A Theory of Socialism and Capitalism

Economics, Politics, and Ethics

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Chapter 1

Introduction

The following study on the economics, politics and morals of socialism and capitalism is a systematic treatise on political theory. Interdisciplinary in scope, it will discuss the central problems of political economy and political philosophy: how to organize society so as to promote the production of wealth and eradicate poverty, and how to arrange it so as to make it a just social order.

But in doing this I will also constantly touch upon and illuminate social and political problems in the narrower, more common sense of these terms. In fact, it is one of the major goals of this treatise to develop and explain the conceptual and argumentative tools, economic and moral, needed to analyze and evaluate any kind of empirical social or political system, to understand or appraise any process of social change, and to explain or interpret similarities as well as differences in the social structure of any two or more different societies.

At the end of the treatise it should be clear that only by means of a theory, economic or moral, which is not itself derived from experience but rather starts from a logically incontestable statement (which is something very different from an "arbitrarily postulated axiom") and proceeds in a purely deductive way (perhaps using some explicitly introduced empirical and empirically testable

assumption, in addition) to results which are themselves logically unassailable (and thus require no empirical testing whatsoever), will it become possible to organize or interpret an otherwise chaotic, overly complex array of unconnected, isolated facts or opinions about social reality to form a true, coherent economic or moral conceptual system. Hopefully it will be demonstrated that without such a theory, political economy and philosophy can be considered nothing other than groping in the dark, producing, at best, arbitrary opinions on what might have caused this or that, or what is better or worse than something else: opinions, that is, whose opposites can generally be defended as easily as the original positions themselves (which is to say that they cannot be defended in any strict sense at all!).

Specifically, a theory of property and property rights will be developed. It will be demonstrated that socialism, by no means an invention of nineteenth century Marxism but much older, must be conceptualized as an institutionalized interference with or aggression against private property and private property claims. Capitalism, on the other hand, is a social system based on the explicit recognition of private property and of nonaggressive, contractual exchanges between private property owners. Implied in this remark, as will become clear in the course of this treatise, is the belief that there must then exist varying types and degrees of socialism and capitalism, i.e., varying degrees to which private property rights are respected or ignored. Societies are not simply capitalist or socialist. Indeed, all existing societies are socialist to some extent. (Even the United States, certainly a society that is relatively more capitalist than most others, is, as will become apparent, amazingly socialist and has gradually become more so over time.)

One goal then, is to demonstrate that the overall degree of socialism, i.e., the overall degree of interference with property rights that exists in a given country, explains its overall wealth. The more socialist a country, the more hampered will be the process of production of new and the upkeep of old, existing wealth, and

the poorer the country will remain or become.[1] The fact that the United States is, by and large, richer than Western Europe, and West Germany much richer than East Germany can be explained by their lesser degree of socialism, as can the fact that Switzerland is more prosperous than Austria, or that England, in the nineteenth century the richest country in the world, has now fallen to what is aptly called an underdeveloping country.

But the concern here will not be exclusively with the overall wealth effects, nor with the economic side of the problem alone. For one thing, in analyzing different types of socialism for which there exist real, historical examples (examples which, to be sure, very often are not called socialism, but are given a more appealing name[2]), it is important to explain why, and in what way, *every*

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1 To avoid any misunderstanding from the outset: the thesis presented here is that any given society's overall wealth will be relatively increased, i.e., will grow more than it otherwise would, if the overall degree of socialism is decreased and vice versa. The United States, for instance, would improve their standards of living by adopting more capitalism (above the level that would be attained otherwise), and so would Germany, etc. It is a somewhat different task, though, to explain the relative position (as regards overall wealth) of different societies at any given time because then, of course, the "ceteris" are no longer necessarily "paribus," while, of course, other things, in addition to an existing degree of socialism, undoubtedly affect a society's overall wealth. A given society's history, for instance, has a tremendous effect on its present wealth. Every society is rich or poor not only because of present but also past conditions; because of capital having been accumulated or destroyed in the past by our fathers and forefathers. So it can easily happen that a society which is presently more capitalist can still be significantly poorer than a more socialist one. And the same, only seemingly paradoxical result can emerge because societies can (and do) differ with respect to other formerly or presently operating factors affecting the production of wealth. There can and do exist, for instance, differences in the work ethic and/or in prevalent world-views and habits among societies and these can and do account for divergencies (or similarities) in the production of wealth of societies alike or different with respect to their present degree of socialism. Thus, the most straightforward and best way to illustrate the validity of the thesis that the degree of socialism is inversely related to a society's wealth in any comparative social analysis, would be to compare societies which, except for differences in their degree of socialism, are paribus with respect to their history and the present socio- psychological characteristics of their people, or are at least very similar, like, for instance, West and East Germany: and here the predicted effect indeed shows in the most dramatic way, as will be dealt with in the following.

2 Incidentally, "socialism" in the United States is called "liberalism" and the socialist, or social democrat there, who calls himself "liberal" would generally detest being called "socialist."

intervention anywhere, big or small, here or there, produces a particular disruptive effect on the social structure which a superficial, theoretically untrained observer, blinded by an immediate "positive" consequence of a particular intervention, might not perceive. Yet this negative effect nonetheless exists, and with some delay will cause problems at a different place in the social fabric more numerous or severe than the ones originally solved by the initial act of intervening. Thus, for instance, highly visible positive effects of socialist policies such as "cheap food prices," "low rents," "free" this and "free" that, are not just positive things hanging in midair, unconnected to everything else, but rather are phenomena that have to be paid for somehow: by less and lower quality food, by housing shortages, decay and slums, by queuing up and corruption, and, further, by lower living standards, reduced capital-formation, and/or increased capital consumption. And a much less conspicuous but almost always "positively" mentioned fact—a greater feeling of solidarity among the people, the greater value attached to things like family, relatives, or friends, which is found to exist between, for instance, the East Germans as compared to their more "individualistic," egoistic West/German counterparts—is again not a simple, isolated, unanalyzable fact. Such feelings are the result of a social system of constant shortages and of continually repressed opportunities to improve one's situation by one's own means. In East Germany, in order to accomplish the most simple routine tasks, such as a house repair which in other countries requires no more than a telephone call, you simply must rely more heavily on "personal" relations (as compared to impersonal business relations); and where someone's "public" life is under constant observation by "society," you simply have to go private.

Analyzed in some detail are the particular disruptive effects that are produced: (1) by a traditional Marxist policy of nationalizing or socializing the means of production, or rather, by the expropriation of private owners of means of production; (2) by a revisionist, social-democratic policy of egalitarian income redistribution; (3) by a conservatively minded policy of attempting to preserve the status quo through economic and behavioral regulations

and price controls; and (4) by a technocratically minded system of pragmatic, piecemeal social and economic engineering and intervention.

These policy types, which will be analyzed sequentially, are not completely homogeneous and mutually exclusive. Each one can be carried through to varying degrees, there are different ways of doing things under each of these categories of policy and the different policy schemes can be combined to a certain extent. In fact, every given society is a mixture of all of them as it is the result of diverse political forces which have varied at different times in strength and influence. The reason for analyzing them separately (apart from the obvious one that not all problems can be discussed at once) is that they constitute policy schemes associated with clearly distinguishable social groups, movements, parties, etc., and that each policy scheme affects overall wealth in a somewhat different way.

And socialism will by no means be analyzed solely from an economic point of view. Of course, socialism, especially its Marxist or so-called "scientific" brand, has always pretended to be an economically superior organization of society (apart from all of its other alleged qualities) compared to the so-called "anarchy of production" of capitalism[3]. But socialism does not collapse once it is demonstrated that in fact the opposite is true and it brings impoverishment, not wealth. Certainly, socialism loses much of its attractiveness for most people once this is understood. However, it is definitely not at its argumentative end so long as it can claim—whatever its *economic* performance may be—that it represents a higher morality, that it is more just, that it has an ethically superior foundation.

