

"...OUGHT TO BE ON THE BOOKSHELF
OF EVERY THINKING MAN."

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HUMAN ACTION

A Treatise on Economics

LUDWIG VON MISES

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by LUDWIG VON MISES

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XXIV. HARMONY AND CONFLICT OF INTERESTS

1. The Ultimate Source of Profit and Loss on the Market

THE changes in the data whose reiterated emergence prevents the economic system from turning into an evenly rotating economy and produces again and again entrepreneurial profit and loss are favorable to some members of society and unfavorable to others. Hence, people concluded, *the gain of one man is the damage of another; no man profits but by the loss of others*. This dogma was already advanced by some ancient authors. Among modern writers Montaigne was the first to restate it; we may fairly call it the *Montaigne dogma*. It was the quintessence of the doctrines of Mercantilism, old and new. It is at the bottom of all modern doctrines teaching that there prevails, within the frame of the market economy, an irreconcilable conflict among the interests of various social classes within a nation and furthermore between the interests of any nation and those of all other nations.¹

Now the Montaigne dogma is true with regard to the effects of cash-induced changes in the purchasing power of money on deferred payments. But it is entirely wrong with regard to any kind of entrepreneurial profit or loss, whether they emerge in a stationary economy in which the total amount of profits equals the total amount of losses or in a progressing or a retrogressing economy in which these two magnitudes are different.

What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's feeling of uneasiness. What hurts the sick is the plague, not the physician who treats the disease. The doctor's gain is not an outcome of the epidemics, but of the aid he hives to those affected. The ultimate source of profits is always the foresight of future conditions. Those who succeeded better than others in anticipating

1. Cf. Montaigne, *Essais*, Ed. F. Strowski, Bk. I, chap. 22 (Bourdeaux, 1906), I, 135-136; A. Oncken, *Geschichte der Nationalökonomie* (Leipzig, 1902), pp. 152-153; E. F. Heckscher, *Mercantilism*, transl. by M. Shapiro (London, 1935), II, 26-27.

future events and in adjusting their activities to the future state of the market, reap profits because they are in a position to satisfy the most urgent needs of the public. The profits of those who have produced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expended. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the consumers.

External events affecting demand and supply may sometimes come so suddenly and unexpectedly that people say that no reasonable man could have foreseen them. Then the envious may consider the profits of those who gain from the change as unjustified. Yet such arbitrary value judgments do not alter the real state of interests. It is certainly better for a sick man to be cured by a doctor for a high fee than to lack medical assistance. If it were otherwise, he would not consult the physician.

There are in the market economy no conflicts between the interests of the buyers and sellers. There are disadvantages caused by inadequate foresight. It would be a universal boon if every man and all the members of the market society would always foresee future conditions correctly and in time and act accordingly. If this were the case, retrospection would establish that no particle of capital and labor was wasted for the satisfaction of wants which now are considered as less urgent than some other unsatisfied wants. However, man is not omniscient.

It is wrong to look at these problems from the point of view of resentment and envy. It is no less faulty to restrict one's observation to the momentary position of various individuals. These are social problems and must be judged with regard to the operation of the whole market system. What secures the best possible satisfaction of the demands of each member of society is precisely the fact that those who succeeded better than other people in anticipating future conditions are earning profits. If profits were to be curtailed for the benefit of those whom a change in the data has injured, the adjustment of supply to demand would not be improved but impaired. If one were to prevent doctors from occasionally earning high fees, one would not increase but rather decrease the number of those choosing the medical profession.

The deal is always advantageous both for the buyer and the seller. Even a man who sells at a loss is still better off than he would be if he could not sell at all, or only at a still lower price. He loses on account of his lack of

foresight; the sale limits his loss even if the price received is low. If both the buyer and the seller were not to consider the transaction as the most advantageous action they could choose under the prevailing conditions, they would not enter into the deal.

The statement that one man's boon is the other man's damage is valid with regard to robbery, war, and booty. The robber's plunder is the damage of the despoiled victim. But war and commerce are two different things. Voltaire erred when—in 1764—he wrote in the article "Patrie" of his *Dictionnaire philosophique*: "To be a good patriot is to wish that one's own community should enrich itself by trade and acquire power by arms; it is obvious that a country cannot profit but at the expense of another and that it cannot conquer without inflicting harm on other people." Voltaire, like so many other authors who preceded and followed him, deemed it superfluous to familiarize himself with economic thought. If he had read the essays of his contemporary David Hume, he would have learned how false it is to identify war and foreign trade. Voltaire, the great debunker of age-old superstitions and popular fallacies, fell prey unawares to the most disastrous fallacy.

When the baker provides the dentist with bread and the dentist relieves the baker's toothache, neither the baker nor the dentist is harmed. It is wrong to consider such an exchange of services and the pillage of the baker's shop by armed gangsters as two manifestations of the same thing. Foreign trade differs from domestic trade only in so far as goods and services are exchanged beyond the borderlines separating the territories of two sovereign nations. It is monstrous that Prince Louis Napoleon Bonaparte, the later Emperor Napoleon III, should have written many decades after Hume, Adam Smith, and Ricardo: "The quantity of merchandise which a country exports is always in direct proportion to the number of shells it can discharge upon its enemies whenever its honor and its dignity may require it."² All the teachings of economics concerning the effects of the international division of labor and of international trade have up to now failed to destroy the popularity of the Mercantilist fallacy, "that the object of foreign trade is to pauperize foreigners."³ It is a task of historical investigation to disclose the sources of the popularity of this and other similar delusions and errors. For economics the matter is long since settled.

2. Cf. Louis Napoleon Bonaparte, *Extinction du pauparisme* (éd. populaire, Paris, 1848), p. 6.

3. With these words, H. G. Wells (*The World of William Clissold*, Bk. IV, sec. 10) characterizes the opinion of a typical representative of the British peerage.

2. The Limitation of Offspring

The natural scarcity of the means of sustenance forces every living being to look upon all other living beings as deadly foes in the struggle for survival, and generates pitiless biological competition. But with man these irreconcilable conflicts of interests disappear when, and as far as, the division of labor is substituted for economic autarky of individuals, families, tribes, and nations. Within the system of society there is no conflict of interests as long as the optimum size of population has not been reached. As long as the employment of additional hands results in a more than proportionate increase in the returns, harmony of interests is substituted for conflict. People are no longer rivals in the struggle for the allocation of portions out of a strictly limited supply. They become cooperators in striving after ends common to all of them. An increase in population figures does not curtail, but rather augments, the average shares of the individuals.

If men were to strive only after nourishment and sexual satisfaction, population would tend to increase beyond the optimum size to the limits drawn by the sustenance available. However, men want more than merely to live and to copulate; they want to live *humanly*. An improvement in conditions usually results, it is true, in an increase in population figures; but this increase lags behind the increase in bare sustenance. If it were otherwise, men would have never succeeded in the establishment of social bonds and in the development of civilization. As with rats, mice, and microbes, every increase in sustenance would have made population figures rise to the limits of bare sustenance; nothing would have been left for the seeking of other ends. The fundamental error implied in the iron law of wages was precisely the fact that it looked upon men—or at least upon the wage earners—as beings exclusively driven by animal impulses. Its champions failed to realize that man differs from the beasts as far as he aims also at specifically human ends, which one may call higher or more sublime ends.

