

Additions to Human Action in the Third Edition

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been seriously restricted, but the market economy is still in operation although sabotaged by government and labor union interference. The system of catallactic competition is still functioning although the productivity of labor has been seriously reduced.

It is the ultimate end of these anticompetition policies to substitute for capitalism a socialist system of planning in which there is no catallactic competition at all. While shedding crocodile tears about the decline of competition, the planners want to abolish this “mad” competitive system. They have attained their goal in some countries. But in the rest of the world they have only restricted competition in some branches of business by increasing the number of people competing in other branches.

The forces aiming at a restriction of competition play a great role in our day. It is an important task of the history of our age to deal with them. Economic theory has no need to refer to them in particular. The fact that there are trade barriers, privileges, cartels, government monopolies and labor unions is merely a datum of economic history. It does not require special theorems for its interpretation.

6. Freedom

Philosophers and lawyers have bestowed much pain upon attempts to define the concept of freedom or liberty. It can hardly be maintained that these endeavors have been successful.

The concept of freedom makes sense only as far as it refers to interhuman relations. There were authors who told stories about an original—natural—freedom which man was supposed to have enjoyed in a fabulous state of nature that preceded the establishment of social relations. Yet such mentally and economically self-sufficient individuals or families, roaming about the country, were only free as long as they did not run into a stronger fellow’s way. In the pitiless biological competition the stronger was always right, and the weaker was left no choice except unconditional surrender. Primitive man was certainly not born free.

Only within the frame of a social system can a meaning be attached to the term *freedom*. As a praxeological term, freedom refers to the sphere within which a acting individual is in a position to choose between alternative modes of action. A man is free in so far as he is permitted to choose ends and the means to be used for the attainment of those ends. A man’s freedom is most rigidly restricted by the laws of nature as well as by the laws of praxeology. He cannot attain ends which are incompatible with one another. If he chooses to indulge in gratifications that produce definite effects upon the functioning of his

body or his mind, he must put up with these consequences. It would be inexpedient to say that man is not free because he cannot enjoy the pleasures of indulgence in certain drugs without being affected by their inevitable results, commonly considered as highly undesirable. While this is admitted by and large by all reasonable people, there is no such unanimity with regard to the appreciation of the laws of praxeology.

Man cannot have both the advantages derived from peaceful cooperation under the principle of the division of labor within society and the license of embarking upon conduct that is bound to disintegrate society. He must choose between the observance of certain rules that make life within society possible and the poverty and insecurity of the “dangerous life” in a state of perpetual warfare among independent individuals. This is no less rigid a law determining the outcome of all human action than are the laws of physics.

Yet there is a far-reaching difference between the sequels resulting from a disregard of the laws of nature and those resulting from a disregard of the laws of praxeology. Of course, both categories of law take care of themselves without requiring any enforcement on the part of man. But the effects of a choice made by an individual are different. A man who absorbs poison harms himself alone. But a man who chooses to resort to robbery upsets the whole social order. While he alone enjoys the short-term gains derived from his action, the disastrous long-term effects harm all the people. His deed is a crime because it has detrimental effects on his fellow men. If society were not to prevent such conduct, it would soon become general and put an end to social cooperation and all the boons the latter confers upon everybody.

In order to establish and to preserve social cooperation and civilization, measures are needed to prevent asocial individuals from committing acts that are bound to undo all that man has accomplished in his progress from the Neanderthal level. In order to preserve the state of affairs in which there is protection of the individual against the unlimited tyranny of stronger and smarter fellows, an institution is needed that curbs all antisocial elements. Peace—the absence of perpetual fighting by everyone against everyone—can be attained only by the establishment of a system in which the power to resort to violent action is monopolized by a social apparatus of compulsion and coercion and the application of this power in any individual case is regulated by a set of rules—the man-made laws as distinguished both from the laws of nature and those of praxeology. The essential implement of a social system is the operation of such an apparatus commonly called government.

