

## XXXV. THE WELFARE PRINCIPLE VERSUS THE MARKET PRINCIPLE

### 1. The Case Against the Market Economy

**T**HE objections which the various schools of Sozialpolitik raise against the market economy are based on very bad economics. They repeat again and again all the errors that the economists long ago exploded. They blame the market economy for the consequences of the very anticapitalistic policies which they themselves advocate as necessary and beneficial reforms. They fix on the market economy the responsibility for the inevitable failure and frustration of interventionism.

These propagandists must finally admit that the market economy is after all not so bad as their "unorthodox" doctrines paint it. It delivers the goods. From day to day it increases the quantity and improves the quality of products. It has brought about unprecedented wealth. But, objects the champion of interventionism, it is deficient from what he calls the social point of view. It has not wiped out poverty and destitution. It is a system that grants privileges to a minority, an upper class of rich people, at the expense of the immense majority. It is an unfair system. The principle of *welfare* must be substituted for that of profits.

We may try, for the sake of argument, to interpret the concept of welfare in such a way that its acceptance by the immense majority of nonascetic people would be probable. The better we succeed in these endeavors, the more we deprive the idea of welfare of any concrete meaning and content. It turns into a colorless paraphrase of the fundamental category of human action, viz., the urge to remove uneasiness as far as possible. As it is universally recognized that this goal can be more readily, and even exclusively, attained by social division of labor, men cooperate within the framework of societal bonds. Social man as differentiated from autarkic man must necessarily modify his original biological indifference to the well-being of people beyond his own family. He must adjust his conduct to the requirements of social cooperation and look upon his fellow men's success as an indispensable condition of his own. From this point of view one may

describe the objective of social cooperation as the realization of the greatest happiness of the greatest number. Hardly anybody would venture to object to this definition of the most desirable state of affairs and to contend that it is *not* a good thing to see as many people as possible as happy as possible. All the attacks directed against the Bentham formula have centered around ambiguities or misunderstandings concerning the notion of happiness; they have not affected the postulate that the good, whatever it may be, should be imparted to the greatest number.

However, if we interpret *welfare* in this manner, the concept is void of any specific significance. It can be invoked for the justification of every variety of social organization. It is a fact that some of the defenders of Negro slavery contended that slavery is the best means of making the Negroes happy and that today in the South many Whites sincerely believe that rigid segregation is beneficial no less to the colored man than it allegedly is to the white man. The main thesis of racism of the Gobineau and Nazi variety is that the hegemony of the superior races is salutary to the true interests even of the inferior races. A principle that is broad enough to cover all doctrines, however conflicting with one another, is of no use at all.

But in the mouths of the welfare propagandists the notion of welfare has a definite meaning. They intentionally employ a term the generally accepted connotation of which precludes any opposition. No decent man likes to be so rash as to raise objections against the realization of welfare. In arrogating to themselves the exclusive right to call their own program the program of welfare, the welfare propagandists want to triumph by means of a cheap logical trick. They want to render their ideas safe against criticism by attributing to them an appellation which is cherished by everybody. Their terminology already implies that all opponents are ill-intentioned scoundrels eager to foster their selfish interests to the prejudice of the majority of good people.

The plight of Western civilization consists precisely in the fact that serious people can resort to such syllogistic artifices without encountering sharp rebuke. There are only two explanations open. Either these self-styled welfare economists are themselves not aware of the logical inadmissibility of their reasoning; or they have chosen this mode of arguing purposely in order to find shelter for their fallacies behind a work which is intended beforehand to disarm all opponents. In each case their own acts condemn them.

There is no need to add anything to the disquisitions of the preceding

chapters concerning the effects of all varieties of interventionism. The ponderous volumes of welfare economics have not brought forth any arguments that could invalidate our conclusions. The only task that remains is to examine the critical part of the welfare propagandists' work, their indictment of the market economy.

All this passionate talk of the welfare school ultimately boils down to three points. Capitalism is bad, they say because there is poverty, inequality of incomes and wealth, and insecurity.

## 2. Poverty

We may depict conditions of a society of agriculturists in which every member tills a piece of land large enough to provide himself and his family with the indispensable necessities of life. We may include in such a picture the existence of a few specialists, artisans like smiths and professional men like doctors. We may even go further and assume that some men do not own a farm, but work as laborers on other people's farms. The employer remunerates them for their help and takes care of them when sickness or old age disables them.

This scheme of an ideal society was at the bottom of many utopian plans. It was by and large realized for some time in some communities. The nearest approach to its realization was probably the commonwealth which the Jesuit padres established in the country which is today Paraguay. There is, however, no need to examine the merits of such a system of social organization. Historical evolution burst it asunder. Its frame was too narrow for the number of people who are living today on the earth's surface.

The inherent weakness of such a society is that the increase in population must result in progressive poverty. If the estate of a deceased farmer is divided among his children, the holdings finally become so small that they can no longer provide sufficient sustenance for a family. Everybody is a landowner, but everybody is extremely poor. Conditions as they prevailed in large areas of China provide a sad illustration of the misery of the tillers of small parcels. The alternative to this outcome is the emergence of a huge mass of landless proletarians. Then a wide gap separates the disinherited paupers from the fortunate farmers. They are a class of pariahs whose very existence presents society with an insoluble problem. They search in vain for a livelihood. Society has no use for them. They are destitute.