The Malthusian law of population is one of the great achievements of thought. Together with the principle of the division of labor it provided the foundations for modern biology and for the theory of evolution; the importance of these two fundamental theorems for the sciences of human action is second only to the discovery of the regularity in the intertwinement and sequence of market phenomena and their inevitable determination by the market data. The objections raised against the Malthusian law as well as against the law of returns are vain and trivial. Both laws are indisputable. But the role to be assigned to

them within the body of the sciences of human action is different from that which Malthus attributed to them.

Nonhuman beings are entirely subject to the operation of the biological law described by Malthus.⁴ For them the statement that their numbers tend to encroach upon the means of subsistence and that the supernumerary specimens are weeded out by want of sustenance is valid without any exception. With reverence to the nonhuman animals the notion of minimum sustenance has an unequivocal, uniquely determined sense. But the case is different with man. Man integrates the satisfaction of the purely zoological impulses, common to all animals, into a scale of values, in which a place is also assigned to specifically human ends. Acting man also rationalizes the satisfaction of his sexual appetites. Their satisfaction is the outcome of a weighing of pros and cons. Man does not blindly submit to a sexual stimulation like a bull; he refrains from copulation if he deems the costs—the anticipated disadvantages—too high. In this sense we may, without any valuation or ethical connotation, apply the term *moral restraint* employed by Malthus.⁵

Rationalization of sexual intercourse already involves the rationalization of proliferation. Then later further methods of rationalizing the increase of progeny were adopted which were independent of abstention from copulation. People resorted to the egregious and repulsive practices of exposing or killing infants and of abortion. Finally they learned to perform the sexual act in such a way that no pregnancy results. In the last hundred years the technique of contraceptive devices has been perfected and the frequency of their employment increased considerably. Yet the procedures had long been known and practiced.

The affluence that modern capitalism bestows upon the broad masses of the capitalist countries and the improvement in hygienic conditions and therapeutical and prophylactic methods brought about by capitalism have considerably reduced mortality, especially infant mortality, and prolonged the average duration of life. Today in these countries the restriction in generating offspring can succeed only if it is more drastic than in earlier ages. The transition to capitalism—i.e., the removal of the obstacles which

4. The Malthusian law is, of course, a biological and not a praxeological law. However, its cognizance is indispensable for praxeology in order to conceive by contrast the essential characteristic of human action. As the natural sciences failed to discover it, the economists had to fill the gap. The history of the law of population too explodes the popular myth about the backwardness of the sciences of human action and their need to borrow from the natural sciences.

5. Malthus too employed this term without any valuation or ethical implication. Cf. Bonar, *Malthus and His Work* (London, 1885), p. 53. One could as well substitute the term *praxeological restraint* for *moral restraint*.

in former days had fettered the functioning of private initiative and enterprise—has consequently deeply influenced sexual customs. It is not the practice of birth control that is new, but merely the fact that it is more frequently resorted to. Especially new is the fact that the practice is no longer limited to the upper strata of the population, but is common to the whole population. For it is one of the most important social effects of capitalism that it deproletarianizes all strata of society. It raises the standard of living of the masses of the manual workers to such a height that they too turn into “bourgeois” and think and act like well-to-do burghers. Eager to preserve their standard of living for themselves and for their children, they embark upon birth control. With the spread and progress of capitalism, birth control becomes a universal practice. The transition to capitalism is thus accompanied by two phenomena: a decline both in fertility rates and in mortality rates. The average duration of life is prolonged.

In the days of Malthus it was not yet possible to observe these demographical characteristics of capitalism. Today it is no longer permissible to question them. But, blinded by romantic prepossessions, many describe them as phenomena of decline and degeneration peculiar only to the white-skinned peoples of Western civilization, grown old and decrepit. These romantics are seriously alarmed by the fact that the Asiatics do not practice birth control to the same extent to which it is practiced in Western Europe, North America, and Australia. As modern methods of fighting and preventing disease have brought about a drop in mortality rates with these oriental peoples too, their population figures grow more rapidly than those of the Western nations. Will not the indigenes of India, Malaya, China, and Japan, who themselves did not contribute to the technological and therapeutical achievements of the West, but received them as an unexpected present, in the end by the sheer superiority of their numbers squeeze out the peoples of European descent?

These fears are groundless. Historical experience shows that all Caucasian peoples reacted to the drop in mortality figures brought about by capitalism with a drop in the birth rate. Of course, from such historical experience no general law may be deduced. But praxeological reflection demonstrates that there exists between these two phenomena a necessary concatenation. An improvement in the external conditions of well-being makes possible a corresponding increase in population figures. However, if the additional quantity of the means of sustenance is completely absorbed by rearing an additional number of people, nothing is left for a further

improvement in the standard of living. The march of civilization is arrested; mankind reaches a state of stagnation.

The case becomes still more obvious if we assume that a prophylactic invention is made by a lucky chance and that its practical application requires neither a considerable investment of capital nor considerable current expenditure. Of course, modern medical research and still more its utilization absorb huge amounts of capital and labor. They are products of capitalism. They would never have come into existence in a noncapitalist environment. But there were, in earlier days, instances of a different character. The practice of smallpox inoculation did not originate from expensive laboratory research and, in its original crude form, could be applied at trifling costs. Now, what would the results of smallpox inoculation have been if its practice had become general in a precapitalist country not committed to birth control? It would have increased population figures without increasing sustenance, it would have impaired the average standard of living. It would not have been a blessing, but a curse.

Conditions in Asia and Africa are, by and large, the same. These backward peoples receive the devices for fighting and preventing disease ready-made from the West. It is true that in some of these countries imported foreign capital and the adoption of foreign technological methods by the comparatively small domestic capital synchronously tend to increase the per capita output of labor and thus to bring about a tendency toward an improvement in the average standard of living. However, this does not sufficiently counterbalance the opposite tendency resulting from the drop in mortality rates not accompanied by an adequate fall in fertility rates. The contact with the West has not yet benefitted these peoples because it has not yet affected their minds; it has not freed them from age-old superstitions, prejudices, and misapprehensions; it has merely altered their technological and therapeutical knowledge.

The reformers of the oriental peoples want to secure for their fellow citizens the material well-being that the Western nations enjoy. Deluded by Marxian, nationalist, and militarist ideas they think that all that is needed for the attainment of this end is the introduction of European and American technology. Neither the Slavonic Bolsheviks and nationalists nor their sympathizers in the Indies, in China, and in Japan realize that what their peoples need most is not Western technology, but the social order which in addition to other achievements has generated this technological knowledge. They lack first of all economic freedom and private initiative, entrepreneurs

and capitalism. But they look only for engineers and machines. What separates East and West is the social and economic system. The East is foreign to the Western spirit that has created capitalism. It is of no use to import the paraphernalia of capitalism without admitting capitalism as such. No achievement of capitalist civilization would have been accomplished in a noncapitalistic environment or can be preserved in a world without a market economy.

