

Book Note

Rothbard: Man, Economy, and State: A Treatise on
Economic Principles

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MAN, ECONOMY, AND STATE: A TREATISE ON ECONOMIC PRINCIPLES. By Murray N. Rothbard. Princeton: D. Van Nostrand Co., Inc. 1962. 2 vols. Pp. xviii, 987. \$20.00.

Since the economic revolution ushered in by the New Deal, the unhampered free market system has been regarded as ill-suited to the needs of the modern, industrialized American society. We live in an age in which the government has assumed a steadily expanding role in the economy. The doctrines of Lord Keynes have become the prevailing orthodoxy, while non-Keynesian economics has become as out of fashion as pre-Newtonian physics. The teaching of economics today is primarily confined to the teaching of the "new economics"; against the free market economy is exhibited a strong intellectual prejudice which manifests and perpetuates itself in the neglect of those writers who support the free market system. The sad fact is that few students have even heard of the leading contemporary free market economists, let alone acquired a familiarity with their works and an understanding of their ideas.

The foremost exponent of the "Austrian libertarian school of economic thought," Dr. Ludwig von Mises, has contributed many important works to economic science, the most significant of which is his treatise, *Human Action*.¹ Now his former student, Murray Rothbard, has written *Man, Economy, and State*, a comprehensive and systematic treatise on the principles of economics, which both expands and clarifies the Misesian structure of economic science.² Beginning with the application of the implications of human action—that human beings resort to appropriate means toward the attainment of desired ends—to the behavior of an isolated individual ("Crusoe economic s"), Dr. Rothbard extends his analysis to the workings of a society based on voluntary contractual agreements and the unhampered or free market. He describes the contractual society of the market as a genuinely cooperative society where "each person specializes in the task for which he is best fitted, and each serves his fellow men in order to serve himself in exchange." (p. 84)

In contrast to the hegemonic form of society, in which one person or one group of persons exploits the others, a contractual society leaves each person free to benefit himself in the market and as a consequence to benefit others as well. . . . It is this almost marvelous process, whereby a man in pursuing his own benefit also benefits others, that

¹ (1949). A revised edition of *Human Action* will soon be published by Yale University Press.

² "It was with the writings of the Austrian school in the 1870's and 1880's that economics was truly established as a science." (p. 304) The "Austrian" school, which includes some Englishmen and Americans, is to be distinguished from the classical and neoclassical schools.

caused Adam Smith to exclaim that it almost seemed that an "invisible hand" was directing the proceedings, (pp. 84-85)³

In recognizing that "the regime that tends to maximize consumers' satisfaction . . . is one of simple *economic liberty*," (p. 582) Rothbard, while criticizing the use of the term "consumers' sovereignty," (pp. 560-66) in effect adopts what may be termed the "consumer perspective of the market."⁴ "It is the consumers . . . [through their buying and abstention from buying] who make the decisions for the economic system," and "to the extent that producers wish to make money, they drive toward ever more efficient servicing of the desires of the consumers." (pp. 467, 557)

Perhaps the major single usefulness of *Man, Economy, and State* is found in Rothbard's lucid presentation of the business-cycle analysis of the "Austrian" school, with his terse conclusion that "there can be no business cycle in the purely free market." (p. 764) The dread problem of the business cycle, with its pattern of prosperity or "boom" followed by crisis and depression, has never been answered by the "overwhelming bulk of current business cycle theory [which] is not economics at all, but meaningless manipulation of mathematical equations and geometric diagrams." (p. 764)

Rothbard presents the following theory of the business cycle as a complete answer to the cause of extreme fluctuations in business conditions: The essential point is that credit expansion always generates the boom-depression cycle by reducing the market rate of interest, thus creating distortion and malinvestment. (p. 862) The drop in interest rates induces businessmen to embark upon projects which would not be profitable at a higher interest rate.⁵ The ensuing intensified activities of business continue so long as there are further doses of bank credit expansion, for the boom that is created is kept going only by continuing to increase the supply of money. Once the banks begin to restrict the expansion of credit, the breakdown appears. As prices and consumption increase, businesses realize that investments during the boom have been wasteful and unprofitable.

³ "The fact that each man, in pursuing his own self-interest, furthers the interest of everyone else, is a *conclusion* of economic analysis, not an *assumption* on which the analysis is grounded. Many critics have accused economists of being 'biased' in favor of the free market economy. But this or any other conclusion of economics is not a bias or prejudice, but a *postjudice* . . .—a judgment made after inquiry, and not beforehand." (p. 766)

⁴ The adoption, in effect, of the "consumer perspective of the market" is not a bias or prejudice, but is made after inquiry into the workings of the market. Its major value lies in its use as a tool for teaching and evaluating the merits of the free market, which would serve as a means of alleviating the prejudice which many have against the idea of economic freedom. Compare the suggestion of Professor Cahn that "the choice of perspective makes a decisive practical difference" in the assessment of representative officials. Cahn, *The Predicament of Democratic Man* 30 (1962).