When in the ages preceding the rise of modern capitalism statesmen, philosophers, and lawyers referred to the poor and to the problems of poverty, they meant these supernumerary wretches. *Laissez faire* and its

off-shoot, industrialism, converted the employable poor into wage earners. In the unhampered market society there are people with higher and people with lower incomes. There are no longer men, who, although able and ready to work, cannot find regular jobs because there is no room left for them in the social system of production. But liberalism and capitalism were even in their heyday limited to comparatively small areas of Western and Central Europe, North America, and Australia. In the rest of the world hundreds of millions still vegetate on the verge of starvation. They are poor or paupers in the old sense of the term, supernumerary and superfluous, a burden to themselves and a latent threat to the minority of their more lucky fellow citizens.

The penury of these miserable masses of—in the main colored—people is not caused by capitalism, but by the absence of capitalism. But for the triumph of *laissez faire*, the lot of the peoples of Western Europe would have been even worse than that of the coolies. What is wrong with Asia is that the per capita quota of capital invested is extremely low when compared with the capital equipment of the West. The prevailing ideology and the social system which is its off-shoot check the evolution of profit-seeking entrepreneurship. There is very little domestic capital accumulation, and manifest hostility to foreign investors. In many of these countries the increase in population figures even outruns the increase in capital available.

It is false to blame the European powers for the poverty of the masses in their former colonial empires. In investing capital the foreign rulers did all they could do for an improvement in material well-being. It is not the fault of the Whites that the Oriental peoples are reluctant to abandon their traditional tenets and abhor capitalism as an alien ideology.

As far as there is unhampered capitalism, there is no longer any question of poverty in the sense in which this term is applied to the conditions of a noncapitalistic society. The increase in population figures does not create supernumerary mouths, but additional hands whose employment produces additional wealth. There are no ablebodied paupers. Seen from the point of view of the economically backward nations, the conflicts between “capital” and “labor” in the capitalist countries appear as conflicts within a privileged upper class. In the eyes of the Asiatics, the American automobile worker is an “aristocrat.” he is a man who belongs to the 2 per cent of the earth’s population whose income is highest. Not only the colored races, but also the Slavs, the Arabs, and some other peoples look upon the average income of the citizens of the capitalistic countries—about 12 or 15 per cent of the total of mankind—as a curtailment of their own material well-being. They fail to

realize that the prosperity of these allegedly privileged groups is, apart from the effects of migration barriers, not paid for by their own poverty, and that the main obstacle to the improvement of their own conditions is their abhorrence of capitalism.

Within the frame of capitalism the notion of poverty refers only to those people who are unable to take care of themselves. Even if we disregard the case of children, we must realize that there will always be such unemployables. Capitalism, in improving the masses' standard of living, hygienic conditions, and methods of prophylactics and therapeutics, does not remove bodily incapacity. It is true that today many people who in the past would have been doomed to life-long disability are restored to full vigor. But on the other hand many whom innate defects, sickness, or accidents would have extinguished sooner in earlier days survive as permanently incapacitated people. Moreover, the prolongation of the average length of life tends toward an increase in the number of the aged who are no longer able to earn a living.

The problem of the incapacitated is a specific problem of human civilization and of society. Disabled animals must perish quickly. They either die of starvation or fall prey to the foes of their species. Savage man had no pity on those who were substandard. With regard to them many tribes practiced those barbaric methods of ruthless extirpation to which the Nazis resorted in our time. The very existence of a comparatively great number of invalids is, however paradoxical, a characteristic mark of civilization and material well-being.

Provision for those invalids who lack means of sustenance and are not taken care of by their next of kin has long been considered a work of charity. The funds needed have sometimes been provided by governments, more often by voluntary contributions. The Catholic orders and congregations and some Protestant institutions have accomplished marvels in collecting such contributions and in using them properly. Today there are also many nondenominational establishments vying with them in nobile rivalry.

The charity system is criticized for two defects. One is the paucity of the means available. However, the more capitalism progresses and increases wealth, the more sufficient become the charity funds. On the one hand, people are more ready to donate in proportion to the improvement in their own well-being. On the other hand, the number of the needy drops concomitantly. Even for those with moderate incomes the opportunity is offered, by saving and insurance policies, to provide for accidents, sickness, old age, the education of their children, and the support of widows and orphans. It

is highly probable that the funds of the charitable institutions would be sufficient in the capitalist countries if interventionism were not to sabotage the essential institutions of the market economy. Credit expansion and inflationary increase of the quantity of money frustrate the "common man's" attempts to save and to accumulate reserves for less propitious days. But the other procedures of interventionism are hardly less injurious to the vital interests of the wage earners and salaried employees, the professions, and the owners of small-size business. The greater part of those assisted by charitable institutions are needy only because interventionism has made them so. At the same time inflation and the endeavors to lower the rate of interest below the potential market rates virtually expropriate the endowments of hospitals, asylums, orphanages, and similar establishments. As far as the welfare propagandists lament the insufficiency of the funds available for assistance, they lament one of the results of the policies that they themselves are advocating.

The second defect charged to the charity system is that it is charity and compassion only. The indigent has no legal claim to the kindness shown to him. He depends on the mercy of benevolent people, on the feelings of tenderness which his distress arouses. What he receives is a voluntary gift for which he must be grateful. To be an almsman is shameful and humiliating. It is an unbearable condition for a self-respecting man.

