

Liberal Economic Policy

1. *The Organization of the Economy*

It is possible to distinguish five different conceivable systems of organizing the cooperation of individuals in a society based on the division of labor: the system of private ownership of the means of production, which, in its developed form, we call capitalism; the system of private ownership of the means of production with periodic confiscation of all wealth and its subsequent redistribution; the system of syndicalism; the system of public ownership of the means of production, which is known as socialism or communism; and, finally, the system of interventionism.

The history of private ownership of the means of production coincides with the history of the development of mankind from an animal-like condition to the highest reaches of modern civilization. The opponents of private property have gone to great pains to demonstrate that in the primeval beginnings of human society the institution of private property still did not exist in a complete form because a part of the land under cultivation was subject to periodic redistribution. From this observation, which shows that private property is only a "historical category," they have tried to draw the conclusion that it could once again be quite safely dispensed with. The logical fallacy involved in this reasoning is too flagrant to require any further discussion. That there was social cooperation in remote antiquity even in the absence of a completely realized system of private property cannot

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provide the slightest proof that one could manage without private property just as well at higher stages of civilization. If history could prove anything at all in regard to this question, it could only be that nowhere and at no time has there ever been a people which has raised itself without private property above a condition of the most oppressive penury and savagery scarcely distinguishable from animal existence.

The earlier opponents of the system of private ownership of the means of production did not attack the institution of private property as such, but only the inequality of income distribution. They recommended the abolition of the inequality of income and wealth by means of a system of periodical redistribution of the total quantity of commodities or, at least, of land, which was at that time virtually the only factor of production taken into consideration. In the technologically backward countries, where primitive agricultural production prevails, this idea of an equal distribution of property still holds sway today. People are accustomed to call it agrarian socialism, though the appellation is not at all apposite since this system has nothing to do with socialism. The Bolshevik revolution in Russia, which had begun as socialist, did not establish socialism in agriculture—i.e., communal ownership of the land—but, instead, agrarian socialism. In large areas of the rest of Eastern Europe, the division of big landed estates among the small farmers, under the name of agrarian reform, is the ideal espoused by influential political parties.

It is unnecessary to enter further into a discussion of this system. That it must result in a reduction in the output of human labor will scarcely be disputed. Only where land is still cultivated in the most primitive way can one fail to recognize the decrease in productivity which follows upon its division and distribution. That it is utterly senseless to break up a dairy farm equipped with all the devices of modern technology will be conceded by everyone. As for the transference of this principle of division and distribution to industry or commercial enterprises, it is altogether unthinkable. A railroad, a rolling mill, or a machine factory cannot be divided up. One could undertake to carry out the periodical redistribution of property only if one first completely

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broke up the economy based on the division of labor and the unhampered market and returned to an economy of self-sufficient farmsteads existing side by side without engaging in exchange.

The idea of syndicalism represents the attempt to adapt the ideal of the equal distribution of property to the circumstances of modern large-scale industry. Syndicalism seeks to invest ownership of the means of production neither in individuals nor in society, but in the workers employed in each industry or branch of production.[1]

Since the proportion in which the material and the personal factors of production are combined is different in the different branches of production, equality in the distribution of property cannot be attained in this way at all. From the very outset the worker will receive a greater portion of property in some branches of industry than in others. One has only to consider the difficulties that must arise from the necessity, continually present in any economy, of shifting capital and labor from one branch of production to another. Will it be possible to withdraw capital from one branch of industry in order thereby more generously to equip another? Will it be possible to remove workers from one branch of production in order to transfer them to another where the quota of capital per worker is smaller? The impossibility of such transfers renders the syndicalist commonwealth utterly absurd and impracticable as a form of social organization. Yet if we assume that over and above the individual groups there exists a central power that is entitled to carry out such transfers, we are no longer dealing with syndicalism, but with socialism. In reality, syndicalism as a social ideal is so absurd that only muddleheads who have not sufficiently thought the problem through have ventured to advocate it on principle.

Socialism or communism is that organization of society in which property—the power of deploying all the means of production—is vested in society, i.e., in the state, as the social apparatus of compulsion and coercion. For a society to be judged as socialist it is of no consequence whether the social dividend is distributed equally or according to some other principle.

[1] Syndicalism as an end and as a social idea is not to be confused with syndicalism as a trade-union tactic (the "direct action" of the French syndicalists). Of course, the latter can serve as a means in the struggle for the realization of the syndicalist ideal, but it can also be made to serve other ends incompatible with that ideal. One can strive, for example—and this is precisely what some of the French syndicalists hope to do—to achieve socialism by resorting to syndicalist tactics.

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Neither is it of decisive significance whether socialism is brought about by a formal transfer of the ownership of all the means of production to the state, the social apparatus of compulsion and coercion, or whether the private owners retain their property in name and the socialization consists in the fact that all these "owners" are entitled to employ the means of production left in their hands only according to instructions issued by the state. If the government decides what is to be produced and how, and to whom it is to be sold, and at what "price," then private property still exists in name only; in reality, all property is already socialized, for the mainspring of economic activity is no longer profit-seeking on the part of entrepreneurs and capitalists, but the necessity of fulfilling an imposed duty and of obeying commands.

Finally, we still have to speak of interventionism. According to a widespread opinion, there is, midway between socialism and capitalism, a third possibility of social organization: the system of private property regulated, controlled, and guided by isolated authoritarian decrees (acts of intervention).

The system of periodical redistribution of property and the system of syndicalism will not be discussed in what follows. These two systems are not generally at issue. No one who is in any way to be taken seriously advocates either one. We have to concern ourselves only with socialism, interventionism, and capitalism.

2. Private Property and Its Critics

Man's life is not a state of unalloyed happiness. The earth is no paradise. Although this is not the fault of social institutions, people are wont to hold them responsible for it. The foundation of any and every civilization, including our own, is private ownership of the means of production. Whoever wishes to criticize modern civilization, therefore, begins with private property. It is blamed for everything that does not please the critic, especially those evils that have their origin in the fact that private property has been hampered and restrained in various respects so that its full social potentialities cannot be realized.

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The usual procedure adopted by the critic is to imagine how wonderful everything would be if only he had his own way. In his dreams he eliminates every will opposed to his own by raising himself, or someone whose will coincides exactly with his, to the position of absolute master of the world. Everyone who preaches the right of the stronger considers himself as the stronger. He who espouses the institution of slavery never stops to reflect that he himself could be a slave. He who demands restrictions on the liberty of conscience demands it in regard to others, and not for himself. He who advocates an oligarchic form of government always includes himself in the oligarchy, and he who goes into ecstasies at the thought of enlightened despotism or dictatorship is immodest enough to allot to himself, in his daydreams, the role of the enlightened despot or dictator, or, at least, to expect that he himself will become the despot over the despot or the dictator over the dictator. Just as no one desires to see himself in the position of the weaker, of the oppressed, of the overpowered, of the negatively privileged, of the subject without rights; so, under socialism, no one desires himself otherwise than in the role of the general director or the mentor of the general director. In the dream and wish fantasies of socialism there is no other life that would be worth living.

Anticapitalist literature has created a fixed pattern for these fantasies of the daydreamer in the customary opposition between profitability and productivity. What takes place in the capitalist social order is contrasted in thought with what—corresponding to the desires of the critic—would be accomplished in the ideal socialist society. Everything that deviates from this ideal image is characterized as unproductive. That the greatest profitability for private individuals and the greatest productivity for the community do not always coincide was long considered the most serious reproach against the capitalist system. Only in recent years has the knowledge gained ground that in the majority of these cases a socialist community could proceed no differently from the way individuals in a capitalist community do. But even where the alleged opposition actually does exist, it cannot simply be assumed that a socialist society would necessarily do what is

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right and that the capitalist social order is always to be condemned if it does anything else. The concept of productivity is altogether subjective; it can never provide the starting-point for an objective criticism.

It is not worth while, therefore, to concern ourselves with the musings of our daydream-dictator. In his dream vision, everyone is willing and obedient, ready to execute his commands immediately and punctiliously. But it is quite another question how things must appear in a real, and not merely visionary, socialist society. The assumption that the equal distribution of the total annual output of the capitalist economy among all members of society would suffice to assure everyone a sufficient livelihood is, as simple statistical calculations show, altogether false. Thus, a socialist society could scarcely achieve a perceptible increase in the standard of living of the masses in this way. If it holds out the prospect of well-being, and even riches, for all, it can do so only on the assumption that labor in a socialist society will be more productive than it is under capitalism and that a socialist system will be able to dispense with a number of superfluous—and consequently unproductive—expenditures.

