Chapter 4

Socialism Social-democratic Style

In the last chapter I analyzed the orthodox Marxist version of socialism—socialism Russian-style, as it was called—and explained its effects on the process of production and the social moral structure. I went on to point out that the theoretically foreseen consequences of relative impoverishment proved to be so powerful that in fact a policy of socializing the means of production could never actually be carried through to its logical end the socialization of *all* production factors, without causing an immediate economic disaster. Indeed, sooner or later all actual realizations of Marxist socialism have had to reintroduce elements of private ownership in the means of production in order to overcome or prevent manifest bankruptcy. Even moderate "market" socialism, however, cannot prevent a relative impoverishment of the population, if the idea of socialized production is not abandoned entirely, once and for all.

Much more so than any theoretical argument, it has been the disappointing experience with Russian-type socialism which has led to a constant decline in the popularity of orthodox Marxist socialism and has spurred the emergence and development of modern social-democratic socialism, which will be the concern of this chapter. Both types of socialism, to be sure, derive from

the same ideological sources.[34] Both are egalitarian in motivation, at least in theory,[35] and both have essentially the same ultimate goal: the abolishment of capitalism as a social system based on private ownership and the establishment of a new society, characterized by brotherly solidarity and the eradication of scarcity; a society in which everyone is paid "according to his needs." From the very beginnings of the socialist movement in the mid-nineteenth century, though, there have been conflicting ideas on the methods best suited for achieving these goals. While generally there was agreement on the necessity of socializing the means of production, there were always diverging opinions on how to proceed. On the one hand, within the socialist movement there were the advocates of a revolutionary course of action. They propagated the violent overthrow of the existing governments, the complete expropriation of all capitalists in one stroke, and the temporary (i.e., until scarcity would indeed, as promised, be eradicated) dictatorship of the proletariat, i.e., of those who were not capitalists but who had to sell their labor services, in order to stabilize the new order. On the other hand there were the reformists who advocated a gradualist approach. They reasoned that with the enlargement of the franchise, and ultimately with a system of universal suffrage, socialism's victory could be attained through democratic, parliamentary action. This would be so because capitalism, according to common socialist doctrine, would bring about a tendency towards the proletarization of society, i.e., a tendency for fewer people to be self-employed and more to become employees instead. And in accordance with common socialist beliefs, this tendency would in turn produce an increasingly uniform proletarian class consciousness which then would lead to a swelling voter turnout for the socialist party. And, so they reasoned, as this strategy was much more in line with public opinion (more appealing to the mostly peacefully-minded workers and at the same time less frightening

---

34 Cf. L. Kolakowski, Main Currents of Marxism, 3 vols., Oxford, 1978; also W. Leonhard, Sovietideologie heute. Die politischen Lehren, Frankfurt/M., 1963.

35 Cf. note 49 below on the assessment of the somewhat different practice.

to the capitalists), by adopting it, socialism's ultimate success would only become more assured.

Both of these forces co-existed within the socialist movement, though their relationship was at times quite strained, until the Bolshevik Revolution of October, 1917 in Russia. In practice, the socialist movement generally took the reformist path, while in the field of ideological debate the revolutionaries dominated.[36] The Russian events changed this. With Lenin in the lead, for the first time the revolutionary socialists realized their program and the socialist movement as a whole had to take a stand vis à vis the Russian experiment. As a consequence, the socialist movement split into two branches with two separate parties: a communist party either more or less in favor of the Russian events, and a socialist or social-democratic party with reservations, or against them. Still, the split was not over the issue of socialization; both were in favor of that. It was an open split over the issue of revolutionary vs. democratic parliamentary change. Faced with the actual experience of the Russian revolution—the violence, the bloodshed, the practice of uncontrolled expropriation, the fact that thousands of new leaders, very often of questionable reputation or simply shady, inferior characters, were being swept to the political helm—the social democrats, in their attempt to gain public support, felt they had to abandon their revolutionary image and become, not only in practice but in theory as well, a decidedly reformist, democratic party. And even some of the communist parties of the West, dedicated as they were to a theory of revolutionary change, but just as much in need of public support, felt they had to find some fault, at least, with the peculiar Bolshevik way of implementing the revolution. They, too, increasingly thought it necessary to play the reformist, democratic game, if only in practice.

---

36 Cf. E. Bernstein, Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie, Bonn, 1975, as a major expositor of the reformist-revisionist course; K. Kautsky, Bernstein und das sozialdemokratische Programm, Bonn, 1976, as exponent of the Marxist orthodoxy.

However, this was only the first step in the transformation of the socialist movement effected by the experience of the Russian revolution. The next step, as indicated, was forced upon it by the dim experience with Soviet Russia's economic performance. Regardless of their differing views on the desirability of revolutionary changes and equally unfamiliar with or unable or unwilling to grasp abstract economic reasoning, socialists and communists alike could still, during a sort of honeymoon period which they felt the new experiment deserved, entertain the most illusory hopes about the economic achievements of a policy of socialization. But this period could not last forever, and the facts had to be faced and the results evaluated after some time had elapsed. For every decently neutral observer of things, and later for every alert visitor and traveler, it became evident that socialism Russian-style did not mean more but rather *less* wealth and that it was a system above all, that in having to allow even small niches of private capital formation, had in fact already admitted its own economic inferiority, if only implicitly. As this experience became more widely known, and in particular when after World War II the Soviet experiment was repeated in the East European countries, producing the very same dim results and thus disproving the thesis that the Soviet mess was only due to a special Asian mentality of the people, in their race for public support the socialist, i.e., the social-democratic and communist, parties of the West were forced to modify their programs further. The communists now saw various flaws in the Russian implementation of the socialization program as well, and increasingly toyed with the idea of more decentralized planning and decision-making and of partial socialization, i.e., socialization only of major firms and industries, although they never entirely abandoned the idea of socialized production.[37] The socialist or social-democratic parties, on the other hand, less sympathetic from the beginning towards the Russian model of socialism and through their decidedly reformist-democratic policy already inclined to

[37] On the idea of a "market-socialism" cf. one of its leading representatives, O. Lange, "On the Economic Theory of Socialism," in M. I. Goldman (ed.), Comparative Economic Systems, New York, 1971.

accept compromises such as partial socialization, had to make a further adaptive move. These parties, in response to the Russian and East European experiences, increasingly gave up the notion of socialized production altogether and instead put more and more emphasis on the idea of income taxation and equalization, and, in another move, on equalization of opportunity, as being the true cornerstones of socialism.

While this shift from Russian-type socialism towards a social-democratic one took place, and still is taking place in all Western societies, it was not equally strong everywhere. Roughly speaking and only looking at Europe, the displacement of the old by the new kind of socialism has been more pronounced, the more immediate and direct the experience with Russian-type socialism for the population in which the socialist and/or communist parties had to find supporters and voters. Of all the major countries, in West Germany, where the contact with this type of socialism is the most direct, where millions of people still have ample opportunities to see with their own eyes the mischief that has been done to the people in East Germany, this displacement was the most complete. Here, in 1959, the social democrats adopted (or rather were forced by public opinion to adopt) a new party program in which all obvious traces of a Marxist past were conspicuously absent, that rather explicitly mentioned the importance of private ownership and markets, that talked about socialization only as a mere possibility, and that instead heavily stressed the importance of redistributive measures. Here, the protagonists of a policy of socialization of the means of production within the social-democratic party have been considerably outnumbered ever since; and here the communist parties, even when they are only in favor of peaceful and partial socialization, have been reduced to insignificance.[38] In countries further removed from the iron curtain, like France, Italy, Spain, and also Great Britain, this change has been

---

38 On the ideology of the German Social Democrats cf. T. Meyer (ed.), Demokratischer Sozialismus, Muenchen, 1980; G. Schwan (ed.), Demokratischer Sozialismus fuer Industriegesellschaften, Frankfurt/M., 1979.

less dramatic. Nonetheless, it is safe to say that today only social-democratic socialism, as represented most typically by the German social-democrats, can claim widespread popularity in the West. As a matter of fact, due partly to the influence of the Socialist International—the association of socialist and social-democratic parties—social-democratic socialism can now be said to be one of the most widespread ideologies of our age, increasingly shaping the political programs and actual policies not only of explicitly socialist parties, and to a lesser degree those of the western communists, but also of groups and parties who would not even in their most far-fetched dreams *call* themselves socialists, like the east coast "liberal" Democrats in the United States.[39] And in the field of international politics the ideas of social-democratic socialism, in particular of a redistributive approach towards these-called North-South conflict, have almost become something like the official position among all "well-informed" and "well-intentioned" men; a consensus extending far beyond those who think of themselves as socialists.[40]

What are the central features of socialism social-democratic-style? There are basically two characteristics. First, in positive contradistinction to the traditional Marxist-style socialism, social-democratic socialism does not outlaw private ownership in the means of production and it even accepts the idea of *all* means of production being privately owned—with the exception only of education, traffic and communication, central banking, and the

---

39 Indicators for the social-democratization of the socialist movement are the rise of the socialist party and the corresponding decline of the orthodox communist party in France; the emergence of a social-democratic party as a rival to the more orthodox labour party in Great Britain; the moderation of the communists in Italy as the only remaining powerful communist party in Western Europe toward an increasingly social-democratic policy; and the growth of the socialist-social-democratic parties in Spain and Portugal under Gonzales and Soares, both with close ties to the German SPD. Furthermore, the socialist parties of Scandinavia, which traditionally had closely followed the German path and which later provided safe haven to a number of prominent socialists during the Nazi persecution (most notably W. Brandt and B. Kreisky), have long given credence to the revisionist beliefs.