Hopefully however, by a close analysis of the theory of property implicit in the different versions of socialism, this treatise will

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[3] Recall the repeated pronouncements in the early days of Soviet-Russian communism, up to the days of Khrushchev, that the capitalist world would soon be economically surpassed!

make clear that nothing could be farther from the truth. It will be demonstrated that the property theory implicit in socialism does not normally pass even the first decisive test (the necessary if not sufficient condition) required of rules of human conduct which claim to be morally justified or justifiable. This test, as formulated in the so-called golden rule or, similarly, in the Kantian categorical imperative, requires that in order to be just, a rule must be a *general* one applicable to every single person in the same way. The rule cannot specify different rights or obligations for different categories of people (one for the red-headed, and one for others, or one for women and a different one for men), as such a "particularistic" rule, naturally, could never, not even in principle, be accepted as a fair rule by everyone. Particularistic rules, however, of the type "I can hit you, but you are not allowed to hit me," are, as will become clear in the course of this treatise, at the very base of all practiced forms of socialism. Not only economically but in the field of morals, too, socialism turns out to be an ill-conceived system of social organization. Again, in spite of its bad public reputation, it is capitalism, a social system based squarely on the recognition of private property and of contractual relations between owners of private property, that wins outright. It will be demonstrated that the property theory implicit in capitalism not only passes the first test of "universalization" but it turns out to be the logical precondition (*die Bedingung der Moeglichkeit*) of any kind of argumentative justification: Whoever argues in favor of *anything*, and in particular in favor of certain norms as being fair, must, implicitly at least, presuppose the validity of the property norms implicit in capitalism. To deny their validity as norms of universal acceptability and argue in favor of socialism is thus self-contradictory.

The reconstruction of the morals of private property and its ethical justification then leads to a reevaluation of socialism and, as it turns out, the institution of the state, depending as it does for its very existence on taxation and forced membership (citizenship), as the very incorporation of socialist ideas on property. Without any solid economic or moral reasons for their existence, socialism and

the state are then reduced to and will be explained as phenomena of merely socio-psychological relevance.

Led by such considerations, the discussion finally returns to economics. The concluding chapters deal with the constructive task of explaining the workings of a pure capitalist social order as the morally and economically required alternative to socialism. More specifically, they will be devoted to an analysis of how a social system based on a private property ethics would come to grips with the problem of monopoly and the production of so-called "public goods," and in particular with the production of security, i.e., of police and judicial services. It will be argued that, contrary to much that has been written in the economics literature on monopoly and public goods, neither problem exists or, if they did exist, would still not suffice in any meaningful sense to prove any economic deficiency in a pure market system. Rather, a capitalist order always, without exception and necessarily so, provides in the most efficient way for the most urgent wants of voluntary consumers, including the areas of police and the courts. With this constructive task completed, the argument will have been brought full circle, and the demolition of the intellectual credibility of socialism, morally and economically, should be complete.

Chapter 2

Property, Contract, Aggression, Capitalism, Socialism

Before advancing to the more exciting field of analyzing diverse policy schemes from the standpoint of economic theory and political philosophy, it is essential to introduce and explain the basic concepts used throughout the following study. Indeed, the concepts explained in this chapter—the concepts of property, contract, aggression, capitalism and socialism—are so basic, so fundamental, that one cannot even avoid making use of them, if at times only implicitly. Unfortunately, though, the very fact that in analyzing any kind of human action and/or any kind of interpersonal relationship one must make use of these concepts does not imply that everyone has a precise understanding of them. It seems instead to be the other way around.

Because the concept of property, for instance, is so basic that everyone seems to have some immediate understanding of it, most people never think about it carefully and can, as a consequence, produce at best a very vague definition. But starting from imprecisely stated or assumed definitions and building a complex network of thought upon them can lead only to intellectual disaster. For the original imprecisions and loopholes will then pervade and distort everything derived from them. To avoid this, the concept of property must first be clarified.

Next to the concept of action, *property* is the most basic category in the social sciences. As a matter of fact, all other concepts to be introduced in this chapter—aggression, contract, capitalism and socialism—are definable in terms of property: *aggression* being aggression against property, *contract* being a nonaggressive relationship between property owners, *socialism* being an institutionalized policy of aggression against property, and *capitalism* being an institutionalized policy of the recognition of property and contractualism.

Let us start with an elucidation of the precondition necessary for the concept of property to emerge.[4] For a concept of property to arise, there must be a scarcity of goods. Should there be no scarcity, and should all goods be so-called "free goods" whose use by any one person for any one purpose would not in any way exclude (or interfere with or restrict) its use by any other person or for any other purpose, then there would be no need for property. If, let us say, due to some paradisiac superabundance of bananas, my present consumption of bananas does not in any way reduce my own future supply (possible consumption) of bananas, nor the present or the future supply of bananas for any other person, then the assignment of property rights, here with respect to bananas, would be superfluous. To develop the concept of property, it is necessary for goods to be scarce, so that conflicts over the use of these goods can possibly arise. It is the function of property rights to avoid such possible clashes over the use of scarce resources by assigning rights of exclusive ownership. Property is thus a normative concept: a concept designed to make a conflict-free interaction possible by stipulating mutually binding rules of conduct (norms) regarding scarce resources.[5] It does not need much comment to see

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4 Cf. D. Hume, *A Treatise of Human Nature* (ed. Selby-Bigge), Oxford, 1968, esp. 3, 2, p.484; and, "Enquiry Concerning the Principles of Morals," in: Hume, *Enquiries* (ed. Selby-Bigge), Oxford, 1970; cf. also: L. Robbins, *Political Economy: Past and Present*, London, 1977, esp. pp. 29-33.

5 Incidentally, the *normative* character of the concept of property also makes the sufficient precondition for its emergence as a concept clear: Besides scarcity "rationality of agents" must exist, i.e., the agents must be capable of communicating, discussing,

that there is indeed scarcity of goods, of all sorts of goods, everywhere, and the need for property rights is thus evident. As a matter of fact, even if we were to assume that we lived in the Garden of Eden, where there was a superabundance of everything needed not only to sustain one's life but to indulge in every possible comfort by simply stretching out one's hand, the concept of property would necessarily have to evolve. For even under these "ideal" circumstances, every person's physical body would still be a scarce resource and thus the need for the establishment of property rules, i.e., rules regarding people's bodies, would exist. One is not used to thinking of one's own body in terms of a scarce good, but in imagining the most ideal situation one could ever hope for, the Garden of Eden, it becomes possible to realize that one's body is indeed the *prototype* of a scarce good for the use of which property rights, i.e., rights of exclusive ownership, somehow have to be established, in order to avoid clashes.

As a matter of fact, as long as a person acts,[6] i.e., as long as a person intentionally tries to change a state of affairs that is subjectively perceived and evaluated as less satisfactory into a state that appears more rewarding, this action necessarily involves a choice regarding the use of this person's body. And choosing, preferring one thing or state over another, evidently implies that not everything, not all possible pleasures or satisfactions, can be had at one and the same time, but rather that something considered less valuable must be given up in order to attain something else considered

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arguing, and in particular, *they must be able to engage in an argumentation of normative problems*. If there were no such capability of communication, normative concepts simply would not be of any use. We do not, for instance, try to avoid clashes over the use of a given scarce resource with, let us say, an elephant, by defining property rights, for we cannot argue with the elephant and hence arrive at an agreement on rights of ownership. The avoidance of future clashes in such a case is exclusively a *technical* (as opposed to a normative) problem.

[6] It should be noted that a person cannot intentionally *not* act, as even the attempt not to act, i.e., one's decision *not* to do anything and instead remain in some previously occupied position or state would itself qualify as an action, thus rendering this statement aprioristically true, i.e., a statement that cannot be challenged by experience, as anyone who would try to disprove it thereby would have to choose and put his body willy-nilly to some specific use.

to be more valuable.[7] Thus choosing always implies the incurrence of costs: foregoing possible enjoyments because the means needed to attain them are scarce and are bound up in some alternative use which promises returns valued more highly than the opportunities forfeited.[8] Even in the Garden of Eden I could not *simultaneously* eat an apple, smoke a cigarette, have a drink, climb up a tree, read a book, build a house, play with my cat, drive a car, etc. I would have to make choices and could do things only sequentially. And this would be so because there is only one body that I can use to do these things and enjoy the satisfaction derived from doing them. I do not have a superabundance of bodies which would allow me to enjoy all possible satisfactions simultaneously, in one single bliss. And I would be restrained by scarcity in another respect as well: as long as this scarce resource "body" is not indestructible and is not equipped with eternal health and energy, but rather is an organism with only a limited life span, time is scarce, too. The time used up in pursuing goal A reduces the time left to pursue other goals. And the longer it takes to reach a desired result, the higher the costs involved in waiting will be, and the higher the expected satisfaction must be in order to justify these costs.