In connection with this second point, one thinks, for example, of the abolition of all those expenses originating in the costs of marketing merchandise, of competition, and of advertising. It is clear that there is no room in a socialist community for such expenditures. Yet one must not forget that the socialist apparatus of distribution too will involve not inconsiderable costs, perhaps even greater than those of a capitalist economy. But this is not the decisive element in our judgment of the significance of these expenses. The socialist assumes, without question, as a matter of course, that in a socialist system the productivity of labor will be at least the same as in a capitalist society, and he seeks to prove that it will be even greater. But the first assumption is by no means as self-evident as the advocates of socialism seem to think. The quantity of things produced in a capitalist society is not independent of the manner in which production is carried on. What is of decisive significance is that at every single stage of each branch of production the

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special interest of the persons engaged in it is bound up most intimately with the productivity of the particular share of labor being performed. Every worker must exert himself to the utmost, since his wages are determined by the output of his labor, and every entrepreneur must strive to produce more cheaply—i.e., with less expenditure of capital and labor—than his competitors.

Only because of these incentives has the capitalist economy been able to produce the wealth that is at its command. To take exception to the alleged excessive costs of the capitalist marketing apparatus is to take a myopic view of things indeed. Whoever reproaches capitalism with squandering resources because there are many competing haberdashers and even more tobacconists to be found on bustling business streets fails to see that this sales organization is only the end result of an apparatus of production that warrants the greatest productivity of labor. All advances in production have been achieved only because it is in the nature of this apparatus continually to make advances. Only because all entrepreneurs are in constant competition and are mercilessly weeded out if they do not produce in the most profitable manner are methods of production perpetually being improved and refined. Were this incentive to disappear, there would be no further progress in production and no effort to economize in the application of the traditional methods. Consequently, it is completely absurd to pose the question how much could be saved if the costs of advertising were abolished. One must rather ask how much could be produced if competition among producers were abolished. The answer to this question cannot be in doubt.

Men can consume only if they labor, and then only as much as their labor has produced. Now it is the characteristic feature of the capitalist system that it provides each member of society with this incentive to carry on his work with the greatest efficiency and thus achieves the highest output. In a socialist society, this direct connection between the labor of the individual and the goods and services he might thereby enjoy would be lacking. The incentive to work would not consist in the possibility of enjoying the fruit of one's labor, but in the command of the authorities to work and in one's own feeling of duty. The precise

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demonstration that this organization of labor is unfeasible will be offered in a later chapter.

What is always criticized in the capitalist system is the fact that the owners of the means of production occupy a preferential position. They can live without working. If one views the social order from an individualistic standpoint, one must see in this a serious shortcoming of capitalism. Why should one man be better off than another? But whoever considers things, not from the standpoint of individual persons, but from that of the whole social order, will find that the owners of property can preserve their agreeable position solely on condition that they perform a service indispensable for society. The capitalist can keep his favored position only by shifting the means of production to the application most important for society. If he does not do this—if he invests his wealth unwisely—he will suffer losses, and if he does not correct his mistake in time, he will soon be ruthlessly ousted from his preferential position. He will cease to be a capitalist, and others who are better qualified for it will take his place. In a capitalist society, the deployment of the means of production is always in the hands of those best fitted for it; and whether they want to or not, they must constantly take care to employ the means of production in such a way that they yield the greatest output.

3. Private Property and the Government

All those in positions of political power, all governments, all kings, and all republican authorities have always looked askance at private property. There is an inherent tendency in all governmental power to recognize no restraints on its operation and to extend the sphere of its dominion as much as possible. To control everything, to leave no room for anything to happen of its own accord without the interference of the authorities—this is the goal for which every ruler secretly strives. If only private property did not stand in the way! Private property creates for the individual a sphere in which he is free of the state. It sets limits to the operation of the authoritarian will. It allows other

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forces to arise side by side with and in opposition to political power. It thus becomes the basis of all those activities that are free from violent interference on the part of the state. It is the soil in which the seeds of freedom are nurtured and in which the autonomy of the individual and ultimately all intellectual and material progress are rooted. In this sense, it has even been called the fundamental prerequisite for the development of the individual. But it is only with many reservations that the latter formulation can be considered acceptable, because the customary opposition between individual and collectivity, between individualistic and collective ideas and aims, or even between individualistic and universalistic science, is an empty shibboleth.

Thus, there has never been a political power that voluntarily desisted from impeding the free development and operation of the institution of private ownership of the means of production. Governments tolerate private property when they are compelled to do so, but they do not acknowledge it voluntarily in recognition of its necessity. Even liberal politicians, on gaining power, have usually relegated their liberal principles more or less to the background. The tendency to impose oppressive restraints on private property, to abuse political power, and to refuse to respect or recognize any free sphere outside or beyond the dominion of the state is too deeply ingrained in the mentality of those who control the governmental apparatus of compulsion and coercion for them ever to be able to resist it voluntarily. A liberal government is a *contradictio in adjecto*. Governments must be forced into adopting liberalism by the power of the unanimous opinion of the people; that they could voluntarily become liberal is not to be expected.

It is easy to understand what would constrain rulers to recognize the property rights of their subjects in a society composed exclusively of farmers all of whom were equally rich. In such a social order, every attempt to abridge the right to property would immediately meet with the resistance of a united front of all subjects against the government and thus bring about the latter's fall. The situation is essentially different, however, in a society in which there is not only agricultural but also industrial

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production, and especially where there are big business enterprises involving large-scale investments in industry, mining, and trade. In such a society, it is quite possible for those in control of the government to take action against private property. In fact, politically there is nothing more advantageous for a government than an attack on property rights, for it is always an easy matter to incite the masses against the owners of land and capital. From time immemorial, therefore, it has been the idea of all absolute monarchs, of all despots and tyrants, to ally themselves with the "people" against the propertied classes. The Second Empire of Louis Napoleon was not the only regime to be founded on the principle of Caesarism. The Prussian authoritarian state of the Hohenzollerns also took up the idea, introduced by Lassalle into German politics during the Prussian constitutional struggle, of winning the masses of workers to the battle against the liberal bourgeoisie by means of a policy of etatism and interventionism. This was the basic principle of the "social monarchy" so highly extolled by Schmoller and his school.

In spite of all persecutions, however, the institution of private property has survived. Neither the animosity of all governments, nor the hostile campaign waged against it by writers and moralists and by churches and religions, nor the resentment of the masses—itsself deeply rooted in instinctive envy—has availed to abolish it. Every attempt to replace it with some other method of organizing production and distribution has always of itself promptly proved unfeasible to the point of absurdity. People have had to recognize that the institution of private property is indispensable and to revert to it whether they liked it or not.

But for all that, they have still refused to admit that the reason for this return to the institution of free private ownership of the means of production is to be found in the fact that an economic system serving the needs and purposes of man's life in society is, in principle, impracticable except on this foundation. People have been unable to make up their minds to rid themselves of an ideology to which they have become attached, namely, the belief that private property is an evil that cannot, at least for the time being, be dispensed with as long as men have not

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yet sufficiently evolved ethically. While governments—contrary to their intentions, of course, and to the inherent tendency of every organized center of power—have reconciled themselves to the existence of private property, they have still continued to adhere firmly—not only outwardly, but also in their own thinking—to an ideology hostile to property rights. Indeed, they consider opposition to private property to be correct in principle and any deviation from it on their part to be due solely to their own weakness or to consideration for the interests of powerful groups.

4. *The Impracticability of Socialism*

People are wont to consider socialism impracticable because they think that men lack the moral qualities demanded by a socialist society. It is feared that under socialism most men will not exhibit the same zeal in the performance of the duties and tasks assigned to them that they bring to their daily work in a social order based on private ownership of the means of production. In a capitalist society, every individual knows that the fruit of his labor is his own to enjoy, that his income increases or decreases according as the output of his labor is greater or smaller. In a socialist society, every individual will think that less depends on the efficiency of his own labor, since a fixed portion of the total output is due him in any case and the amount of the latter cannot be appreciably diminished by the loss resulting from the laziness of any one man. If, as is to be feared, such a conviction should become general, the productivity of labor in a socialist community would drop considerably.

The objection thus raised against socialism is completely sound, but it does not get to the heart of the matter. Were it possible in a socialist community to ascertain the output of the labor of every individual comrade with the same precision with which this is accomplished for each worker by means of economic calculation in the capitalist system, the practicability of socialism would not be dependent on the good will of every individual. Society would be in a position, at least within certain limits,

to determine the share of the total output to be allotted to each worker on the basis of the extent of his contribution to production. What renders socialism impracticable is precisely the fact that calculation of this kind is impossible in a socialist society.