40 On the social-democratic position regarding the North-South conflict cf. North-South: A Programme for Survival, Independent Commission on International Development Issues (Chair: W. Brandt), 1980.

police and courts. In principle, everyone has the right to privately appropriate and own means of production, to sell, buy, or newly produce them, to give them away as a present, or to rent them out to someone else under a contractual arrangement. But secondly, no owner of means of production rightfully owns *all* of the income that can be derived from the usage of his means of production and no owner is left to decide how much of the *total* income from production to allocate to consumption and investment. Instead, part of the income from production rightfully belongs to society, has to be handed over to it, and is then, according to ideas of egalitarianism or distributive justice, redistributed to its individual members. Furthermore, though the respective income-shares that go to the producer and to society might be fixed at any given point in time, the share that rightfully belongs to the producer is in principle flexible and the determination of its size, as well as that of society's share, is not up to the producer, but rightfully belongs to society.[41]

Seen from the point of view of the natural theory of property—the theory underlying capitalism—the adoption of these rules implies that the rights of the natural owner have been aggressively invaded. According to this theory of property, it should be recalled, the user-owner of the means of production can do whatever he wants with them; and whatever the outcome of his usage, it is his own private income, which he can use again as he pleases, as long as he does not change the physical integrity of someone else's property and exclusively relies on contractual exchanges. From the standpoint of the natural theory of property, there are not two separate processes—the production of income and then, after income is produced, its distribution. There is only one process: in producing income it is automatically distributed; the producer is the owner. As compared with this, socialism social-democratic style

---

41 Note again that this characterization of social-democratic socialism has the status of an "ideal type" (cf. Chapter 3, n. 2). It is not to be taken as a description of the policy or ideology of any actual party. Rather, it should be understood as the attempt to reconstruct what has become the essence of modern social-democratic style socialism, underlying a much more diverse reality of programs and policies of various parties or movements of different names as the ideologically unifying core.

advocates the partial expropriation of the natural owner by redistributing part of the income from production to people who, whatever their merits otherwise, definitely did *not* produce the income in question and definitely did *not* have any contractual claims to it, and who, in addition, have the right to determine unilaterally, i.e., without having to wait for the affected producer's consent, how far this partial expropriation can go.

It should be clear from this description that, contrary to the impression which socialism social-democratic style is intended to generate among the public, the difference between both types of socialism is not of a categorical nature. Rather, it is only a matter of degree. Certainly, the first mentioned rule seems to inaugurate a fundamental difference in that it allows private ownership. But then the second rule in principle allows the expropriation of all of the producer's income from production and thus reduces his ownership right to a purely nominal one. Of course, social-democratic socialism does not *have* to go as far as reducing private ownership to one in name only. And admittedly, as the income-share that the producer is forced to hand over to society can in fact be quite moderate, this, in practice, can make a tremendous difference as regards economic performance. But still, it must be realized that from the standpoint of the nonproducing fellowmen, the degree of expropriation of private producers' income is a matter of expediency, which suffices to reduce the difference between both types of socialism—Russian and social-democratic style—once and for all to a difference only of degree. It should be apparent what this important fact implies for a producer. It means that however low the presently fixed degree of expropriation might be, his productive efforts take place under the ever-present threat that in the future the income-share which must be handed over to society will be raised unilaterally. It does not need much comment to see how this increases the risk, or the cost of producing, and hence lowers the rate of investment.

With this statement a first step in the analysis that follows has already been taken. What are the economic, in the colloquial sense

of the term, consequences of adopting a system of social-democratic socialism? After what has just been said, it is probably no longer altogether surprising to hear that at least as regards the general direction of the effects, they are quite similar to those of traditional Marxist-type socialism. Still, to the extent that social-democratic socialism settles for partial expropriation and the redistribution of producer incomes, some of the impoverishment effects that result from a policy of fully socializing means of production can be circumvented. Since these resources can still be bought and sold, the problem most typical of a caretaker economy—that no market prices for means of production exist and hence neither monetary calculation nor accounting are possible, with ensuing misallocations and the waste of scarce resources in usages that are at best of only secondary importance—is avoided. In addition, the problem of overutilization is at least reduced. Also, since private investment and capital formation is still possible to the extent that some portion of income from production is left with the producer to use at his discretion, under socialism social-democratic style there is a relatively higher incentive to work, to save, and to invest.

Nonetheless, by no means can all impoverishment effects be avoided. Socialism social-democratic style, however good it might look in comparison with Russian-type socialism, still necessarily leads to a reduction in investment and thus in future wealth as compared with that under capitalism.[42] By taking part of the income from production away from the owner-producer, however small that part may be, and giving it to people who did not produce the income in question, the costs of production (which are never zero, as producing, appropriating, contractings always imply at least the use of time, which could be used otherwise, for leisure, consumption, or underground work, for instance) rise, and, mutatis mutandis, the costs of nonproducing and/or underground production fall, however slightly. As a consequence there will be relatively less production and investment, even though, for reasons

---

42 On the following cf. L. v. Mises, Socialism, Indianapolis, 1981, esp. part V; Human Action, Chicago, 1966, esp. part 6.

to be discussed shortly, the absolute level of production and wealth might still rise. There will be relatively more leisure, more consumption, and more moonlighting, and hence, all in all, relative impoverishment. And this tendency will be more pronounced the higher the income from production that is redistributed, and the more imminent the likelihood that it will be raised in the future by unilateral, noncontractual societal decision.

For a long time by far the most popular idea for implementing the general policy goal of social-democratic socialism was to redistribute monetary in come by means of income taxation or a general sales tax levied on producers. A look at this particular technique shall further clarify our point and avoid some frequently encountered misunderstandings and misconceptions about the general effect of relative impoverishment. What is the economic effect of introducing income or sales taxation where there has been none before, or of raising an existing level of taxation to a new height?[43] In answering this, I will further ignore the complications that result from the different possible ways of redistributing tax money to different individuals or groups of individuals—these shall be discussed later in this chapter. Here we will only take into account the general fact, true by definition for all redistributive systems, that any redistribution of tax money is a transfer from monetary income producers and contractual money recipients to people in their capacity as nonproducers and nonrecipients of contractual money incomes. Introducing or raising taxation thus implies that monetary income flowing from production is reduced for the producer and increased for people in their roles as nonproducers and noncontractors. This changes the relative costs of production for monetary return versus nonproduction and production for nonmonetary returns. Accordingly, insofar as this change is perceived by people, they will increasingly resort to leisurely consumption and/or production for the purpose of barter, simultaneously reducing their productive efforts undertaken for monetary rewards. In any case, the output of goods to be purchased with money will

[43] Cf. M. N. Rothbard, Power and Market, Kansas City, 1977.

fall, which is to say the purchasing power of money decreases, and hence the general standard of living will decline.

Against this reasoning it is sometimes argued that it has been frequently observed empirically that a rise in the level of taxation was actually accompanied by a rise (not a fall) in the gross national product (GNP), and that the above reasoning, however plausible, must thus be considered empirically invalid. This alleged counter-argument exhibits a simple misunderstanding: a confusion between absolute and relative reduction. In the above analysis the conclusion is reached that the effect of higher taxes is a relative reduction in production for monetary returns; a reduction, that is, as compared with the level of production that would have been attained had the degree of taxation not been altered. It does not say or imply anything with respect to the absolute level of output produced. As a matter of fact, absolute growth of GNP is not only compatible with our analysis but can be seen as a perfectly normal phenomenon to the extent that advances in productivity are possible and actually take place. If it has become possible, through improvement in the technology of production, to produce a higher output with an identical input (in terms of costs), or a physically identical output with a reduced input, then the coincidence of increased taxation and increased output is anything but surprising. But, to be sure, this does not at all affect the validity of what has been stated about *relative* impoverishment resulting from taxation.

Another objection that enjoys some popularity is that raising taxes leads to a reduction in monetary income, and that this reduction raises the marginal utility of money as compared with other forms of income (like leisure) and thus, instead of lowering it, actually helps to increase the tendency to work for monetary return. This observation, to be sure, is perfectly true. But it is a misconception to believe that it does anything to invalidate the relative impoverishment thesis. First of all, in order to get the full picture it should be noted that through taxation, not only the monetary income for some people (the producers) is reduced but simultaneously monetary income for other people (nonproducers) is increased, and for

these people the marginal utility of money and hence their inclination to work for monetary return would be reduced. But this is by no means all that need be said, as this might still leave the impression that taxation simply does not affect the output of exchangeable goods at all—since it will reduce the marginal utility of money income for some and increase it for others, with both effects cancelling each other out. But this impression would be wrong. As a matter of fact, this would be a denial of what has been assumed at the outset: that a tax hike, i.e., a higher monetary contribution forced upon disapproving income producers, has actually taken place and has been perceived as such—and would hence involve a logical contradiction. Intuitively, the flaw in the belief that taxation is "neutral" as regards output becomes apparent as soon as the argument is carried to its ultimate extreme. It would then amount to the statement that even complete expropriation of all of the producers' monetary income and the transfer of it to a group of nonproducers would not make any difference, since the increased laziness of the nonproducers resulting from this redistribution would be fully compensated by an increased workaholism on the part of the producers (which is certainly absurd). What is overlooked in this sort of reasoning is that the introduction of taxation or the rise in any given level of taxation does not only imply favoring nonproducers at the expense of producers, it also simultaneously changes, for producers and nonproducers of monetary income alike, the cost attached to different methods of achieving an (increasing) monetary income. For it is now relatively less costly to attain additional monetary in come *through nonproductive means*, i.e., not through actually *producing* more goods but by participating in the process of noncontractual acquisitions of goods *already produced.* Even if producers are indeed more intent upon attaining additional money as a consequence of a higher tax, they will increasingly do so not by intensifying their productive efforts but rather through exploitative methods. This explains why taxation is not, and never can be, neutral. With (increased) taxation a different legal incentive structure is institutionalized: one that changes the relative costs of *production* for monetary income versus nonproduction, including

nonproduction for leisurely purposes and nonproduction for monetary return, and also versus production for nonmonetary return (barter). And if such a different incentive structure is applied to one and the same population, then, and necessarily so, a decrease in the output of goods produced for monetary return must result.[44]

While income and sales taxation are the most common techniques, they do not exhaust social-democratic socialism's repertoire of redistributive methods. No matter how the taxes are redistributed to the individuals composing a given society, no matter, for instance, to what extent monetary in come is equalized, since these individuals can and do lead different lifestyles and since they allocate different portions of the monetary income assigned to them to consumption or to the formation of nonproductively used private wealth, sooner or later significant differences between people will again emerge, if not with respect to their monetary income, then with respect to private wealth. And not surprisingly, these differences will steadily become more pronounced if a purely contractual inheritance law exists. Hence, social-democratic socialism, motivated as it is by egalitarian zeal, includes private wealth in its policy schemes and imposes a tax on it, too, and in particular imposes an inheritance tax in order to satisfy the popular outcry over "unearned riches" falling upon heirs.