If the Asiatics and Africans really enter into the orbit of Western civilization, they will have to adopt the market economy without reservations. Then their masses will rise above their present proletarian wretchedness and practice birth control as it is practiced in every capitalistic country. No excessive growth of population will longer hinder the improvement in the standards of living. But if the oriental peoples in the future confine themselves to mechanical reception of the tangible achievements of the West without embracing its basic philosophy and social ideologies, they will forever remain in their present state of inferiority and destitution. Their populations may increase considerably, but they will not raise themselves above distress. These miserable masses of paupers will certainly not be a serious menace to the independence of the Western nations. As long as there is a need for weapons, the entrepreneurs of the market society will never stop producing more efficient weapons and thus securing to their countrymen a superiority of equipment over the merely imitative noncapitalistic Orientals. The military events of both World Wars have proved anew that the capitalistic countries are paramount also in armaments production. No foreign aggressor can destroy capitalist civilization if it does not destroy itself. Where capitalistic entrepreneurship is allowed to function freely, the fighting forces will always be so well equipped that the biggest armies of the backward peoples will be no match for them. There has even been great exaggeration of the danger of making the formulas for manufacturing "secret" weapons universally known. If war comes again, the searching mind of the capitalistic world will always have a head start on the peoples who merely copy and imitate clumsily.

The peoples who have developed the system of the market economy and cling to it are in every respect superior to all other peoples. The fact that they are eager to preserve peace is not a mark of their weakness and inability to wage war. They love peace because they know that armed conflicts are pernicious and disintegrate the social division of labor. But if war becomes unavoidable, they show their superior efficiency in military affairs too. They repel the barbarian aggressors whatever their numbers may be.

The purposive adjustment of the birth rate to the supply of the material potentialities of well-being is an indispensable condition of human life and action, of civilization, and of any improvement in wealth and welfare. Whether the only beneficial method of birth control is abstention from coitus is a question which must be decided from the point of view of bodily and mental hygiene. It is absurd to confuse the issue by referring to ethical precepts developed in ages which were faced with different conditions. However, praxeology is not interested in the theological aspects of the problem. It has merely to establish the fact that where there is no limitation of offspring there cannot be any question of civilization and improvement in the standard of living.

A socialist commonwealth would be under the necessity of regulating the fertility rate by authoritarian control. It would have to regiment the sexual life of its wards no less than all other spheres of their conduct. In the market economy every individual is spontaneously intent upon not begetting children whom he could not rear without considerably lowering his family's standard of life. Thus the growth of population beyond the optimum size as determined by the supply of capital available and the state of technological knowledge is checked. The interests of each individual coincide with those of all other individuals.

Those fighting birth control want to eliminate a device indispensable for the preservation of peaceful human cooperation and the social division of labor. Where the average standard of living is impaired by the excessive increase in population figures, irreconcilable conflicts of interests arise. Each individual is again a rival of all other individuals in the struggle for survival. The annihilation of rivals is the only means of increasing one's own well-being. The philosophers and theologians who assert that birth control is contrary to the laws of God and Nature refuse to see things as they really are. Nature straitens the material means required for the improvement of human well-being and survival. As natural conditions are, man has only the choice between the pitiless war of each against each or social cooperation. But social cooperation is impossible if people give rein to the natural impulse of proliferation. In restricting procreation man adjusts himself to the natural conditions of his existence. The rationalization of the sexual passions is an indispensable condition of civilization and societal bonds. Its abandonment would in the long run not increase but decrease the numbers of those surviving, and would render life for everyone as poor and miserable as it was many thousands of years ago for our ancestors.

3. The Harmony of the “Rightly Understood” Interests

From time immemorial men have prattled about the blissful conditions their ancestors enjoyed in the original “state of nature.” From old myths, fables, and poems the image of this primitive happiness passed into many popular philosophies of the seventeenth and eighteenth centuries. In their language the term *natural* denoted what was good and beneficial in human affairs, while the term *civilization* had the connotation of opprobrium. The fall of man was seen in the deviation from the primitive conditions of ages in which there was but little deference between man and other animals. At that time, these romantic eulogists of the past asserted, there were no conflicts between men. Peace was undisturbed in the Garden of Eden.

Yet nature does not generate peace and good will. The characteristic mark of the “state of nature” is irreconcilable conflict. Each specimen is the rival of all other specimens. The means of subsistence are scarce and do not grant survival to all. The conflicts can never disappear. If a band of men, united with the object of defeating rival bands, succeeds in annihilating its foes, new antagonisms arise among the victors over the distribution of the booty. The source of the conflicts is always the fact that each man’s portion curtails the portions of all other men.

What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. For where there is division of labor, there is no longer question of the distribution of a supply not capable of enlargement. Thanks to the higher productivity of labor performed under the division of tasks, the supply of goods multiplies. A pre-eminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions. Catallactic competition is substituted for biological competition. It makes for harmony of the interests of all members of society. The very condition from which the irreconcilable conflicts of biological competition arise—viz., the fact that all people by and large strive after the same things—is transformed into a factor making for harmony of interests. Because many people or even all people want bread, clothes, shoes, and cars, large-scale production of these goods becomes feasible and reduces the costs of production to such an extent that they are accessible at low prices. The fact that my fellow man wants to acquire shoes as I do, does not make it harder for me to get shoes, but easier. What enhances the price of shoes is the fact that nature does not provide a more ample supply of leather and other

raw material required, and that one must submit to the disutility of labor in order to transform these raw materials into shoes. The catallactic competition of those who, like me, are eager to have shoes makes shoes cheaper, not more expensive.

This is the meaning of the theorem of the harmony of the rightly understood interests of all members of the market society.⁶ When the classical economists made this statement, they were trying to stress two points: First, that everybody is interested in the preservation of the social division of labor, the system that multiplies the productivity of human efforts. Second, that in the market society consumers' demand ultimately directs all production activities. The fact that not all human wants can be satisfied is not due to inappropriate social institutions or to deficiencies of the system of the market economy. It is a natural condition of human life. The belief that nature bestows upon man inexhaustible riches and that misery is an outgrowth of man's failure to organize the good society is entirely fallacious. The "state of nature" which the reformers and utopians depicted as paradisiac was in fact a state of extreme poverty and distress. "Poverty," says Bentham, "is not the work of the laws, it is the primitive condition of the human race."⁷ Even those at the base of the social pyramid are much better off than they would have been in the absence of social cooperation. They too are benefitted by the operation of the market economy and participate in the advantages of civilized society.

The nineteenth-century reformers did not drop the cherished fable of the original earthly paradise. Frederick Engels incorporated it in the Marxian account of mankind's social evolution. However, they no longer set up the bliss of the *aurea aetas* as a pattern for social and economic reconstruction. They contrast the alleged depravity of capitalism with the ideal happiness man will enjoy in the socialist Elysium of the future. The socialist mode of production will abolish the fetters by means of which capitalism checks the development of the productive forces, and will increase the productivity of labor and wealth beyond all measure. The preservation of free enterprise and the private ownership of the means of production benefits exclusively the small minority of parasitic exploiters and harms the immense majority of working men. Hence there prevails within the frame of the market society an irreconcilable conflict between the interests of "capital" and those of "labor." This class struggle can disappear only when a fair system of social organization—either socialism or interventionism—is substituted for the

6. For "rightly understood" interests we may as well say interests "in the long run."

7. Cf. Bentham, *Pinricples of the Civil Code*, in "Works," I, 309.

manifestly unfair capitalist mode of production.