In the capitalist system, the calculation of profitability constitutes a guide that indicates to the individual whether the enterprise he is operating ought, under the given circumstances, to be in operation at all and whether it is being run in the most efficient possible way, i.e., at the least cost in factors of production. If an undertaking proves unprofitable, this means that the raw materials, half-finished goods, and labor that are needed in it are employed by other enterprises for an end that, from the standpoint of the consumers, is more urgent and more important, or for the same end, but in a more economical manner (i.e., with a smaller expenditure of capital and labor). When, for instance, hand weaving came to be unprofitable, this signified that the capital and labor employed in weaving by machine yield a greater output and that it is consequently uneconomical to adhere to a method of production in which the same input of capital and labor yields a smaller output.

If a new enterprise is being planned, one can calculate in advance whether it can be made profitable at all and in what way. If, for example, one has the intention of constructing a railroad line, one can, by estimating the traffic to be expected and its ability to pay the freight rates, calculate whether it pays to invest capital and labor in such an undertaking. If the result of this calculation shows that the projected railroad promises no profit, this is tantamount to saying, that there is other, more urgent employment for the capital and the labor that the construction of the railroad would require; the world is not yet rich enough to be able to afford such an expenditure. But it is not only when the question arises whether or not a given undertaking is to be begun at all that the calculation of value and profitability is decisive; it controls every single step that the entrepreneur takes in the conduct of his business.

Capitalist economic calculation, which alone makes rational production possible, is based on monetary calculation. Only because

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the prices of all goods and services in the market can be expressed in terms of money is it possible for them, in spite of their heterogeneity, to enter into a calculation involving homogeneous units of measurement. In a socialist society, where all the means of production are owned by the community, and where, consequently, there is no market and no exchange of productive goods and services, there can also be no money prices for goods and services of higher order. Such a social system would thus, of necessity, be lacking in the means for the rational management of business enterprises, viz., economic calculation. For economic calculation cannot take place in the absence of a common denominator to which all the heterogeneous goods and services can be reduced.

Let us consider a quite simple case. For the construction of a railroad from A to B several routes are conceivable. Let us suppose that a mountain stands between A and B. The railroad can be made to run over the mountain, around the mountain, or, by way of a tunnel, through the mountain. In a capitalist society, it is a very easy matter to compute which line will prove the most profitable. One ascertains the cost involved in constructing each of the three lines and the differences in operating costs necessarily incurred by the anticipated traffic on each. From these quantities it is not difficult to determine which stretch of road will be the most profitable. A socialist society could not make such calculations. For it would have no possible way of reducing to a uniform standard of measurement all the heterogeneous quantities and qualities of goods and services that here come into consideration. In the face of the ordinary, everyday problems which the management of an economy presents, a socialist society would stand helpless, for it would have no possible way of keeping its accounts.

The prosperity that has made it possible for many more people to inhabit the earth today than in the precapitalist era is due solely to the capitalist method of lengthy chains of production, which necessarily requires monetary calculation. This is impossible under socialism. In vain have socialist writers labored to demonstrate how one could still manage even without monetary

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and price calculation. All their efforts in this respect have met with failure.

The leadership of a socialist society would thus be confronted by a problem that it could not possibly solve. It would not be able to decide which of the innumerable possible modes of procedure is the most rational. The resulting chaos in the economy would culminate quickly and irresistibly in universal impoverishment and a retrogression to the primitive conditions under which our ancestors once lived.

The socialist ideal, carried to its logical conclusion, would eventuate in a social order in which all the means of production were owned by the people as a whole. Production would be completely in the hands of the government, the center of power in society. It alone would determine what was to be produced and how, and in what way goods ready for consumption were to be distributed. It makes little difference whether we imagine this socialist state of the future as democratically constituted or otherwise. Even a democratic socialist state would necessarily constitute a tightly organized bureaucracy in which everyone, apart from the highest officials, though he might very well, in his capacity as a voter, have participated in some fashion in framing the directives issued by the central authority, would be in the subservient position of an administrator bound to carry them out obediently.

A socialist state of this kind is not comparable to the state enterprises, no matter how vast their scale, that we have seen developing in the last decades in Europe, especially in Germany and Russia. The latter all flourish *side by side* with private ownership of the means of production. They engage in commercial transactions with enterprises that capitalists own and manage, and they receive various stimuli from these enterprises that invigorate their own operation. State railroads, for instance, are provided by their suppliers, the manufacturers of locomotives, coaches, signal installations, and other equipment, with apparatus that has proved successful elsewhere in the operation of privately owned railroads. Thence they receive the incentive to institute innovations in order to keep up with the progress in technology

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and in methods of business management that is taking place all around them.

It is a matter of common knowledge that national and municipal enterprises have, on the whole, failed, that they are expensive and inefficient, and that they have to be subsidized out of tax funds just to maintain themselves in operation. Of course, where a public enterprise occupies a monopolistic position—as is, for instance, generally the case with municipal transportation facilities and electric light and power plants—the bad consequences of inefficiency need not always express themselves in visible financial failure. Under certain circumstances it may be possible to conceal it by making use of the opportunity open to the monopolist of raising the price of his products and services high enough to render these enterprises, in spite of their uneconomic management, still profitable. The lower productivity of the socialist method of production merely manifests itself differently here and is not so easily recognized as otherwise; essentially, however, the case remains the same.

But none of these experiments in the socialist management of enterprises can afford us any basis for judging what it would mean if the socialist ideal of the communal ownership of *all* means of production were to be realized. In the socialist society of the future, which will leave no room whatsoever for the free activity of private enterprises operating side by side with those owned and controlled by the state, the central planning board will lack entirely the gauge provided for the whole economy by the market and market prices. In the market, where all goods and services come to be traded, exchange ratios, expressed in money prices, may be determined for everything bought and sold. In a social order based on private property, it thus becomes possible to resort to monetary calculation in checking on the results of all economic activities. The social productivity of every economic transaction may be tested by the methods of bookkeeping and cost accounting. It yet remains to be shown that public enterprises are unable to make use of cost accounting in the same way as private enterprises do. Nevertheless, monetary calculation does give even governmental and communal enterprises some basis for

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judging the success or failure of their management. In a completely socialist economic system, this would be quite impossible, for in the absence of private ownership of the means of production, there could be no exchange of capital goods in the market and consequently neither money prices nor monetary calculation. The general management of a purely socialist society will therefore have no means of reducing to a common denominator the costs of production of all the heterogeneous commodities that it plans to produce.

Nor can this be achieved by setting expenditures in kind against savings in kind. One cannot calculate if it is not possible to reduce to a common medium of expression hours of labor of various grades, iron, coal, building materials of every kind, machines, and all the other things needed in the operation and management of different enterprises. Calculation is possible only when one is able to reduce to monetary terms all the goods under consideration. Of course, monetary calculation has its imperfections and deficiencies, but we have nothing better to put in its place. It suffices for the practical purposes of life as long as the monetary system is sound. If we were to renounce monetary calculation, every economic computation would become absolutely impossible.

This is the decisive objection that economics raises against the possibility of a socialist society. It must forgo the intellectual division of labor that consists in the cooperation of all entrepreneurs, landowners, and workers as producers and consumers in the formation of market prices. But without it, rationality, i.e., the possibility of economic calculation, is unthinkable.

5. Interventionism

The socialist ideal is now beginning to lose more and more of its adherents. The penetrating economic and sociological investigations of the problems of socialism that have shown it to be impracticable have not remained without effect, and the failures in which socialist experiments everywhere have ended

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have disconcerted even its most enthusiastic supporters. Gradually people are once more beginning to realize that society cannot do without private property. Yet the hostile criticism to which the system of private ownership of the means of production has been subjected for decades has left behind such a strong prejudice against the capitalist system that, in spite of their knowledge of the inadequacy and impracticability of socialism, people cannot make up their minds to admit openly that they must return to liberal views on the question of property. To be sure, it is conceded that socialism, the communal ownership of the means of production, is altogether, or at least for the present, impracticable. But, on the other hand, it is asserted that unhampered private ownership of the means of production is also an evil. Thus people want to create a third way, a form of society standing midway between private ownership of the means of production, on the one hand, and communal ownership of the means of production, on the other. Private property will be permitted to exist, but the ways in which the means of production are employed by the entrepreneurs, capitalists, and landowners will be regulated, guided, and controlled by authoritarian decrees and prohibitions. In this way, one forms the conceptual image of a regulated market, of a capitalism circumscribed by authoritarian rules, of private property shorn of its allegedly harmful concomitant features by the intervention of the authorities.

One can best acquire an insight into the meaning and nature of this system by considering a few examples of the consequences of government interference. The crucial acts of intervention with which we have to deal aim at fixing the prices of goods and services at a height different from what the unhampered market would have determined.

In the case of prices formed on the unhampered market, or which would have been formed in the absence of interference on the part of the authorities, the costs of production are covered by the proceeds. If a lower price is decreed by the government, the proceeds will fall short of the costs. Merchants and manufacturers will, therefore, unless the storage of the goods involved would cause them to deteriorate rapidly in value, withhold their

merchandise from the market in the hope of more favorable times, perhaps in the expectation that the government order will soon be rescinded. If the authorities do not want the goods concerned to disappear altogether from the market as a result of their interference, they cannot limit themselves to fixing the price; they must at the same time also decree that all stocks on hand be sold at the prescribed price.