Economically, these measures immediately reduce the amount of private wealth formation. As the enjoyment of private wealth is made relatively more costly by the tax, less wealth will be newly created, increased consumption will ensue—including that of existing stocks of nonproductively used riches—and the overall standard of living, which of course also depends on the comforts derived from private wealth, will sink.

Similar conclusions about impoverishment effects are reached when the third major field of tax policies—that of "natural assets"—

---

44 In addition, it should not be overlooked that even if it led to increased work by those taxed, a higher degree of taxation would in any case reduce the amount of leisure available to them and thereby reduce their standard of living. Cf. M.N. Rothbard, Power and Market, Kansas City, 1977, pp. 95f.

is analyzed. For reasons to be discussed below, this field, next to the two traditional fields of monetary income and private wealth taxation, has gained more prominence over time under the heading of opportunity equalization. It did not take much to discover that a person's position in life does not depend exclusively on monetary income or the wealth of nonproductively used goods. There are other things that are important in life and which bring additional income, even though it may not be in the form of money or other exchange goods: a nice family, an education, health, good looks, etc. I will call these nonexchangeable goods from which (psychic) income can be derived "natural assets." Redistributive socialism, led by egalitarian ideals, is also irritated by existing differences in such assets, and tries, if not to eradicate, then at least to moderate them. But these assets, being nonexchangeable goods, cannot be easily expropriated and the proceeds then redistributed. It is also not very practical, to say the least, to achieve this goal by directly reducing the nonmonetary income from natural assets of higher income people to the level of lower income people by, for instance, ruining the health of the healthy and so making them equal to the sick, or by smashing the good-looking people's faces to make them look like their less fortunate bad-looking fellows.[45] Thus, the common method social-democratic socialism advocates in order to create "equality of opportunity" is taxation of natural assets. Those people who are thought to receive a relatively higher nonmonetary income from some asset, like health, are subject to an additional tax, to be paid in money. This tax is then redistributed to those people whose respective income is relatively low to help compensate them for this fact. An additional tax, for instance, is levied on the healthy to help the unhealthy pay their doctor bills, or on the good-looking to help the ugly pay for plastic surgery or to buy themselves a drink so that they can forget about their lot. The economic consequences of such redistributive schemes should be clear. Insofar

[45] A fictional account of the implementation of such a policy, supervised by "The unceasing vigilance of agents of the United States Handicapper General" has been given by K. Vonnegut in "Harrison Bergeron," in: K. Vonnegut, Welcome to the Monkey House, New York, 1970.

as the psychic income, represented by health, for instance, requires some productive, time and cost-consuming effort, and as people can, in principle, shift from productive roles into nonproductive ones, or channel their productive efforts into different, non- or less heavily taxed lines of nonexchangeable or exchangeable goods production, they will do so because of the increased costs involved in the production of personal health. The overall production of the wealth in question will fall, the general standard of health, that is, will be reduced. And even with truly natural assets, like intelligence, about which people can admittedly do little or nothing, consequences of the same kind will result, though only with a time lag of one generation. Realizing that it has become relatively more costly to be intelligent and less so to be nonintelligent, and wanting as much income (of all sorts) as possible for one's offspring, the incentive for intelligent people to produce offspring has been lowered and for nonintelligent ones raised. Given the laws of genetics, the result will be a population that is all in all less intelligent. And besides, in any case of taxation of natural assets, true for the example of health as well as for that of intelligence, because monetary income is taxed, a tendency similar to the one resulting from income taxation will set in, i.e., a tendency to reduce one's efforts for monetary return and instead increasingly engage in productive activity for nonmonetary return or in all sorts of nonproductive enterprises. And, of course, all this once again reduces the general standard of living.

But this is still not all that has to be said about the consequences of socialism social-democratic-style, as it will also have remote yet nonetheless highly important effects on the social-moral structure of society, which will become visible when one considers the long-term effects of introducing redistributive policies. It probably no longer comes as a surprise that in this regard, too, the difference between Russian-type socialism and socialism social-democratic style, while highly interesting in some details, is not of a principal kind.

As should be recalled, the effect of the former on the formation of personality types was twofold, reducing the incentive to develop productive skills, and favoring at the same time the development of political talents. This precisely is also the overall consequence of social-democratic socialism. As social-democratic socialism favors nonproductive roles as well as productive ones that escape public notice and so cannot be reached by taxation, the character of the population changes accordingly. This process might be slow, but as long as the peculiar incentive structure established by redistributive policies lasts, it is constantly operative. Less investment in the development and improvement of one's productive skills will take place and, as a consequence, people will become increasingly unable to secure their income on their own, by producing or contracting. And as the degree of taxation rises and the circle of taxed income widens, people will increasingly develop personalities as inconspicuous, as uniform, and as mediocre as is possible—at least as far as public appearance is concerned. At the same time, as a person's income simultaneously becomes dependent on Politics, i.e., on society's decision on how to redistribute taxes (which is reached, to be sure, not by contracting, but rather by superimposing one person's will on another's recalcitrant one!), the more dependent it becomes, the more people will have to politicalize, i.e., the more time and energy they will have to invest in the development of their special talents for achieving personal advantages at the expense (i.e., in a noncontractual way) of others or of preventing such exploitation from occurring.

The *difference* between both types of socialism lies (only) in the following: under Russian-type socialism society's control over the means of production, and hence over the income produced with them, is complete, and so far there seems to be no more room to engage in political debate about the proper degree of politicalization of society. The issue is settled—just as it is settled at the other end of the spectrum, under pure capitalism, where there is no room for politics at all and all relations are exclusively contractual. Under social-democratic socialism, on the other hand, social control over income produced privately is actually only partial, and

increased or full control exists only as society's not yet actualized right, making only for a potential threat hanging over the heads of private producers. But living with the threat of being fully taxed rather than actually being so taxed explains an interesting feature of social-democratic socialism as regards the general development toward increasingly politicalized characters. It explains why under a system of social-democratic socialism the sort of politicalization is different from that under Russian-type socialism. Under the latter, time and effort is spent nonproductively, discussing how to distribute the socially owned income; under the former, to be sure, this is also done, but time and effort are also used for political quarrels over the issue of how large or small the socially administered income-shares should actually be. Under a system of socialized means of production where this issue is settled once and for all, there is then relatively more withdrawal from public life, resignation, and cynicism to be observed. Social-democratic socialism, on the other hand, where the question is still open, and where producers and nonproducers alike can still entertain some hope of improving their position by decreasing or increasing taxation, has less of such privatization and, instead, more often has people actively engaged in political agitation either in favor of increasing society's control of privately produced incomes, or against it.[46]

With the general similarity as well as this specific difference between both types of socialism explained, the task remains of presenting a brief analysis of some modifying forces influencing the general development toward unproductive politicalized personalities. These are effected by differing approaches to the desirable pattern of income distribution. Russian and social-democratic socialism alike are faced with the question of how to distribute income that happens to be socially controlled. For Russian-type socialism it is a matter of what salaries to pay to individuals who have been assigned to various positions in the caretaker economy. For redistributive socialism it is the question of how much tax to

---

46 On the phenomenon of politicalization cf. also K. S. Templeton (ed.), The Politicalization of Society, Indianapolis, 1977.

allocate to whom. While there are in principle innumerable ways to do this, the egalitarian philosophy of both kinds of socialism effectively reduces the available options to three general types.[47] The first one is the method of more or less equalizing everybody's monetary income (and possibly also private, nonproductively used wealth). Teachers, doctors, construction workers and miners, factory managers and cleaning ladies all earn pretty much the same salary, or the difference between them is at least considerably reduced.[48] It does not need much comment to realize that this approach reduces the incentive to work most drastically, for it no longer makes much

---

47 On the concern of orthodox and social-democratic socialism for equality cf. S. Lukes, "Socialism and Equality," in: L. Kolakowski and S. Hampshire (eds.), The Socialist Idea, New York, 1974; also B. Williams, "The Idea of Equality," in P. Laslett and W. G. Runciman (eds.), Philosophy, Politics, and Society, 2nd series, Oxford, 1962. For a critique of the socialist concept of equality cf. M. N. Rothbard, "Freedom, Inequality, Primitivism and the Division of Labor," in K. S. Templeton (ed.), The Politicalization of Society, Indianapolis, 1977; and Egalitarianism as a Revolt Against Nature, (title essay), Washington, 1974; H. Schoeck, Envy, New York, 1966; and 1st Leistung unanstaendig? Osnabrueck, 1971; A. Flew, The Politics of Procrustes, London, 1980; and Sociology, Equality and Education, New York, 1976.

48 Traditionally, this approach has been favored, at least in theory, by orthodox Marxist socialism—in line with Marx' famous dictum in his "Critique of the Gotha Programme," (K. Marx, Selected Works, vol. 2, London, 1942, p.566), 'from each according to his ability, to each according to his needs." Economic reality, however, has forced the Russian-style countries to make considerable concessions in practice. Generally speaking, an effort has indeed been made to equalize the (assumedly highly visible) monetary income for various occupations, but in order to keep the economy going, considerable difference in (assumedly less visible) nonmonetary rewards (such as special privileges regarding travel, education, housing, shopping, etc.) have had to be introduced.

