rather than in profits. Governments must resort to taxation, i.e., they must raise revenues by forcing the subjects to surrender a part of their wealth or income.

A neutral mode of taxation is conceivable that would not divert the operation of the market from the lines in which it would develop in the absence of any taxation. However, the vast literature on problems of taxation as well as the policies of governments have hardly ever given thought to the problem of the *neutral tax*. They have been more eager to find the *just tax*.

The neutral tax would affect the conditions of the citizens only to the extent required by the fact that a part of the labor and material goods available is absorbed by the government apparatus. In the imaginary construction of the evenly rotating economy the treasury continually levies taxes and spends the whole amount raised, neither more nor less, for defraying the costs incurred by the activities of the government's officers. A part of each citizen's income is spent for public expenditure. If we assume that in such an evenly rotating economy there prevails perfect income equality in such a way that every household's income is proportional to the number of its members, both a head tax and a proportional income tax would be neutral taxes. Under these assumptions there would be no difference between them. A part of each citizen's income would be absorbed by public expenditure, and no secondary effects of taxation would emerge.

The changing economy is entirely different from this imaginary