But even this does not suffice. At the price determined on the unhampered market, supply and demand would have coincided. Now, because the price was fixed lower by government decree, the demand has increased while the supply has remained unchanged. The stocks on hand are not sufficient to satisfy fully all who are prepared to pay the prescribed price. A part of the demand will remain unsatisfied. The mechanism of the market, which otherwise tends to equalize supply and demand by means of price fluctuations, no longer operates. Now people who would have been prepared to pay the price prescribed by the authorities must leave the market with empty hands. Those who were in line earlier or who were in a position to exploit some personal connection with the sellers have already acquired the whole stock; the others have to go unprovided. If the government wishes to avoid this consequence of its intervention, which runs counter to its intentions, it must add rationing to price control and compulsory sale: a governmental regulation must determine how much of a commodity may be supplied to each individual applicant at the prescribed price.

But once the supplies already on hand at the moment of the government's intervention are exhausted, an incomparably more difficult problem arises. Since production is no longer profitable if the goods are to be sold at the price fixed by the government, it will be reduced or entirely suspended. If the government wishes to have production continue, it must compel the manufacturers to produce, and, to this end, it must also fix the prices of raw materials and half-finished goods and the wages of labor. Its decrees to this effect, however, cannot be limited to only the one or the few branches of production that the authorities wish to regulate because they deem their products especially important.

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They must encompass all branches of production. They must regulate the price of all commodities and all wages. In short, they must extend their control over the conduct of all entrepreneurs, capitalists, landowners, and workers. If some branches of production are left free, capital and labor will flow into these, and the government will fail to attain the goal that it wished to achieve by its first act of intervention. But the object of the authorities is that there should be an abundance of production in precisely that branch of industry which, because of the importance they attach to its products, they have especially singled out for regulation. It runs altogether counter to their design that precisely in consequence of their intervention this branch of production should be neglected.

It is therefore clearly evident that an attempt on the part of the government to interfere with the operation of the economic system based on private ownership of the means of production fails of the goal that its authors wished to achieve by means of it. It is, from the point of view of its authors, not only futile, but downright contrary to purpose, because it enormously augments the very "evil" that it was supposed to combat. Before the price controls were decreed, the commodity was, in the opinion of the government, too expensive; now it disappears from the market altogether. This, however, is not the result aimed at by the government, which wanted to make the commodity accessible to the consumer at a cheaper price. On the contrary: from its viewpoint, the absence of the commodity, the impossibility of securing it, must appear as by far the greater evil. In this sense one can say of the intervention of the authorities that it is futile and contrary to the purpose that it was intended to serve, and of the system of economic policy that attempts to operate by means of such acts of intervention that it is impracticable and unthinkable, that it contradicts economic logic.

If the Government will not set this right again by desisting, from its interference, i.e., by rescinding the price controls, then it must follow up the first step with others. To the prohibition against asking any price higher than the prescribed one it must

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add not only measures to compel the sale of all stocks on hand under a system of enforced rationing, but price ceilings on goods of higher order, wage controls, and, ultimately, compulsory labor for entrepreneurs and workers. And these regulations cannot be limited to one or a few branches of production, but must encompass them all. There is simply no other choice than this: either to abstain from interference in the free play of the market, or to delegate the entire management of production and distribution to the government. Either capitalism or socialism: there exists no middle way.

The mechanism of the series of events just described is well known to all who have witnessed the attempts of governments in time of war and during periods of inflation to fix prices by fiat. Everyone knows nowadays that government price controls had no other result than the disappearance from the market of the goods concerned. Wherever the government resorts to the fixing of prices, the result is always the same. When, for instance, the government fixes a ceiling on residential rents, a housing shortage immediately ensues. In Austria, the Social Democratic Party has virtually abolished residential rent. The consequence is that in the city of Vienna, for example, in spite of the fact that the population has declined considerably since the beginning of the World War and that several thousand new houses have been constructed by the municipality in the meantime, many thousands of persons are unable to find accommodations.

Let us take still another example: the fixing of minimum wage rates.

When the relationship between employer and employee is left undisturbed by legislative enactment's or by violent measures on the part of trade unions, the wages paid by the employer for every type of labor are exactly as high as the increment of value that it adds to the materials in production. Wages cannot rise any higher than this because, if they did, the employer could no longer make a profit and hence would be compelled to discontinue a line of production that did not pay. But neither can wages fall any lower, because then the workers would turn to other

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branches of industry where they would be better rewarded, so that the employer would be forced to discontinue production because of a labor shortage.

There is, therefore, in the economy always a wage rate at which all workers find employment and every entrepreneur who wishes to undertake some enterprise still profitable at that wage finds workers. This wage rate is customarily called by economists the "static" or "natural" wage. It increases if, other things being equal, the number of workers diminishes; it decreases if, other things being equal, the available quantity of capital for which employment in production is sought suffers any diminution. However, one must, at the same time, observe that it is not quite precise to speak simply of "wages" and "labor. Labor services vary greatly in quality and quantity (calculated per unit of time), and so too do the wages of labor.

If the economy never varied from the stationary state, then in a labor market unhampered by interference on the part of the government or by coercion on the part of the labor unions there would be no unemployed. But the stationary state of society is merely an imaginary construction of economic theory, an intellectual expedient indispensable for our thinking, that enables us, by contrast, to form a clear conception of the processes actually taking place in the economy which surrounds us and in which we live. Life—fortunately, we hasten to add—is never at rest. There is never a standstill in the economy, but perpetual changes, movement, innovation, the continual emergence of the unprecedented. There are, accordingly, always branches of production that are being shut down or curtailed because the demand for their products has fallen off, and other branches of production that are being expanded or even embarked upon for the first time. If we think only of the last few decades, we can at once enumerate a great number of new industries that have sprung up: e.g., the automobile industry, the airplane industry, the motion picture industry, the rayon industry, the canned goods industry, and the radio broadcasting industry. These branches of industry today employ millions of workers, only some of whom have been drawn from the increase in population. Some came from branches of

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production that were shut down, and even more from those that, as a result of technological improvements, are now able to manage with fewer workers.

Occasionally the changes that occur in the relations among individual branches of production take place so slowly that no worker is obliged to shift to a new type of job; only young people, just beginning to earn their livelihood, will enter, in greater proportion, the new or expanding industries. Generally, however, in the capitalist system, with its rapid strides in improving human welfare, progress takes place too swiftly to spare individuals the necessity of adapting themselves to it. When, two hundred years or more ago, a young lad learned a craft, he could count on practicing it his whole life long in the way he had learned it, without any fear of being injured by his conservatism. Things are different today. The worker too must adjust himself to changing conditions, must add to what he has learned, or begin learning anew. He must leave occupations which no longer require the same number of workers as previously and enter one which has just come into being or which now needs more workers than before. But even if he remains in his old job, he must learn new techniques when circumstances demand it.

All this affects the worker in the form of changes in wage rates. If a particular branch of business employs relatively too many workers, it discharges some, and those discharged will not easily find new work in the same branch of business. The pressure on the labor market exercised by the discharged workers depresses wages in this branch of production. This, in turn, induces the worker to look for employment in those branches of production that wish to attract new workers and are therefore prepared to pay higher wages.

From this it becomes quite clear what must be done in order to satisfy the workers' desire for employment and for high wages. Wages in general cannot be pushed above the height that they would normally occupy in a market unhampered either by government interference or other institutional pressures without creating certain side effects that cannot be desirable for the

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worker. Wages can be driven up in an individual industry or an individual country if the transfer of workers from other industries or their immigration from other countries is prohibited. Such wage increases are effected at the expense of the workers whose entrance is barred. Their wages are now lower than they would have been if their freedom of movement had not been hindered. The rise in wages of one group is thus achieved at the expense of the others. This policy of obstructing the free movement of labor can benefit only the workers in countries and industries suffering from a relative labor shortage. In an industry or a country where this is not the case, there is only *one* thing that can raise wages: a rise in the general productivity of labor, whether by virtue of an increase in the capital available or through an improvement in the technological processes of production.

If, however, the government fixes minimum wages by law above the height of the static or natural wage, then the employers will find that they are no longer in a position to carry on successfully a number of enterprises that were still profitable when wages stood at the lower point. They will consequently curtail production and discharge workers. The effect of an artificial rise in wages, i.e., one imposed upon the market from the outside, is, therefore, the spread of unemployment.