These complaints are justified. Such shortcomings do indeed inhere in all kinds of charity. It is a system that corrupts both givers and receivers. It makes the former self-righteous and the latter submissive and cringing. However, it is only the mentality of a capitalistic environment that makes people feel the indignity of giving and receiving alms. Outside of the field of the cash nexus and of deals transacted between buyers and sellers in a purely businesslike manner, all interhuman relations are tainted by the same failing. It is precisely the absence of this personal element in market transactions that all those deplore who blame capitalism for hard-heartedness and callousness. In the eyes of such critics cooperation under the *do ut des* principle dehumanizes all societal bonds. It substitutes contracts for brotherly love and readiness to help one another. These critics indict the legal order of capitalism for its neglect of the "human side." They are inconsistent when they blame the charity system for its reliance upon feelings of mercy.

Feudal society was founded on acts of grace and on the gratitude of those favored. The mighty overlord bestowed a benefit upon the vassal and the

latter owed him personal fidelity. Conditions were human in so far as the subordinates had to kiss their superiors' hands and to show allegiance to them. In a feudal environment the element of grace inherent in charitable acts did not give offense. It agreed with the generally accepted ideology and practice. It is only in the setting of a society based entirely upon contractual bonds that the idea emerged of giving to the indigent a legal claim, an actionable title to sustenance against society.

The metaphysical arguments advanced in favor of such a right to sustenance are based on the doctrine of natural right. Before God of nature all men are equal and endowed with an inalienable right to live. However, the reference to inborn equality is certainly out of place in dealing with the effects of inborn inequality. It is a sad fact that physical disability prevents many people from playing an active role in social cooperation. It is the operation of the laws of nature that makes these people outcasts. They are stepchildren of God or nature. We may fully endorse the religious and ethical precepts that declare it to be man's duty to assist his unlucky brethren whom nature has doomed. But the recognition of this duty does not answer the question concerning what methods should be resorted to for its performance. It does not enjoin the choice of methods which would endanger society and curtail the productivity of human effort. Neither the able-bodied nor the incapacitated would derive any benefit from a drop in the quantity of goods available.

The problems involved are not of a praxeological character, and economics is not called upon to provide the best possible solution for them. They concern pathology and psychology. They refer to the biological fact that the fear of penury and of the degrading consequences of being supported by charity are important factors in the preservation of man's physiological equilibrium. They impel a man to keep fit, to avoid sickness and accidents, and to recover as soon as possible from injuries suffered. The experience of the social security system, especially that of the oldest and most complete scheme, the German, has clearly shown the undesirable effects resulting from the elimination of these incentives.<sup>1</sup> No civilized community has callously allowed the incapacitated to perish. But the substitution of a legally enforceable claim to support or sustenance for charitable relief does not seem to agree with human nature as it is. Not metaphysical prepossessions, but considerations of practical expediency make it inadvisable to promulgate an actionable right to sustenance.

1. Cf. Sulzbach, *German Experience with Social Insurance* (New York, 1947), pp. 22-32.

It is, moreover, an illusion to believe that the enactment of such laws could free the indigent from the degrading features inherent in receiving alms. The more openhanded these laws are, the more punctilious must their application become. The discretion of bureaucrats is substituted for the discretion of people whom an inner voice drives to acts of charity. Whether this change renders the lot of those incapacitated any easier, is hard to say.

### 3. Inequality

The inequality of incomes and wealth is an inherent feature of the market economy. Its elimination would entirely destroy the market economy.<sup>2</sup>

What those people who ask for equality have in mind is always an increase in their own power to consume. In endorsing the principle of equality as a political postulate nobody wants to share his own income with those who have less. When the American wage earner refers to equality, he means that the dividends of the stockholders should be given to him. He does not suggest a curtailment of his own for the benefit of those 95 per cent of the earth's population whose income is lower than his.

The role that income inequality plays in the market society must not be confused with the role it plays in a feudal society or in other types of noncapitalistic societies.<sup>3</sup> Yet in the course of historical evolution this precapitalistic inequality was of momentous importance.

Let us compare the history of China with that of England. China has developed a very high civilization. Two thousand years ago it was far ahead of England. But at the end of the nineteenth century England was a rich and civilized country while China was poor. Its civilization did not differ much from the stage it had already reached ages before. It was an arrested civilization.

China had tried to realize the principle of income equality to a greater extent than did England. Land holdings were divided and subdivided. There was no numerous class of landless proletarians. But in eighteenth-century England this class was very numerous. For a very long time the restrictive practices of nonagricultural business, sanctified by traditional ideologies, delayed the emergence of modern entrepreneurship. But when the *laissez-faire* philosophy had opened the way for capitalism by utterly destroying the fallacies of restrictionism, the evolution of industrialism could proceed at an accelerated pace because the labor force needed was already available.

2. Cf. above, pp. 288-289 and pp. 806-808.

3. Cf. above, p. 312.

What generated the "machine age" was not, as Sombart imagined, a specific mentality of acquisitiveness which one day mysteriously got hold of the minds of some people and turned them into "capitalistic men." There have always been people ready to profit from better adjusting production to the satisfaction of the needs of the public. But they were paralyzed by the ideology that branded acquisitiveness as immoral and erected institutional barriers to check it. The substitution of the laissez-faire philosophy for the doctrines that approved of the traditional system of restrictions removed these obstacles to material improvement and thus inaugurated the new age.