Thus, because of the scarcity of body and time, even in the Garden of Eden property regulations would have to be established. Without them, and assuming now that more than one person exists, that their range of action overlaps, and that there is no pre-established harmony and synchronization of interests among these persons, conflicts over the use of one's own body would be unavoidable. I might, for instance, want to use my body to enjoy drinking a cup of tea, while someone else might want to start a love affair with it, thus preventing me from having my tea and also reducing the time left to pursue my own goals by means of this body. In order to avoid such possible clashes, rules of exclusive ownership must be

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[7] Cf. L. v. Mises, *Human Action*, Chicago, 1966, esp. part 1; M. N. Rothbard, *Man, Economy and State*, Los Angeles, 1970; also: L. Robbins, *Nature and Significance of Economic Science*, London, 1935.

[8] On the concept of cost cf. in particular, M. Buchanan, *Cost and Choice*, Chicago, 1969; *L.S.E. Essays on Cost* (ed. Buchanan and Thirlby), Indianapolis, 1981.

formulated. In fact, so long as there is action, there is a necessity for the establishment of property norms.

To keep things simple and free of distracting details let us continue to assume, for another stretch of analysis, that we indeed inhabit a Garden of Eden, where exclusively one's body, its standing room, and time are scarce resources. What can the prototype of a scarce good, a person's body, tell us about property and its conceptual derivatives?

While even in a world with only one type of scarce resource all sorts of norms regulating exclusive ownership with respect to scarce means are conceivable in principle (for example, a rule such as "On Mondays I determine to which uses our bodies can be put, on Tuesdays you determine their use," etc.), it is certain that not all of them would in fact have the same chance of being proposed and accepted. It then seems to be best to start one's analysis with the property norm, which would most likely be accepted by the inhabitants of Eden as the "natural position" regarding the assignment of rights of exclusive ownership in bodies. To be sure, at this stage of the argument we are not yet concerned with ethics, with the problem of the moral justification of norms. Thus, while it can well be admitted from the very outset that I am indeed going to argue later on that the natural position is the only morally defendable one, and while I am also convinced that it is the natural one *because it* is morally defendable, at this stage, natural does not imply any moral connotation. It is simply meant to be a socio-psychological category used to indicate that this position would probably find the most support in public opinion.[9] Indeed; its naturalness is reflected by the very fact that in talking about bodies, it is almost impossible to avoid using possessive (possession-indicating) expressions as well. A body is normally referred to as a specific person's body: my body, yours, his, etc. (and,

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9 It is worth mentioning here that the validity of all of what follows, of course, in no way depends on the correctness of the description of the natural position as "natural." Even if someone would only be willing to grant the so-called natural position the status of an arbitrary starting point, our analysis assumes validity. Terms don't matter; what counts is what the natural position really is and implies as such. The following analyses are concerned exclusively with *this* problem.

incidentally, the same is done whenever one speaks of actions!); and one does not have the slightest problem distinguishing what is mine, yours, etc.; clearly, in doing so, one is assigning property-titles and distinguishing between proper owners of scarce resources.

What, then, is the natural position regarding property implicit in one's natural way of speaking about bodies? Every person has the exclusive right of ownership of his body within the boundaries of its surface. Every person can put his body to those uses that he thinks best for his immediate or long-run interest, well-being, or satisfaction, as long as he does not interfere with another person's rights to control the use of his/her respective body. This "ownership" of one's own body implies one's right to invite (agree to) another person's doing something with (to) one's own body: my right to do with my body whatever I want, that is, includes the right to ask and let someone else use my body, love it, examine it, inject medicines or drugs into it, change its physical appearance and even beat, damage, or kill it, if that should be what I like and agree to. Interpersonal relationships of this sort are and will be called *contractual exchanges.* They are characterized by the fact that an agreement on the use of scarce resources is reached, which is based on mutual respect and recognition of each and all of the exchanging partners' domain of exclusive control over their respective bodies. By definition, such contractual exchanges, while not necessarily advantageous for each and all of the exchanging partners *in retrospect* (I might not like my looks afterwards, even though the surgeon did exactly what I told him to do to my face), are always, and necessarily so, mutually advantageous for every participant ex ante, otherwise the exchange simply would not take place.

If, on the other hand, an action is performed that uninvitedly invades or changes the physical integrity of another person's body and puts this body to a use that is not to this very person's own liking, this action, according to the natural position regarding property, is called *aggression*.[10] It would be aggression if a person

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10 Note again that the term "aggression" is used here without evaluative connotations. Only later in this treatise will I demonstrate that aggression as defined above

tried to satisfy his sexual or sadistic desires by raping or beating another person's body without having this person's explicit consent. And it would be aggression as well, if a person were physically stopped from performing certain actions with his body which might not be to someone else's *liking*, such as wearing pink socks or curly hair, or getting drunk every day, or first sleeping and then philosophizing instead of doing it the other way around, but which, if indeed performed, would not in itself cause a change in the physical integrity of any other person's body.[11] By definition, then, an aggressive act always and necessarily implies that a person, by performing it, increases his/her satisfaction at the expense of a decrease in the satisfaction of another person.

What is the underlying rationale of this natural position regarding property? At the bottom of the natural property theory lies the idea of basing the assignment of an exclusive ownership right on the existence of an objective, intersubjectively ascertainable link between owner and the property owned and, mutatis mutandis, of calling all property claims that can only invoke purely subjective evidence in their favor aggressive. While I can cite in favor of my property claim regarding my body the objective fact that I was the body's first occupant—its first user—anyone else who claims to have the right to control this body can cite nothing of the sort. No one could call my body a product of his will, as I could claim it to be the product of mine; such a claim to the right to determine the use of the scarce resource "my body" would be a claim of nonusers, of

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is indeed morally indefensible. Names are empty; what alone is important is what it really is that is called aggression.

11 When I discuss the problem of moral justification in Chapter 7, I will return to the importance of the distinction just made of aggression as an invasion of the *physical* integrity of someone and, on the other hand, an invasion of the integrity of someone's value system, which is not classified as aggression. Here it suffices to notice that it is some sort of technical necessity for *any* theory of property (not just the natural position described here) that the delimitation of the property rights of one person against those of another be formulated in *physical, objective, intersubjectively ascertainable* terms. Otherwise it would be impossible for an actor to determine ex ante if any particular action of his were an aggression or not, and so the social function of property norms (*any* property norms), i.e., to make a conflict—free interaction possible, could not be fulfilled simply for technical reasons.

nonproducers, and would be based exclusively on subjective opinion, i.e., on a merely verbal declaration that things should be this or that way. Of course, such verbal claims could (and very likely always will) point to certain *facts*, too ("I am bigger, I am smarter, I am poorer or I am very special, etc.!"), and could thereby try to legitimize themselves. But facts such as these do not (and cannot) establish any objective link between a given scarce resource and any particular person(s). Everyone's ownership of every particular resource can equally well be established or excluded on such grounds. It is such property claims, derived from thin air, with purely verbal links between owners and things owned, which, according to the natural theory of property, are called aggressive. As compared with this, my property claim regarding my body can point to a determinate natural link; and it can do so because my body has been *produced*, and everything produced (as contrasted with things "given"), logically, has a determinate connection with some definite individual producer(s); it has been produced *by me*. To avoid any misunderstanding, 'to produce" is not to say "to create out of nothing" (after all, my body is also a naturally given thing); it means to change a naturally given thing according to a plan, to transform nature. It is also not to say "to transform each and every part of it" (after all, my body has lots of parts with respect to which I never did anything!); it means instead to transform a thing within (including/excluding) borders, or, even more precisely, to produce borderlines for things. And finally, "to produce" also is not to say that the process of production must go on indefinitely (after all, I am sleeping sometimes, and my body is certainly not a product of my actions right then]), it simply means that it was produced in the past and can be recognized as such. It is such property claims, then, which can be derived from past, embordering productive efforts and which can be tied to specific individuals as producers, which recalled "natural" or "nonaggressive."[12]

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[12] It is worth mentioning that the ownership right stemming from production finds its natural limitation only when, as in the case of children, the thing produced is itself another actor- producer. According to the natural theory of property, a child, once born, is just as much the owner of his own body as anyone else. Hence, not only can

The ideas of capitalism and socialism should be almost clear at this point. But before leaving the Garden of Eden once and for all, a look at the *consequences* of the introduction of elements of aggressively founded ownership into paradise should be taken, as this will help elucidate, purely and simply, the central economic and social problem of every type of real socialism, i.e., of socialism in a world of all-around scarcity, the detailed analysis of which then is the concern of the following chapters.