The concepts of freedom and bondage make sense only when referring to the way in which government operates. It would be highly inexpedient and misleading to say that a man is not free because, if he wants to stay alive, his power to choose between a drink of water and one of potassium cyanide is restricted by nature. It would be no less inconvenient to call a man unfree because the law imposes sanctions upon his desire to kill another man and because the police and the penal courts enforce them. As far as the government—the social apparatus of compulsion and oppression—confines the exercise of its violence and the threat of such violence to the suppression and prevention of antisocial action, there prevails what reasonably and meaningfully can be called liberty. What is restrained is merely conduct that is bound to disintegrate social cooperation and civilization, thus throwing all people back to conditions that existed at the time homo sapiens emerged from the purely animal existence of its nonhuman ancestors. Such coercion does not substantially restrict man's power to choose. Even if there were no government enforcing man-made laws, the individual could not have both the advantages derived from the existence of social cooperation on the one hand, and, on the other, the pleasures of freely indulging in the rapacious animal instincts of aggression.

In the market economy, the laissez-faire type of social organization, there is a sphere within which the individual is free to choose between various modes of acting without being restrained by the threat of being punished. If, however, the government does more than protect people against violent or fraudulent aggression on the part of antisocial individuals, it reduces the sphere of the individual's freedom to act beyond the degree to which it is restricted by praxeological law. Thus we may define freedom as that state of affairs in which the individual's discretion to choose is not constrained by governmental violence beyond the margin within which the praxeological law restricts it anyway.

This is what is meant if one defines freedom as the condition of an individual within the frame of the market economy. He is free in the sense that the laws and the government do not force him to renounce his autonomy and self-determination to a greater extent than the inevitable praxeological law does. What he foregoes is only the animal freedom of living without any regard to the existence of other specimens of his species. What the social apparatus of compulsion and coercion achieves is that individuals whom malice, shortsightedness or mental inferiority prevent from realizing that by indulging in acts that are destroying society they are hurting themselves and all other human beings are compelled to avoid such acts.

From this point of view one has to deal with the often-raised problem of whether conscription and the levy of taxes mean a restriction of freedom. If the principles of the market economy were acknowledged by all people all over the world, there would not be any reason to wage war and the individual states could live in undisturbed peace.¹⁶ But as conditions are in our age, a free nation is continually threatened by the aggressive schemes of totalitarian autocracies. If it wants to preserve its freedom, it must be prepared to defend its independence. If the government of a free country forces every citizen to cooperate fully in its designs to repel the aggressors and every able-bodied man to join the armed forces, it does not impose upon the individual a duty that would step beyond the tasks the praxeological law dictates. In a world full of unswerving aggressors and enslavers, integral unconditional pacifism is tantamount to unconditional surrender to the most ruthless oppressors. He who wants to remain free, must fight unto death those who are intent upon depriving him of his freedom. As isolated attempts on the part of each individual to resist are doomed to failure, the only workable way is to organize resistance by the government. The essential task of government is defense of the social system not only against domestic gangsters but also against external foes. He who in our age opposes armaments and conscription is, perhaps unbeknown to himself, an abettor of those aiming at the enslavement of all.

The maintenance of a government apparatus of courts, police officers, prisons, and of armed forces requires considerable expenditure. To levy taxes for these purposes is fully compatible with the freedom the individual enjoys in a free market economy. To assert this does not, of course, amount to a justification of the confiscatory and discriminatory taxation methods practiced today by the self-styled progressive governments. There is need to stress this fact, because in our age of interventionism and the steady "progress" toward totalitarianism the governments employ the power to tax for the destruction of the market economy.


Every step a government takes beyond the fulfillment of its essential functions of protecting the smooth operation of the market economy against aggression, whether on the part of domestic or foreign disturbers, is a step forward on a road that directly leads into the totalitarian system where there is no freedom at all.