The liberal philosophy attacked the traditional caste system because its preservation was incompatible with the operation of the market economy. It advocated the abolition of privileges because it wanted to give a free hand to those men who had the ingenuity to produce in the cheapest way the greatest quantity of products of the best quality. In this negative aspect of their program the utilitarians and economists agreed with the ideas of those who attacked the status privileges from the point of view of an alleged right of nature and the doctrine of the equality of all men. Both these groups were unanimous in the support of the principle of the equality of all men under the law. But this unanimity did not eradicate the fundamental opposition between the two lines of thought.

In the opinion of the natural law school all men are biologically equal and therefore have the inalienable right to an equal share in all things. The first theorem is manifestly contrary to fact. The second theorem leads, when consistently interpreted, to such absurdities that its supporters abandon logical consistency altogether and ultimately come to consider every institution, however discriminating and iniquitous, as compatible with the inalienable equality of all men. The eminent Virginians whose ideas animated the American Revolution acquiesced in the preservation of Negro slavery. The most despotic system of government that history has ever known, Bolshevism, parades as the very incarnation of the principle of equality and liberty of all men.

The liberal champions of equality under the law were fully aware of the fact that men are born unequal and that it is precisely their inequality that generates social cooperation and civilization. Equality under the law was in their opinion not designed to correct the inexorable facts of the universe and to make natural inequality disappear. It was, on the contrary, the device to secure for the whole of mankind the maximum of benefits it can derive from it. Henceforth no man-made institutions should prevent a man from attaining

that station in which he can best serve his fellow citizens. The liberals approached the problem not from the point of view of alleged inalienable rights of the individuals, but from the social and utilitarian angle. Equality under the law is in their eyes good because it best serves the interests of all. It leaves it to the voters to decide who should hold public office and to the consumers to decide who should direct production activities. It thus eliminates the causes of violent conflict and secures a steady progress toward a more satisfactory state of human affairs.

The triumph of this liberal philosophy produced all those phenomena which in their totality are called modern Western civilization. However, this new ideology could triumph only within an environment in which the ideal of income equality was very weak. If the Englishmen of the eighteenth century had been preoccupied with the chimera of income equality, laissez-faire philosophy would not have appealed to them, just as it does not appeal today to the Chinese or the Mohammedans. In this sense the historian must acknowledge that the ideological heritage of feudalism and the manorial system contributed to the rise of our modern civilizations, however different it is.

Those eighteenth-century philosophers who were foreign to the ideas of the new utilitarian theory could still speak of a superiority of conditions in China and in the Mohammedan countries. They knew, it is true, very little about the social structure of the oriental world. What they found praiseworthy in the dim reports they had obtained was the absence of a hereditary aristocracy and of big land holdings. As they fancied it, these nations had succeeded better in establishing equality than their own nations.

Then later in the nineteenth century these claims were renewed by the nationalists of the nations concerned. The cavalcade was headed by Panslavism, whose champions exalted the eminence of communal cooperation as realized in the Russian *mir* and *artel* and in the *zadruga* of the Yugoslavs. With the progress of the semantic confusion which has converted the meaning of political terms into their very opposite, the epithet "democratic" is now lavishly spent. The Moslem peoples, which never knew any form of government other than unlimited absolutism, are called democratic. Indian nationalists take pleasure in speaking of traditional Hindu democracy!

Economists and historians are indifferent with regard to all such emotional effusions. In describing the civilizations of the Asiatics as inferior civilizations they do not express any value judgments. They merely establish the fact that these peoples did not bring forth those ideological and institutional conditions which in the West produced that capitalist civilization the

superiority of which the Asiatics today implicitly accept in clamoring at least for its technological and therapeutical implements and paraphernalia. It is precisely when one recognizes the fact that in the past the culture of many Asiatic peoples was far ahead of that of their Western contemporaries, that the question is raised as to what causes stopped progress in the East. In the case of the Hindu civilization the answer is obvious. Here the iron grip of the inflexible caste system stunted individual initiative and nipped in the bud every attempt to deviate from traditional standards. But China and the Mohammedan countries were, apart from the slavery of a comparatively small number of people, free from caste rigidity. They were ruled by autocrats. But the individual subjects were equal under the autocrat. Even slaves and eunuchs were not barred from access to the highest dignities. It is this equality before the ruler to which people refer today in speaking of the supposed democratic customs of these Orientals.

The notion of the economic equality of the subjects to which these peoples and their rulers were committed was not well defined but vague. But it was very distinct in one respect, namely, in utterly condemning the accumulation of a large fortune by any private individual. The rulers considered wealthy subjects a threat to their political supremacy. All people, the rulers as well as the ruled, were convinced that no man can amass abundant means otherwise than by depriving others of what by rights should belong to them, and that the riches of the wealthy few are the cause of the poverty of the many. The position of wealthy businessmen was in all oriental countries extremely precarious. They were at the mercy of the officeholders. Even lavish bribes failed to protect them against confiscation. The whole people rejoiced whenever a prosperous businessman fell victim to the envy and hatred of the administrators.

This antichrematistic spirit arrested the progress of civilization in the East and kept the masses on the verge of starvation. As capital accumulation was checked, there could be no question of technological improvement. Capitalism came to the East as an imported alien ideology, imposed by foreign armies and navies in the shape either of colonial domination or of extraterritorial jurisdiction. These violent methods were certainly not the appropriate means to change the traditionalist mentality of the Orientals. But acknowledgment of this fact does not invalidate the statement that it was the abhorrence of capital accumulation that doomed many hundreds of millions of Asiatics to poverty and starvation.