Even in the land of milk and honey, people evidently could choose different lifestyles, set different goals for themselves, have different standards as to what kind of personality they want to develop and what achievements to strive for. True, one would not need to work in order to make a living as there would be a superabundance of everything. But, put drastically, one could still choose to become a drunk or a philosopher, which is to say, more technically, one could choose to put one's body to uses that would be more or less immediately rewarding from the point of view of the acting person, or one could put one's body to such uses which would only bear fruit in a more or less distant future. Decisions of the afore-mentioned type might be called "consumption decisions." Decisions, on the other hand, to put one's body to a use that only pays later, i.e., choices induced by some reward or satisfaction anticipated in a more or less distant future requiring the actor to overcome disutility of waiting (time is scarce!), might be called "investment" decisions—decisions, that is, to invest in "human capital," in the capital embodied in one's own physical body.[13]

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a child expect not to be physically aggressed against but as the owner of his body a child has the right, in particular, to abandon his parents once he is physically able to run away from them and say "no" to their possible attempts to recapture him. Parents only have special rights regarding their child—stemming from their unique status as the child's producers—insofar as they (and no one else) can rightfully claim to be the child's trustee as long as the child is physically unable to run away and say "no."

13 On the disutility of work and waiting cf. the theory of time-preference as espoused by L. v. Mises, *Human Action*, Chicago, 1966, chapters 5, 18, 21 ; the same, *Socialism*, Indianapolis, 1981, chapter 8;

M. N. Rothbard, *Man, Economy and State*, Los Angeles, 1970, chapters 6, 9; also: E.v. Boehm-Bawerk, *Kapital und Kapitalzins. Positive Theory des Kapitals*, Meisenheim, 1967; F. Fetter, *Capital, Interest and Rent*, Kansas City, 1976.

Now assume that aggressively founded ownership is introduced. Whereas before every person was the exclusive owner of his body and could decide on his own whether to become a drunk or a philosopher, now a system is established in which a person's right to determine how to use his body is curtailed or completely eliminated, and instead, this right is partly or fully delegated to another person who is not naturally linked to the respective body as its producer. What would be the consequence of this? The abolition of private ownership of one's body can be far-reaching: the nonproducers can have the right to determine all of the uses of "my" body all of the time, or their right to do so can be restricted with respect to time and/or domains, and these restrictions again can be flexible (with the nonproducers having the right to change the restrictive definitions according to their own taste) or fixed once and for all, and so the effects can, of course, be more or less drastic! But whatever the degree, socialization of ownership always, and necessarily so, produces two types of effects. The first effect, "economic" in the narrower sense of the term, is a reduction in the amount of investment in human capital as defined above. The natural owner of a body cannot help but make decisions regarding that body as long as he does not commit suicide and decides to stay alive, however restricted his ownership rights might be. But since he can no longer decide on his own, undisturbed by others, to what uses to put his body, the value attached to it by him is now lower; the wanted satisfaction, the psychic income, that is to say, which he can derive from his body by putting it to certain uses is reduced because the range of options available to him has been limited. But then, with every action necessarily implying costs (as explained above), and with a given inclination to overcome costs in exchange for expected rewards or profits, the natural owner is faced with a situation in which the costs of action must be reduced in order to bring them back in line with the reduced expected income. In the Garden of

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On a critical assessment of the term "human capital," in particular of the absurd treatment that this concept has had at the hands of some Chicago-economists (notably G. Becker, *Human Capital*, New York, 1975), cf. A. Rubner, *The Three Sacred Cows of Economics*, New York, 1970.

Eden, there is only one way left to do this: by shortening the waiting time, reducing the disutility of waiting, and choosing a course of action that promises earlier returns. Thus, the introduction of aggressively founded ownership leads to a tendency to reduce investment decisions and favors consumption decisions. Put drastically, it leads to a tendency to turn philosophers into drunks. This tendency is permanent and more pronounced when the threat of intervention with the natural owner's rights is permanent, and it is less so to the degree that the threat is restricted to certain times or domains. In any case, though, the rate of investment in human capital is lower than it would be with the right of exclusive control of natural owners over their bodies being untouched and absolute.

The second effect might be called social. The introduction of elements of aggressively founded ownership implies a change in the social structure, a change in the composition of society with respect to personality or character types. Abandoning the natural theory of property evidently implies a redistribution of income. The psychic income of persons in their capacity as users of their "own" natural body, as persons expressing themselves in this body and deriving satisfaction from doing so, is reduced *at the expense* of an increase in the psychic income of persons in their capacity as invaders of other peoples' bodies. It has become relatively more difficult and costly to derive satisfaction from using one's body without invading that of others, and relatively less difficult and costly to gain satisfaction by using other peoples' bodies for one's own purposes. This fact alone does not imply any social change, but once a single empirical assumption is made, it does: Assuming that the desire to gain satisfaction at the expense of a loss in satisfaction available to others by instrumentalizing another person's body exists as a human desire, that it may not be instilled in everybody and to the same extent, but that it exists in some people sometimes to some degree and so conceivably can be suppressed or encouraged and favored by some given institutional arrangement, consequences are imminent. And surely, this assumption is true. Then, the redistribution of chances for income acquisition must result in more people using aggression to gain personal satisfaction and/or

more people becoming more aggressive, i.e., shifting increasingly from nonaggressive to aggressive roles, and slowly changing their personality as a consequence of this; and this change in the character structure, in the moral composition of society, in turn leads to another reduction in the level of investment in human capital.

In short, with these two effects we have already pinpointed the most fundamental reasons for socialism's being an economically inferior system of property arrangements. Indeed, both effects will reappear again and again in the course of the following analyses of socialist policy schemes. All that is left now is to explain the natural theory of property as regards the real world of all around scarcity, for this is the point of departure for all forms of real socialism.

Notwithstanding some evident differences between bodies and all other scarce resources, all conceptual distinctions can be made and applied again without difficulties: Unlike bodies, which are never "unowned" but always have a natural owner, all other scarce resources can indeed be unowned. This is the case as long as they remain in their natural state, unused by anyone. They only become someone's property once they are treated as scarce means, that is, as soon as they are occupied in some objective borders and put to some specific use by someone. This act of acquiring previously unowned resources is called "original appropriation."[14] Once unowned resources are appropriated it becomes an aggression to uninvitedly change their physical characteristics or to restrict the owner's range of uses to which he can put these resources, as long as a particular use does not affect the physical characteristics of anyone else's property—just as in the case of bodies. Only in the course of a contractual relationship, i.e., when the natural owner of a scarce means explicitly agrees, is it possible for someone else to utilize and change previously acquired things. And only if the original or previous owner deliberately transfers his property title to someone else, either in exchange for something or as a free gift, can

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14 On the theory of original appropriation cf. J. Locke, *Two Treatises of Government* (ed. Laslett), Cambridge, 1960, esp. 2,

this other person himself become the owner of such things. Unlike bodies, though, which for the same "natural" reason can never be unowned and also can never be parted with by the natural owner *completely* but only be "lent out" as long as the owners' agreement lasts, naturally all other scarce resources can be "alienated" and a property title for them can be relinquished once and for all.[15]

A social system based on this natural position regarding the assignment of property rights is, and will from now on be called *pure capitalist.* And since its ideas can also be discerned as the dominating ideas of private law, i.e., of the norms regulating relations between private persons, it might also be termed a pure private law system.[16] This system is based on the idea that to be nonaggressive, claims to property must be backed by the "objective" fact of an act of original appropriation, of previous ownership, or by a mutually beneficial contractual relationship. This relationship can either be a deliberate cooperation between property owners or the deliberate transfer of property titles from one owner to another. If this system is altered and instead a policy is instituted that assigns rights of exclusive control over scarce means, however partial, to persons or groups of persons that can point neither to an act of previous usership of the things concerned, nor to a contractual relation with some previous user-owner, then this will be called (partial) *socialism.*

It will be the task of the next four chapters to explain how different ways of deviating from a pure capitalist system, different ways of redistributing property titles away from natural owners of things (i.e., from people who have put some particular resources

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15 On the distinction, flowing naturally from the unique character of a person's body as contrasted with all other scarce goods, between "inalienable" and "alienable" property titles cf. W. Evers, "Toward a Reformation of a Law of Contracts," in: *Journal of Libertarian Studies*, 1977.