Liberty and freedom are the conditions of man within a contractual society. Social cooperation under a system of private ownership of the factors of production means that within the range of the market the individual

16. See below, p. 685.

Let us assume that an accident cuts a city's electrical supply for several days and forces the residents to resort to candlelight only. The price of candles rises to s ; at this price the whole supply available is sold out. The stores selling candles reap a high profit in selling their whole supply at s . But it could happen that the storekeepers combine in order to withhold a part of their stock from the market and to sell the rest at a price $s + t$. While s would have been the competitive price, $s + t$ is a monopoly price. The surplus earned by the storekeepers at the price $s + t$ over the proceeds they would have earned when selling at s only is their specific monopoly gain.

It is immaterial in what way the storekeepers bring about the restriction of the supply offered for sale. The physical destruction of a part of the supply available is the classical case of monopolistic action. Only a short time ago it was practiced by the Brazilian government in burning large quantities of coffee. But the same effect can be attained by leaving a part of the supply unused.

While profits are incompatible with the imaginary construction of the evenly rotating economy, monopoly prices and specific monopoly gains are not. 

5. If the available quantities of the good m are owned not by just one man, firm, corporation, or institution but by several owners who want to cooperate in the substitution of a monopoly price for the competitive price, an agreement among them (commonly called a cartel and branded in the American antitrust legislation as a conspiracy) is required to assign to each party the amount of m it is allowed to sell, viz., at the monopoly price. The essential part of any cartel agreement is the assignment of definite quotas to the partners. The art of cartel-making consists in skill in bringing about an agreement about the quotas. A cartel collapses as soon as the members are no longer prepared to cling to a quota agreement. Mere talk among the owners of m about the desirability of higher prices is of no avail.

As a rule the state of affairs that makes the emergence of monopoly prices possible is brought about by government policies, e.g., customs barriers. If the owners of m do not take advantage of the opportunity to combine for the achievement of monopoly prices offered to them, governments frequently take upon themselves the organization of what the American law calls "restraint of trade." The police power forces the owners of m —mostly land and mining and fishing facilities—to restrict output. The most eminent examples of this method are provided on the national level by the American farm policy and on the international level by the treaties euphemistically styled Inter-governmental Commodity Control Agreements. There has de-

veloped a new semantics to describe this branch of government interference with business. The restriction of output, and consequently of the consumption involved, is called "avoidance of surpluses" and the effect aimed at, a higher price for the unit sold, is called "stabilization." It is obvious that these quantities of m did not appear as "surpluses" in the eyes of those who would have consumed them. It is also obvious that these people would have preferred a lower price to the "stabilization" of a higher price.


6. The concept of competition does not include the requirement that there should be a multitude of competing units. Competing is always the competition of one man or firm against another man or firm, no matter how many others are striving after the same prize. Competition among the few is not a kind of competition praxeologically different from competition among the many. Nobody ever maintained that the competition for elective office is under a two-party system less competitive than under a system of many parties. The number of competitors plays a role in the analysis of monopoly prices only as far as it is one of the factors upon which the success of the endeavors to unite competitors into a cartel depends.

7. If it is possible for the seller to increase his net proceeds by restricting sales and increasing the price of the units sold, there are usually several monopoly prices that satisfy this condition. As a rule *one* of these monopoly prices yields the highest net proceeds. But it may also happen that various monopoly prices are equally advantageous to the monopolist. We may call this monopoly price or these monopoly prices most advantageous to the monopolist the optimum monopoly price or the optimum monopoly prices.

8. The monopolist does not know beforehand in what way the consumers will react to a rise in prices. He must resort to trial and error in his endeavors to find out whether the monopolized good can be sold to his advantage at any price exceeding the competitive price and, if this is so, which of various possible monopoly prices is the optimum monopoly price or one of the optimum monopoly prices. This is in practice much more difficult than the economist assumes when, in drawing demand curves, he ascribes perfect foresight to the monopolist. We must therefore list as a special condition required for the appearance of monopoly prices the monopolist's ability to discover such prices.