Such is the almost universally accepted social philosophy of our age. It was not created by Marx, although it owes its popularity mainly to the writings of Marx and the Marxians. It is today endorsed not only by the Marxians, but no less by most of those parties who emphatically declare their anti-Marxism and pay lip service to free enterprise. It is the official social philosophy of Roman Catholicism as well as of Anglo-Catholicism; it is supported by many eminent champions of the various Protestant denominations and of the Orthodox Oriental Church. It is an essential part of the teachings of Italian Fascism and of German nazism and of all varieties of interventionist doctrines. It was the ideology of the Sozialpolitik of the Hohenzollerns in Germany and of the French royalists aiming at the restoration of the house of Bourbon-Orleans, of the New Deal of President Roosevelt, and of the nationalists of Asia and Latin America. The antagonisms between these parties and factions refer to accidental issues—such as religious dogma, constitutional institutions, foreign policy—and, first of all, to the characteristic features of the social system that is to be substituted for capitalism. But they all agree in the fundamental thesis that the very existence of the capitalist system harms the vital interests of the immense majority of workers, artisans, and small farmers, and they all ask in the name of social justice for the abolition of capitalism.⁸

All socialist and interventionist authors and politicians base their analysis and critique of the market economy on two fundamental errors. First,

8. The official doctrine of the Roman Church is outlined in the encyclical *Quadragesimo anno* of Pope Pius XI (1931). The Anglo-Catholic doctrine is presented by the late William Temple, Archbishop of Canterbury, in the book *Christianity and the Social Order* (Penguin Special, 1942). Representative of the ideas of European continental Protestantism is the book of Emil Brunner, *Justice and the Social Order*, trans. by M. Hottinger (New York, 1945). A highly significant document is the section on “The Church and Disorder of Society” of the draft report which the World Council of Churches in September, 1948, recommended for appropriate action to the one hundred and fifty odd denominations whose delegates are member of the Council. For the ideas of Nicolas Berdyawe, the most eminent apologist of Russian Orthodoxy, cf. his book *The Origin of Russian Communism* (London, 1937), especially pp. 217-218 and 225. It is often asserted that an essential difference between the Marxians and the other socialist and interventionist parties is to be found in the fact that the Marxians stand for class struggle, while the latter parties look at the class struggle as upon a deplorable outgrowth of the irreconcilable conflict of class interest inherent in capitalism and want to overcome it by the realization of the reforms they recommend. However, the Marxians do not praise and kindle the class struggle for its own sake. In their eyes the class struggle is good only because it is the device by means of which the “productive forces,” those mysterious forces directing the course of human evolution, are bound to bring about the “classless” society in which there will be neither classes nor class conflicts.

they fail to recognize the speculative character inherent in all endeavors to provide for future want-satisfaction, i.e., in all human action. They naively assume that there cannot exist any doubt about the measures to be applied for the best possible provisioning of the consumers. In a socialist commonwealth there will be no need for the production tsar (or the central board of production management) to speculate. He will “simply” have to resort to those measures which are beneficial to his wards. The advocates of a planned economy have never conceived that the problem is to allocate scarce factors of production in the various branches of production in such a way that no wants considered more urgent should remain unsatisfied because the factors of production required for their satisfaction were employed, i.e., wasted, for the satisfaction of wants considered less urgent. This economic problem must not be confused with the technological problem. Technological knowledge can merely tell us what could be achieved under the present state of our scientific insight. It does not answer the questions as to what should be produced and in what quantities, and which of the multitude of technological processes available should be chosen. Deluded by their failure to grasp this essential matter, the advocates of a planned society believe that the production tsar will never err in his decisions. In the market economy the entrepreneurs and capitalists cannot avoid committing serious blunders because they know neither what the consumers want nor what their competitors are doing. The general manager of a socialist state will be infallible because he alone will have the power to determine what should be produced and how, and because no action of other people will cross his plans.⁹

The second fundamental error involved in the socialists’ critique of the market economy stems from their faulty theory of wages. They have failed to realize that wages are the price paid for the earner’s achievement, i.e., for the contribution of his efforts to the processing of the good concerned or, as people say, for the value which his services add to the value of the materials. No matter whether there are time wages or piecework wages, the employer always buys the worker’s performance and services, not his time. It is therefore not true that in the unhampered

9. The thorough exposure of this delusion is provided by the proof of the impossibility of economic calculation under socialism. See below the fifth part of this book.

market economy the worker has no personal interest in the execution of his task. The socialists are badly mistaken in asserting that those paid a certain rate per hour, per day, per week, per month, or per year are not impelled by their own selfish interests when they work efficiently. It is not lofty ideals and the sense of duty that deter a worker paid according to the length of time worked from carelessness and loafing around the shop, but very substantial arguments. He who works more and better gets higher pay, and he who wants to earn more must increase the quantity and improve the quality of his performance. The hard-boiled employers are not so gullible as to let themselves be cheated by slothful employees; they are not so negligent as those governments who pay salaries to hosts of loafing bureaucrats. Neither are the wage earners so stupid as not to know that laziness and inefficiency are heavily penalized on the labor market.¹⁰

On the shaky ground of their misconception of the catallactic nature of wages, the socialist authors have advanced fantastic fables about the increase in the productivity of labor to be expected from the realization of their plans. Under capitalism, they say, the worker's zeal is seriously impaired because he is aware of the fact that he himself does not reap the fruits of his labor and that his toil and trouble enrich merely his employer, this parasitic and idle exploiter. But under socialism every worker will know that he works for the benefit of society, of which he himself is a part. This knowledge will provide him with the most powerful incentive to do his best. An enormous increase in the productivity of labor and thereby in wealth will result.

However, the identification of the interests of each worker and those of the socialist commonwealth is a purely legalistic and formalistic fiction which has nothing to do with the real state of affairs. While the sacrifices an individual worker makes in intensifying his own exertion burden him alone, only an infinitesimal fraction of the produce of his additional exertion benefits himself and improves his own well-being. While the individual worker enjoys completely the pleasures he may reap by yielding to the temptation to carelessness and laziness, the resulting impairment of the social dividend curtails his own share only infinitesimally. Under such a socialist mode of production all personal incentives which selfishness provides under capitalism are removed, and a premium is put upon laziness and negligence. Whereas in a capitalist society selfishness incites everyone to the utmost diligence, in a socialist society it makes for inertia and laxity. The socialists may still babble about the miraculous change in human nature

10.Cf. above, pp. 600-602.

that the advent of socialism will effect, and about the substitution of lofty altruism for mean egotism. But they must no longer indulge in fables about the marvelous effects the selfishness of each individual will bring about under socialism.¹¹

No judicious man can fail to conclude from the evidence of these considerations that in the market economy the productivity of labor is incomparably higher than it would be under socialism. However, this cognition does not settle the question between the advocates of capitalism and those of socialism from a praxeological, i.e., scientific, point of view.