Surveying the literature, P. Gregory and R. Stuart (Comparative Economic Systems, Boston, 1985), state: "… earnings are more equally distributed in Eastern Europe, Yugoslavia and the Soviet Union than in the United States. For the USSR, this appears to be a relatively new phenomenon, for as late as 1957, Soviet earnings were more unequal than the United States." However, in Soviet-style countries "a relatively larger volume of resources … is provided on an extra market bases …" (p.502). In conclusion: "Income is distributed more unequally in the capitalist countries in which the state plays a relatively minor redistributive role … (United States, Italy, Canada). Yet even where the state plays a major redistributive role (United Kingdom, Sweden), the distribution of incomes appears to be slightly more unequal than in the planned socialist countries (Hungary, Czechoslovakia, Bulgaria). The Soviet Union in 1966 appears to have a less egalitarian distribution of income than its East European counterparts" (p.504). Cf. also, F. Parkin, Class Inequality and Political Order, New York, 1971, esp. Chapter 6.

difference—salary-wise—if one works diligently all day or fools around most of the time. Hence, disutility of labor being a fact of life, people will increasingly fool around, with the average income that everyone seems to be guaranteed constantly falling, in relative terms. Thus, this approach relatively strengthens the tendency toward withdrawal, disillusionment, cynicism, and mutatis mutandis, contributes to a relative reduction in the general atmosphere of politicalization. The second approach has the more moderate aim of guaranteeing a minimum income which, though normally somehow linked to average income, falls well below it.[49] This, too, reduces the incentive to work, since, to the extent that they are only marginal income producers with incomes from production only slightly above the minimum, people will now be more inclined to reduce or even stop their work, enjoy leisure instead, and settle for the minimum income. Thus more people than otherwise will fall below the minimum line, or more people than otherwise will keep or acquire those characteristics on whose existence payment of minimum salaries is bound, and as a consequence, again, the average income to which the minimum salary is linked will fall below the level that it otherwise would have reached. But, of course, the incentive to work is reduced to a smaller degree under the second than the first scheme. On the other hand, the second approach will lead to a relatively higher degree of active politicalization (and less of resigned withdrawal), because, unlike average income, which can be objectively ascertained, the level at which the minimum

---

49 This approach is traditionally most typical for social-democratic socialism. In recent years it has been given much publicized support—from the side of the economics profession—by M. Friedman with his proposal for a "negative income tax" (Friedman, Capitalism and Freedom, Chicago, 1962, Chapter 12); and by J. Rawls—from the philosophical side—with his "difference principle" (Rawls, A Theory of Justice, Cambridge, 1971, pp. 60, 75ff, 83). Accordingly, both authors have received much attention from social-democratic party intellectuals. Generally, Friedman was only found "guilty" of not wanting to set the minimum income high enough—but then, he had no principled criterion for setting it at any specific point anyway. Rawls, who wants to coerce the "most advantaged person" into letting the "least advantaged one" share in his fortune whenever he happens to improve his own position, was at times even found to have gone too far with his egalitarianism. Cf. G. Schwan, Sozialismus in der Demokratie. Theorie eine konsequent sozialdemokratischen Politik, Stuttgart, 1982, Chapter 3. D.

income is fixed is a completely subjective, arbitrary affair, which is thus particularly prone to becoming a permanent political issue.

Undoubtedly, the highest degree of active politicalization is reached when the third distributional approach is chosen. Its goal, gaining more and more prominence for social democracy, is to achieve equality of opportunity.[50] The idea is to create, through redistributional measures, a situation in which everyone's chance of achieving any possible (income) position in life is equal—very much as in a lottery where each ticket has the same chance of being a winner or a loser—and, in addition, to have a corrective mechanism which helps rectify situations of "undeserved bad luck" (whatever that may be) which might occur in the course of the ongoing game of chance. Taken literally, of course, this idea is absurd: there is no way of equalizing the opportunity of someone living in the Alps and someone residing at the seaside. In addition, it seems quite clear that the idea of a corrective mechanism is simply incompatible with the lottery idea. Yet it is precisely this high degree of vagueness and confusion which contributes to the popular appeal of this concept. What constitutes an opportunity, what makes an opportunity different or the same, worse or better, how much and what kind of compensation is needed to equalize opportunities which admittedly cannot be equalized in physical terms (as in the Alps/seaside example), what is undeserved bad luck and what a rectification, are all completely subjective matters. They are dependent on subjective evaluations, changing as they do, and there is then—if one indeed applies the equality of opportunity concept—an unlimited reservoir of all sorts of distributional demands, for all sorts of reasons and for all sorts of people. This is so, in particular, because equalizing opportunity is compatible with demands for *differences* in monetary income or private wealth. A

---

50 A representative example of social-democratically inclined research on equality of opportunity, in particular regarding education, is C. Jencks, and others, Inequality, London, 1973; the increasing prominence of the idea of equalizing opportunity also explains the flood of sociological studies on "quality of life" and "social indicators" that has appeared since the late 1960s. Cf., for instance, A. Szalai and F. Andrews (eds.), The Quality of Life, London, 1980.

and B might have the same income and might both be equally rich, but A might be black, or a woman, or have bad eyesight, or be a resident of Texas, or may have ten children, or no husband, or be over 65, whereas B might be none of these but something else, and hence A might argue that his opportunities to attain everything possible in life are different, or rather worse, than B's, and that he should somehow be compensated for this, thus making their monetary incomes, which were the same before, now different. And B, of course, could argue in exactly the same way by simply reversing the implied evaluation of opportunities. As a consequence, an unheard of degree of politicalization will ensue. Everything seems fair now, and producers and nonproducers alike, the former for defensive and the latter for aggressive purposes, will be driven into spending more and more time in the role of raising, destroying, and countering distributional demands. And to be sure, this activity, like the engagement in leisurely activities, is not only nonproductive but in clear contrast to the role of enjoying leisure, implies spending time for the very purpose of actually disrupting the undisturbed enjoyment of wealth produced, as well as its new production.

But not only is increased politicalization stimulated (above and beyond the level implied by socialism generally) by promoting the idea of equalizing opportunity. There is once more, and this is perhaps one of the most interesting features of new social-democratic-socialism as compared with its traditional Marxist form, a new and different character to the kind of politicalization implied by it. Under any policy of distribution, there must be people who support and promote it. And normally, though not exclusively so, this is done by those who profit most from it. Thus, under a system of income and wealth-equalization and also under that of a minimum income policy, it is mainly the "have-nots" who are the supporters of the politicalization of social life. Given the fact that on the average they happen to be those with relatively lower intellectual, in particular verbal capabilities, this makes for politics which appears to lack much intellectual sophistication, to say the least. Put more bluntly, politics tends to be outright dull,

dumb, and appalling, even to a considerable number of the have-nots themselves. On the other hand, in adopting the idea of equalizing opportunity, differences in monetary income and wealth are not only allowed to exist but even become quite pronounced, provided that this is justifiable by some underlying discrepancies in the opportunity structure for which the former differences help compensate. Now in this sort of politics the haves can participate, too. As a matter of fact, being the ones who on the average command superior verbal skills, and the task of defining opportunities as better or worse being essentially one of persuasive rhetorical powers, this is exactly their sort of game. Thus the haves will now become the dominant force in sustaining the process of politicalization. Increasingly it will be people from their ranks that move to the top of the socialist party organization, and accordingly the appearance and rhetoric of socialist politics will take on a different shape, becoming more and more intellectualized, changing its appeal and attracting a new class of supporters.

With this I have reached the stage in the analysis of social-democratic socialism where only a few remarks and observations are needed which will help *illustrate* the validity of the above theoretical considerations. Though it does not at all affect the validity of the conclusions reached above, depending as they do exclusively on the truth of the premises and the correctness of the deductions, there unfortunately exists no nearly perfect, quasi-experimental case to illustrate the workings of social-democratic socialism as compared with capitalism, as there was in the case of East and West Germany regarding Russian-type socialism. Illustrating the point would involve a comparison of manifestly different societies where the ceteris are clearly not paribus, and thus it would no longer be possible to neatly match certain causes with certain effects. Often, experiments in social-democratic socialism simply have not lasted long enough, or have been interrupted repeatedly by policies that could not definitely be classified as social-democratic socialism. Or else from the very beginning, they have been mixed with such different—and even inconsistent—policies as a result of political compromising, that in reality different causes and effects are so

entangled that no striking illustrative evidence can be produced for *any* thesis of some degree of specificity. The task of disentangling causes and effects then becomes a genuinely theoretical one again, lacking the peculiar persuasiveness that characterizes experimentally produced evidence.

Nonetheless some evidence exists, if only of a more dubious quality. First, on the level of highly global observations, the general thesis about relative impoverishment brought about by redistributive socialism is illustrated by the fact that the standard of living is relatively higher and has become more so over time in the United States of America than in Western Europe, or, more specifically, than in the countries of the European Community (EC). Both regions are roughly comparable with respect to population size, ethnic and cultural diversity, tradition and heritage, and also with respect to natural endowments, but the United States is comparatively more capitalist and Europe more socialist. Every neutral observer will hardly fail to notice this point, as indicated also by such global measures as state expenditure as percent of GNP, which is roughly 35 percent in the United States as compared to about 50 percent or more in Western Europe. It also fits into the picture that the European countries (in particular Great Britain) exhibited more impressive rates of economic growth in the nineteenth century, which has been described repeatedly by historians as the period of classical liberalism, than in the twentieth, which, in contrast, has been termed that of socialism and statism. In the same way the validity of the theory is illustrated by the fact that Western Europe has been increasingly surpassed in rates of economic growth by some of the Pacific countries, such as Japan, Hong Kong, Singapore, and Malaysia; and that the latter, in adopting a relatively more capitalist course, have meanwhile achieved a much higher standard of living than socialistically inclined countries which started at about the same time with roughly the same basis of economic development, such as India.

Coming then to more specific observations, there are the recent experiences of Portugal, where in 1974 the autocratic Salazar

regime of conservative socialism (on this type of socialism see the following chapter),which had kept Portugal one of the poorest countries in Europe, was supplanted in an upheaval by redistributive socialism (with elements of nationalization) and where since then the standard of living has fallen even further, literally turning the country into a third world region. There is also the socialist experiment of Mitterand's France, which produced an immediate deterioration of the economic situation, so noticeable—most conspicuous being a drastic rise in unemployment and repeated currency devaluations—that after less than two years, sharply reduced public support for the government forced a reversal in policy, which was almost comic in that it amounted to a complete denial of what only a few weeks before had been advocated as its dearest convictions.

The most instructive case, though, might again be provided by Germany and, this time, West Germany.[51] From 1949 to 1966 a liberal-conservative government which showed a remarkable commitment to the principles of a market economy existed, even though from the very beginning there was a considerable degree of conservative-socialist elements mixed in and these elements gained more importance over time. In any case, of all the major European nations, during this period West Germany was, in relative terms, definitely the most capitalist country, and the result of this was that it became Europe's most prosperous society, with growth rates that surpassed those of all its neighbors. Until 1961, millions of German refugees, and afterwards millions of foreign workers from southern European countries became integrated into its expanding economy, and unemployment and inflation were almost unknown. Then, after a brief transition period, from 1969 to 1982 (almost an equal time span) a social-democratically led socialist-liberal government took over. It raised taxes and social security contributions considerably, increased the number of public employees, poured additional tax funds into existing social programs and

---

51 On the following cf. also R. Merklein, Griff in die eigene Tasche, Hamburg, 1980; and Die Deutschen werden aermer, Hamburg, 1982.

created new ones, and significantly increased spending on all sorts of so-called "public goods, "thereby allegedly equalizing opportunities and enhancing the overall "quality of life." By resorting to a Keynesian policy of deficit spending and unanticipated inflation, the effects of raising the socially guaranteed minimum provisions for nonproducers at the expense of more heavily taxed producers could be delayed for a few years (the motto of the economic policy of former West German Chancellor Helmut Schmidt was "rather 5% inflation than 5% unemployment"). They were only to become more drastic somewhat later, however, as unanticipated inflation and credit expansion had created and prolonged the over- or rather malinvestment typical of a boom. As a result, not only was there much more than 5 percent inflation, but unemployment also rose steadily and approached 10 percent; the growth of GNP became slower and slower until it actually fell in absolute terms during the last few years of the period. Instead of being an expanding economy, the absolute number of people employed decreased; more and more pressure was generated on foreign workers to leave the country and the immigration barriers were simultaneously raised to ever higher levels. All of this happened while the importance of the underground economy grew steadily.

