

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

Chapter XXXVI. The Crisis of Interventionism

Chapter Summary

1. The Harvest of Interventionism

All of the negative consequences of interventionism, predicted by the economists, have come to fruition. Yet it is not the world wars, depressions, famines, and civil wars that have led to the crisis of interventionism. On the contrary, these calamities have been blamed on capitalism. Even so, interventionism is reaching its end, because it has exhausted all its potentialities.

2. The Exhaustion of the Reserve Fund

The essence of interventionism is to lavish generous benefits and spending on the working classes, while requiring employers or "the rich" to pay for these items. Besides their other deleterious consequences, by the mid- 20th century, these schemes had reached their logical fulfillment in Europe and had almost reached such a point in the United States. The reserve fund—the wealth of the rich, and the incomes of the entrepreneurs or "management"—had been drained, such that any new government spending or imposition on business would clearly be borne by the general public.

3. The End of Interventionism

There are three reasons interventionism must come to an end. First, restrictive measures by their very nature cannot constitute a system of production. Second, all varieties of intervention in the market fail to achieve the very ends sought by their authors. These failures in turn spur only further intervention. Third, interventionism aims at seizing the "surplus" from one group and giving it to another; once the surplus is gone, interventionism must end.

By the mid-20th century, most of the European countries had adopted socialism of the German pattern, i.e., where private citizens retained nominal ownership of the means of production, but the government engaged in central planning. Even though these countries suffered because of these policies, they could at least rely on the market prices generated in the remaining capitalist countries.

There is no inevitable force propelling men to choose the social system that leads to progress; relapse is always possible. What can be said is that people must choose between socialism and the market economy; no "middle-of-the-road" position is stable. If people around the world adopt socialism such that economic calculation becomes impossible, then the result would be complete chaos and the disintegration of social cooperation.

Why It Matters

In this sobering chapter, Mises argues that interventionism is not a viable system because the "surplus" wealth of the rich capitalists will eventually be siphoned away. In the long run, people must choose between a market economy or outright socialism.

Technical Notes

- (1) With the benefit of hindsight, it is an interesting exercise to evaluate Mises's claims. In the case of the United States, one might argue that the trend towards socialism advanced into the 1970s and then reversed its course afterwards, at least in certain respects. Even so, by many measures, the United States government in the 21st century is far more powerful than ever before.
- (2) It may surprise the reader to see that Mises describes Great Britain as a socialist nation, and moreover that Winston Churchill presided over this transition (p. 855).

Study Questions

1. The Harvest of Interventionism

Comment: "Interventionism has exhausted all its potentialities and must disappear."

2. The Exhaustion of the Reserve Fund

- What is the essence of interventionist policy?

Comment: "From day to day it becomes more obvious that large-scale additions to the amount of public expenditures cannot be financed by 'soaking the rich,' but that the burden must be carried by the masses."

3. The End of Interventionism

- What are the three reasons that will lead interventionism to an end?
- What three statements can be made about the struggle between the principles of private ownership and public ownership?