Now, of course, no attempt is being made today to fix minimum wage rates by law on a large scale. But the position of power that the trade unions occupy has enabled them to do so even in the absence of any positive legislation to that effect. The fact that workers form unions for the purpose of bargaining with the employers does not, in and of itself, necessarily provoke disturbances in the operation of the market. Even the fact that they successfully arrogate to themselves the right to break, without notice, contracts duly entered into by them and to lay down their tools would not itself result in any further disturbance in the labor market. What does create a new situation in the labor market is the element of coercion involved in strikes and compulsory union membership that prevails today in most of the industrial countries of Europe. Since the unionized workers deny

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access to employment to those who are not members of their union, and resort to open violence during strikes to prevent other workers from taking the place of those on strike, the wage demands that the unions present to the employers have precisely the same force as government decrees fixing minimum wage rates. For the employer must, if he does not wish to shut down his whole enterprise, yield to the demands of the union. He must pay wages such that the volume of production has to be restricted, because what costs more to produce cannot find as large a market as what costs less. Thus, the higher wages exacted by the trade unions become a cause of unemployment.

The unemployment originating from this source differs entirely in extent and duration from that which arises from the changes constantly taking place in the kind and quality of the labor demanded in the market. If unemployment had its cause only in the fact that there is constant progress in industrial development, it could neither assume great proportions nor take on the character of a lasting institution. The workers who can no longer be employed in one branch of production soon find accommodation in others which are expanding or just coming into being. When workers enjoy freedom of movement and the shift from one industry to another is not impeded by legal and other obstacles of a similar kind, adjustment to new conditions takes place without too much difficulty and rather quickly. For the rest, the setting up of labor exchanges would contribute much toward reducing still further the extent of this type of unemployment.

But the unemployment produced by the interference of coercive agencies in the operation of the labor market is no transitory phenomenon continually appearing and disappearing. It is incurable as long as the cause that called it into existence continues to operate, i.e., as long as the law or the violence of the trade unions prevents wages from being reduced, by the pressure of the jobless seeking employment, to the level that they would have reached in the absence of interference on the part of the government or the unions, namely, the rate at which all those eager for work ultimately find it.

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For the unemployed to be granted support by the government or by the unions only serves to enlarge the evil. If what is involved is a case of unemployment springing from dynamic changes in the economy, then the unemployment benefits only result in postponing the adjustment of the workers to the new conditions. The jobless worker who is on relief does not consider it necessary to look about for a new occupation if he no longer finds a position in his old one; at least, he allows more time to elapse before he decides to shift to a new occupation or to a new locality or before he reduces the wage rate he demands to that at which he could find work. If unemployment benefits are not set too low, one can say that as long as they are offered, unemployment cannot disappear.

If, however, the unemployment is produced by the artificial raising of the height of wage rates in consequence of the direct intervention of the government or of its toleration of coercive practices on the part of the trade unions, then the only question is who is to bear the costs involved, the employers or the workers. The state, the government, the community never do so; they load them either onto the employer or onto the worker or partially onto each. If the burden falls on the workers, then they are deprived entirely or partially of the fruits of the artificial wage increase they have received; they may even be made to bear more of these costs than the artificial wage increase yielded them. The employer can be saddled with the burden of unemployment benefits to some extent by having to pay a tax proportionate to the total amount of wages paid out by him. In this case, unemployment insurance, by raising the costs of labor, has the same effect as a further increase in wages above the static level: the profitability of the employment of labor is reduced, and the number of workers who still can be profitably engaged is concomitantly decreased. Thus, unemployment spreads even further, in an ever widening spiral. The employers can also be drawn on to pay the costs of the unemployment benefits by means of a tax on their profits or capital, without regard for the number of workers employed. But this too only tends to spread unemployment even further. For when capital is consumed or when the formation

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of new capital is at least slowed down, the conditions for the employment of labor become, *ceteris paribus*, less favorable.[2]

It is obviously futile to attempt to eliminate unemployment by embarking upon a program of public works that would otherwise not have been undertaken. The necessary resources for such projects must be withdrawn by taxes or loans from the application they would otherwise have found. Unemployment in one industry can, in this way, be mitigated only to the extent that it is increased in another.

From whichever side we consider interventionism, it becomes evident that this system leads to a result that its originators and advocates did not intend and that, even from their standpoint, it must appear as a senseless, self-defeating, absurd policy.

6. Capitalism: The Only Possible System of Social Organization

Every examination of the different conceivable possibilities of organizing society on the basis of the division of labor must always come to the same result: there is only the choice between communal ownership and private ownership of the means of production. All intermediate forms of social organization are unavailing and, in practice, must prove self-defeating. If one further realizes that socialism too is unworkable, then one cannot avoid acknowledging that capitalism is the only feasible system of social organization based on the division of labor. This result of theoretical investigation will not come as a surprise to the historian or the philosopher of history. If capitalism has succeeded in maintaining itself in spite of the enmity it has always encountered from both governments and the masses, if it has not been obliged to make way for other forms of social cooperation that have enjoyed to a much greater extent the sympathies of theoreticians and of practical men of affairs, this is to be attributed only to the fact that no other system of social organization is feasible.

Nor is there any further need to explain why it is impossible for us to return to the forms of social and economic organization characteristic of the Middle Ages. Over the whole area now

[2] Even if wages were artificially raised (by intervention on the part of the government or by coercion on the part of the trade unions), simultaneously throughout the whole world and in all branches of production, the result would simply be capital consumption and ultimately, as a further consequence of the latter, a still further reduction in wages. I have treated this question in detail in the writings listed in the appendix.

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inhabited by the modern nations of Europe the medieval economic system was able to support only a fraction of the number of people who now dwell in that region, and it placed much less in the way of material goods at the disposal of each individual for the provision of his needs than the capitalist form of production supplies men with today. A return to the Middle Ages is out of the question if one is not prepared to reduce the population to a tenth or a twentieth part of its present number and, even further, to oblige every individual to be satisfied with a modicum so small as to be beyond the imagination of modern man.

All the writers who represent the return to the Middle Ages, or, as they put it, to the "new" Middle Ages, as the only social ideal worth striving for reproach the capitalist era above all for its materialistic attitude and mentality. Yet they themselves are much more deeply committed to materialistic views than they believe. For it is nothing, but the crassest materialism to think, as many of these writers do, that after reverting to the forms of political and economic organization characteristic of the Middle Ages, society could still retain all the technological improvements in production created by capitalism and thus preserve the high degree of productivity of human labor that it has attained in the capitalist era. The productivity of the capitalist mode of production is the outcome of the capitalist mentality and of the capitalist approach to man and to the satisfaction of man's wants; it is a result of modern technology only in so far as the development of technology must, of necessity, follow from the capitalist mentality. There is scarcely anything so absurd as the fundamental principle of Marx's materialist interpretation of history: "The hand mill made feudal society; the steam mill, capitalist society." It was precisely capitalist society that was needed to create the necessary conditions for the original conception of the steam mill to be developed and put into effect. It was capitalism that created the technology, and not the other way round. But no less absurd is the notion that the technological and material appurtenances of our economy could be preserved even if the intellectual foundations on which they are based were destroyed. Economic activity can no longer be carried on rationally once the prevailing mentality

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has reverted to traditionalism and faith in authority. The entrepreneur, the catalytic agent, as it were, of the capitalist economy and, concomitantly, also of modern technology, is inconceivable in an environment in which everyone is intent solely on the contemplative life.

If one characterizes as unfeasible every system other than that based on private ownership of the means of production, it follows necessarily that private property must be maintained as the basis of social cooperation and association and that every attempt to abolish it must be vigorously combated. It is for this reason that liberalism defends the institution of private property against every attempt to destroy it. When, therefore, people call the liberals apologists for private property, they are completely justified, for the Greek word from which "apologist" is derived means the same as "defender." Of course, it would be better to avoid using the foreign word and to be content to express oneself in plain English. For to many people the expressions "apology" and "apologist" convey the connotation that what is being defended is unjust.

Much more important, however, than the rejection of any pejorative suggestion that may be involved in the use of these expressions is the observation that the institution of private property requires no defense, justification, support, or explanation. The continued existence of society depends upon private property, and since men have need of society, they must hold fast to the institution of private property to avoid injuring their own interests as well as the interests of everyone else. For society can continue to exist only on the foundation of private property. Whoever champions the latter champions by the same token the preservation of the social bond that unites mankind, the preservation of culture and civilization. He is an apologist and defender of society, culture, and civilization, and because he desires them as ends, he must also desire and defend the one means that leads to them, namely, private property.

To advocate private ownership of the means of production is by no means to maintain that the capitalist social system, based on private property, is perfect. There is no such thing as earthly

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perfection. Even in the capitalist system something or other, many things, or even everything, may not be exactly to the liking of this or that individual. But it is the only possible social system. One may undertake to modify one or another of its features as long as in doing so one does not affect the essence and foundation of the whole social order, viz., private property. But by and large we must reconcile ourselves to this system because there simply cannot be any other.