But these were only the more evident effects of a narrowly defined economic kind. There were other effects of a different sort, which were actually of more lasting importance. With the new socialist-liberal government the idea of equalizing opportunity came to the ideological forefront. And as has been predicted theoretically, it was in particular the official spreading of the idea *mehr Demokratie wagen* ("risk more Democracy")—initially one of the most popular slogans of the new (Willy Brandt) era—that led to a degree of politicalization unheard of before. All sorts of demands were raised in the name of equality of opportunity; and there was hardly any sphere of life, from childhood to old age, from leisure to work conditions, that was not examined intensely for possible differences that it offered to different people with regard to opportunities defined as relevant. Not surprisingly, such opportunities and such

differences were found constantly,[52] and, accordingly, the realm of politics seemed to expand almost daily. "There is no question that is not a political one" could be heard more and more often. In order to stay ahead of this development the parties in power had to change, too. In particular the Social Democrats, traditionally a blue-collar workers' party, had to develop a new image. With the idea of equalizing opportunity gaining ground, it increasingly became, as could be predicted, the party of the (verbal) intelligentsia, of social scientists and of teachers. And this "new" party, almost as if to prove the point that a process of politicalization will be sustained mainly by those who can profit from its distributional schemes and that the job of defining opportunities is essentially arbitrary and a matter of rhetorical power, then made it one of its central concerns to channel the most diverse political energies set in motion into the field of equalizing, above all, educational opportunities. In particular, they "equalized" the opportunities for a high school and university education, by offering the respective services not only free of charge but by literally *paying* large groups of students to take advantage of them. This not only increased the demand for educators, teachers, and social scientists, whose payment naturally had to come from taxes. It also amounted, somewhat ironically for a socialist party which argued that equalizing educational opportunities would imply an income transfer from the rich to the poor, in effect to a subsidy paid to the more intelligent at the expense of a complementary income reduction for the less intelligent, and, to the extent that there are higher numbers of intelligent people among the middle and upper social classes than among the lower, a subsidy to the haves paid by the have-nots.[53] As a result of this process of politicalization led by increased numbers of tax-paid educators gaining influence over increased numbers of students, there emerged (as could be predicted) a change in the mentality of the people. It was increasingly considered completely normal to satisfy all sorts of

---

52 Cf. as a representative example, W. Zapf (ed.), *Lebensbedingungen in der Bundesrepublik*, Frankfurt/M., 1978.

53 Cf. on this A. Alchian, "The Economic and Social Impact of Free Tuition" in: A. Alchian, Economic Forces at Work, Indianapolis, 1977.

demands through political means, and to claim all sorts of alleged rights against other supposedly better-situated people and their property; and for a whole generation of people raised during this period, it became less and less natural to think of improving one's lot by productive effort or by contracting. Thus, when the actual economic crisis, necessitated by the redistributionist policy, arose, the people were less equipped than ever to overcome it, because over time the same policy had weakened precisely those skills and talents which were now most urgently required. Revealingly enough, when the socialist-liberal government was ousted in 1982, mainly because of its obviously miserable economic performance, it was still the prevalent opinion that the crisis should be resolved not by eliminating the causes, i.e., the swollen minimum provisions for nonproducers or noncontractors, but rather by another redistributive measure: by forcibly equalizing the available work—time for employed and unemployed people. And in line with this spirit the new conservative-liberal government in fact did no more than slow down the rate of growth of taxation.

Chapter 5

The Socialism of Conservatism

In the two preceding chapters the forms of socialism most commonly known and identified as such, and that are indeed derived from basically the same ideological sources were discussed: socialism Russian-style, as most conspicuously represented by the communist countries of the East bloc; and social-democratic socialism, with its most typical representatives in the socialist and social-democratic parties of Western Europe, and to a lesser extent in the "liberals" of the United States. The property rules underlying their policy schemes were analyzed, and the idea presented that one can apply the property principles of Russian or social-democratic socialism in varying degrees: one can socialize all means of production or just a few, and one can tax away and redistribute almost all income, and almost all types of income, or one can do this with just a small portion of only a few types of income. But, as was demonstrated by theoretical means and, less stringently, through some illustrative empirical evidence, as long as one adheres to these principles *at all* and does not once and for all abandon the notion of ownership rights belonging to nonproducers (nonusers) and noncontractors, relative impoverishment must be the result.

This chapter will show that the same is true of conservatism, because it, too, is a form of socialism. Conservatism also produces impoverishment, and all the more so, the more resolutely it is applied. But before going into a systematic and detailed economic

analysis of the peculiar ways in which conservatism produces this effect, it would be appropriate to take a short look at history, in order to better understand why conservatism indeed is socialism, and how it is related to the two egalitarian forms of socialism discussed previously.

Roughly speaking, before the eighteenth century in Europe and throughout the world, a social system of "feudalism" or "absolutism," which was in fact feudalism on a grander scale, existed.[54] In abstract terms, the social order of feudalism was characterized by a regional overlord who claimed ownership of some territory, including all of its resources and goods, and quite often also of all of the men placed upon it, without having originally appropriated them himself through use or work, and without having a contractual claim to them. On the contrary, the territory, or better, the various parts of it and the goods standing on it, had been actively occupied, used, and produced by different people before (the "natural owners"). The ownership claims of the feudal lords were thus derived from thin air. Hence, the practice, based on these alleged ownership rights, of renting land and other production factors out to the natural owners in return for goods and services unilaterally fixed by the overlord, had to be enforced against the will of these natural owners, by brutal force and armed violence, with the help of a noble caste of military men who were rewarded by the overlord for their services by being allowed to participate and share in his exploitative methods and proceeds. For the common man subject to this order, life meant tyranny, exploitation, economic stagnation, poverty, starvation, and despair.[55]

As might be expected, there was resistance to this system. Interestingly enough though (from a present-day perspective), it

---

[54] On the following cf. in particular M. N. Rothbard's brilliant essay 'Left and Right: The Prospects for Liberty' in the same, Egalitarianism as a Revolt Against Nature, Washington, 1974.

[55] On the social structure of feudalism cf. M. Bloch, Feudal Society, Chicago, 1961; P. Anderson, Passages from Antiquity to Feudalism, London, 1974; R. Hilton (ed.), The Transition from Feudalism to Capitalism, London, 1978.

was not the peasant population who suffered most from the existing order, but the merchants and traders who became the leading opponents of the feudal system. Buying at a lower price in one place and traveling and selling at a higher price in a different place, as they did, made their subordination to any one feudal lord relatively weak. They were essentially a class of "international" men, crossing the borders of various feudal territories constantly. As such, in order to do business they required a stable, internationally valid legal system: a system of rules, valid regardless of time and place, defining property and contract, which would facilitate the evolution of the institutions of credit, banking and insurance essential to any large-scale trading business. Naturally, this caused friction between the merchants and the feudal lords as representatives of various arbitrary, regional, legal systems. The merchants became feudalism's outcasts, permanently threatened and harassed by the noble military caste attempting to bring them under their control.[56]

In order to escape this threat the merchants were forced to organize themselves and help establish small fortified trading places at the very fringes of the centers of feudal power. As places of partial exterritoriality and at least partial freedom, they soon attracted growing numbers of the peasantry running away from feudal exploitation and economic misery, and they grew into small towns, fostering the development of crafts and productive enterprises which could not have emerged in the surroundings of exploitation and legal instability characteristic of the feudal order itself. This process was more pronounced where the feudal powers were relatively weak and where power was dispersed among a great number of often very minor, rival feudal lords. It was in the cities of northern Italy, the cities of the Hanseatic league, and those of Flanders that the spirit of capitalism first blossomed, and commerce and production reached their highest levels.[57]

---

56 Cf. H. Pirenne, Medieval Cities. Their Origins and the Revival of Trade, Princeton, 1974, Chapter 5, esp. pp. 126ff; also cf. M.

57 It is worth stressing that contrary to what various nationalist historians have taught, the revival of trade and industry was caused by the weakness of central states, by the essentially anarchistic character of the feudal system. This insight has been

But this partial emancipation from the restrictions and the stagnation of feudalism was only temporary, and was followed by reaction and decline. This was due in part to internal weaknesses in the movement of the new merchant class itself. Still too much ingrained in the minds of men was the feudal way of thinking in terms of different ranks assigned to people, of subordination and power, and of order having to be imposed upon men through coercion. Hence, in the newly emerging commercial centers a new set of noncontractual regulations and restrictions—now of "bourgeois" origin—was soon established, guilds that restrained free competition were formed, and a new merchant oligarchy arose.[58] More important, though, for this reactionary process was yet another fact. In their endeavor to free themselves from the exploitative interventions of the various feudal lords, the merchants had to look for natural allies. Understandably enough, they found such allies among those from the class of feudal lords who, though comparatively more powerful than their noble fellows, had the centers of their power at a relatively greater distance from the commercial towns seeking assistance. In aligning themselves with the merchant class, they sought to extend their power beyond its present range

---

emphasized by J. Baechler in The Origins of Capitalism, New York, 1976, esp. Chapter 7. He writes: "The constant expansion of the market, both in extensiveness and in intensity, was the result of an absence of a political order extending over the whole of Western Europe." (p.73) "The expansion of capitalism owes its origin and raison d'eetre to political anarchy … . Collectivism and State management have only succeeded in school text-books (look, for example, at the constantly favourable judgement they give to Colbertism)." (p.77) "All power tends toward the absolute. If it is not absolute, this is because some kind of limitations have come into play … those in positions of power at the centre ceaselessly tried to erode these limitations. They never succeeded, and for a reason that also seems to me to be tied to the international system: a limitation of power to act externally and the constant threat of foreign assault (the two characteristics of a multi-polar system) imply that power is also limited internally and must rely on autonomous centres of decision making and so may use them only sparingly." (p.78)

On the role of ecological and reproductive pressures for the emergence of capitalism cf. M. Harris, Cannibals and Kings, New York, 1978, Chapter 14.