16 The superimposition of public on private law has tainted and compromised the latter to some extent everywhere. Nonetheless, it is not difficult to disentangle existing private law systems and find what is here called the natural position as constituting its central elements—a fact which once again underlines the "naturalness" of this property theory. Cf. also Chapter 8, n. 13.

to a specific use and so are naturally linked to them, and onto people who have not yet done anything with the resources but who have simply made a verbal, declarative claim regarding them) lowers investment and increases consumption, and in addition causes a change in the composition of the population by favoring nonproductive over productive people.

Chapter 3

Socialism Russian Style

We have defined socialism as an institutionalized policy of redistribution of property titles. More precisely, it is a transfer of property titles from people who have actually put scarce means to some use or who have acquired them contractually from persons who have done so previously onto persons who have neither done anything with the things in question nor acquired them contractually. For a highly unrealistic world—the Garden of Eden—I then pointed out the socio-economic consequences of such a system of assigning property rights were then pointed out: a reduction of investment in human capital and increased incentives for the evolution of non-productive personality types.

I now want to enlarge and concretize this analysis of socialism and its socio-economic impact by looking at different though equally typical versions of socialism. In this chapter I will concentrate on the analysis of what most people have come to view as "socialism par excellence" (if not the only type of socialism there is), this probably being the most appropriate starting point for any discussion of socialism. This "socialism par excellence" is a social system in which the means of production, that is, the scarce resources used to produce consumption goods, are "nationalized" or "socialized."

Indeed, while Karl Marx, and like him most of our contemporary intellectuals of the left, was almost exclusively concerned with the analysis of the economic and social defects of capitalism, and in all of his writings made only a few general and vague remarks about the constructive problem of the organization of the process of production under socialism, capitalism's allegedly superior alternative, there can be no doubt that this is what he considered the cornerstone of a socialist policy and the key to a better and more prosperous future.[17] Accordingly, socialization of the means of production has been advocated by all socialists of orthodox Marxist persuasion ever since. It is not only what the communist parties of the West officially have in store for us, though they become increasingly reluctant to say so in order to seize power. In all of the Western socialist and social-democratic parties a more or less numerous, outspoken, and eloquent minority of some influence also exists, which arduously supports such a scheme and proposes socialization, if not of all means of production, then at least of those of big industry and big business. Most importantly, smaller or bigger sectors of nationalized industries have become part of social reality even in the so-called "most capitalist" countries; and of course an almost complete socialization of the means of production has been tried out in the Soviet Union and later in all of the Soviet-dominated countries of Eastern Europe, as well as in a number of other countries all over the world. The following analysis should thus enable us to understand the economic and social problems of societies, insofar as they are characterized by nationalized means of production. And in particular, it should help us to understand the central problems that plague Russia and its satellites, as these countries have carried a policy of socialization so far that it can justly be said to be their dominant structural feature. It is because of this fact that the type of socialism under investigation is called "Russian" style.[18]

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17 On Marxism and its development cf. L. Kolakowski, Main Currents of Marxism, 3 vols., Oxford, 1978; W. Leonhard, Sovietideologie. Die politischen Lehren, Frankfurt/M., 1963.

18 When one speaks of socialism Russian style it is evident that one abstracts from the multitude of concrete data which characterize any social system and with respect

As regards the motivational forces pushing socialization schemes, they are avowedly egalitarian. Once you allow private property in the means of production, you allow differences. If I own resource A, then you do not own it, and our relationship to this resource is thus different. By abolishing private ownership everyone's position vis à vis means of production is equalized with one stroke, or so it seems. Everyone becomes co-owner of everything, reflecting everyone's equal standing as human beings. And the economic rationale of such a scheme is that it is supposedly more efficient. To the untrained observer unfamiliar with the action-coordinating function of prices, capitalism as based on private ownership of means of production simply appears chaotic. It seems to be a wasteful system characterized by duplicating efforts, ruinous competition, and the absence of concerted, coordinated action. As Marxists call it depreciatively, it is an "anarchy of production." Only when collective ownership is substituted for private does it seemingly become possible to eliminate this waste by implementing a single, comprehensive, coordinated production plan.

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to which societies may differ. Russian style socialism is what has been termed by M. Weber an "ideal type." It "is arrived at through the one-sided intensification of one or several aspects and through integration into an immanently consistent conceptual representation of a multiplicity of scattered and discrete individual phenomena" (M. Weber, Gesammelte Aufsaetze zur Wissenschaftslehre, Tuebingen, 1922, p.191). But to stress the abstract character of the concept by no means implies any deficiency in it. On the contrary, it is the very purpose of constructing ideal types to bring out those features which the acting individuals themselves regard as constituting relevant resemblances or differences in meaning, and to disregard those which they themselves consider to be of little or no importance in understanding either one's own or another person's actions. More specifically, describing Russian style socialism on the level of abstraction chosen here and developing a typology of various forms of socialism later on should be understood as the attempt to reconstruct those conceptual distinctions which people use to attach themselves ideologically to various political parties or social movements, hence enabling an understanding of the ideological forces that in fact shape present-day societies. On ideal types as prerequisites for historico-sociologic al research cf. L. v. Mises, Epistemological Problems of Economics, New York, 1981, esp. pp.75ff; the same, Human Action, Chicago, 1966, esp. pp.59ff. On the methodology of "meaning reconstruction" of empirical social research cf. H. H. Hoppe, Kritik der kausalwis- senschaftlichen Sozialforschung, Opladen, 1983, chapter 3, esp. pp.33ff.

More important, though, than motivation and promises is what a socialization of means of production really amounts to.[19] The property rules that are adopted under a socialization policy and which constitute the basic legal principles of countries like Russia are characterized by two complementary features. First, nobody owns the socialized means of production; they are "socially" owned, which is to say precisely: no person, or no group of persons, or all taken together is allowed to either acquire them or sell them and keep the receipts from their sale privately. Their use is determined by people not in the role of an owner but of a caretaker of things. And secondly, no person or group of persons or all taken together is allowed to engage newly in private investment and create new private means of production. They can neither invest by transforming the existing, nonproductively used resources into productive ones, by original saving, by pooling resources with other people, nor by a mixture of these techniques. Investment can only be done by caretakers of things, never for private profit, always on behalf of the community of caretakers with whom the possible profits from investments would have to be shared.[20]

What does it mean to have such a caretaker economy? What, in particular, does it imply to change from an economy built on the natural theory of property to a socialized one? In passing, two observations should be made, which will already throw some light on the above-mentioned socialist promises of equality and efficiency. Declaring everybody a co-owner of everything solves the problem of differences in ownership only nominally. It does not solve the real underlying problem: differences in the power to control. In an economy based on private ownership, the owner determines what should be done with the means of production. In a socialized economy this can no longer happen, as there is no such owner. Nonetheless, the problem of determining what should be done with the

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19 For the following cf. in particular L. v. Mises, Socialism, Indianapolis, 1981.

20 Of course, this complete outlawing of private investment, as stated under (2) only applies strictly to a fully socialized economy. If next to a socialized part of the economy a private part also exists, then private investment would only become curtailed and hampered to the degree to which the economy is socialized.

means of production still exists and must be solved somehow, provided there is no prestabilized and presynchronized harmony of interests among all of the people (in which case no problems whatsoever would exist anymore), but rather some degree of disagreement. Only one view as to what should be done can in fact prevail and others must mutatis mutandis be excluded. But then again there must be inequalities between people: someone's or some groups' opinion must win over that of others. The difference between a private property economy and a socialized one is only *how* whose will prevails in cases of disagreement is to be determined. In capitalism there must be somebody who controls, and others who do not, and hence real differences among people exist, but the issue of whose opinion prevails is resolved by original appropriation and contract. In socialism, too, real differences between controllers and noncontrollers must, of necessity, exist; only in the case of socialism, the position of those whose opinion wins is not determined by previous usership or contract, but by political means.[21] This difference is certainly a highly important one, and our discussion will return to it later in this chapter and again in later chapters, but here it suffices to say that—contrary to socialism's egalitarian promises—it is not a difference between a nonegalitarian and an egalitarian system as regards power of control.