In Nature too, much may exist that we do not like. But we cannot change the essential character of natural events. If, for example, someone thinks—and there are some who have maintained as much—that the way in which man ingests his food, digests it, and incorporates it into his body is disgusting, one cannot argue the point with him. One must say to him: There is only this way or starvation. There is no third way. The same is true of property: either-or—either private ownership of the means of production, or hunger and misery for everyone.

The opponents of liberalism are wont to call its economic doctrine "optimistic." They intend this epithet either as a reproach or as a derisive characterization of the liberal way of thinking.

If by calling the liberal doctrine "optimistic" one means that liberalism considers the capitalist world as the best of all worlds, then this is nothing but pure nonsense. For an ideology based, like that of liberalism, entirely on scientific grounds, such questions as whether the capitalist system is good or bad, whether or not a better one is conceivable, and whether it ought to be rejected on certain philosophic or metaphysical grounds are entirely irrelevant. Liberalism is derived from the pure sciences of economics and sociology, which make no value judgments within their own spheres and say nothing about what ought to be or about what is good and what is bad, but, on the contrary, only ascertain what is and how it comes to be. When these sciences show us that of all the conceivable alternative ways of organizing society only one, viz., the system based on private ownership of the means of production, is capable of being realized, because all other conceivable systems of social organization are

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unworkable, there is absolutely nothing in this that can justify the designation "optimistic." That capitalism is practicable and workable is a conclusion that has nothing to do with optimism.

To be sure, the opponents of liberalism are of the opinion that this society is very bad. As far as this assertion contains a value judgment, it is naturally not open to any discussion that intends to go beyond highly subjective and therefore unscientific opinions. As far, however, as it is founded on an incorrect understanding of what takes place within the capitalist system, economics and sociology can rectify it. This too is not optimism. Entirely aside from everything else, even the discovery of a great many deficiencies in the capitalist system would not have the slightest significance for the problems of social policy as long as it has not been shown, not that a different social system would be better, but that it would be capable of being realized at all. But this has not been done. Science has succeeded in showing that every system of social organization that could be conceived as a substitute for the capitalist system is self-contradictory and unavailing, so that it could not bring about the results aimed at by its proponents.

How little one is justified in speaking in this connection of "optimism" and "pessimism" and how much the characterization of liberalism as "optimistic" aims at surrounding it with an unfavorable aura by bringing in extrascientific, emotional considerations is best shown by the fact that one can, with as much justice, call those people "optimists" who are convinced that the construction of a socialist or of an interventionist commonwealth would be practicable.

Most of the writers who concern themselves with economic questions never miss an opportunity to heap senseless and childish abuse on the capitalist system and to praise in enthusiastic terms either socialism or interventionism, or even agrarian socialism and syndicalism, as excellent institutions. On the other hand, there have been a few writers who, even if in much milder terms, have sung the praises of the capitalist system. One may, if one wishes, call these writers "optimists." But if one does so, then one would be a thousand times more justified in calling

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the antiliberal writers "hyperoptimists" of socialism, interventionism, agrarian socialism, and syndicalism. The fact that this does not happen, but that, instead, only liberal writers like Bastiat are called "optimists," shows clearly that in these cases what we are dealing with is not an attempt at a truly scientific classification, but nothing more than a partisan caricature.

What liberalism maintains is, we repeat, by no means that capitalism is good when considered from some particular point of view. What it says is simply that for the attainment of the ends that men have in mind only the capitalist system is suitable and that every attempt to realize a socialist, interventionist, agrarian socialist, or syndicalist society must necessarily prove unsuccessful. Neurotics who could not bear this truth have called economics a dismal science. But economics and sociology are no more dismal because they show us the world as it really is than the other sciences are—mechanics, for instance, because it teaches the impracticability of perpetual motion, or biology because it teaches us the mortality of all living things.

7. Cartels, Monopolies, and Liberalism

The opponents of liberalism assert that the necessary preconditions for the adoption of the liberal program no longer exist in the contemporary world. Liberalism was still practicable when many concerns of medium size were engaged in keen competition in each industry. Nowadays, since trusts, cartels, and other monopolistic enterprises are in complete control of the market, liberalism is as good as done for in any case. It is not politics that has destroyed it, but a tendency inherent in the inexorable evolution of the system of free enterprise.

The division of labor gives a specialized function to each productive unit in the economy. This process never stops as long as economic development continues. We long ago passed the stage at which the same factory produced all types of machines. Today a machine factory that does not limit itself exclusively to the production of certain types of machinery is no longer able to meet competition. With the progress of specialization, the area

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served by an individual supplier must continue to widen. The market supplied by a textile mill that produces only a few kinds of fabrics must be larger than that served by a weaver who weaves every kind of cloth. Undoubtedly this progressive specialization of production tends toward the development in every field of enterprises that have the whole world for their market. If this development is not opposed by protectionist and other anticapitalist measures, the result will be that in every branch of production there will be a relatively small number of concerns, or even only a single concern, intent on producing with the highest degree of specialization and on supplying the whole world.

Today, of course, we are very far from this state of affairs, since the policy of all governments aims at snipping off from the unity of the world economy small areas in which, under the protection of tariffs and other measures designed to achieve the same result, enterprises that would no longer be able to meet competition on the free world market are artificially preserved or even first called into being. Apart from considerations of commercial policy, measures of this kind, which are directed against the concentration of business, are defended on the ground that they alone have prevented the consumers from being exploited by monopolistic combinations of producers.

In order to assess the validity of this argument, we shall assume that the division of labor throughout the whole world has already advanced so far that the production of every article offered for sale is concentrated in a single concern, so that the consumer, in his capacity as a buyer, is always confronted with only a single seller. Under such conditions, according to an ill-considered economic doctrine, the producers would be in a position to keep prices pegged as high as they wished, to realize exorbitant profits, and thereby to worsen considerably the standard of living of the consumers. It is not difficult to see that this idea is completely mistaken. Monopoly prices, if they are not made possible by certain acts of intervention on the part of the government, can be lastingly exacted only on the basis of control over mineral and other natural resources. An isolated monopoly in manufacturing that yielded greater profits than those yielded elsewhere would

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stimulate the formation of rival firms whose competition would break the monopoly and restore prices and profits to the general rate. Monopolies in manufacturing industries cannot, however, become general, since at every given level of wealth in an economy the total quantity of capital invested and of available labor employed in production—and consequently also the amount of the social product—is a given magnitude. In any particular branch of production, or in several, the amount of capital and labor employed could be reduced in order to increase the price per unit and the aggregate profit of the monopolist or monopolists by curtailing production. The capital and labor thereby freed would then flow into another industry. If, however, all industries attempt to curtail production in order to realize higher prices, they forthwith free labor and capital which, because they are offered at lower rates, will provide a strong stimulus to the formation of new enterprises that must again destroy the monopolistic position of the others. The idea of a universal cartel and monopoly of the manufacturing industry is therefore completely untenable.

Genuine monopolies can be established only by control of land or mineral resources. The notion that all the arable land on earth could be consolidated into a single world monopoly needs no further discussion; the only monopolies that we shall consider here are those originating in the control of useful minerals. Monopolies of this kind do, in fact, already exist in the case of a few minerals of minor importance, and it is at any rate conceivable that attempts to monopolize other minerals as well may some day prove successful. This would mean that the owners of such mines and quarries would derive an increased ground rent from them and that the consumers would restrict consumption and look for substitutes for the materials that had become more expensive. A world petroleum monopoly would lead to an increased demand for hydroelectric power, coal, etc. From the standpoint of world economy and *sub specie aeternitatis*, this would mean that we would have to be more sparing than we otherwise would have been in our use of those costly materials that we can only exhaust, but cannot replace, and thus

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leave more of them for future generations than would have been the case in an economy free of monopolies.

The bugbear of monopoly, which is always conjured up when one speaks of the unhampered development of the economy, need cause us no disquiet. The world monopolies that are really feasible could concern only a few items of primary production. Whether their effect is favorable or unfavorable cannot be so easily decided. In the eyes of those who, in treating economic problems, are unable to free themselves from feelings of envy, these monopolies appear as pernicious from the very fact that they yield their owners increased profits. Whoever approaches the question without prepossessions will find that such monopolies lead to a more sparing use of those mineral resources that are at man's disposal only in a rather limited quantity. If one really envies the monopolist his profit, one can, without danger and without having to expect any harmful economic consequences, have it pass into the public coffers by taxing the income from the mines.

In contradistinction to these world monopolies are the national and international monopolies, which are of practical importance today precisely because they do not originate in any natural evolutionary tendency on the part of the economic system when it is left to itself, but are the product of antiliberal economic policies. Attempts to secure a monopolistic position in regard to certain articles are in almost all cases feasible only because tariffs have divided the world market up into small national markets. Besides these, the only other cartels of any consequence are those which the owners of certain natural resources are able to form because the high cost of transportation protects them against the competition of producers from other areas in the narrow compass of their own locality.