9. A special case is provided by the incomplete monopoly. The greater part of the total supply available is owned by the monopolist; the rest is owned by one or several men who are not prepared to cooperate with the monopolist in a scheme for restricting sales and bringing about monopoly prices. However, the reluctance of these outsiders does not prevent the establishment of monopoly

It is true, wage earners are imbued with the idea that wages must be at least high enough to enable them to maintain a standard of living at least high enough to enable them to maintain a standard of living adequate to their station in the hierarchical gradation of society. Every single worker has his particular opinion about the claims he is entitled to raise on account of “status,” “rank,” “tradition,” and “custom” in the same way as he has his particular opinion about his own efficiency and his own achievements. But such pretensions and self-complacent assumptions are without any relevance for the determination of wage rates. They limit neither the upward nor the downward movement of wage rates. The wage earner must sometimes satisfy himself with much less than what, according to his opinion, is adequate to his rank and efficiency. If he is offered more than he expected, he pockets the surplus without a qualm. The age of *laissez faire* for which the iron law and Marx’s doctrine of the historically determined formation of wage rates claim validity witnessed a progressive, although sometimes temporarily interrupted, tendency for real wage rates to rise. The wage earners’ standard of living rose to a height unprecedented in history and never thought of in earlier periods.

The labor unions pretend that nominal wage rates at least must always be raised in accordance with the changes occurring in the monetary unit’s purchasing power in such a way as to secure to the wage earner the unabated enjoyment of the previous standard of living. They raise these claims also with regard to wartime conditions and the measures adopted for the financing of war expenditure. In their opinion even in wartime neither inflation nor the withholding of income taxes must affect the worker’s take-home *real* wage rates. This doctrine tacitly implies the thesis of the *Communist Manifesto* that “the working men have no country” and have “nothing to lose but their chains”; consequently they are neutral in the wars waged by the bourgeois exploiters and do not care whether their nation conquers or is conquered. It is not the task of economics to scrutinize these statements. It only has to establish the fact that it does not matter what kind of justification is advanced in favor of the enforcement of wage rates higher than those the unhampered labor market would have determined. If as a result of such claims real wage rates are really raised above the height consonant with the marginal productivity of the various types of labor concerned, the unavoidable consequences must appear without any regard to the underlying philosophy. 

In reviewing the whole history of mankind from the early beginnings of civilization up to our age, it makes sense to establish in general terms the fact that the productivity of human labor has been multiplied, for indeed the

members of a civilized nation produce today much more than their ancestors did. But this concept of the productivity of labor in general is devoid of any praxeological or catallactic meaning and does not allow any expression in numerical terms. Still less is it permissible to refer to it in attempts to deal with the problems of the market.

Present-day labor-union doctrine operates with a concept of productivity of labor that is designedly constructed to provide an alleged ethical justification for syndicalistic ventures. It defines productivity either as the total market value in terms of money that is added to the products by the processing (either of one firm or by all the firms of a branch of industry), divided by the number of workers employed, or as output (of this firm or branch of industry) per manhour of work. Comparing the magnitudes computed in this way for the beginning of a definite period of time and for its end, they call the amount by which the figure computed for the later date exceeds that for the earlier date "increase in productivity of labor," and they pretend that it by rights belongs entirely to the workers. They demand that this whole amount should be added to the wage rates which the workers received at the beginning of the period. Confronted with these claims of the unions, the employers for the most part do not contest the underlying doctrine and do not question the concept of productivity of labor involved. They accept it implicitly in pointing out that wage rates have already risen to the full extent of the increase in productivity, computed according to this method, or that they have already risen beyond this limit.

Now this procedure of computing the productivity of the work performed by the labor force of a firm or an industry is entirely fallacious. One thousand men working forty hours a week in a modern American shoe factory turn out every month m pairs of shoes. One thousand men working with the traditional old-fashioned tools in small artisan shops somewhere in the backward countries of Asia produce over the same period of time, even when working much longer than forty hours weekly, many fewer than m pairs. Between the United States and Asia the difference in productivity computed according to the methods of the union doctrine is enormous. It is certainly not due to any inherent virtues of the American worker. He is not more diligent, painstaking, skillful, or intelligent than the Asiatics. (We may even assume that many of those employed in a modern factory perform much simpler operations than those required from a man handling the old-fashioned tools.) The superiority of the American plant is entirely caused by the superiority of its equipment and the prudence of its entrepreneurial conduct. What prevents the business-

men of the backward countries from adopting the American methods of production is lack of capital accumulated, not any insufficiency on the part of their workers.