A bona fide advocate of socialism who is free from bigotry, prepossession, and malice could still contend: "It may be true that P , the total net income turned out in a market society, is larger than p , the total net income turned out in a socialist society. But if the socialist system assigns to each of its members an equal share of p (viz., $\frac{p}{z} = d$), all those whose income in the market society is smaller than d are favored by the substitution of socialism for capitalism. It may happen that this group of people includes the majority of men. At any rate it becomes evident that the doctrine of the harmony between the rightly understood interests of all members of the market society is untenable. There is a class of men whose interests are hurt by the very existence of the market economy and who would be better off under socialism." The advocates of the market economy contest the conclusiveness of this reasoning. They believe that p will lag so much behind P that d will be smaller than the income which even those earning the lowest wages get in the market society. There can be no doubt that this objection is well founded. However, it is not based on praxeological considerations and therefore lacks the apodictic and incontestable argumentative power inherent in a praxeological demonstration. It is based on a judgment of relevance, the quantitative appraisal of the difference between the two magnitudes P and p . In the field of human action such quantitative cognition is obtained by understanding, with regard to which full agreement between men cannot be reached. Praxeology, economics, and catallactics are of no use for the settlement of such dissensions concerning quantitative issues.

11. The doctrine refuted in the text found its most brilliant expositor in John Stuard Mill (*Principles of Political Economy* [People's ed. London, 1867], pp. 126 ff.). However, Mill resorted to this doctrine merely in order to refute an objection raised against socialism, viz., that, by eliminating the incentive provided by selfishness, it would impair the productivity of labor. He was not so blind as to assert that the productivity of labor would multiply under socialism. For an analysis and refutation of Mill's reasoning, cf. Mises, *Socialism*, pp. 173-181.

The advocates of socialism could even go farther and say: "Granted that each individual will be worse off under socialism than even the poorest under capitalism. Yet we spurn the market economy in spite of the fact that it supplies everybody with more goods than socialism. We disapprove of capitalism on ethical grounds as an unfair and amoral system. We prefer socialism on grounds commonly called non-economic and put up with the fact that it impairs everybody's well-being."¹² It cannot be denied that this haughty indifference with regard to material well-being is a privilege reserved to ivory-tower intellectuals, secluded from reality, and to ascetic anchorites. What made socialism popular with the immense majority of its supporters was, on the contrary, the illusion that it would supply them with more amenities than capitalism. But however this may be, it is obvious that this type of prosocialist argumentation cannot be touched by the liberal reasoning concerning the productivity of labor.

If no other objections could be raised to the socialist plans than that socialism will lower the standard of living of all or at least of the immense majority, it would be impossible for praxeology to pronounce a final judgment. Men would have to decide the issue between capitalism and socialism on the ground of judgments of value and of judgments of relevance. They would have to choose between the two systems as they choose between many other things. No objective standard could be discovered which would make it possible to settle the dispute in a manner which allows no contradiction and must be accepted by every sane individual. The freedom of each man's choice and discretion would not be annihilated by inexorable necessity. However, the true state of affairs is entirely different. Man is not in a position to choose between these two systems. Human cooperation under the system of the social division of labor is possible only in the market economy. Socialism is not a realizable system of society's economic organization because it lacks any method of economic calculation. To deal with this fundamental problem is the task of the fifth part of this book.

The establishment of this truth does not amount to a depreciation of the conclusiveness and the convincing power of the antisocialist argument derived from the impairment of productivity to be expected from socialism.

12. This mode of reasoning was mainly resorted to by some eminent champions of Christian socialism. The Marxians used to recommend socialism on the ground that it would multiply productivity and bring unprecedented material wealth to everybody. Only lately have they changed their tactics. They declare that the Russian worker is happier than the American worker in spite of the fact that his standard of living is much lower; the knowledge that he lives under a fair system compensates by far for all his material hardships.

The weight of this objection raised to the socialist plans is so overwhelming that no judicious man could hesitate to choose capitalism. Yet this would still be a choice between alternative systems of society's economic organization, preference given to one system as against another. However, such is not the alternative. Socialism cannot be realized because it is beyond human power to establish it as a social system. The choice is between capitalism and chaos. A man who chooses between drinking a glass of milk and a glass of a solution of potassium cyanide does not choose between two beverages; he chooses between life and death. A society that chooses between capitalism and socialism does not choose between two social systems; it chooses between social cooperation and the disintegration of society. Socialism is not an alternative to capitalism; it is an alternative to any system under which men can live as *human* beings. To stress this point is the task of economics as it is the task of biology and chemistry to teach that potassium cyanide is not a nutriment but deadly poison.

The convincing power of the productivity argument is in fact so irresistible that the advocates of socialism were forced to abandon their old tactics and to resort to new methods. They are eager to divert attention from the productivity issue by throwing into relief the monopoly problem. All contemporary socialist manifestoes expatiate on monopoly power. Statesmen and professors try to outdo one another in depicting the evils of monopoly. Our age is called the age of monopoly capitalism. The foremost argument advanced today in favor of socialism is the reference to monopoly.

Now, it is true that the emergence of monopoly prices (not of monopoly as such without monopoly prices) creates a discrepancy between the interests of the monopolist and those of the consumers. The monopolist does not employ the monopolized good according to the wishes of the consumers. As far as there are monopoly prices, the interests of the monopolists take precedence over those of the public and the democracy of the market is restricted. With regard to monopoly prices there is not harmony, but conflict of interests.

It is possible to contest these statements with regard to the monopoly prices received in the sale of articles under patents and copyrights. One may argue that in the absence of patent and copyright legislation these books, compositions, and technological innovations would never have come into existence. The public pays monopoly prices for things it would not have enjoyed at all under competitive prices. However, we may fairly disregard this issue. It has little to do with the great monopoly controversy of our day. When people deal with the evils of monopoly, they imply that there prevails within the unhampered

market economy a general and inevitable tendency toward the substitution of monopoly prices for competitive prices. This is, they say, a characteristic mark of "mature" or "late" capitalism. Whatever conditions may have been in the earlier stages of capitalist evolution and whatever one may think about the validity of the classical economists' statements concerning the harmony of the rightly understood interests, today there is no longer any question of such a harmony.

As has been pointed out already,¹³ there is no such tendency toward monopolization. It is a fact that with many commodities in many countries monopoly prices prevail, and moreover, some articles are sold at monopoly prices on the world market. However, almost all of these instances of monopoly prices are the outgrowth of government interference with business. They were not created by the interplay of the factors operating on a free market. They are not products of capitalism, but precisely of the endeavors to counteract the forces determining the height of the market prices. It is a distortion of fact to speak of monopoly capitalism. It would be more appropriate to speak of monopoly interventionism or of monopoly statism.

Those instances of monopoly prices which would appear also on a market not hampered and sabotaged by the interference of the various national governments and by conspiracies between groups of governments are of minor importance. They concern some raw materials the deposits of which are few and geographically concentrated, and local limited-space monopolies. However, it is a fact that in these cases monopoly prices can be realized even in the absence of government policies aiming directly or indirectly at their establishment. It is necessary to realize that consumers' sovereignty is not perfect and that there are limits to the operation of the democratic process of the market. There is in some exceptional and rare cases of minor importance even on a market not hampered and sabotaged by government interference an antagonism between the interests of the owners of factors of production and those of the rest of the people. However, the existence of such antagonisms by no means impairs the concord of the interests of all people with regard to the preservation of the market economy. The market economy is the only system of society's economic organization that can function and really has been functioning. Socialism is unrealizable because of its inability to develop a method for economic calculation. Interventionism must result in a state of affairs which, from the point of view of its advocates, is less desirable than the

13.Cf. above, p. 366.

conditions of the unhampered market economy which it aims to alter. In addition, it liquidates itself as soon as it is pushed beyond a narrow field of application.¹⁴ Such being the case, the only social order that can preserve and further intensify the social division of labor is the market economy. All those who do not wish to disintegrate social cooperation and to return to the conditions of primitive barbarism are interested in the perpetuation of the market economy.