The notion of equality which our contemporary welfare propagandists

have in mind is the replica of the Asiatic idea of equality. While vague in every other respect, it is very clear in its abomination of large fortunes. It objects to big business and great riches. It advocates various measures to stunt the growth of individual enterprises and to bring about more equality by confiscatory taxation of incomes and estates. And it appeals to the envy of the injudicious masses.

The immediate economic consequences of confiscatory policies have been dealt with already.<sup>4</sup> It is obvious that in the long run such policies must result not only in slowing down or totally checking the further accumulation of capital, but also in the consumption of capital accumulated in previous days. They would not only arrest further progress toward more material prosperity, but even reverse the trend and bring about a tendency toward progressing poverty. The ideals of Asia would triumph; and finally East and West would meet on an equal level of distress.

The welfare school pretends not only to stand for the interests of the whole of society as against the selfish interests of profit-seeking business; it contends moreover that it takes into account the lasting secular interests of the nation as against the short-term concerns of speculators, promoters, and capitalists who are exclusively committed to profiteering and do not bother about the future of the whole of society. This second claim is, of course, irreconcilable with the emphasis laid by the school upon short-run policies as against long-run concerns. However, consistency is not one of the virtues of the welfare doctrinaires. Let us for the sake of argument disregard this contradiction in their statements and examine them without reference to their inconsistency.

Saving, capital accumulation, and investment withhold the amount concerned from current consumption and dedicate it to the improvement of future conditions. The saver foregoes the increase in present satisfaction in order to improve his own well-being and that of his family in the more distant future. His intentions are certainly selfish in the popular connotation of the term. But the effects of his selfish conduct are beneficial to the lasting secular interests of the whole of society as well as of all its members. His conduct produces all those phenomena to which even the most bigoted welfare propagandist attributes the epithets *economic improvement* and *progress*.

The policies advocated by the welfare school remove the incentive to saving on the part of private citizens. On one hand, the measures directed toward a curtailment of big incomes and fortunes seriously reduce or destroy

4. Cf. above, pp. 804-809.

entirely the wealthier people's power to save. On the other hand, the sums which people with moderate incomes previously contributed to capital accumulation are manipulated in such a way as to channel them into the lines of consumption. When in the past a man saved by entrusting money to a savings bank or by taking out an insurance policy, the bank or the insurance company invested the equivalent. Even if the saver at a later date consumed the sums saved, no disinvestment and capital consumption resulted. The total investments of the savings banks and the insurance companies steadily increased in spite of these withdrawals.

Today there prevails a tendency to push banks and insurance companies more and more toward investment in government bonds. The funds of the social security institutions completely consist in titles to the public debt. As far as public indebtedness was incurred by spending for current expenditure, the saving of the individual does not result in capital accumulation. While in the unhampered market economy saving, capital accumulation, and investment coincide, in the interventionist economy the individual citizens' savings can be dissipated by the government. The individual citizen restricts his current consumption in order to provide for his own future; in doing this he contributes his share to the further economic advancement of society and to an improvement of his fellow men's standard of living. But the government steps in and removes the socially beneficial effects of the individuals' conduct. Nothing explodes better than this example the welfare cliché that contrasts the selfish and narrow-minded individual, exclusively committed to the enjoyment of the pleasures of moment and having no regard for the well-being of his fellow men and for the perennial concerns of society, and the far-sighted benevolent government, unflinchingly devoted to the promotion of the lasting welfare of the whole of society.

The welfare propagandist, it is true, raises two objections. First, that the individual's motive is selfishness, while the government is imbued with good intentions. Let us admit for the sake of argument that individuals are devilish and rulers angelic. But what counts in life and reality is—in spite of what Kant said to the contrary—not good intentions, but accomplishments. What makes the existence and the evolution of society possible is precisely the fact that peaceful cooperation under the social division of labor in the long run best serves the selfish concerns of all individuals. The eminence of the market society is that its whole functioning and operation is the consummation of this principle.

The second objection points out that under the welfare system capital

accumulation by the government and public investment are to be substituted for private accumulation and investment. It refers to the fact that not all the funds which government borrowed in the past were spent for current expenditure. A considerable part was invested in the construction of roads, railroads, harbors, airports, power stations, and other public works. Another no less conspicuous part was spent for waging wars of defense which admittedly could not be financed by other methods. The objection, however, misses the point. What matters is that a part of the individual's saving is employed by the government for current consumption, and that nothing hinders the government from so increasing this part that it in fact absorbs the whole.

It is obvious that if governments make it impossible for their subjects to accumulate and to invest additional capital, responsibility for the formation of new capital, if there is to be any, devolves upon government. The welfare propagandist, in whose opinion government control is a synonym for God's providential care that wisely and imperceptibly leads mankind to higher and more perfect stages of an inescapable evolutionary progress, fails to see the intricacy of the problem and its ramifications.

Not only further saving and accumulation of additional capital, but no less the maintenance of capital at its present level, require curtailing today's consumption in order to be more amply supplied later. It is abstinence, a refraining from satisfactions which could be reaped instantly.<sup>5</sup> The market economy brings about an environment in which such abstinence is practiced to a certain extent, and in which its product, the accumulated capital, is invested in those lines in which it best satisfies the most urgent needs of the consumers. The questions arise whether government accumulation of capital can be substituted for private accumulation, and in what way a government would invest additional capital accumulated. These problems do not refer only to a socialist commonwealth. They are no less urgent in an interventionist scheme that has either totally or almost totally removed the conditions making for private capital formation. Even the United States is manifestly more and more approaching such a state of affairs.