It is a fundamental error, in judging the consequences of trusts, cartels, and enterprises supplying a market with one article alone, to speak of "control" of the market and of "price dictation" by the monopolist. The monopolist does not exercise any control, nor is he in a position to dictate prices. One could speak of control of the market or of price dictation only if the

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article in question were, in the strictest and most literal sense of the word, necessary for existence and absolutely irreplaceable by any substitute. This is evidently not true of any commodity. There is no economic good whose possession is indispensable to the existence of those prepared to purchase it on the market.

What distinguishes the formation of a monopoly price from the formation of a competitive price is the fact that, under certain very special conditions, it is possible for the monopolist to reap a greater profit from the sale of a smaller quantity at a higher price (which we call the monopoly price) than by selling at the price that the market would determine if more sellers were in competition (the competitive price). The special condition required for the emergence of a monopoly price is that the reaction of the consumers to a price increase does not involve a falling off of demand so sharp as to preclude a greater total profit from fewer sales at higher prices. If it is actually possible to achieve a monopolistic position in the market and to use it to realize monopoly prices, then profits higher than average will be yielded in the branch of industry concerned.

It may be that, in spite of these higher profits, new enterprises of the same kind are not undertaken because of the fear that, after reducing the monopoly price to the competitive price, they will not prove correspondingly profitable. One must, nevertheless, take into account the possibility that related industries, which are in a position to enter into production of the cartelized article at a relatively small cost, may appear as competitors; and, in any case, industries producing substitute commodities will be immediately at hand to avail themselves of the favorable circumstances for expanding their own production. All these factors make it extraordinarily rare for a monopoly to arise in a manufacturing industry that is not based on monopolistic control of particular raw materials. Where such monopolies do occur, they are always made possible only by certain legislative measures, such as patents and similar privileges, tariff regulations, tax laws, and the licensing system. A few decades ago people used to speak of a transportation monopoly. To what extent this monopoly was based on the licensing system remains uncertain. Today people generally

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do not bother much about it. The automobile and the airplane have become dangerous competitors of the railroads. But even before the appearance of these competitors the possibility of using waterways already set a definite limit to the rates that the railroads could venture to charge for their services on several lines.

It is not only a gross exaggeration, but a misunderstanding of the facts, to speak, as one commonly does today, of the formation of monopolies as having eliminated an essential prerequisite for the realization of the liberal ideal of a capitalist society. Twist and turn the monopoly problem as one may, one always comes back to the fact that monopoly prices are possible only where there is control over natural resources of a particular kind or where legislative enactment's and their administration create the necessary conditions for the formation of monopolies. In the unhampered development of the economy, with the exception of mining and related branches of production, there is no tendency toward the exclusion of competition. The objection commonly raised against liberalism that the conditions of competition as they existed at the time when classical economics and liberal ideas were first developed no longer prevail is in no way justified. Only a few liberal demands (viz., free trade within and between nations) need to be realized in order to re-establish these conditions.

8. Bureaucratization

There is yet another sense in which it is commonly said that the necessary conditions for the realization of the liberal ideal of society no longer obtain today. In the big businesses made necessary by progress in the division of labor, the personnel employed must increase more and more. These enterprises must, therefore, in their conduct of business, become ever more like the government bureaucracy that the liberals in particular have made the target of their criticism. From day to day they become more cumbersome and less open to innovations. The selection of personnel for executive positions is no longer made on the basis of

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demonstrated proficiency on the job, but in accordance with purely formal criteria, such as educational background or seniority, and often just as a result of personal favoritism. Thus the distinctive feature of private, as opposed to public, enterprise finally disappears. If it was still justifiable in the age of classical liberalism to oppose government ownership on the ground that it paralyzes all free initiative and kills the joy of labor, it is no longer so today when private enterprises are carried on no less bureaucratically, pedantically, and formalistically than those that are publicly owned and operated.

In order to be able to assess the validity of these objections, one must first be clear as to what is really to be understood by bureaucracy and the bureaucratic conduct of business, and just how these are distinguished from commercial enterprise and the commercial conduct of business. The opposition between the commercial and the bureaucratic mentality is the counterpart in the intellectual realm of the opposition between capitalism—private ownership of the means of production—and socialism—communal ownership of the means of production. Whoever has factors of production at his disposal, whether his own or those lent to him by their owners in return for some compensation, must always be careful to employ them in such a way as to satisfy those needs of society that, under the given circumstances, are the most urgent. If he does not do this, he will operate at a loss and will find himself at first under the necessity of curtailing his activity as owner and entrepreneur and ultimately ousted from that position altogether. He ceases to be the one or the other and has to fall back into the ranks of those who have only their labor to sell and who do not have the responsibility of guiding production into those channels that, from the point of view of the consumers, are the right ones. In the calculation of profits and losses, which constitutes the whole sum and substance of the businessman's bookkeeping and accounting, entrepreneurs and capitalists possess a method that enables them to check, with the greatest attainable exactitude, every step in their procedure down to the smallest detail and, where possible, to see what effect each individual transaction in the conduct of their

operations will have on the total outcome of the enterprise. Monetary calculation and cost accounting constitute the most important intellectual tool of the capitalist entrepreneur, and it was no one less than Goethe who pronounced the system of double-entry bookkeeping "one of the finest inventions of the human mind." Goethe could say this because he was free from the resentment that the petty literati always foster against the businessman. It is they that form the chorus whose constant refrain is that monetary calculation and concern with profit and loss are the most shameful of sins.

Monetary calculation, bookkeeping, and statistics on sales and operations make it possible for even the biggest and most complex business concerns to make an exact check on the results achieved in every single department and thereby to form a judgment on the extent to which the head of each department has contributed to the total success of the enterprise. Thus, a reliable guide is provided for determining the treatment to be accorded to the managers of the various departments. One can know what they are worth and how much they are to be paid. Advancement to higher and more responsible positions is by way of unquestionably demonstrated success in a more circumscribed sphere of action. And just as one is able to check on the activity of the manager of each department by means of cost accounting, so one can also scrutinize the activity of the enterprise in every single field of its over-all operation, as well as the effects of certain organizational and similar measures.

There are, to be sure, limits to this exact control. One cannot determine the success or failure of the activity of each individual within a department as one can that of its manager. There are, besides, departments whose contribution to the total output cannot be comprehended by means of calculation: what a research department, a legal bureau, a secretariat, a statistical service, etc., accomplishes cannot be ascertained in the same way as, for instance, the performance of a particular sales or production department. The former may be quite safely left to the approximate estimation of the person in charge of the department, and the latter to that of the general manager of the concern; for

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conditions can be seen with relative clarity and those who are called upon to make these judgments (both the general management and that of the various departments) have a personal interest in their correctness, as their own incomes are affected by the productivity of the operations of which they are in charge.

The opposite of this type of enterprise, whose every transaction is controlled by the calculation of profit and loss, is represented by the apparatus of public administration. Whether a judge (and what is true of a judge is true in the same way of every high administrative official) has discharged his duties better or worse cannot be demonstrated by any computation. There is no possible way of establishing by an objective criterion whether a district or a province is being administered well or badly, cheaply or expensively. The judgment of the activity of public officials is thus a matter of subjective, and therefore quite arbitrary, opinion. Even the question whether a particular bureau is necessary, whether it has too many or too few employees, and whether its organization is or is not suited to its purpose can be decided only on the basis of considerations that involve some element of subjectivity. There is but one field of public administration in which the criterion of success or failure is unquestionable: the waging of war. But even here the only thing certain is whether the operation has been crowned with success. The question how far the distribution of power determined the issue even before the beginning of hostilities and how much of the outcome is to be attributed to the competence or incompetence of the leaders in their conduct of the operations and to the appropriateness of the measures they took cannot be strictly and precisely answered. There have been generals celebrated for their victories who, in fact, did everything to facilitate the triumph of the enemy and who owe their success solely to circumstances so favorable as to outweigh their mistakes. And vanquished leaders have sometimes been condemned whose genius had done everything possible to prevent the inevitable defeat.

The manager of a private enterprise gives the employees to whom he assigns independent duties only one directive: to make as much profit as possible. Everything that he has to say to them

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is comprehended in this one order, and an examination of the accounts makes it possible to determine easily and accurately to what extent they have followed it. The manager of a bureaucratic department finds himself in a quite different situation. He can tell his subordinates what they have to accomplish, but he is not in a position to ascertain whether the means employed for the attainment of this result are the most appropriate and economical under the circumstances. If he is not omnipresent in all the offices and bureaus subordinate to him, he cannot judge whether the attainment of the same result would not have been possible with a lesser expenditure of labor and materials. The fact that the result itself is also not amenable to numerical measurement, but only to approximate assessment, need not be discussed here. For we are not considering administrative technique from the point of view of its external effects, but merely from the standpoint of its reaction upon the internal operation of the bureaucratic apparatus; we are concerned with the result attained, therefore, only in its relation to the expenses incurred.