The classical economists' teachings concerning the harmony of the rightly understood interests were defective in so far as they failed to recognize the fact that the democratic process of the market is not perfect, because in some instances of minor importance, even in the unhampered market economy, monopoly prices may appear. But much more conspicuous was their failure to recognize that and why no socialist system can be considered as a system of society's economic organization. They based the doctrine of the harmony of interests upon the erroneous assumption that there are no exceptions to the rule that the owners of the means of production are forced by the market process to employ their property according to the wishes of the consumers. Today this theorem must be based on the knowledge that no economic calculation is feasible under socialism.

4. Private Property

Private ownership of the means of production is the fundamental institution of the market economy. It is the institution the presence of which characterizes the market economy as such. Where it is absent, there is no question of a market economy.

Ownership means full control of the services that can be derived from a good. This catallactic notion of ownership and property rights is not to be confused with the legal definition of ownership and property rights as stated in the laws of various countries. It was the idea of legislators and courts to define the legal concept of property in such a way as to give to the proprietor full protection by the governmental apparatus of coercion and compulsion and to prevent anybody from encroaching upon his rights. As far as this purpose was adequately realized, the legal concept of property rights corresponded to the catallactic concept. However, nowadays there are tendencies to abolish the institution of private property by a change in the laws determining the scope of the actions which the proprietor is entitled to undertake with regard to the things which are his property. While retaining

14.Cf. the sixth part of this book.

the term private property, these reforms aim at the substitution of public ownership for private ownership. This tendency is the characteristic mark of the plans of various schools of Christian socialism and of nationalist socialism. But few of the champions of these schools have been so keen as the Nazi philosopher Othmar Spann, who explicitly declared that the realization of his plans would bring about a state of affairs in which the institution of private property will be preserved only in a "formal sense, while in fact there will be only public ownership."¹⁵ There is need to mention these things in order to avoid popular fallacies and confusion. In dealing with private property, catallactics deals with control, not with legal terms, concepts and definitions. Private ownership means that the proprietors determine the employment of the factors of production, while public ownership means that the government controls their employment.

Private property is a human device. It is not sacred. It came into existence in early ages of history, when people with their own power and by their own authority appropriated to themselves what had previously not been anybody's property. Again and again proprietors were robbed of their property by expropriation. The history of private property can be traced back to a point at which it originated out of acts which were certainly not legal. Virtually every owner is the direct or indirect legal successor of people who acquired ownership either by arbitrary appropriation of ownerless things or by violent spoliation of their predecessor.

However, the fact that legal formalism can trace back every title either to arbitrary appropriation or to violent expropriation has no significance whatever for the conditions of a market society. Ownership in the market economy is no longer linked up with the remote origin of private property. Those events in a far-distant past, hidden in the darkness of primitive mankind's history, are no longer of any concern for our day. For in an unhampered market society the consumers daily decide anew who should own and how much he should own. The consumers allot control of the means of production to those who know how to use them best for the satisfaction of the most urgent wants of the consumers. Only in a legal and formalistic sense can the owners be considered the successors of appropriators and expropriators. In fact, they are mandataries of the consumers, bound by the operation of the market to serve the consumers best. Under capitalism, private property is the consummation of the self-determination of the consumers.

The meaning of private property in the market society is radically different from what it is under a system of each household's autarky. Where

15.Cf. Spann, *der wahre Staat* (Leipzig, 1921), p. 249.

each household is economically self-sufficient, the privately owned means of production exclusively serve the proprietor. He alone reaps all the benefits derived from their employment. In the market society the proprietors of capital and land can enjoy their property only by employing it for the satisfaction of other people's wants. They must serve the consumers in order to have any advantage from what is their own. The very fact that they own means of production forces them to submit to the wishes of the public. Ownership is an asset only for those who know how to employ it in the best possible way for the benefit of the consumers. It is a social function.

5. The Conflicts of Our Age

Popular opinion sees the source of the conflicts which bring about the civil wars and international wars of our age in the collision of "economic" interests inherent in the market economy. Civil war is the rebellion of the "exploited" masses against the "exploiting" classes. Foreign war is the revolt of the "have-not" nations against those nations who have appropriated to themselves an unfair share of the earth's natural resources and, with insatiable greed, want to snatch even more of this wealth destined for the use of all. He who in face of these facts speaks of the harmony of the rightly understood interests, is either a moron or an infamous apologist of a manifestly unjust social order. No intelligent and honest man could fail to realize that there prevail today irreconcilable conflicts of material interests which can be settled only by recourse to arms.

It is certainly true that our age is full of conflicts which generate war. However, these conflicts do not spring from the operation of the unhampered market society. It may be permissible to call them economic conflicts because they concern that sphere of human life which is, in common speech, known as the sphere of economic activities. But it is a serious blunder to infer from this appellation that the source of these conflicts are conditions which develop within the frame of a market society. It is not capitalism that produces them, but precisely the anticapitalistic policies designed to check the functioning of capitalism. They are an outgrowth of the various governments' interference with business, of trade and migration barriers and discrimination against foreign labor, foreign products, and foreign capital.

None of these conflicts could have emerged in an unhampered market economy. Imagine a world in which everybody were free to live and work as entrepreneur or as employee where he wanted and how he chose, and ask which of these conflicts could still exist. Imagine a world in which the

principle of private ownership of the means of production is fully realized, in which there are no institutions hindering the mobility of capital, labor, and commodities, in which the laws, the courts, and the administrative officers do not discriminate against any individual or groups of individuals, whether native or alien. Imagine a state of affairs in which governments are devoted exclusively to the task of protecting the individual's life, health, and property against violent and fraudulent aggression. In such a world the frontiers are drawn on the maps, but they do not hinder anybody from the pursuit of what he thinks will make him more prosperous. No individual is interested in the expansion of the size of his nation's territory, as he cannot derive any gain from such an aggrandizement. Conquest does not pay and war becomes obsolete.

In the ages preceding the rise of liberalism and the evolution of modern capitalism, people for the most part consumed only what could be produced out of raw materials available in their own neighborhood. The development of the international division of labor has radically altered this state of affairs. Food and raw materials imported from distant countries are articles of mass consumption. The most advanced European nations could do without these imports only at the price of a very considerable lowering of their standard of living. They must pay for the badly needed purchase of minerals, lumber, oil, cereals, fat, coffee, tea, cocoa, fruit, wool, and cotton by exporting manufactures, most of them processed out of imported raw materials. Their vital interests are hurt by the protectionist trade policies of the countries producing these primary products.

Two hundred years ago it was of little concern to the Swedes or the Swiss whether or not a non-European country was efficient in utilizing its natural resources. But today economic backwardness in a foreign country, endowed by rich natural resources, hurts the interests of all those whose standard of living could be raised if a more appropriate mode of utilizing this natural wealth were adopted. The principle of each nation's unrestricted sovereignty is *in a world of government interference with business* a challenge to all other nations. The conflict between the have-nots and the haves is a real conflict. But it is present only in a world in which any sovereign government is free to hurt the interests of all peoples—its own included—by depriving the consumers of the advantages a better exploitation of this country's resources would give them. It is not sovereignty as such that makes for war, but sovereignty of governments not entirely committed to the principles of the market economy.