⁵ The essential feature of the boom is not overinvestment, but malinvestment, which results from the distortion of the market rate of interest. See Mises, *Human Action* 556 (1949).

Readjustment comes about with the liquidation of bad investments in the depression stage. "[T]he crisis-depression phase is the curative period, after people have been forced to recognize the malinvestments that have occurred." (p. 860) The larger the scope of malinvestment and error during the boom, the longer the task of readjustment in the depression. Until recovery to normal conditions ultimately is achieved, there must be the painful period of liquidation and bankruptcy, accompanied by heavy unemployment.

Is there any way to prevent a depression? Yes, states Rothbard, the answer is simple: "[A] void starting a boom. And to avoid starting a boom all that is necessary is to pursue a truly free-market policy in money, i.e., [rejecting fractional-reserve banking in favor of] a policy of 100% specie reserves for banks and governments." (p. 862) The practice of fractional-reserve banking is what permits the banks to expand credit. To Rothbard, this basic banking procedure, whereby banks are not required to retain in their vaults the full amount of the liabilities that must be paid to their depositors on demand, is tantamount to fraud. (pp. 702-03) The outlawing of this practice is what underlies Rothbard's thesis that the unhampered free market would not be in danger of suffering depression.⁶

Of special interest to lawyers is Rothbard's thorough analysis of the theories of monopoly, monopoly price, and monopolistic competition. He points out that "despite the reams of literature on monopolies, very few economists have bothered to *define* monopoly." (p. 907 n. 29) After a fresh critique Rothbard dismisses other definitions of monopoly as "confused" or "inexpedient,"⁷ and he adopts the original common law definition of monopoly as the only proper and meaningful one: "Monopoly is a grant of special privilege by the State, reserving a certain area of production to one particular individual or group." (p. 591) By this definition, no monopoly can arise in a free market, unhampered by governmental interference. The author proceeds to investigate the theory of monopoly price and concludes that "the entire concept is meaningless" because, in the free market, there is no way to define and distinguish a "monopoly price" from a "competitive price." "There is only the 'free-market price.'" (pp. 614-15) In short, there can be no monopoly or monopoly price on the free market.

However, to examine the other side of the coin, the theory of monopoly price "applies fully" in the case of monopoly and quasi-monopoly grants from the government, based on the identifiable distinction between the "free-market price" and the "monopoly price." (p. 787) Thus, rather than leading to any complacency about the monopoly problem, Rothbard's

⁶Rothbard excludes "both explicit violence and the implicit violence of fraud from . . . [his] definition of the market—the pattern of voluntary inter-personal exchanges." (p. 158)

⁷For example, the definition of a monopolist as "the only seller of any given good" means that "whenever there is any differentiation at all among individual products, the individual producer and seller is a 'monopolist' This definition . . . labels all consumer distinctions between individual products as establishing 'monopolies,'" and because it is so "extraordinarily broad" can hardly be used successfully, (pp. S90-91)

theory mainly focuses attention on the state as the true source of monopoly:⁸

Monopolistic grants can be either direct and evident, such as compulsory cartels or licenses; less direct, such as tariffs; or highly indirect, but nevertheless powerful. Ordinances closing businesses at specific hours, for example, or outlawing pushcart peddlers or door-to-door salesmen, are illustrations of laws that forcibly exclude competition and thereby grant monopolistic privileges. Similarly, *anti-trust laws* and prosecutions, while seemingly designed to "combat monopoly" and "promote competition," actually do the reverse, for they coercively penalize and repress efficient forms of market structure and activity, (p. 790)

Rejected too are the theories of monopolistic or imperfect competition, which "uphold as their 'ideal' the state of 'pure competition' rather than 'competition' or 'free competition'" and set up a perfectly elastic demand curve for pure competition. (pp. 632-33) The pure-competition theory itself, Rothbard reasons, is fallacious, since it is based on the idea that no one firm through its actions can have any influence on the price of its product. "[T]here can be no such thing as a firm *without* influence on its price" because "the individual firm, no matter how small, always has a perceptible influence on the total supply." (p. 633) Thus, while the demand curve for each small firm may be "very highly, *almost* perfectly, elastic . . . the fact that it is not 'perfect' destroys the entire concept of pure competition." (p. 634) Once the "perfect-elasticity myth" has been discarded, there is no problem of imperfect competition stemming from "differentiated products" and "oligopoly" or fewness of firms. (pp. 635-38)