5. To establish this fact is, to be sure, not an endorsement of the theories which tried to describe interest as the "reward" of abstinence. There is in the world of reality no mythical agency that rewards or punishes. What originary interest really is has been shown above in Chapter XIX. But as against the would-be ironies of Lassalle (*Herr Bastiat-Schulze von Delitzsch in Gesammelte Reden und Schriften*, ed. Bernstein, V, 167), reiterated by innumerable textbooks, it is good to emphasize that saving is privation (*Entbehrung*) in so far as it deprives the saver of an instantaneous enjoyment.

Let us consider the case of a government that has got control of the employment of a considerable part of the citizens' savings. The investments of the social security system, of the private insurance companies, of savings banks, and of commercial banks are to a great extent determined by the authorities and channeled into the public debt. The private citizens are still savers. But whether or not their savings bring about capital accumulation and thus increase the quantity of capital goods available for an improvement of the apparatus of production depends on the employment of the funds borrowed by the government. If the government squanders these sums either by spending them for current expenditure or by malinvestment, the process of capital accumulation as inaugurated by the saving of individuals and continued by the investment operations of the banks and insurance enterprises is cut off. A contrast between the two ways may clarify the matter:

In the process of the unhampered market economy Bill saves one hundred dollars and deposits it with a savings bank. If he is wise in choosing a bank which is wise in its lending and investing business, an increment in capital results, and brings about a rise in the marginal productivity of labor. Out of the surplus thus produced a part goes to Bill in the shape of interest. If Bill blunders in the choice of his bank and entrusts his hundred dollars to a bank that fails, he goes empty handed.

In the process of government interference with saving and investment, Paul in the year 1940 saves by paying one hundred dollars to the national social security institution.<sup>6</sup> He receives in exchange a claim which is virtually an unconditional government IOU. If the government spends the hundred dollars for current expenditure, no additional capital comes into existence, and no increase in the productivity of labor results. The government's IOU is a check drawn upon the future taxpayers. In 1970 a certain Peter may have to fulfill the government's promise although he himself does not derive any benefit from the fact that Paul in 1940 saved one hundred dollars.

Thus it becomes obvious that there is no need to look at Soviet Russia in order to comprehend the role that public finance plays in our day. The trumpery argument that the public debt is no burden because "we owe it to ourselves" is delusive. The Pauls of 1940 do not owe it to themselves. It is the Peters of 1970 who owe it to the Pauls of 1940. The whole system is the acme of the short-run principle. The statesmen of 1940 solve their problems by shifting them to the statesmen of 1970. On that date the statesmen of 1940

6. It makes no difference whether Paul himself pays these hundred dollars or whether the law obliges his employer to pay it. Cf. above, p. 602.

will be either dead or elder statesmen glorying in their wonderful achievement, social security.

The Santa Claus fables of the welfare school are characterized by their complete failure to grasp the problems of capital. It is precisely this defect that makes it imperative to deny them the appellation *welfare economics* with which they describe their doctrines. He who does not take into consideration the scarcity of capital goods available is not an economist, but a fabulist. He does not deal with reality but with a fabulous world of plenty. Ass the effusions of the contemporary welfare school are, like those of the socialist authors, based on the implicit assumption that there is an abundant supply of capital goods. Then, of course, it seems easy to find a remedy for all ills, to give to everybody "according to his needs" and to make everyone perfectly happy.

It is true that some of the champions of the welfare school feel troubled by a dim notion of the problems involved. They realize that capital must be maintained intact if the future productivity of labor is not to be impaired.<sup>7</sup> However, these authors too fail to comprehend that even the mere maintenance of capital depends on the skillful handling of the problems of investment, that it is always the fruit of successful speculation, and that endeavors to maintain capital intact presuppose economic calculation and thereby the operation of the market economy. The other welfare propagandists ignore the issue completely. It does not matter whether or not they endorse in this respect the Marxian scheme or resort to the invention of new chimerical notions such as "the self-perpetuating character" of useful things.<sup>8</sup> In any event their teachings are designed to provide a justification for the doctrine which blames oversaving and underconsumption for all that is unsatisfactory and recommends spending as a panacea.

When pushed hard by economists, some welfare propagandists and socialists admit that impairment of the average standard of living can only be avoided by the maintenance of capital already accumulated and that economic improvement depends on accumulation of additional capital. Maintenance of capital and accumulation of new capital, they say, will henceforth be a task of government. They will not longer be left to the selfishness of individuals, exclusively concerned with their own enrichment and that of their families; the authorities

7. This refers especially to the writings of A.C. Pigou, the various editions of his book *The Economics of Welfare* and miscellaneous articles. For a critique of Professor Pigou's ideas, cf. Hayek, *Profits, Interest, and Investment* (London, 1939), pp. 83-134).

8. Cf. F.H. Knight, "Professor Mises and the Theory of Capital," *Economica*, VIII (1941), 409-427.

will deal with them from the point of view of the common weal.