The second observation is intimately connected with the first and concerns socialism's allegedly superior coordinating capabilities. Again closer inspection reveals that the difference is merely illusory, created only by semantics: to say that an economy of private owners is supplanted by a nationalized one creates the impression that instead of a multitude of decision-making units, all of a sudden there is only one such unit. In fact, nothing has changed at all. There are as many individuals with as many different interests as before. Just as much as capitalism then, socialism has to find a solution to the problem of determining how to coordinate the uses

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21 The related, crucial difference between capitalism and socialism is that under the former, the voluntary actions of consumers ultimately determine the structure and process of production, whereas it is the producer-caretakers who do so under socialism. Cf. in particular Chapter 9 below.

of different means of production, given the fact of differing views among people on how this should be accomplished. The difference between capitalism and socialism is again one of *how* coordination is achieved, and not between chaos and coordination, as the socialist semantic insinuates. Instead of simply letting individuals do what they want, capitalism coordinates actions by constraining people to respect previous user-ownership. Socialism, on the other hand, instead of letting people do whatever pleases them, coordinates individual plans by superimposing on one person's or group of persons' plan that of another disagreeing person or group *regardless* of prior ownership and mutual exchange agreements.[22] It hardly deserves comment that this difference, too, is of the utmost importance. But it is not, as Marxist socialism would like us to believe, a difference between social planning and no planning at all; on the contrary, as soon as the coordinating mechanisms of socialism and capitalism are brought into the open and reconstructed, socialism's claim to greater efficiency immediately begins to lose much of its credibility, and the opposite thesis appears to be more convincing.

How well-founded this thesis indeed is, and exactly why it is that capitalism's, and not socialism's, coordinating mechanism proves to be economically superior will become clear when one turns away from apparent differences and concentrates on real ones instead, and looks at the redistribution of property titles, and hence of income, which is implied in giving up capitalism in favor of a caretaker economy, as characterized above. From the standpoint of the natural theory of property—the foundation of capitalism—the adoption of the basic principles of a caretaker economy means that property titles are redistributed away from actual producers and users of means of production, and away from those who have acquired these means by mutual consent from previous users, to a community of caretakers

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22 Writes Mises, "The essential mark of socialism is that one will alone acts. It is immaterial whose will it is. The director may be anointed king or a dictator, ruling by virtue of his charisma, he may be a Fuehrer or a board of Fuehrers appointed by the vote of the people. The main thing is that the employment of all factors of production is directed by one agency only' (L. v. Mises, Human Action, Chicago, 1966, p.695).

in which, at the very best, every person remains the caretaker of the things he previously owned. But even in this case each previous user and each contractor would be hurt, as he could no longer sell the means of production and keep the receipt from the sale privately, nor could he privately appropriate the profit from using them the way they are used, and hence the value of the means of production *for him* would fall. Mutatis mutandis, every nonuser and noncontractor of these means of production would be favored by being promoted to the rank of caretaker of them, with at least partial say over resources which he had previously neither used nor contracted to use, and *his* income would rise.

In addition to this redistributive scheme there is another one, implied by the prohibition of newly created private capital or by the degree of hampering (dependent as it is on the size of the socialized part of the economy) under which this process must now take place: a redistribution away from people who have forgone possible consumption and instead saved up funds in order to employ them productively, i.e., for the purpose of producing future consumption goods, and who now can no longer do so or who now have fewer options available, toward nonsavers, who in adopting the redistribution scheme, gain a say, however partial, over the saver's funds.

The socio-economic consequences of a policy of socialization are essentially implied in these formulations. But before taking a more detailed look at them, it might be worthwhile to review and clarify the central features of the real world in which this socialization scheme would purportedly take place. It should be recalled that one is dealing with a changing world; that man, in addition, can learn with respect to this world and so does not necessarily know today what he will know at a later point in time; that there is a scarcity of a multitude of goods and that accordingly man is pressed by a multitude of needs, not all of which he can satisfy at the same time and/or without sacrificing the satisfaction of other needs; because of this, man must choose and order his needs in a scale of preferences according to the rank of urgency that they have for him; also, more specifically, that neither the process of original

appropriation of resources perceived as scarce, nor the process of production of new and the upkeep of old means of production, nor the process of contracting, is costless for man; that all of these activities cost at the very least *time*, which could be spent otherwise, e.g., for leisure activities; and in addition one should not forget that one is dealing with a world characterized by the division of labor, which is to say that one is not talking about a world of self-sufficient producers, but one in which production is carried out for a market of independent consumers.

With this in mind, then, what are the effects of socializing the means of production? To begin with, what are the "economic" consequences, in the colloquial sense of the term? There are three intimately related effects.[23] First—and this is the immediate general effect of all types of socialism—there is a relative drop in the rate of investment, the rate of capital formation. Since "socialization" favors the nonuser, the nonproducer, and the noncontractor of means of production and, mutatis mutandis, raises the costs for users, producers, and contractors, there will be fewer people acting in the latter roles. There will be less original appropriation of natural resources whose scarcity is realized, there will be less production of new and less upkeep of old factors of production, and there will be less contracting. For all of these activities involve costs and the costs of performing them have been raised, and there are alternative courses of action, such as leisure-consumption activities, which at the same time have become relatively less costly, and thus more open and available to actors. Along the same line, because everyone's investment outlets have dried up as it is no longer permissible to convert private savings into private investment, or because the outlets have been limited to the extent to which the economy is socialized, there will therefore be less saving and more consuming, less work and more leisure. After all, you cannot become a capitalist any longer, or your possibility of becoming one has been restricted, and so there is at least one reason less to save! Needless to say, the

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23 Cf. L. v. Mises, Socialism, Indianapolis, 1981, esp. part 2; also Human Action, Chicago, 1966, esp. Chapters 25, 26.

result of this will be a reduced output of exchangeable goods and a lowering of the living standard in terms of such goods. And since these lowered living standards are *forced* upon people and are not the natural choice of consumers who deliberately change their relative evaluation of leisure and exchangeable goods as the result of work, i.e., since it is experienced as an unwanted impoverishment, a tendency will evolve to compensate for such losses by going underground, by moonlighting and creating black markets.

Secondly, a policy of the socialization of means of production will result in a wasteful use of such means, i.e., in use which at best satisfies second-rate needs and at worst, satisfies no needs at all but exclusively increases costs.[24] The reason for this is the existence and unavoidability of change! Once it is admitted that there can be change in consumer demand, change in technological knowledge, and change in the natural environment in which the process of production has to take place—and all of this indeed takes place constantly and unceasingly—then it must also be admitted that there is a constant and never-ending need to reorganize and reshuffle the whole structure of social production. There is always a need to withdraw old investments from some lines of production and, together with new ones, pour them into other lines, thus making certain productive establishments, certain branches, or even certain sectors of the economy shrink and others expand. Now assume—and this is precisely what is done under a socialization scheme—that it is either completely illegal or extremely difficult to sell the collectively owned means of production into private hands. This process of reorganizing the structure of production will then—even if it does not stop altogether—at least be seriously hampered! The reason is basically a simple one, but still of the utmost importance. Because the means of production either cannot be sold, or selling them is made very difficult for the selling caretaker or the private buyer or both, no market prices for the means of production

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24 On the following cf. also F. A. Hayek (ed.), Collectivist Economic Planning, London, 1935; Journal of Libertarian Studies 5, 1, 1981 (An Economic Critique of Socialism).

exist, or the formation of such prices is hindered and made more costly. But then the caretaker-producer of the socialized means of production can no longer correctly establish the actual monetary costs involved in using the resources or in making any changes in the production structure. Nor can he compare these costs with his expected monetary income from sales. In not being permitted to take any offers from other private individuals who might see an alternative way of using some given means of production, or in being restricted from taking such offers, the caretaker simply does not know what he is missing, what the foregone opportunities are, and is not able to correctly assess the monetary costs of withholding the resources. He cannot discover whether his way of using them or changing their use is worth the result in terms of monetary returns, or whether the costs involved are actually higher than the returns and so cause an absolute drop in the value of the output of consumer goods. Nor can he establish whether his way of producing for consumer demand is indeed the most efficient way (as compared with conceivable alternative ways) of satisfying the most urgent consumer needs, or if less urgent needs are being satisfied at the expense of neglecting more urgent ones, thus causing at least a relative drop in the value of the goods produced. Without being able to resort unrestrictedly to the means of economic calculation, there is simply no way of knowing. Of course one could go ahead and try to do one's best. That might even be successful sometimes, though one would have no way of assuring oneself that it is. But, in any case, the larger the consumer market is which one has to serve, and the more the knowledge regarding preferences of different groups of consumers, special circumstances of historical time and geographical space, and possibilities of technology is dispersed among different individuals, the more likely it is that one will go wrong. A misallocation of means of production, with wastes and shortages as the two sides of the same coin, must ensue. In hampering and of course even more so, in making it outright illegal for private entrepreneurs to bid away means of production from caretakers, a system of socialized production prevents opportunities for improvement from being taken up to the full extent they are

perceived. Again, it hardly needs to be pointed out that this, too, contributes to impoverishment.[25]