58 Cf. on this the rather enthusiastic account given by H. Pirenne, Medieval Cities, Princeton, 1974, pp.208ff.

at the expense of other, minor lords.[59] In order to achieve this goal they first granted certain exemptions from the "normal" obligations falling upon the subjects of feudal rule to the rising urban centers, thus assuring their existence as places of partial freedom, and offered protection from the neighboring feudal powers. But as soon as the coalition had succeeded in its joint attempt to weaken the local lords and the merchant towns' "foreign" feudal ally had thereby become established as a real power outside of its own traditional territory, it moved ahead and established itself as a feudal super power, i.e., as a monarchy, with a king who superimposed his own exploitative rules onto those of the already existing feudal system. Absolutism had been born; and as this was nothing but feudalism on a larger scale, economic decline again set in, the towns disintegrated, and stagnation and misery returned.[60]

It was not until the late seventeenth and early eighteenth centuries, then, that feudalism came under truly heavy attack. This time the attack was more severe, because it was no longer simply the attempt of practical men—the merchants—to secure spheres of relative freedom in order to do their practical business. It was increasingly an ideological battle fought against feudalism. Intellectual reflection on the causes of the rise and decline of commerce and industry that had been experienced, and a more intensive study of Roman and in particular of Natural Law, which had both been rediscovered in the course of the merchants' struggle to develop an international merchant law and justify it against the competing claims of feudal law, had led to a sounder understanding of the concept of liberty, and of liberty as a prerequisite to economic

---

59 On this coalition cf. H. Pirenne, Medieval Cities, Princeton, 1974. "The clear interest of the monarchy was to support the adversaries of high feudalism. Naturally, help was given whenever it was possible to do so without becoming obligated to these middle classes who in arising against their lords fought, to all intents and purposes, in the interests of royal prerogatives. To accept the king as arbitrator of their quarrel was, for the parties in conflict, to recognize his sovereignty … It was impossible that royalty should not take count of this and seize every chance to show its goodwill to the communes which, without intending to do so, labored so usefully in its behalf" (p.179-80; cf. also pp.227f).

60 Cf. P. Anderson, Lineages of Absolutism, London, 1974.

prosperity.[61] As these ideas, culminating in such works as J. Locke's "Two Treatises on Government," 1688, and A. Smith's "Wealth of Nations," 1776, spread and occupied the minds of a steadily expanding circle of people, the old order lost its legitimacy. The old way of thinking in terms of feudal bonds gradually gave way to the idea of a contractual society. Finally, as outward expressions of this changed state of affairs in public opinion, the Glorious Revolution of 1688 in England, the American Revolution of 1776, and the French Revolution of 1789 came along; and nothing was the same after these revolutions had occurred. They proved, once and for all, that the old order was not invincible, and they sparked new hope for further progress on the road toward freedom and prosperity.

Liberalism, as the ideological movement that had brought about these earth-shattering events came to be called, emerged from these revolutions stronger than ever and became for somewhat more than half a century the dominating ideological force in Western Europe. It was the party of freedom and of private property acquired through occupation and contract, assigning to the state merely the role of enforcer of these natural rules.[62] With remnants of the feudal system still in effect everywhere, however shaken in their ideological foundation, it was the party representing an increasingly liberalized, deregulated, contractualized society, internally and externally, i.e., regarding domestic as well as foreign affairs and relations. And as under the pressure of liberal ideas the European societies became increasingly free of feudal restrictions, it also became the party of the Industrial Revolution, which was caused and stimulated by this very process of liberalization. Economic development set in at a pace never before experienced by mankind. Industry and commerce flourished, and capital formation and accumulation reached new heights. While the standard of living did not rise immediately for everyone, it became possible

---

61 Cf. L. Tigar and M. Levy, Law and the Rise of Capitalism, New York, 1977.

62 Cf. L. v. Mises, Liberalismus, Jena, 1929; also E. K. Bramsted and K. J. Melhuish (eds.), Western Liberalism, London, 1978.

to support a growing number of people—people, that is, who only a few years before, under feudalism, would have died of starvation because of the lack of economic wealth, and who could now survive. In addition, with population growth leveling off below the growth rate of capital, now everyone could realistically entertain the hope of rising living standards being just around the corner.[63]

It is against this background of history (somewhat streamlined, of course, as it has just been presented) that the phenomenon of conservatism as a form of socialism and its relation to the two versions of socialism originating in Marxism must be seen and understood. All forms of socialism are ideological responses to the challenge posed by the advance of liberalism; but their stand taken against liberalism and feudalism—the old order that liberalism had helped to destroy—differs considerably. The advance of liberalism had stimulated social change at a pace, to an extent, and in variations unheard of before. The liberalization of society meant that increasingly only those people could keep a given social position once acquired who could do so by producing most efficiently for the most urgent wants of voluntary consumers with as little cost as possible, and by relying exclusively on contractual relationships with respect to the hiring of factors of production and, in particular, of labor. Empires upheld solely by force were crumbling under this pressure. And as consumer demand to which the production structure now increasingly had to adapt (and not vice versa) was changing constantly, and the upspring of new enterprises became increasingly less regulated (insofar as it was the result of original appropriation and/or contract), no one's relative position in the hierarchy of income and wealth was secure anymore. Instead, upward and downward social mobility increased significantly, for neither particular factor-owners nor owners of particular labor services were any longer immune to respective changes in demand. They were no longer guaranteed stable prices or a stable income.[64]

---

63 Cf. F. A. Hayek (ed.), Capitalism and the Historians, Chicago, 1963.

64 On the social dynamics of capitalism as well as the resentment caused by it cf. D. Mc. C. Wright, Democracy and Progress, New York, 1948; and Capitalism, New York, 1951.

Old Marxist and new social-democratic socialism are the egalitarian, progressive answers to this challenge of change, uncertainty, and mobility. Like liberalism, they hail the destruction of feudalism and the advance of capitalism. They realize that it was capitalism that freed people from exploitative feudal bonds and produced enormous improvements in the economy; and they understand that capitalism, and the development of the productive forces brought about by it, was a necessary and positive evolutionary step on the way toward socialism. Socialism, as they conceive it, shares the same goals with liberalism: freedom and prosperity. But socialism supposedly improves on the achievements of liberalism by supplanting capitalism—the anarchy of production of private competitors which causes the just-mentioned change, mobility, uncertainty, and unrest in the social fabric—at its highest stage of development by a rationally planned and coordinated economy which prevents insecurities derived from this change from being felt at an individual level. Unfortunately, of course, as the last two chapters have sufficiently demonstrated, this is a rather confused idea. It is precisely by making individuals insensitive to change through redistributional measures that the incentive to adapt quickly to any future change is taken away, and hence the value, in terms of consumer evaluations, of the output produced will fall. And it is precisely because one plan is substituted for many seemingly uncoordinated ones that individual freedom is reduced and, mutatis mutandis, government by one man over another increased.

Conservatism, on the other hand, is the anti-egalitarian, reactionary answer to the dynamic changes set in motion by a liberalized society: It is anti-liberal and, rather than recognizing the achievements of liberalism, tends to idealize and glorify the old system of feudalism as orderly and stable.[65] As a postrevolutionary

---

[65] In spite of their generally progressive attitude, the socialist left is not entirely free of such conservative glorifications of the feudal past, either. In their contempt for the "alienation" of the producer from his product, which of course is the normal consequence of any market system based on division of labor, they have frequently pre-

phenomenon, it does not necessarily and outrightly advocate a return to the prerevolutionary status quo ante and accepts certain changes, however regretfully, as irreversible. But it is hardly ruffled when old feudal powers that had lost all or parts of their estates to the natural owners in the course of the liberalization process are restored to their old position, and it definitely and openly propagates the conservation of the status quo, i.e., the given highly unequal distribution of property, wealth, and income. Its idea is to stop or slow down the permanent changes and mobility processes brought about by liberalism and capitalism as completely as possible and, instead, to recreate an orderly and stable social system in which everyone remains securely in the position that the past had assigned to him.[66]

In order to do so, conservatism must, and indeed does, advocate the legitimacy of noncontractual means in the acquisition and retention of property and income derived from it, since it was precisely the exclusive reliance on contractual relations that *caused* the very permanence of changes in the relative distribution of income and wealth. Just as feudalism allowed the acquisition and upholding of property and wealth by force, so conservatism ignores whether or not people have acquired or retain their given income-and wealth-position through original appropriation and contract. Instead, conservatism deems it appropriate and legitimate for a class of once-established owners to have the right to stop any social change that it considers a threat to their relative position in the social hierarchy of income and wealth, even if the various individual owner-users of various production factors did not contract into any such agreement. Conservatism, then, must be addressed as the ideological heir of feudalism. And as feudalism must be described as aristocratic socialism (which should be clear enough

---

sented the economically self-sufficient feudal manor as a cozy, wholesome social model. Cf., for instance, K. Polanyi, The Great Transformation, New York, 1944.