The crux of the issue lies precisely in the operation of selfishness. Under the system of inequality this selfishness impels a man to save and always to invest his savings in such a way as to fill best the most urgent needs of the consumers. Under the system of equality this motive fades. The curtailment of consumption in the immediate future is a perceptible privation, a blow to the individuals' selfish aims. The increment in the supply available in more distant periods of the future which is expected from this immediate privation is less recognizable for the average intellect. Moreover, its beneficial effects are, under a system of public accumulation, so thinly spread out that they hardly appear to a man as an appropriate compensation for what he foregoes today. The welfare school blithely assumes that the expectation that the fruits of today's saving will be reaped equally by the whole of the future generation will turn everybody's selfishness toward more saving. Thus they fall prey to a corollary of Plato's illusion that preventing people from knowing which children's parents they are will inspire them with parental feelings toward all younger people. It would have been wise if the welfare school had been mindful of Aristotle's observation that the result will rather be that all parents will be equally indifferent to all children.<sup>9</sup>

The problem of maintaining and increasing capital is insoluble for a socialist system which cannot resort to economic calculation. Such a socialist commonwealth lacks any method of ascertaining whether its capital equipment is decreasing or increasing. But under interventionism and under a socialist system which is still in a position to resort to economic calculation on the basis of prices established abroad, things are not so bad. Here it is at least possible to comprehend what is going on.

If such a country is under a democratic government, the problems of capital preservation and accumulation of additional capital become the main issue of political antagonisms. There will be demagogues to contend that more could be dedicated to current consumption than those who happen to be in power or the other parties are disposed to allow. They will always be ready to declare that "in the present emergency" there cannot be any question of piling up capital for later days and that, on the contrary, consumption of a part of the capital already available is fully justified. The various parties will outbid one another in promising the voters more government spending and at the same time a reduction of all taxes which do not exclusively burden the rich. In the days of

9. Cf. Aristotle, *Politics*, Bk. II, chap. iii in *The Basic Works of Aristotle*, ed. R. McKeon (New York), pp. 1148 f.

laissez faire people looked upon government as an institution whose operation required an expenditure of money which must be defrayed by taxes paid by the citizens. In the individual citizens' budgets the state was an item of expenditure. Today the majority of the citizens look upon government as an agency dispensing benefits. The wage earners and the farmers expect to receive from the treasury more than they contribute to its revenues. The state is in their eyes a spender, not a taker. These popular tenets were rationalized and elevated to the rank of a quasi-economic doctrine by Lord Keynes and his disciples. Spending and unbalanced budgets are merely synonyms for capital consumption. If current expenditure, however beneficial it may be considered, is financed by taking away by inheritance taxes those parts of higher incomes which would have been employed for investment, or by borrowing, the government becomes a factor making for capital consumption. The fact that in present-day America there is probably <sup>10</sup> still a surplus of annual capital accumulation over annual capital consumption does not invalidate the statement that the total complex of the financial policies of the Federal Government, the States, and the municipalities tends toward capital consumption.

Many who are aware of the undesirable consequences of capital consumption are prone to believe that popular government is incompatible with sound financial policies. They fail to realize that not democracy as such is to be indicted, but the doctrines which aim at substituting the Santa Claus conception of government for the night watchman conception derided by Lassalle. What determines the course of a nation's economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology.

Those advocating a restriction of the parliament's prerogatives in budgeting and taxation issues or even a complete substitution of authoritarian government for representative government are blinded by the chimerical image of a perfect chief of state. This man, no less benevolent than wise, would be sincerely dedicated to the promotion of his subjects' lasting welfare. The real Fuhrer, however, turns out to be a mortal man who first of all aims at the perpetuation of his own supremacy and that of his kin, his friends, and his party. As far as he may resort to unpopular measures, he does so for the sake of these objectives. He does not invest and accumulate capital. He constructs fortresses and equips armies.

10. The attempts to answer this question by statistics are futile in this age of inflation and credit expansion.

The much talked about plans of the Soviet and Nazi dictators involved restriction of current consumption for the sake of "investment." The Nazis never tried to suppress the truth that all these investments were designed as a preparation for the wars of aggression that they planned. The Soviets were less outspoken at the beginning. But later they proudly declared that all their planning was directed by considerations of war preparedness. History does not provide any example of capital accumulation brought about by a government. As far as governments invested in the construction of roads, railroads, and other useful public works, the capital needed was provided by the savings of individual citizens and borrowed by the government. But the greater part of the funds collected by the public debts was spent for current expenditure. What individuals had saved was dissipated by the government.

Even those who look upon the inequality of wealth and incomes as a deplorable thing, cannot deny that it makes for progressing capital accumulation. And it is additional capital accumulation alone that brings about technological improvement, rising wage rates, and a higher standard of living.

#### 4. Insecurity

The vague notion of security which the welfare doctrinaires have in mind when complaining about insecurity refers to something like a warrant by means of which society guarantees to everybody, irrespective of his achievements, a standard of living which he considers satisfactory.

Security in this sense, contend the eulogists of times gone by, was provided under the social regime of the Middle Ages. There is, however, no need to enter into an examination of these claims. Teal conditions even in the much-glorified thirteenth century were different from the ideal picture painted by scholastic philosophy; these schemes were meant as a description of conditions not as they were but as they ought to be. But even these utopias of the philosophers and theologians allow for the existence of a numerous class of destitute beggars, entirely dependent on alms given by the wealthy. This is not precisely the idea of security which the modern usage of the term suggests.