Of further interest is Rothbard's analysis of property and the role of contract in a free society. "[T]he origin of all property is ultimately traceable to the appropriation of an unused nature-given factor by a man and his 'mixing' his labor with this natural factor to produce a capital good or a consumers' good." (p. 147) If this rule of first ownership by the first user is followed, individuals may acquire property rights in wave lengths available for radio and television purposes, in fishing rights in oceans, and in any other scarce goods which are "not available in unlimited quantities relatively to human wants."⁹ (p. 150)

⁸While Mises does not go so far as Rothbard in his analysis of cartels and monopoly prices, he nevertheless stresses that "the great monopoly problem mankind has to face today is not an outgrowth of the operation of the market economy. It is a product of purposive action on the part of governments." *Human Action* 363 (1949). Compare Lippmann's observation that "few effective monopolies have ever been organized and . . . none can long endure except where there is a legal privilege." *The Good Society* 223 (1943).

⁹In a provocative discussion of copyrights and patents, Rothbard concludes that patents are incompatible with the free market because they are "grants of exclusive monopoly privilege by the State," and challenges the utilitarian argument that they are necessary to encourage research. (pp. 652-60)

After completing his examination of the free market, Rothbard critically studies the effects of government intervention in the market ("the substitution of coercion for voluntary actions") and socialism (the "violent abolition of the market"). (p. 765) Following in the path of Professor Mises,¹⁰ Rothbard in effect maintains that no "middle way" or "third system" is possible as a pattern of a permanent social order. Thus he states, "There are two and only two ways that any economy can be organized. One is by freedom and voluntary choice—the way of the market. The other is by force and dictation—the way of the State." (p. 830) He goes on to demonstrate that while superficially "it may seem that the way of the market is only anarchic confusion and chaos . . . [and that] the way of the State constitutes genuine organization and 'central planning,'" in fact "the truth is quite the reverse." (pp. 830, 879-80)

State operation or intervention is . . . far less efficient and creates many disruptive and cumulative problems of its own. Moreover, a socialist State, deprived of the real market and its determination of prices for producers' goods, *cannot* calculate and can therefore run a productive system only in chaotic fashion. . . . Mises' demonstration of the impossibility of economic calculation under socialism has never been successfully refuted." (p. 830)¹¹

One need not agree with all of Dr. Rothbard's views and conclusions to recognize that *Man, Economy, and State* represents a major contribution to the science of economics. None who seeks to attain a maximum of security and material well-being without sacrificing personal freedom can afford to ignore this challenging and stimulating treatise.

There are some special reasons why Rothbard's treatise is of particular interest and value to lawyers. Because economic issues underlie and permeate much of law and politics today, it is imperative that lawyers study and comprehend economics.¹² This is not only true for lawyers who wish to

Moreover, some brief observations concerning defamation (p. 157), blackmail (p. 443 n. 49), negotiable instruments (p. 155), and the types of contracts that should be enforced (pp. 152-54), are included, but they are hardly convincing, and will be rather difficult for lawyers to accept.

¹⁰See, e.g., Mises, *Bureacracy* 10 (1962); Mises, *Planning for Freedom* 18-35 (1952).

¹¹In referring to Mises' explanation of the problem of economic calculation under socialism, Walter Lippmann wrote: "An acquaintance with this school of socialist criticism is indispensable to all who would now discuss the problem of collectivism." *The Good Society* 94 (1943). Yet, as Rothbard points out, "It is remarkable that so many antisocialist writers have never become aware of this critical point." (p. 901 n. 60)

¹²Rothbard explains why knowledge of economics is "necessary, though not sufficient" for making a rational economic judgment in the fields of government intervention and trade union activity: "Economics cannot itself decide on ethical judgments. But in order for anyone to make ethical judgments rationally, he must know the consequences of his various alternative courses of action. In questions of

take an active part in civic and political affairs; for all lawyers have some influence on the values and conduct of their fellow-citizens, as well as in the shaping of our legal and political processes. That the content of many of the courses in the legal curriculum deals with government control and regulation of business illustrates the need for a closer association between law and economics. A study of the legal aspects of the antitrust laws, for example, is incomplete without a grasp of the underlying economic principles which are involved. Despite this manifest necessity for economic education as a part of the preparation for the practice of law, such training has been neglected in the curriculum of most American law schools. Serious study of volumes such as *Man, Economy, and State* could alleviate this problem. Lawyers, and noneconomists in general, can find no more readable treatise and no more forthright case for freedom and free enterprise.

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government intervention or union action, economics supplies the knowledge of these consequences." (p. 627)

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