Because it is out of the question to undertake to determine this relationship by means of computations after the manner of commercial bookkeeping, the manager of a bureaucratic organization must provide his subordinates with instructions with which compliance is made obligatory. In these instructions provision is made, in a general way, for the ordinary and regular course of business. In all extraordinary cases, however, before any money is spent, permission must first be obtained from higher authority—a tedious and rather ineffectual procedure in favor of which all that can be said is that it is the only method possible. For if every subaltern bureau, every department head, every branch office, were given the right to make the expenditures that they deemed requisite, the costs of administration would soon soar without limit. One should not delude oneself about the fact that this system is seriously defective and very unsatisfactory. Many expenses are incurred that are superfluous, and many that would be necessary are not made because a bureaucratic apparatus cannot, by its very nature, adjust itself to circumstances as a commercial organization can.

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The effect of bureaucratization is most apparent in its representative—the bureaucrat. In a private enterprise, the hiring of labor is not the conferring of a favor, but a business transaction from which both parties, employer and employee, benefit. The employer must endeavor to pay wages corresponding in value to the labor performed. If he does not do this, he runs the risk of seeing the worker leave his employment for that of a better-paying competitor. The employee, in order not to lose his job, must in his turn endeavor to fulfill the duties of his position well enough to be worth his wages. Since employment is not a favor, but a business transaction, the employee does not need to fear that he may be discharged if he falls into personal disfavor. For the entrepreneur who discharges, for reasons of personal bias, a useful employee who is worth his pay harms only himself and not the worker, who can find a similar position elsewhere. There is not the slightest difficulty in entrusting to the manager of each department the authority to hire and fire employees; for under the pressure of the control exercised over his activities by bookkeeping and cost accounting he must see to it that his department shows as great a profit as possible, and hence he is obliged, in his own interest, to be careful to retain the best employees there. If out of spite he discharges someone whom he ought not to have discharged, if his actions are motivated by personal, and not objective, considerations, then it is he himself who must suffer the consequences. Any impairment of the success of the department headed by him must ultimately redound to his loss. Thus, the incorporation of the nonmaterial factor, labor, into the process of production takes place without any friction.

In a bureaucratic organization things are quite different. Since the productive contribution of the individual department, and hence also of the individual employee, even when he occupies an executive position, cannot in this case be ascertained, the door is wide open to favoritism and personal bias both in appointment and remuneration. The fact that the intercession of influential persons plays a certain role in filling official positions in the civil service is not due to a peculiar baseness of character on the part of those responsible for filling these posts, but to the

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fact that from the very outset there is no objective criterion for determining an individual's qualification for appointment. Of course, it is the most competent who ought to be employed, but the question is: Who is the most competent? If this question could be as easily answered as the question what an ironworker or a compositor is worth, there would be no problem. But since this is not the case, an element of arbitrariness is necessarily involved in comparing the qualifications of different individuals.

In order to keep this within the narrowest possible limits, one seeks to set up formal conditions for appointment and promotion. Attainment to a particular position is made dependent on the fulfillment of certain educational requirements, on the passing of examinations, and on continued employment for a certain period of time in other positions; promotion is made dependent on years of previous service. Naturally, all these expedients are in no sense a substitute for the possibility of finding the best available man for every post by means of the calculation of profit and loss. It would be supererogatory to point out in particular that attendance at school, examinations, and seniority do not offer the slightest guarantee that the selection will be correct. On the contrary: this system from the very outset prevents the energetic and the competent from occupying positions in line with their powers and capabilities. Never yet has anyone of real worth risen to the top by way of a prescribed program of study and promotion in due course along the established lines. Even in Germany, which has a pious faith in her bureaucrats, the expression, "a perfect functionary," is used to connote a spineless and ineffectual person, however well intentioned.

Thus, the characteristic mark of bureaucratic management is that it lacks the guidance provided by considerations of profit and loss in judging the success of its operations in relation to the expenses incurred and is consequently obliged, in the effort to compensate for this deficiency, to resort to the entirely inadequate expedient of making its conduct of affairs and the hiring of its personnel subject to a set of formal prescriptions. All the evils that are commonly imputed to bureaucratic management—its inflexibility, its lack of resourcefulness, and its helplessness in the

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face of problems that are easily solved in profit-seeking enterprise—are the result of this one fundamental deficiency. As long as the activity of the state is restricted to the narrow field that liberalism assigns to it, the disadvantages of bureaucracy cannot, at any rate, make themselves too apparent. They become a grave problem for the whole economy only when the state—and naturally the same is true of municipalities and other forms of local government—proceeds to socialize the means of production and to take an active part in it or even in trade.

A public enterprise conducted with an eye to maximizing profits can, to be sure, make use of monetary calculation as long as most business is privately owned and hence a market still exists and market prices are formed. The only hindrance to its operation and development is the fact that its managers, as functionaries of the state, do not have the personal interest in the success or failure of the business that is characteristic of the management of private enterprises. The director cannot, therefore, be given freedom to act independently in making crucial decisions. Since he would not suffer the losses that could result, under certain circumstances, from his business policy, his conduct of affairs could all too easily be disposed to run risks that would not be taken by a director who, because he must share in the loss, is genuinely responsible. His authority must, therefore, be in some way limited. Whether it is bound by a set of rigid regulations or the decisions of a control council or the consent of a superior authority, bureaucratic management in any case continues to suffer from the unwieldiness and the lack of ability to adjust itself to changing conditions that have everywhere led public enterprises from one failure to another.

But, in fact, it is only seldom that a public enterprise aims at nothing but profit and sets aside all other considerations. As a rule, it is demanded of a public enterprise that it keep in mind certain "national" and other considerations. It is expected, for instance, in its procurement and sales policy, to favor domestic as against foreign production. It is demanded of state railways that they set a schedule of rates that will serve a specific commercial policy on the part of the government, that they construct

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and maintain lines that cannot be profitably operated simply in order to promote the economic development of a certain area, and that they operate certain others for strategic or similar reasons. When such factors play a role in the conduct of a business, all control by the methods of cost accounting and the calculation of profit and loss is out of the question. The director of the state railways who presents an unfavorable balance sheet at the end of the year is in a position to say: "The railway lines under my supervision have, to be sure, operated at a loss if considered from the strictly commercial point of view of profit-seeking private enterprise; but if one takes into consideration such factors as our national economic and military policy, one must not forget that they have accomplished a great deal that does not enter into the calculation of profit and loss." Under such circumstances the calculation of profit and loss has clearly lost all value for judging the success of an enterprise, so that—even apart from other factors having the same tendency—it must necessarily be managed quite as bureaucratically as, for example, the administration of a prison or a tax bureau.

No private enterprise, whatever its size, can ever become bureaucratic as long as it is entirely and solely operated on a profit basis. Firm adherence to the entrepreneurial principle of aiming at the highest profit makes it possible for even the largest concern to ascertain with complete precision the part played by every transaction and by the activity of every department in contributing to the total result. As long as enterprises look only to profit, they are proof against all the evils of bureaucratism. The bureaucratization of privately owned enterprises that we see going on about us everywhere today is purely the result of interventionism, which forces them to take into account factors that, if they were free to determine their policies for themselves, would be far from playing any role whatsoever in the conduct of their business. When a concern must pay heed to political prejudices and sensibilities of all kinds in order to avoid being continually harassed by various organs of the state, it soon finds that it is no longer in a position to base its calculations on the solid ground of profit and loss. For instance, some of the public

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utility enterprises in the United States, in order to avoid conflicts with public opinion and with the legislative, judicial, and administrative organs of the government which it influences, make it a policy not to hire Catholics, Jews, atheists, Darwinists, Negroes, Irishmen, Germans, Italians, and all newly arrived immigrants. In the interventionist state, every business is under the necessity of accommodating itself to the wishes of the authorities in order to avoid burdensome penalties. The result is that these and other considerations foreign to the profit-seeking principle of entrepreneurial management come to play an ever increasing role in the conduct of business, while the part played by precise calculation and cost accounting concomitantly dwindles in significance, and private enterprise begins increasingly to adopt the mode of management of public enterprises, with their elaborate apparatus of formally prescribed rules and regulations. In a word, it becomes bureaucratized.

Thus, the progressing bureaucratization of big business is by no means the result of an inexorable tendency inherent in the development of the capitalist economy. It is nothing but the necessary consequence of adopting a policy of interventionism. In the absence of government interference with their operations, even the largest firms could be run in exactly as businesslike a way as the small ones.