The concept of security is the wage earners' and small farmers' pendant to the concept of stability held by the capitalists.<sup>11</sup> In the same way in which capitalists want to enjoy permanently an income which is not subject to the vicissitudes of changing human conditions, wage earners and small farmers

11.Cf. above, pp. 225-227.

want to make their revenues independent of the market. Both groups are eager to withdraw from the flux of historical events. No further occurrence should impair their own position; on the other hand, of course, they do not expressly object to an improvement of their material well-being. That structure of the market to which they have in the past adjusted their activities should never be altered in such a way as to force them to a new adjustment. The farmer in a European mountain valley waxes indignant upon encountering the competition of Canadian farmers producing at lower cost. The house painter boils over with rage when the introduction of a new appliance affects conditions in his sector of the labor market. It is obvious that the wishes of these people could be fulfilled only in a perfectly stagnant world.

A characteristic feature of the unhampered market society is that it is no respecter of vested interests. Past achievements do not count if they are obstacles to further improvement. The advocates of security are therefore quite correct in blaming capitalism for insecurity. But they distort the facts in implying that the selfish interests of capitalists and entrepreneurs are responsible. What harms the vested interests is the urge of the consumers for the best possible satisfaction of their needs. Not the greed of the wealthy few, but the propensity of everyone to take advantage of any opportunity offered for an improvement of his own well-being makes for producer insecurity. What makes the house painter indignant is the fact that his fellow citizens prefer cheaper houses to more expensive ones, and the house painter himself, in preferring cheaper commodities to dearer ones, contributes his share to the emergence of insecurity in other sectors of the labor market.

It is certainly true that the necessity of adjusting oneself again and again to changing conditions is onerous. But change is the essence of life. In an unhampered market economy the absence of security, i.e., the absence of protection for vested interests, is the principle that makes for a steady improvement in material well-being. There is no need to argue with the bucolic dreams of Virgil and of eighteenth-century poets and painters. There is no need to examine the kind of security which the real shepherds enjoyed. No one really wishes to change places with them.

The longing for security became especially intense in the great depression that started in 1929. It met with an enthusiastic response from the millions of unemployed. That is capitalism for you, shouted the leaders of the pressure groups of the farmers and the wage earners. Yet the evils were not created by capitalism, but, on the contrary, by the endeavors to "reform" and

to “improve” the operation of the market economy by interventionism. The crash was the necessary outcome of the attempts to lower the rate of interest by credit expansion. Institutional unemployment was the inevitable result of the policy of fixing wage rates above the potential market height.

### 5. Social Justice

In one respect at least present-day welfare propagandists are superior to most of the older schools of socialists and reformers. They no longer stress a concept of social justice with whose arbitrary precepts men should comply however disastrous the consequences may be. They endorse the utilitarian point of view. They do not oppose the principle that the only standard for appreciating social systems is judging them with regard to their ability to realize the ends sought by acting men.

However, as soon as they embark upon an examination of the operation of the market economy, they forget their sound intentions. They invoke a set of metaphysical principles and condemn the market economy beforehand because it does not conform to them. They smuggle in through a back door the idea of an absolute standard of morality which they had barred from the main entrance. In searching for remedies against poverty, inequality, and insecurity, they come step by step to endorse all the fallacies of the older schools of socialism and interventionism. They become more and more entangled in contradictions and absurdities. Finally they cannot help catching at the straw at which all earlier “unorthodox” reformers tried to grasp—the superior wisdom of perfect rulers. Their last work is always state, government, society, or other cleverly designed synonyms for the superhuman dictator.

The welfare school, foremost among them the German *Kathedersozialisten* and their adepts, the American Institutionalists, have published many thousands of volumes stuffed with punctiliously documented information about unsatisfactory conditions. In their opinion the collected materials clearly illustrate the shortcomings of capitalism. In truth they merely illustrate the fact that human wants are practically unlimited and that there is an immense field open for further improvements. They certainly do not prove any of the statements of the welfare doctrine.

There is no need to tell us that an ampler supply of various commodities would be welcome to all people. The question is whether there is any means of achieving a greater supply other than by increasing the productivity of human effort by the investment of additional capital. All the babble of the

welfare propagandists aims only at one end, namely, obscuring this point, the point that alone matters. While the accumulation of additional capital is the indispensable means for any further economic progress, these people speak of “oversaving” and “overinvestment,” of the necessity of spending more and of restricting output. Thus they are the harbingers of economic retrogression, preaching a philosophy of decay and social disintegration. A society arranged according to their precepts may appear to some people as fair from the point of view of an arbitrary standard of social justice. But it will certainly be a society of progressing poverty for all its members.

For more than a century public opinion in Western countries has been deluded by the idea that there is such a thing as “the social question” or “the labor problem.” The meaning implied was that the very existence of capitalism hurts the vital interests of the masses, especially those of the wage earners and the small farmers. The preservation of this manifestly unfair system cannot be tolerated; radical reforms are indispensable.

The truth is that capitalism has not only multiplied population figures but at the same time improved the people’s standard of living in an unprecedented way. Neither economic thinking nor historical experience suggest that any other social system could be as beneficial to the masses as capitalism. The results speak for themselves. The market economy needs no apologists and propagandists. It can apply to itself the words of Sir Christopher Wren’s epitaph in St. Paul’s: *Si monumentum requiris, circumspice*.<sup>12</sup>

12.If you seek his monument, look around.