Thirdly, socializing the means of production causes relative impoverishment, i.e., a drop in the general standard of living, by leading to an over-utilization of the given factors of production. The reason for this, again, lies in the peculiar position of a caretaker as compared with that of a private owner. A private owner who has the right to sell the factors of production and keep the money receipts privately will, because of this, try to avoid any increase in production which occurs at the expense of the value of the capital employed. His objective is to maximize the value of the products produced *plus* that of the resources used in producing them because he owns both of them. Thus he will stop producing when the value of the marginal product produced is lower than the depreciation of the capital used to produce it. Accordingly, he will, for instance, reduce the depreciation costs involved in producing, and instead engage in increased conservation, if he anticipates future price rises for the products produced and vice versa. The situation of the caretaker, i.e., the incentive structure which he is facing, is quite different in this respect. Because he cannot sell the means of production, his incentive to not produce, and thereby utilize the capital employed, at the expense of an excessive reduction in capital value is, if not completely gone, then at least relatively reduced. True, since the caretaker in a socialized economy also cannot privately appropriate the receipts from the sale of products, but must hand them over to the community of caretakers at large to be used at their discretion, his incentive to produce and sell products *at all* is relatively weakened as well. It is precisely this fact that explains the lower rate of capital formation. But as long as the caretaker works and produces at all, his interest in gaining an income evidently exists, even if it cannot be used for purposes of private capital formation, but only for private consumption and/or the creation of private, nonproductively used wealth. The caretaker's

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25 On the free market as the necessary prerequisite for economic calculation and rational resource allocation cf. also Chapters 9, 10 below.

inability to sell the means of production, then, implies that the incentive to increase his *private income* at the expense of capital value is raised. Accordingly, to the extent that he sees his income dependent on the output of products produced (the salary paid to him by the community of caretakers might be dependent on this!), his incentive will be raised to increase this output at the expense of capital. Furthermore, since the actual caretaker, insofar as he is not identical with the community of caretakers, can never be completely and permanently supervised and thus can derive income from using the means of production for private purposes (i.e., the production of privately used, non- or black-marketed goods) he will be encouraged to increase this output at the expense of capital value to the extent that he sees his income dependent on such private production. In any case, capital consumption and overuse of existing capital will occur; and increased capital consumption once more implies relative impoverishment, since the production of future exchange goods will, as a consequence, be reduced.

While implied in this analysis of the threefold economic consequences of socializing the means of production—reduced investment, misallocation, and overutilization, all of which lead to reduced living standards—in order to reach a full understanding of Russian-type societies it is interesting and indeed **important** to point out specifically that the above analysis also applies to the productive factor of labor. With respect to labor, too, socialization implies lowered investment, misallocation, and overutilization. First, since the owners of labor factors can no longer become self-employed, or since the opportunity to do so is restricted, on the whole there will be less investment in human capital. Second, since the owners of labor factors can no longer sell their labor services to the highest bidder (for to the extent to which the economy is socialized, separate bidders having independent control over specific complementary factors of production, including the money needed to pay labor, and who take up opportunities and risks independently, on their own account, are no longer allowed to exist!) the monetary cost of using a given labor factor, or of combining it with complementary factors, can no longer be established, and

hence all sorts of misallocations of labor will ensue. And third, since the owners of labor factors in a socialized economy own at best only part of the proceeds from their labor while the remainder belongs to the community of caretakers, there will be an increased incentive for these caretakers to supplement their private income at the expense of losses in the capital value embodied in the laborers, so that an overutilization of labor will result.[26]

Last, but certainly not least, a policy of the socialization of the means of production affects the character structure of society, the importance of which can hardly be exaggerated. As has been pointed out repeatedly, adopting Russian-type socialism instead of capitalism based on the natural theory of property implies giving a relative advantage to nonusers, nonproducers, and noncontractors as regards property titles of the means of production and the income that can be derived from using of these means. If people have an interest in stabilizing and, if possible, increasing their income and they can shift relatively easily from the role of a user-producer or contractor into that of a nonuser, nonproducer, or noncontractor—assumptions, to be sure, whose validity can hardly be disputed—then, responding to the shift in the incentive structure affected by socialization, people will increasingly engage in nonproductive and noncontractual activities and, as time goes on, their personalities will be changed. A former ability to perceive and to anticipate situations of scarcity, to take up productive opportunities, to be aware of technological possibilities, to anticipate changes in demand, to develop marketing strategies and to detect chances for mutually advantageous exchanges, in short: the ability to initiate, to work and to respond to other people's needs, will be diminished, if not completely extinguished. People will

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26 Incidentally, this proves that a socialized economy will be even less productive than a slave economy. In a slave economy, which of course also suffers from a relatively lower incentive to work on the part of the slaves, the slaveholder, who can sell the slave and capture his market value privately, would not have a comparable interest in extracting from his slave an amount of work which reduces the slave's value below the value of his marginal product. For a caretaker of labor no such disincentive exists. Cf. also G. Reisman, Government Against the Economy, New York, 1979.

have become different persons, with different skills, who, should the policy suddenly be changed and capitalism reintroduced, could not go back to their former selves immediately and rekindle their old productive spirit, even if they wanted to. They will simply have forgotten how to do it and will have to relearn, slowly, with high psychic costs involved, just as it involved high costs for them to suppress their productive skills in the first place. But this is only half the picture of the social consequences of socialization. It can be completed by recalling the above findings regarding capitalism's and socialism's apparent differences. This will bring out the other side of the personality change caused by socializing, complementing the just mentioned loss in productive capacity. The fact must be recalled that socialism, too, must solve the problem of who is to control and coordinate various means of production. Contrary to capitalism's solution to this problem, though, in socialism the assignment of different positions in the production structure to different people is a *political* matter, i.e., a matter accomplished irrespective of considerations of previous user-ownership and the existence of contractual, mutually agreeable exchange, but rather by superimposing one person's will upon that of another (disagreeing) one. Evidently, a person's position in the production structure has an immediate effect on his income, be it in terms of exchangeable goods, psychic income, status, and the like. Accordingly, as people want to improve their income and want to move into more highly evaluated positions in the hierarchy of caretakers, they increasingly have to use their political talents. It becomes irrelevant, or is at least of reduced importance, to be a more efficient producer or contractor in order to rise in the hierarchy of income recipients. Instead, it is increasingly important to have the peculiar skills of a politician, i.e., a person who through persuasion, demagoguery and intrigue, through promises, bribes, and threats, manages to assemble public support for his own position. Depending on the intensity of the desire for higher incomes, people will have to spend less time developing their productive skills and more time cultivating political talents. And since different people have differing degrees of productive and political talents, different people will

rise to the top now, so that one finds increasing numbers of politicians everywhere in the hierarchical order of caretakers. All the way to the very top there will be people incompetent to do the job they are supposed to do. It is no hindrance in a caretaker's career for him to be dumb, indolent, inefficient, and uncaring, as long as he commands superior political skills, and accordingly people like this will be taking care of the means of production everywhere.[27]

A look at Russia and other East-bloc countries in which a policy of socialization of means of production has been carried out to a considerable degree can help illustrate the truth of the above conclusions. Even a superficial acquaintance with these countries suffices to see the validity of the first and main conclusion. The general standard of living in the East-bloc countries, though admittedly different from country to country (a difference that itself would have to be explained by the degree of strictness with which the socialization scheme was and presently is carried through in practice), is clearly much lower than that in the so-called capitalist countries of the West. (This is true even though the degree to which Western countries are socialized, though differing from country to country, is itself quite considerable and normally very much underestimated as will become clear in later chapters.) Though the theory does not and cannot make a precise prediction of how drastic the impoverishment effect of a socialization policy will be, except that it will be a noticeable one, it is certainly worth mentioning that when almost complete socialization was first put into effect in immediate post-World War I Russia, this experience cost literally millions of lives, and it required a marked change in policy, the New Economic Policy (NEP), merely a few years later in 1921, reintroducing elements of private ownership, to moderate these disastrous effects to levels that would prove tolerable.[28] Indeed, repeated changes in policy

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27 Cf. H. H. Hoppe, Eigentum, Anarchie und Staat, Opladen, 1987, esp. Chapter 5, 3.2.