On the eve of the "Industrial Revolution," conditions in the West did not differ much from what they are today in the East. The radical change of conditions that bestowed on the masses of the West the present average standard of living (a high standard indeed when compared with pre-capitalistic or with Soviet conditions) was the effect of capital accumulation by saving and the wise investment of it by farsighted entrepreneurship. No technological improvement would have been possible if the additional capital goods required for the practical utilization of new inventions had not previously been made available by saving.

While the workers in their capacity as workers did not, and do not, contribute to the improvement of the apparatus of production, they are (in a market economy which is not sabotaged by government or union violence), both in their capacity as workers and in their capacity as consumers, the foremost beneficiaries of the ensuing betterment of conditions.

What initiates the chain of actions that results in an improvement of economic conditions is the accumulation of new capital through saving. These additional funds render the execution of projects possible which, for the lack of capital goods, could not have been executed previously. Embarking upon the realization of the new projects, the entrepreneurs compete on the market for the factors of production with all those already engaged in projects previously entered upon. In their attempts to secure the necessary quantity of raw materials and of manpower, they push up the prices of raw materials and wage rates. Thus the wage earners, already at the start of the process, reap a share of the benefits that the abstention from consumption on the part of the savers has begotten. In the farther course of the process they are again favored, now in their capacity as consumers, by the drop in prices that the increase in production tends to bring about.¹⁰

Economics describes the final outcome of this sequence of changes thus: An increase in capital invested results, with an unchanged number of people intent upon earning wages, in a rise of the marginal utility of labor and therefore of wage rates. What raises wage rates is an increase in capital exceeding the increase in population or, in other words, an increase in the per-head quota of capital invested. On the unhampered labor market, wage rates always tend toward the height at which they equal the marginal productivity of each kind of

10. See above, pp. 296-297.

labor, that is the height that equals the value added to or subtracted from the value of the product by the employment or discharge of a man. At this rate all those in search of employment find jobs, and all those eager to employ workers can hire as many as they want. If wages are raised above this market rate, unemployment of a part of the potential labor force inevitably results. It does not matter what kind of doctrine is advanced in order to justify the enforcement of wage rates that exceed the potential market rates.

Wage rates are ultimately determined by the value which the wage earner's fellow citizens attach to his services and achievements. Labor is appraised like a commodity, not because the entrepreneurs and capitalists are hardhearted and callous, but because they are unconditionally subject to the supremacy of the consumers of which today the earners of wages and salaries form the immense majority. The consumers are not prepared to satisfy anybody's pretensions, presumptions, and self-conceit. They want to be served in the cheapest way.

*A Comparison Between the Historical Explanation of Wage Rates
and the Regression Theorem*

It may be useful to compare the doctrine of Marxism and the Prussian Historical School, according to which wage rates are a historical datum and not a catallactic phenomenon, with the regression theorem of money's purchasing power.¹¹

The regression theorem establishes the fact that no good can be employed for the function of a medium of exchange which at the very beginning of its use for this purpose did not have exchange value on account of other employments. This fact does not substantially affect the daily determination of money's purchasing power as it is produced by the interplay of the supply of and the demand for money on the part of people intent upon keeping cash. The regression theorem does not assert that any actual exchange ratio between money on the one hand and commodities and services on the other hand is a historical datum not dependent on today's market situation. It merely explains how a new kind of media of exchange can come into use and remain in use. In this sense it says that there is a historical component in money's purchasing power.