Liberalism did not and does not build its hopes upon abolition of the

sovereignty of the various national governments, a venture which would result in endless wars. It aims at a general recognition of the idea of economic freedom. If all peoples become liberal and conceive that economic freedom best serves their own interests, national sovereignty will no longer engender conflict and war. What is needed to make peace durable is neither international treaties and covenants nor international tribunals and organizations like the defunct League of Nations or its successor, the United Nations. If the principle of the market economy is universally accepted, such makeshifts are unnecessary; if it is not accepted, they are futile. Durable peace can only be the outgrowth of a change in ideologies. As long as the peoples cling to the Montaigne dogma and think that they cannot prosper economically except at the expense of other nations, peace will never be anything other than a period of preparation for the next war.

Economic nationalism is incompatible with durable peace. Yet economic nationalism is unavoidable where there is government interference with business. Protectionism is indispensable where there is no domestic free trade. Where there is government interference with business, free trade even in the short run would frustrate the aims sought by the various interventionist measures.¹⁶

It is an illusion to believe that a nation would lastingly tolerate other nations' policies which harm the vital interest of its own citizens. Let us assume that the United Nations had been established in the year 1600 and that the Indian tribes of North America had been admitted as members of this organization. Then the sovereignty of these Indians would have been recognized as inviolable. They would have been given the right to exclude all aliens from entering their territory and from exploiting its rich natural resources which they themselves did not know how to utilize. Does anybody really believe that any international covenant or charter could have prevented the Europeans from invading these countries?

Many of the richest deposits of various mineral substances are located in areas whose inhabitants are too ignorant, too inert, or too dull to take advantage of the riches nature has bestowed upon them. If the governments of these countries prevent aliens from exploiting these deposits, or if their conduct of public affairs is so arbitrary that no foreign investments are safe, serious harm is inflicted upon all those foreign peoples whose material well-being could be improved by a more adequate utilization of the deposits concerned. It does not matter

16.Cf. above, pp. 366-368, and below, pp. 823-825.

whether the policies of these governments are the outcome of a general cultural backwardness or of the adoption of the now fashionable ideas of interventionism and economic nationalism. The result is the same in both cases.

There is no use in conjuring away these conflicts by wishful thinking. What is needed to make peace durable is a change in ideologies. What generates war is the economic philosophy almost universally espoused today by governments and political parties. As this philosophy sees it, there prevail within the unhampered market economy irreconcilable conflicts between the interests of various nations. Free trade harms a nation; it brings about impoverishment. It is the duty of government to prevent the evils of free trade by trade barriers. We may, for the sake of argument, disregard the fact that protectionism also hurts the interests of the nations which resort to it. But there can be no doubt that protectionism aims at damaging the interests of foreign peoples and really does damage them. It is an illusion to assume that those injured will tolerate other nations' protectionism if they believe that they are strong enough to brush it away by the use of arms. The philosophy of protectionism is a philosophy of war. The wars of our age are not at variance with popular economic doctrines; they are, on the contrary, the inescapable result of a consistent application of these doctrines.

The League of Nations did not fail because its organization was deficient. It failed because it lacked the spirit of genuine liberalism. It was a convention of governments imbued with the spirit of economic nationalism and entirely committed to the principles of economic warfare. While the delegates indulged in mere academic talk about good will among the nations, the governments whom they represented inflicted a good deal of evil upon all other nations. The two decades of the League's functioning were marked by each nation's adamant economic warfare against all other nations. The tariff protectionism of the years before 1914 was mild indeed when compared with what developed in the 'twenties and 'thirties—viz., embargoes, quantitative trade control, foreign exchange control, monetary devaluation, and so on.¹⁷

The prospects for the United Nations are not much better, but rather worse. Every nation looks upon imports, especially upon imports of manufactured goods, as upon a disaster. It is the avowed goal of almost all

17. For an appraisal of the abortive attempts of the League to do away with economic warfare, cf. Rappard, *Le Nationalisme économique et la Société des Nations* (Paris, 1938).

countries to bar foreign manufactures as much as possible from access to their domestic markets. Almost all nations are fighting against the specter of an unfavorable balance of trade. They do not want to cooperate; they want to protect themselves against the alleged dangers of cooperation.

Part Six

The Hampered Market Economy

XXVII. THE GOVERNMENT AND THE MARKET

1. The Idea of a Third System

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

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

1. See above, pp. 258-259.

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

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

2. The Intervention

There are two patterns for the realization of socialism.

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

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

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

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

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

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

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

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

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

3. The Delimitation of Governmental Functions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

they consider the “wrong” things; the decision concerning what is right and what is wrong rests with the government. Thus the doctrine and the practice of interventionism ultimately tend to abandon what originally distinguished them from outright socialism and to adopt entirely the principles of totalitarian all-round planning.

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

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

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

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

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

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

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

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

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

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

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

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

There is no need to deal at this point of our investigation with the consequences resulting from any deviation from the height of prices as determined on an unhampered market. If the seller avoids underbidding his less efficient competitor, a part at least of his supply remains unsold. If the seller offers the merchandise at a price lower than that determined on an unhampered market, the supply available is insufficient to enable all those ready to expend this lower price to get what they are asking for. We will analyze later these as well as other consequences of any deviation from the market prices.² What we must recognize even at this point is that one cannot

2. See below, pp. 758-767.

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

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

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

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

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

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

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

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

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

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

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

Those who contend that there is a conflict between the acquisitiveness of various individuals or between the acquisitiveness of individuals on the one

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

5. The Meaning of Laissez Faire

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

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

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

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

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

4. See above, pp. 315-316.

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

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

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

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

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

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

All this passionate praise of the supereminence of government action is

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

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

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

6. Direct Government Interference with Consumption

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

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

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

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

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

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

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

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

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

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

Corruption

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

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

There is no such thing as a just and fair method of exercising the tremendous power that interventionism puts into the hands of the legislature and the executive. The advocates of interventionism pretend to substitute for the—as they assert, “socially” detrimental—effects of private property and vested interests the unlimited discretion of the perfectly wise and disinterested legislator and his conscientious and indefatigable servants, the

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

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

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

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

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

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

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

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

XXXIX. ECONOMICS AND THE ESSENTIAL PROBLEMS OF HUMAN EXISTENCE

1. Science and Life

IT is customary to find fault with modern science because it abstains from expressing judgments of value. Living and acting man, we are told, has no use for *Wertfreiheit*; he needs to know what he should aim at. If science does not answer this question, it is sterile. However, the objection is unfounded. Science does not value, but it provides acting man with all the information he may need with regard to his valuations. It keeps silence only when the question is raised whether life itself is worth living.

This question, of course, has been raised too and will always be raised. What is the meaning of all these human endeavors and activities if in the end nobody can escape death and decomposition? Man lives in the shadow of death. Whatever he may have achieved in the course of his pilgrimage, he must one day pass away and abandon all that he has built. Each instant can become his last. There is only one thing that is certain about the individual's future—death. Seen from the point of view of this ultimate and inescapable outcome, all human striving appears vain and futile.

