

Study Guide to *Human Action* by Robert P. Murphy

Chapter XXXII. Confiscation and Redistribution

Chapter Summary

1. The Philosophy of Confiscation

Contrary to popular belief, under capitalism there is not first a stage of production and then a separate stage of distribution. The two are in fact integrated: as production processes yield their outputs, they are owned by individuals. Acts of outright confiscation may be successful at seizing goods and distributing them to other individuals, but producers will consume their capital if they fear recurrent episodes of confiscation.

2. Land Reform

In a market economy, farmland is a factor of production just like any other. Efficiency will bring soil under the control of the most productive farmers, and the size of farms will tend to that which maximizes output per unit of input. If the government interferes with this outcome and, e.g., breaks up larger farms, this will draw people from other occupations into farming. The total amount of farm products will fall, raising their prices. Society will be poorer in order to benefit a few (relatively unproductive) farmers.

3. Confiscatory Taxation

Whether the aim is to raise revenue or to effect social policy, "progressive" income taxation and estate taxes hamper economic growth because they hobble the most productive individuals and provide incentives for the rich to consume their capital before they die. Ironically, the vested interests are sheltered by high marginal rates of taxation because successful newcomers in an industry cannot reinvest their "excessive" profits if the government confiscates them.

Confiscatory Taxation and Risk-Taking

A common objection to confiscatory taxation is that it reduces entrepreneurs' appetite for risk taking: the threat of losses is still the same, but now the government artificially reduces the winnings from a successful gamble.

However, this analysis misconstrues the nature of investment. Investors do not gamble; rather, they place their funds in lines that they believe will earn the most profit. It is impossible to avoid risk taking; if one owns capital, one must decide what to do with it. There are no truly safe investments.

The harmful effects of confiscatory taxation are that they lead to consumption of capital and reduce incentives for further accumulation. The harm is not in rendering capitalists unwilling to engage in risky activities.

Why It Matters

In this short chapter, Mises tackles the popular attitudes toward progressive income taxation and estate taxes. He shows that regardless of their effects on the individuals targeted, they make all of society poorer by shackling the most productive members who can best satisfy the wants of consumers.

Technical Notes

- (1) When addressing a popular justification for highly progressive income taxes (p. 802), Mises focuses on the effects of such taxes on capital accumulation. However, even on its face, such justifications are wrong because they rely on interpersonal comparisons of utility. It is simply not true that a dollar "means more" to a poor person than to a rich person. We can say that for each individual, the marginal utility of the millionth dollar is lower than that of the thousandth dollar. But this truism cannot allow us to compare the satisfactions of one man to those of another man.
- (2) In his discussion of entrepreneurial risk taking (pp. 805–807), Mises wants to reiterate the point that all entrepreneurial action is speculative; the future is always uncertain; there is no such thing as a "safe" investment. However, one could carefully rephrase the objection against confiscatory taxation in a manner consistent with these insights. For example, a vendor might prepare a large variety of products, hoping to satisfy his customers, whose appetites may be varied. With low rates of taxation, the vendor can afford to offer a wider spectrum of items, because the "hits" will more than cover the expenses of the "flops." But at high rates of taxation, the vendor may instead offer a more conservative product line, catering to known tastes. It seems appropriate to describe the taxation in this scenario as impairing the vendor's appetite for risk taking, and thereby reducing consumer satisfaction.

Study Questions

1. The Philosophy of Confiscation

- Why doesn't the alleged dualism of two processes—that of production and that of distribution—exist in a market economy?
- How does expropriation affect the accumulation of capital?

2. Land Reform

- What is meant by agrarian socialism? What objection does Mises have to this term?
- What are the unavoidable consequences of government interference with regard to land?

3. Confiscatory Taxation

- Why is discriminatory taxation really just a mode of disguised expropriation of the successful capitalists and entrepreneurs? Why is it incompatible with the free-market economy? What are its consequences for the accumulation of capital?
- Does confiscatory taxation affect only the rich?
- What is ironic about the interventionists' complaints about the rigidity of big business?
- Does Mises view profits as a reward for risk taking?