28 To be sure, Russia was a poor country to begin with, with little accumulated capital to be drawn on and consumed in an "emergency." On the socio-economic history of Soviet Russia cf. B. Brutzkus, Economic Planning in Soviet Russia, London, 1935; also, e.g., A. Nove, Economic History of the USSR, Harmondsworth, 1969; also S. Wellisz, The Economies of the Soviet Bloc, New York, 1964.

made Russia go through a similar experience more than once. Similar, though somewhat less drastic, results from a policy of socialization were experienced in all of the East European countries after World War II. There, too, moderate privatization of small farming, the crafts, or small businesses had to be permitted repeatedly in order to prevent outright economic breakdowns.[29] Nonetheless, in spite of such reforms, which incidentally prove the point that contrary to socialist propaganda it is private and not social ownership that improves economic performance, and in spite of the fact that moonlighting, illegal productive activities, bartering, and black market trade are ubiquitous phenomena in all of these countries, just as the theory would lead one to expect, and that this underground economy takes up part of the slack and helps to improve things, the standard of living in the East-bloc countries is lamentably low. All sorts of basic consumer goods are entirely lacking, in far too short supply or of extremely poor quality.[30]

The case of West and East Germany is particularly instructive. Here, history provides us with an example that comes as close to that of a controlled social experiment as one could probably hope to get. A quite homogeneous population, with very much the same history, culture, character structure, work ethics, divided after Hitler-Germany's defeat in World War II. In West Germany, more because of lucky circumstances than the pressure of public opinion, a remarkably free market economy was adopted, the previous system of all-around price controls abolished in one stroke, and almost complete freedom of movement, trade, and occupation introduced.[31] In East Germany, on the other hand, under Soviet

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29 On the economic system of the Soviet-dominated East bloc cf. T. Rakowska-Harmstone (ed)., Communism in Eastern Europe, Bloomington, 1984; H. H. Hohmann, M. Kaser, and K. Thalheim (eds.), The New Economic Systems of Eastern Europe, London, 1975; C.M. Cipolla (ed.), Economic History of Europe. Contemporary Economies, vol 2, Glasgow, 1976.

30 On everyday life in Russia cf., e.g., H. Smith, The Russians, New York, 1983; D.K. Willis, Klass. How Russians Really Live, New York, 1985; S. Pejovich, Life in the Soviet Union, Dallas, 1979; M. Miller, Rise of the Russian Consumer, London, 1965.

31 Cf. L. Erhard, the initiator and major political exponent of post-war economic policy, Prosperity through Competition, New York, 1958; and The Economics of

Russian dominance, socialization of the means of production, i.e., an expropriation of the previous private owners, was implemented. Two different institutional frameworks, two different incentive structures have thus been applied to the same population. The difference in the results is impressive.[32] While both countries do well in their respective blocs, West Germany has the highest standard of living among the major West-European nations and East Germany prides itself in being the most well-off country in the East bloc, the standard of living in the West is so much higher and has become relatively more so over time, that despite the transfer of considerable amounts of money from West to East by government as well as private citizens and increasingly socialist policies in the West, the visitor going from West to East is simply stunned as he enters an almost completely different, impoverished world. As a matter of fact, while all of the East-European countries are plagued by the emigration problem of people wanting to leave for the more prosperous capitalist West with its increased opportunities, and while they all have gradually established tighter border controls, thus turning these countries into sort of gigantic prisoner camps in order to prevent this outflow, the case of Germany is a most striking one. With language differences, traditionally the most severe natural barrier for emigrants, nonexistent, the difference in living

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Success, London, 1968. For theoreticians of the German "soziale Marktwirtschaft" cf. W. Eucken, Grundsaetze der Wirtschaftspolitik , Hamburg, 1967; W. Roepke, A Humane Economy, Chicago, 1960; the same, Economics of a Free Society, Chicago, 1963. For a critique of the West German economic policy as insufficiently capitalist and ridden with inconsistencies which would lead to increasingly socialist interventions in the course of time cf. the prophetic observations by L. v. Mises, Human Action, Chicago, 1966, p.723.

32 For comparative studies on the two Germanys cf. E. Jesse (ed.), BRD und DDR, Berlin, 1982; H. v. Hamel (ed.), BRD-DDR. Die Wirtschaftssysteme, Muenchen, 1983; also K. Thalheim, Die wirtschaftliche Entwicklung der beiden Staaten in Deutschland, Opladen, 1978.

An honest but naive empirically minded comparative study which illustrates that at best, economic statistics has very little to do with reality as perceived by acting persons is P. R. Gregory and R.C. Stuart, *Comparative Economic Systems*, Boston, 1985, Chapter 13 (East and West Germany). For a valuable critique of economic statistics cf. O. Morgenstern, *National Income Statistics: A Critique of Macroeconomic Aggregation*, San Francisco, 1979. For an even more fundamental criticism cf. L. v. Mises, *Theory of Money and Credit*, Irvington, 1971, part II, Chapter 5.

standards between the two Germanys proved to be so great and emigration from East to West took on such proportions, that in 1961 the socialist regime in East Germany, in a last desperate step, finally had to close its borders to the West completely. To keep the population in, it had to build a system the likes of which the world had never seen of walls, barbed wire, electrified fences, mine fields, automatic shooting devices, watchtowers, etc., almost 900 miles long, for the sole purpose of preventing its people from running away from the consequences of Russian-type socialism.

Besides exemplifying the main point, the case of the two Germanys, because of its experimental-like character, proves particularly helpful in illustrating the truth of the rest of the theoretically derived conclusions. Looking at comparable social positions, almost nowhere in West Germany will one find people working as little, as slowly, or as negligently (while the working *hours*, higher in the East, are of course regulated!) as their East German counterparts. Not, to be sure, because of any alleged differences in mentality or work ethics, as those are very much the same historically, but because the incentive to work is considerably reduced by a policy scheme that effectively closes all or most outlets for private investment. Effective work in East Germany is most likely to be found in the underground economy. And in response to the various disincentives to work, and in particular to work in the "officially" controlled economy, there is also a tendency among East Germans to withdraw from public life and to stress the importance of privacy, the family, relatives, and personal friends and connections, significantly exceeding what is seen in the West.[33]

There is also ample evidence of misallocation, just as the theory would lead one to expect. While the phenomenon of productive factors that are not used (at least not continuously) but are simply inactive because complementary factors are lacking can of course be observed in the West, in the East (and again,

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33 On life in East Germany cf. E. Windmoeller and T. Hoepker, Leben in der DDR, Hamburg, 1976.

in the German case certainly not because of differences in organizational talents) it is observed everywhere as a permanent feature of life. And while it is normally quite difficult in the West, and requires special entrepreneurial talent to point out changes in the use of certain means of production that would result in an overall improvement in the output of consumer goods, this is relatively easy in the East-bloc countries. Almost everyone working in East Germany knows many ways to put the means of production to more urgent uses than ones that are currently being used, where they are evidently wasted and cause shortages of other, more heavily demanded goods. But since they are not able to bid them away and must instead go through tedious political procedures to initiate any changes, nothing much can be or indeed is done.

Experience also corroborates what has been said about the other side of the coin: the overutilization of publicly owned means of production. In West Germany such public goods also exist, and as would be expected, they are in relatively bad shape. But in East Germany, and no differently or in fact even worse in the other Soviet-dominated countries, where all factors of production are socially owned, insufficiently maintained, deteriorating, unrepaired, rusting, even simply vandalized production factors, machinery, and buildings are truly rampant. Further, the ecology crisis is much more dramatic in the East, in spite of the relatively underdeveloped state of the general economy, than in the West—and all this is not, as the case of Germany proves clearly enough, because there are differences in people's "natural" inclination to care and to be careful.

Finally, as regards the theoretically predicted changes in the social and personality structure, complaints about superiors are, of course, quite a common phenomenon everywhere. But in the countries of Russian-type socialism, where the assignment of positions in the hierarchy of caretakers is and must be entirely a *political* affair, such complaints about downright incompetent, unqualified, and ridiculous superiors are, even if not more loudly voiced, most frequent, most severe, and best-founded, and decent people are

most often driven to despair or cynicism as a consequence. And since a few people from East Germany still go to West Germany at an age where they are still members of the labor force, some as escapees but more frequently because a sort of ransom has been paid for them, sufficient material also exists to illustrate the conclusion that in the long run a socialized economy will reduce people's productive capacities. Among those going to the West there is a significant number who led quite normal productive lives in the East but who, despite the absence of any linguistic and cultural barriers, prove to be incapable of, or have the greatest difficulties, adapting to Western society with its increased demand for productive and competitive skills and spirits.