Moreover, human action must be called inane even when judged merely with regard to its immediate goals. It can never bring full satisfaction; it merely gives for an evanescent instant a partial removal of uneasiness. As soon as one want is satisfied, new wants spring up and ask for satisfaction. Civilization, it is said, makes people poorer, because it multiplies their wishes and does not soothe, but kindles, desires. All the busy doings and dealings of hard-working men, their hurrying, pushing, and bustling are nonsensical, for they provide neither happiness nor quiet. Peace of mind and serenity cannot be won by action and secular ambition, but only by renunciation and resignation. The only kind of conduct proper to the sage is escape into the inactivity of a purely contemplative existence.

Yet all such qualms, doubts, and scruples are subdued by the irresistible force of man's vital energy. True, man cannot escape death. But for the present he is alive; and life, not death, takes hold of him. Whatever the future

may have in store for him, he cannot withdraw from the necessities of the actual hour. As long as a man lives, he cannot help obeying the cardinal impulse, the *elan vital*. It is man's innate nature that he seeks to preserve and to strengthen his life, that he is discontented and aims at removing uneasiness, that he is in search of what may be called happiness. In every living being there works an inexplicable and nonanalyzable *Id*. This *Id* is the impulsion of all impulses, the force that drives man into life and action, the original and ineradicable craving for a fuller and happier existence. It works as long as man lives and stops only with the extinction of life.

Human reason serves this vital impulse. Reason's biological function is to preserve and to promote life and to postpone its extinction as long as possible. Thinking and acting are not contrary to nature; they are, rather, the foremost features of man's nature. The most appropriate description of man as differentiated from nonhuman beings is: a being *purposively* struggling against the forces adverse to his life.

Hence all talk about the primacy of irrational elements is vain. Within the universe the existence of which our reason cannot explain, analyze, or conceive, there is a narrow field left within which man is capable of removing uneasiness to some extent. This is the realm of reason and rationality, of science and purposive action. Neither its narrowness nor the scantiness of the results man can obtain within it suggest the idea of radical resignation and lethargy. No philosophical subtleties can ever restrain a healthy individual from resorting to actions which—as he thinks—can satisfy his needs. It may be true that in the deepest recesses of man's soul there is a longing for the undisturbed peace and inactivity of a merely vegetative existence. But in lining man these desires, whatever they may be, are outweighed by the urge to act and to improve his own condition. Once the forces of resignation get the upper hand, man dies; he does not turn into a plant.

It is true, praxeology and economics do not tell a man whether he should preserve or abandon life. Life itself and all the unknown forces that originate it and keep it burning are an ultimate given, and as such beyond the pale of human science. The subject matter of praxeology is merely the essential manifestation of *human* life, viz., action.

2. Economics and Judgements of Value

While many people blame economics for its neutrality with regard to value judgments, other people blame it for its alleged indulgence in them.

Some contend that economics must necessarily express judgments of value and is therefore not really scientific, as the criterion of science is its valuational indifference. Others maintain that good economics should be and could be impartial, and that only bad economists sin against this postulate.

The semantic confusion in the discussion of the problems concerned is due to an inaccurate use of terms on the part of many economists. An economist investigates whether a measure a can bring about the result p for the attainment of which it is recommended, and finds that a does not result in p but in g , an effect which even the supporters of the measure a consider undesirable. If this economist states the outcome of his investigation by saying that a is a bad measure, he does not pronounce a judgment of value. He merely says that from the point of view of those aiming at the goal p , the measure a is inappropriate. In this sense the free-trade economists attacked protection. They demonstrated that protection does not, as its champions believe, increase but, on the contrary, decreases the total amount of products, and is therefore bad from the point of view of those who prefer an ampler supply of products to a smaller. It is in this sense that economists criticize policies from the point of view of the ends aimed at. If an economist calls minimum wage rates a bad policy, what he means is that its effects are contrary to the purpose of those who recommend their application.

From the same point of view praxeology and economics look upon the fundamental principle of human existence and social evolution, viz., that cooperation under the social division of labor is a more efficient way of acting than is the autarkic isolation of individuals. Praxeology and economics do not say that men should peacefully cooperate within the frame of societal bonds; they merely say that men must act this way *if* they want to make their actions more successful than otherwise. Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns.

It is against this substitution of an autonomous, rationalistic and voluntaristic ethics for the heteronomous doctrines both of intuitionism and of revealed commandments that the united forces of all antiliberal schools and dogmatisms direct the most furious attacks. They all blame the utilitarian philosophy for the pitiless austerity of its description and analysis of human nature and of the ultimate springs of human action. It is not necessary to add anything more to

the refutation of these criticisms which every page of this book provides. Only one point should be mentioned again, because on the one hand it is the acme of the doctrine of all contemporary pied pipers and on the other hand it offers to the average intellectual a welcome excuse to shun the painstaking discipline of economic studies.

Economics, it is said, in its rationalistic prepossessions assumes that men aim only or first of all at material well-being. But in reality men prefer irrational objectives to rational ones. They are guided more by the urge to realize myths and ideals than by the urge to enjoy a higher standard of living.

What economics has to answer is this:

1. Economics does not assume or postulate that men aim only or first of all at what is called material well-being. Economics, as a branch of the more general theory of human action, deals with all human action, i.e., with man's purposive aiming at the attainment of ends chosen, whatever these ends may be. To apply the concept *rational* or *irrational* to the ultimate ends chosen is nonsensical. We may call irrational the ultimate given, viz., those things that our thinking can neither analyze nor reduce to other ultimately given things. Then every ultimate end chosen by any man is irrational. It is neither more nor less rational to aim at riches like Croesus than to aim at poverty like a Buddhist monk.

2. What these critics have in mind when employing the term *rational ends* is the desire for material well-being and a higher standard of living. It is a question of fact whether or not their statement is true that men in general and our contemporaries especially are driven more by the wish to realize myths and dreams than by the wish to improve their material well-being. Although no intelligent being could fail to give the correct answer, we may disregard the issue. For economics does not say anything either in favor of or against myths. It is perfectly neutral with regard to the labor-union doctrine, the credit-expansion doctrine and all such doctrines as far as these may present themselves as myths and are supported as myths by their partisans. It deals with these doctrines only as far as they are considered doctrines about the means fit for the attainment of definite ends. Economics does not say labor unionism is a bad myth. It merely says it is an inappropriate means of raising wage rates for all those eager to earn wages. It leaves it to every man to decide whether the realization of the labor-union myth is more important than the avoidance of the inevitable consequences of labor-union policies.

In this sense we may say that economics is apolitical or nonpolitical,

although it is the foundation of politics and of every kind of political action. We may furthermore say that it is perfectly neutral with regard to all judgments of value, as it refers always to means and never to the choice of ultimate ends.

3. Economic Cognition and Human Action

Man's freedom to choose and to act is restricted in a threefold way. There are first the physical laws to whose unfeeling absoluteness man must adjust his conduct if he wants to live. There are second the individual's innate constitutional characteristics and dispositions and the operation of environmental factors; we know that they influence both the choice of the ends and that of the means, although our cognizance of the mode of their operation is rather vague. There is finally the regularity of phenomena with regard to the interconnectedness of means and ends, viz., the praxeological law as distinct from the physical and from the physiological law.

The elucidation and the categorial and formal examination of this third class of laws of the universe is the subject matter of praxeology and its hitherto best-developed branch, economics. The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built. It rests with men whether they will make the proper use of the rich treasure with which this knowledge provides them or whether they will leave it unused. But if they fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race.