66 Cf. R. Nisbet, "Conservatism," in: R. Nisbet and T. Bottomore, History of Sociological Analysis, New York, 1978; also G. K. Kaltenbrunner (ed.), Rekonstruktion des Konservatismus, Bern, 1978; on the relationship between liberalism and conservatism cf. F. A. Hayek, The Constitution of Liberty, Chicago, 1960 (Postscript).

from its above characterization), so must conservatism be considered as the socialism of the bourgeois establishment. Liberalism, to which both the egalitarian and the conservative versions of socialism are ideological responses, reached the height of its influence around the mid-nineteenth century. Probably its very last glorious achievements were the repeal of the Corn Laws in England in 1846, accomplished by R. Cobden, J. Bright and the anti-corn law league, and the 1848 revolutions of continental Europe. Then, because of internal weaknesses and inconsistencies in the ideology of liberalism,[67] the diversions and the divisiveness which the various nation states' imperialist adventures had brought about, and last but not least because of the appeal that the different versions of socialism with their various promises of security and stability had and still have for the public's widespread distaste for dynamic change and mobility,[68] liberalism's decline set in. Socialism increasingly supplanted it as a dominating ideological force, thereby reversing the process of liberalization and once again imposing more and more noncontractual elements on society.[69] At different times and places, different types of socialism found support in public opinion to varying degrees, so that today traces of all of them can be found to coexist in different degrees everywhere and to compound their respective impoverishment effects on the process of production, the upkeep of wealth and the formation of character. But it is

---

67 On the inconsistencies of liberalism cf. Chapter 10, n. 21.

68 Normally, peoples' attitudes toward change are ambivalent: on the one hand, in their role as consumers people see change as a positive phenomenon since it brings about a greater variety of choice. On the other hand, in their role as producers people tend to embrace the ideal of stability, as this would save them from the need to continually adapt their productive efforts to changed circumstances. It is, then, largely in their capacity as producers that people lend support to the various socialist stabilization schemes and promises, only to thereby harm themselves as consumers. Writes D. Mc. C. Wright in Democracy and Progress, New York, 1948, p.81: "From freedom and science came rapid growth and change. From rapid growth and change came insecurity. From insecurity came demands which ended growth and change. Ending growth and change ended science and freedom."

69 On liberalism, its decline, and the rise of socialism cf. A. V. Dicey, Lectures on the Relation Between Law and Public Opinion in England during the Nineteenth Century, London, 1914; W. H. Greenleaf, The British Political Tradition, 2 vols., London, 1983.

the influence of conservative socialism, in particular, that must be stressed, especially because it is very often overlooked or underestimated. If today the societies of Western Europe can be described as socialist, this is due much more to the influence of the socialism of conservatism than to that of egalitarian ideas. It is the peculiar way in which conservatism exerts its influence, though, that explains why this is often not recognized. Conservatism not only shapes the social structure by enacting policy; especially in societies like the European ones where the feudal past has never been completely shaken off but where a great number of feudal remnants survived even the peak of liberalism. An ideology such as conservatism also exerts its influence, very inconspicuously, by simply maintaining the status quo and letting things continue to be done according to age-old traditions. What then are the specifically conservative elements in present-day societies, and how do they produce relative impoverishment?. With this question, we turn to the systematic analysis of conservatism and its economic and socio-economic effects. An abstract characterization of the property rules underlying conservatism and a description of these rules in terms of the natural theory of property shall again be the starting point. There are two such rules. First, conservative socialism, like social-democratic socialism, does not outlaw private property. Quite to the contrary: everything—all factors of production and all of the non-productively used wealth—can in principle be privately owned, sold, bought, rented out, with the exception again only of such areas as education, traffic and communication, central banking, and security production. But then secondly, no owner owns *all* of his property and all of the income that can be derived from its utilization. Rather, part of this belongs to the society of present owners and income recipients, and society has the right to allocate present and future produced income and wealth to its individual members in such a way that the old, relative distribution of income and wealth is preserved. And it is also society's right to determine how large or small the income and wealth-share that is so administered

should be, and what exactly is needed to preserve a given income and wealth-distribution.[70]

From the perspective of the natural theory of property, the property arrangement of conservatism again implies an aggression against the rights of natural owners. Natural owners of things can do whatever they wish with them, as long as they do not uninvitedly change the physical integrity of someone else's property. This implies, in particular, their right to change their property or to put it to different uses in order to adapt to anticipated changes in demand and so preserve or possibly enhance its value; and it also gives them the right to reap privately the benefits of increased property values that stem from unanticipated changes in demand—from changes, that is, that were lucky for them, but which they did not foresee or effectuate. But at the same time, since according to the principles of the natural theory of property every natural owner is only protected against physical invasion and the noncontractual acquisition and transfer of property titles, it also implies that everyone constantly and permanently runs the risk that through changes in demand or actions which other owners perform with their property, property

---

70 I might again mention that the characterization of conservatism, too, has the status of an ideal-type (cf. Chapter 3, n. 2; Chapter 4, n. 8). It is the attempt to reconstruct those ideas which people either consciously or unconsciously accept or reject in attaching or detaching themselves to or from certain social policies or movements. The idea of a conservative policy as described here and in the following can also be said to be a fair reconstruction of the underlying, unifying ideological force of what is indeed labeled "conservative" in Europe. However, the term "conservative" is used differently in the United States. Here, quite frequently, everyone who is not a left-liberal-(social)-democrat is labeled a conservative. As compared with this terminology, our usage of the term conservative is much narrower, but also much more in line with ideological reality. Labeling everything that is not "liberal" (in the American sense) "conservative" glosses over the fundamental ideological differences that—despite some partial agreement regarding their opposition to "liberalism"—exist in the United States between libertarians, as advocates of a pure capitalist order based on the natural theory of property, and conservatives proper, who, from W. Buckley to I. Kristol, nominally hail the institution of private property, only to disregard private owners' rights whenever it is deemed necessary in order to protect established economic and political powers from eroding in the process of peaceful competition. And in the field of foreign affairs they exhibit the same disrespect for private property rights through their advocacy of a policy of aggressive interventionism. On the polar difference between libertarianism and conservatism cf. G. W. Carey (ed.), Freedom and Virtue. The Conservative/Libertarian Debate, Lanham, 1984.

values will fall below their given level. According to this theory, however, no one owns the *value* of his property and hence no one, at any time, has the right to preserve and restore his property *values*. As compared with this, conservatism aims precisely at such a preservation or restoration of values and their relative distribution. But this is only possible, of course, if a redistribution in the assignment of property titles takes place. Since no one's property values depend exclusively on one's own actions performed with one's own property, but also, and inescapably so, on other peoples' actions performed with scarce means under their own control (and beyond that of another's), in order to preserve given property values someone—some single person or some group of persons—would have to rightfully own all scarce means (far beyond those that are actually controlled or used by this person or group of persons). Furthermore, this group must literally own all persons' bodies, since the use that a person makes of his body can also influence (increase or decrease) existing property values. Thus, in order to realize the goal of conservatism, a redistribution of property titles must occur away from people as user-owners of scarce resources onto people who, whatever their merits as past producers, did not presently use or contractually acquire those things whose utilization had led to the change in the given distribution of values.

With this understood, the first conclusion regarding the general economic effect of conservatism lies at hand: with the natural owners of things fully or partially expropriated to the advantage of nonusers, nonproducers and noncontractors, conservatism eliminates or reduces the former's incentive to do something about the value of existing property and to adapt to changes in demand. The incentives to be aware of and to anticipate changes in demand, to quickly adjust existing property and to use it in a manner consistent with such changed circumstances, to increase productive efforts, and to save and invest are reduced, as the possible gains from such behavior can no longer be privately appropriated but will be socialized. Mutatis mutandis, the incentive is increased to do nothing in order to avoid the permanent risk of one's property values falling below their present level, as the possible losses from such behavior

no longer have to be privately appropriated, but will also be socialized. Thus, since all these activities—the avoidance of risk, awareness, adaptability, work, and saving—are costly and require the use of time and possibly other scarce resources which at the same time could be used in alternative ways (for leisure and consumption, for instance), there will be fewer of the former activities and more of the latter, and as a consequence the general standard of living will fall. Hence, one would have to conclude that the conservative goal of preserving existing values and existing distributions of values among different individuals can only be accomplished at the expense of a general, relative drop in the overall value of newly produced and old, maintained goods, i.e., reduced social wealth.

It has probably become apparent by now that from the point of view of economic analysis, there is a striking similarity between the socialism of conservatism and social-democratic socialism. Both forms of socialism involve a redistribution of property titles away from producers/contractors onto nonproducers/noncontractors, and both thereby separate the processes of producing and contracting from that of the actual acquisition of income and wealth. In doing this, both make the acquisition of income and wealth a political affair—an affair, that is, in the course of which one (group of) person(s) imposes its will regarding the use of scarce means onto the will of other, recalcitrant people; both versions of socialism, though in principle claiming full ownership of all of the income and wealth produced on behalf of nonproducers, allow their programs to be implemented in a gradual fashion and carried through to varying degrees; and both, as a consequence of all this, must, to the extent that the respective policy is indeed enacted, lead to relative impoverishment.

The difference between conservatism and what has been termed social-democratic socialism lies exclusively in the fact that they appeal to different people or to different sentiments in the same people in that they prefer a different way in which the income and wealth extracted noncontractually from producers is then redistributed to nonproducers. Redistributive socialism assigns income and wealth to nonproducers regardless of their

past achievements as owners of wealth and income recipients, or even tries to eradicate existing differences. Conservatism, on the other hand, allocates income to nonproducers in accordance with their past, unequal income and wealth-position and aims at stabilizing the existing income distribution and existing income differentials.[71] The difference is thus merely one of social-psychology: in favoring different patterns of distribution, they grant privileges to different groups of nonproducers. Redistributive socialism particularly favors the have-nots among nonproducers, and especially disadvantages the haves among the producers; and, accordingly, it tends to find its supporters mostly among the former and its enemies among the latter. Conservatism grants special advantages to the haves among the group of nonproducers and particularly damages the interests of the have-nots among productive people; and so it tends to find its supporters mainly in the ranks of the former and spreads despair, hopelessness, and resentment among the latter group of people.

But although it is true that both systems of socialism are very much alike from an economic point of view, the difference between them with respect to their socio-psychological basis still has an impact on their respective economics. To be sure, this impact does not affect the general impoverishment effects resulting from the expropriation of producers (as explained above), which they both have in common. Instead, it influences the choices that social-democratic socialism on the one hand and conservatism on the other make among the specific instruments or techniques available for reaching their respective distributional goals. Social-democratic socialism's favorite technique is that of taxation, as described and analyzed in the preceding chapter. Conservatism can use this

---

71 D. Mc. C. Wright (Capitalism, New York, 1951, p.198) correctly describes that both—left-liberalism, or rather social democracy, and conservatism—imply a partial expropriation of producers/contractors. He then misinterprets the difference, though, when he sees it as a disagreement over the question of how far this expropriation should go. In fact, there is disagreement about this among social-democrats and conservatives. Both groups have their "radicals" and "moderates." What makes them social-democrats or conservatives is a different idea about which groups are to be favored at the expense of others.

instrument, too, of course; and indeed it must make use of it to some extent, if only to finance the enforcement of its policies. But taxation is not its preferred technique, and the explanation for this is to be found in the social-psychology of conservatism. Dedicated to the preservation of a status quo of unequal positions of income, wealth, and status, taxation is simply too progressive an instrument for reaching conservative goals. To resort to taxation means that one lets changes in the distribution of wealth and income happen first, and only then, after they have come into existence, does one rectify things again and restore the old order. However, to proceed in this way not only causes bad feelings, particularly among those who through their own efforts have actually improved their relative position first and are then cut back again. But also, by letting progress occur and then trying to undo it, conservatism weakens its own justification, i.e., its reasoning that a given distribution of income and wealth is legitimate because it is the one which has always been in effect. Hence, conservatism prefers that changes do not occur in the first place, and it prefers to use policy measures that promise to do just this, or rather, promise to help make such changes less apparent.