It is quite different with the Marxian and Prussian theorems. As this doctrine sees it, the actual height of wage rates as it appears on the market is a historical datum. The valuations of the consumers who mediately are the buyers of labor and those of the wage earners, the sellers of labor, are of no avail. Wage rates are fixed by historical events of the past. They can neither rise above nor drop

11. See above, pp. 408-410.

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


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

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

3. The Delimitation of Governmental Functions

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



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

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

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

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

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

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

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

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

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

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

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

Corruption



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

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

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

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

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

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

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

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


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

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

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

inaugurated the depression on the domestic market. The panic very soon spread to other countries. Businessmen in these other countries became frightened and increased their borrowing in order to strengthen their liquid funds for all possible contingencies. It was precisely this increased demand for new credits which impelled the monetary authorities of their own countries, already alarmed by the crisis in the first country, also to resort to contraction. Thus within a few days or weeks the depression became an international phenomenon.

The policy of devaluation has to some extent altered this typical sequence of events. Menaced by an external drain, the monetary authorities do not always resort to credit restriction and to raising the rate of interest charged by the central banking system. They devalue. Yet devaluation does not solve the problem. If the government does not care how far foreign exchange rates may rise, it can for some time continue to cling to credit expansion. But one day the crack-up boom will annihilate its monetary system. On the other hand, if the authority wants to avoid the necessity of devaluing again and again at an accelerated pace, it must arrange its domestic credit policy in such a way as not to outrun in credit expansion the other countries against which it wants to keep its domestic currency at par.

Many economists take it for granted that the attempts of the authorities to expand credit will always bring about the same almost regular alternation between periods of booming trade and of subsequent depression. They assume that the effects of credit expansion will in the future not differ from those that have been observed since the end of the eighteenth century in Great Britain and since the middle of the nineteenth century in Western and Central Europe and in North America. But we may wonder whether conditions have not changed. The teachings of the monetary theory of the trade cycle are today so well known even outside of the circle of economists, that the naive optimism which inspired the entrepreneurs in the boom periods of the past has given way to a certain skepticism. It may be that businessmen will in the future react to credit expansion in a manner other than they have in the past. It may be that they will avoid using for an expansion of their operations the easy money available because they will keep in mind the inevitable end of the boom. Some signs forebode such a change. But it is too early to make a definite statement. 

In another direction the monetary theory of the trade cycle has certainly affected the course of events. Although no official—whether he works in the bureaus of a government's financial services or of a central bank, or

whether he teaches at a neo-orthodox university—is prepared to admit it, public opinion by and large no longer denies the two main theses of the circulation credit theory: viz., that the cause of the depression is the preceding boom and that this boom is engendered by credit expansion. The awareness of these facts alarms the financial press as soon as the first signs of the boom appear. Then even the authorities begin to talk about the necessity of preventing a further rise in prices and profits, and they really begin to restrict credit. The boom comes to an early end; a recession starts. The result has been that in the last decade the length of the cycle was considerably cut down. There was still an alternation of boom and slump, but the phases lasted a shorter time and succeeded one another more frequently. This is a far cry from the “classical” period of the ten and a half years of William Stanley Jevon’s crop cycle. And, most important, as the boom comes to an earlier end, the amount of malinvestment is smaller and in consequence the following depression is milder too.

The Chimera of Contracyclical Policies

An essential element of the “unorthodox” doctrines, advanced both by all socialists and by all interventionists, is that the recurrence of depressions is a phenomenon inherent in the very operation of the market economy. But while the socialists contend that only the substitution of socialism for capitalism can eradicate the evil, the interventionists ascribe to the government the power to correct the operation of the market economy in such a way as to bring about what they call “economic stability.” These interventionists would be right if their antidepression plans were to aim at a radical abandonment of credit expansion policies. However, they reject this idea in advance. What they want is to expand credit more and more and to prevent depressions by the adoption of special “contracyclical” measures.

In the contest of these plans the government appears as a deity that stands and works outside the orbit of human affairs, that is independent of the actions of its subjects, and has the power to interfere with these actions from without. It has at its disposal means and funds that are not provided by the people and can be freely used for whatever purposes the rulers are prepared to employ them for. What is needed to make the most beneficent use of this power is merely to follow the advice given by the experts.