There are three such general types of policy measures: price-controls, regulations, and behavior controls, all of which, to be sure, are socialistic measures, as is taxation, but all of which, interestingly enough, have generally been as neglected in attempts to assess the overall degree of socialism in different societies, as the importance of taxation in this regard has been overrated.[72] I will discuss these specific conservative policy schemes in turn.

---

[72] Note the interesting relationship between our sociological typology of socialist policies and the logical typology of market interventions as developed by M. N. Rothbard. Rothbard (Power and Market, Kansas City, 1977, pp. 10ff) distinguishes between "autistic intervention" where 'the intervener may command an individual subject to do or not to do certain things when these actions directly involve the individual's person or property a/one … (i.e.) when exchange is not involved"; "binary intervention" where 'the intervener may enforce a coerced exchange between the individual subject and himself'; and 'triangular intervention" where 'the intervener may either compel or prohibit an exchange between a pair of subjects" (p. 10). In terms of this distinction, the characteristic mark of conservatism then is its preference for "triangular intervention"—and as will be seen later in this Chapter, "autistic intervention" insofar as autistic actions also have natural repercussions on the pat-

Any change in (relative) prices evidently causes changes in the relative position of the people supplying the respective goods or services. Hence, in order to fix their position it would seem that all that need be done is fix prices—this is the conservative rationale for introducing price controls. To check the validity of this conclusion the economic effects of price-fixings need to be examined.[73] To begin with, it is assumed that a selective price control for one product or one group of products has been enacted and that the current market price has been decreed as the price above or below which the product may not to be sold. Now, as long as the fixed price is identical to the market price, the price control will simply be ineffective. The peculiar effects of price-fixing can only come about once this identity no longer exists. And as any price-fixing does not eliminate the causes that would have brought about price changes, but simply decrees that no attention be paid to them, this occurs as soon as there are any changes in demand, for whatever reason, for the product in question. If the demand increases (and prices, not being controlled, would go up as well) then the fixed price turns into an effective *maximum price*, i.e., a price above which it is illegal to sell. If the demand decreases (and prices, without controls, would fall), then the fixed price becomes an effective *minimum price*, i.e., a price below which it becomes illegal to sell.[74]

---

tern of inter-individual exchanges—for such interventions are uniquely suited, in accordance with the social psychology of conservatism, to helping "freeze" a given pattern of social exchanges. As compared with this, egalitarian socialism, in line with its described "progressive" psychology, exhibits a preference for "binary interventions" (taxation). Note, however, that the actual policies of socialist and social-democratic parties do not always coincide precisely with our ideal-typical description of socialism social-democratic style. While they generally do, the socialist parties—most notably under the influence of labor unions—have also adopted typically conservative policies to a certain extent and are by no means totally opposed to any form of triangular intervention.

73 Cf. on the following M. N. Rothbard, Power and Market, Kansas City, 1977, pp.24ff.

74 While in order to stabilize social positions, price-freezing is needed and price-freezing can result in maximum or minimum prices, conservatives distinctly favor minimum price controls to the extent that it is commonly considered even more urgent that one's absolute—rather than one's relative—wealth position be prevented from eroding.

The consequence of imposing of a maximum price is an excess demand for the goods supplied. Not everyone willing to buy at the fixed price can do so. And this shortage will last as long as prices are not allowed to rise with the increased demand, and hence, no possibility exists for the producers (who assumedly had already been producing up to the point at which marginal costs, i.e., the cost of producing the last unit of the product concerned, equaled marginal revenue) to direct additional resources into the specific line of production, thus increasing output without incurring losses. Queues, rationing, favoritism, under-the-table payments, and black markets will become permanent features of life. And the shortages and other side effects which they bring along will even increase, as excess demand for the price-controlled goods will spill over to all other noncontrolled goods (in particular, of course, to substitutes), increase their (relative) prices, and thereby create an additional incentive to shift resources from controlled into noncontrolled lines of production.

Imposing a minimum price, i.e., a price above the potential market price below which sales become illegal, mutatis mutandis produces an excess of supply over demand. There will be a surplus of goods produced that simply cannot find buyers. And again: this surplus will continue as long as prices are not allowed to drop along with the reduced demand for the product in question. Milk and wine lakes, butter and grain mountains, to cite just a few examples, will develop and grow; and as the storage bins fill up it will become necessary to repeatedly destroy the surplus production (or, as an alternative, to pay the producers *not* to produce the surplus anymore). Surplus production will even become aggravated as the artificially high price attracts an even higher investment of resources in this particular field, which then will be lacking in other production lines where there is actually a greater need for them (in terms of consumer demand), and where, as a consequence, product prices will rise.

Maximum or minimum prices—in either case price controls will result in relative impoverishment. In any event they will lead

to a situation in which there are too many (in terms of consumer demand) resources bound up in production lines of reduced importance and not enough are available in lines of increased relevance. Production factors can no longer be allocated so that the most urgent wants are satisfied first, the next urgent ones second, etc., or, more precisely, so that the production of any one product is not extended above (or reduced below) the level at which the utility of the marginal product falls below (or remains above) the marginal utility of any other product. Rather, the imposition of price controls means that less urgent wants are satisfied at the expense of reduced satisfaction of more urgent wants. And this is to say nothing else than that the standard of living will be reduced. That people waste their time scrambling for goods because they are in artificially low supply or that goods are thrown away because they are held in artificially high supply are only the two most conspicuous symptoms of this reduced social wealth.

But this is not all. The preceding analysis also reveals that conservatism cannot even reach its goal of distributional stability by means of partial price control. With only partially controlled prices, disruptions in the existing income and wealth position still must occur, as producers in uncontrolled lines of production, or in lines of production with minimum product prices are favored at the expense of those in controlled lines, or lines with maximum product prices. Hence there will continue to be an incentive for individual producers to shift from one line of production into a different, more profitable one, with the consequence that differences in the entrepreneurial alertness and ability to foresee and implement such profitable shifts will arise and result in disruptions of the established order. Conservatism then, if it is indeed uncompromising in its commitment to the preservation of the status quo, is driven to constantly enlargening the circle of goods subject to price controls and actually cannot stop short of complete price controls or price-freezing.[75] Only if the prices of all goods and services, of

---

75 To be sure, conservatives are by no means always actually willing to go quite as far. But they recurringly do so—the last time in the United States being during the

capital and of consumer goods alike, are frozen at some given level, and the production process is thus completely separated from demand—instead of disconnecting production and demand at only a few points or sectors as under partial price control—does it seem possible to preserve an existing distributional order in full. Not surprisingly, though, the price that has to be paid for such full-blown conservatism is even higher than that of only partial price controls.[76] With all-around price control, private ownership of means of production is in fact abolished. There can still be private owners in name, but the right to determine the use of their property and to engage in any contractual exchange that is deemed beneficial is lost completely. The immediate consequence of this silent expropriation of producers then will be a reduction in saving and investing and, mutatis mutandis, an increase in consumption. As one can no longer charge for the fruits of one's labor what the market will bear, there is simply less of a reason to work. And in addition, as prices are fixed—independent of the value that consumers attach to the products in question—there is also less of a reason to be concerned about the quality of the particular type of work or product that one still happens to perform or produce, and hence the quality of each and every product will fall.

But even more important than this is the impoverishment that results from the allocational chaos created by universal price controls. While all product prices, including those of all cost factors and, in particular, of labor are frozen, the demand for the various products still changes constantly. Without price controls, prices would follow the direction of this change and thereby create an incentive to constantly move out of less valued lines of production into more valued ones. Under universal price controls this mechanism is completely destroyed. Should the demand for a product

---

Nixon presidency. Moreover, conservatives have always exhibited a more or less open admiration for the great unifying social spirit brought about by a war-economy which is typically characterized precisely by full-scale price controls.

[76] Cf. G. Reisman, Government Against the Economy, New York, 1979. For an apologetic treatment of price-controls cf. J. K. Galbraith, A Theory of Price Control, Cambridge, 1952.

increase, a shortage will develop as prices are not allowed to rise, and hence, because the profitability of producing the particular product has not been altered, no additional production factors will be attracted. As a consequence, excess demand, left unsatisfied, will spill over to other products, increasing the demand for them above the level that otherwise would have been established. But here again, prices are not allowed to rise with the increased demand, and again a shortage will develop. And so the process of shifting demand from most urgently wanted products to products of secondary importance, and from there to products of still lesser relevance, since again not everyone's attempt to buy at the controlled price can be satisfied, must go on and on. Finally, since there are no alternatives available and the paper money that people still have to spend has a lower intrinsic value than even the least valuable product available for sale, excess demand will spill over to products for which demand had originally declined. Hence, even in those lines of production where a surplus had emerged as the consequence of declining demand but where prices had not been allowed to fall accordingly, sales again will pick up as a consequence of unsatisfied demand elsewhere in the economy; in spite of the artificially high fixed price surpluses will become saleable; and, with profitability thus restored, an outflow of capital will be prevented even here.

The imposition of all-around price controls means that the system of production has become completely independent of the preferences of consumers for whose satisfaction production is actually undertaken. The producers can produce anything and the consumers have no choice but to buy it, whatever it is. Accordingly, any change in the production structure that is made or ordered to be made without the help offered by freely floating prices is nothing but a groping in the dark, replacing one arbitrary array of goods offered by another equally arbitrary one. There is simply no connection anymore between the production structure and the structure of demand. On the level of consumer experience this means, as has been described by G. Reisman, "… flooding people with shirts, while making them go barefoot, or inundating them with shoes while making them go shirtless; of giving them