The most advertised among these suggested remedies is contracyclical timing of public works and expenditure on public enterprises. The idea is not so new as its champions would have us believe. When depression came in the past, public opinion always asked the government to embark upon public works in order to create jobs and to stop the drop in prices. But the

The situation in the employer-employee nexus will be analogous. The popular doctrine contends that wage earners are reaping “social gains” at the expense of the unearned income of the exploiting classes. The strikers, it is said, do not strike against the consumers but against “management.” There is no reason to raise the prices of products when labor costs are increased; the difference must be borne by employers. But when more and more of the share of the entrepreneurs and capitalists is absorbed by taxes, higher wage rates, and other “social gains” of employees, and by price ceilings, nothing remains for such a buffer function. Then it becomes evident that every wage raise, with its whole momentum, must affect the prices of the products and that the social gains of each group fully correspond to the social losses of the other groups. Every strike becomes, even in the short run and not only in the long run, a strike against the rest of the people.

An essential point in the social philosophy of interventionism is the existence of an inexhaustible fund which can be squeezed forever. The whole system of interventionism collapses when this fountain is drained off: The Santa Claus principle liquidates itself.

3. The End of Interventionism

The interventionist interlude must come to an end because interventionism cannot lead to a permanent system of social organization. The reasons are threefold.

First: Restrictive measures always restrict output and the amount of goods available for consumption. Whatever arguments may be advanced in favor of definite restrictions and prohibitions, such measures in themselves can never constitute a system of social production.

Second: All varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which—from the point of view of their authors’ and advocates’ valuations—is less desirable than the previous state of affairs which they were designed to alter. If one wants to correct their manifest unsuitableness and preposterousness by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it.

Third: Interventionism aims at confiscating the “surplus” of one part of the population and at giving it to the other part. Once this surplus is exhausted by total confiscation, a further continuation of this policy is impossible.

Marching ever further along the path of interventionism, all those countries that have not adopted full socialism of the Russian pattern are more and



more approaching what is called a planned economy, i.e., socialism of the German or Hindenburg pattern. In regard to economic policies, there is nowadays little difference among the various nations and, within each nation, among the various political parties and pressure groups. The historical party names have lost their significance. There are, as far as economic policy is concerned, practically only two factions left: the advocates of the Lenin method of all-round nationalization and the interventionists. The advocates of the free market economy have little influence upon the course of events. What economic freedom still exists is the outcome of the failure of the measures resorted to by the governments, rather than of an intentional policy.

It is difficult to find out how many of the supporters of interventionism are conscious of the fact that the policies they recommend directly lead toward socialism, and how many hold fast to the illusion that what they are aiming at is a middle-of-the-road system that can last as a permanent system—a “third solution” of the problem of society’s economic organization. At any rate, it is certain that all interventionists believe that the government, and the government alone, is called upon to decide in every single case whether one has to let things go as the market determines them or whether an act of intervention is needed. This means that they are prepared to tolerate the supremacy of the consumers only as far as it brings about a result of which they themselves approve. As soon as something happens in the economy that any of the various bureaucratic institutions does not like or that arouses the anger of a pressure group, people clamor for new interventions, controls, and restrictions. But for the inefficiency of the law-givers and the laxity, carelessness, and corruption of many of the functionaries, the last vestiges of the market economy would have long since disappeared.

The unsurpassed efficiency of capitalism never before manifested itself in a more beneficial way than in this age of heinous anticapitalism. While governments, political parties, and labor unions are sabotaging all business operations, the spirit of enterprise still succeeds in increasing the quantity and improving the quality of products and in rendering them more easily accessible to the consumers. In the countries that have not yet entirely abandoned the capitalistic system the common man enjoys today a standard of living for which the princes and nabobs of ages gone by would have envied him. A short time ago the demagogues blamed capitalism for the poverty of the masses. Today they rather blame capitalism for the “affluence” that it bestows upon the common man.

It has been shown that the managerial system, i.e., the assignment of