

Two Essays
by
Ludwig von Mises

Liberty and Property
and
Middle-of-the-Road
Policy Leads to
Socialism



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Foreword

Like virtually all of the work of Ludwig von Mises, these two essays, his 1958 “Liberty and Property” and his 1950 “Middle-of-the-Road Policy Leads to Socialism” are timeless. They are as important now as they have ever been and will increase in relevance as the growth of government continues almost unabated—even in the post-communist age.

The growth of government constitutes an assault on private property and individual freedom by politicians, bureaucrats, and interest groups who seek to keep for themselves more and more of the fruits of other peoples’ labor and to use the coercive powers of the state to tell others how to live their lives. The perpetual campaigns at all levels of government for more taxes and regulation threaten to rob us of our personal freedoms while exacerbating social and economic problems. The more government spends on welfare programs, for example, the worse poverty becomes. The more it spends on government schools, the less students learn. The more it spends on government housing projects, the more intense the housing “crisis” becomes. Examples of government failure seem endless.

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In “Liberty and Property” Mises explains how and why private property is essential to protecting our freedoms and minimizing our exposure to counter-productive social engineering schemes. The main contribution of the industrial revolution, Mises explains, was the great decentralization of wealth which gave rise to “consumer sovereignty.” The industrial revolution’s main achievement “was the transfer of economic supremacy from the owners of land to the totality of the population.” Under capitalism, private property of the factors of production serves a “social function,” for these factors must be put to use serving the masses of consumers. Under capitalism “there is one way to wealth: to serve the consumers better and cheaper than others do.” “Big business” is only possible if large numbers of consumers can be served.

Private property also made (and makes) rebellion possible, for without private property, freedom of speech can be sharply limited. “What would Marx have done,” Mises asked, “without his patron, the manufacturer Friedrich Engels?”

Government regulation was extensive enough in 1958, when Mises wrote “Liberty and Property,” but the virtual explosion of regulation since that time underscores another reason why private property is important to free speech. Namely, the more regulated individuals and businesses become, the

less likely that they will criticize the government for fear of regulatory retribution. Private property and free markets are prerequisites for genuinely free speech.

“Liberty and Property” also offers clear insights on reasons for the many excesses of Congress, such as its complete lack of fiscal responsibility, its disregard for the costs of government regulation, and even the propensity of some congressmen to engage in personal check kiting at the “House Bank.” The advocates of socialism, Mises pointed out, are generally people “who never had to earn a living selling hot dogs.” If they had, they wouldn’t be so supportive of the regulatory state.

This point brings to mind the experience of former Senator George McGovern who, after retiring from the U.S. Senate, purchased a hotel in New England. Strangled by regulation and red tape, McGovern’s business went bankrupt, causing the former legislator to admit that if he had understood the effects of regulation as well then as he does now, he would not have been so supportive of it while a member of Congress.

Because members of Congress have manipulated the system to effectively grant themselves lifetime tenure, very few of them will ever have to spend much time living and working under the same laws and regulations they impose on the rest of society.

Mises also exposes the symbiotic relationship between political and economic freedom. There can be no political sovereignty, he wrote, without economic sovereignty. The abolition or attenuation of private property deprives consumers of their independence and forces them to become pawns of “some social engineer.”

This idea is nowhere more prevalent than in today’s environmental regulatory environment whereby environmental activists in and outside of government use an alleged concern for environmental protection to seize control of more and more private property through nationalization and regulation of land use. Back-door central planning is the environmentalist’s ultimate objective. Why else would they have proposed a “natural materials policy,” whereby no material could be used in industrial processes unless it was deemed sufficiently “green” by the Environmental Protection Agency? The so-called environmental movement is much more anti-capitalist than pro-environmental protection.

Back-door central planning through the slow eating away of private property rights is also taking place by the expansion of labor market regulation and ever-increasing tax burdens. Government-mandated “benefits,” for example, take more and more decision-making power away from the owners, managers, and employees of private businesses and put

it in the hands of government bureaucrats, including hundreds of unelected judges.

It is ironic and tragic that just as the world has witnessed the utter failure of socialism in the ex-communist countries, the Western Democracies, led by the United States, are rushing headlong in the direction of a “planned economy” in the name of “environmental protection,” “mandated benefits,” and other guises. It is this dangerous trend that makes “Liberty and Property” as important as ever as a warning of the dangers of insufficient protection of private property rights. There can be no market economy without private property, and without a market economy there can be no freedom and prosperity.

In “Middle-of-the-Road Policy Leads to Socialism” Mises pinpoints the essential problem with all forms of interventionism. Whether it is called communism, socialism, planning, state capitalism, or industrial policy, interventionism always signifies the same thing: “No longer should the consumers . . . determine what should be produced, in what quantity and of what quality. Henceforth a central authority alone should direct all production activities.” Government control of the economy, in other words, replaces consumer sovereignty with the “sovereignty” of a small number of politicians, bureaucrats, and other social engineers.

Mises’s prediction that middle-of-the-road policy leads to socialism has been borne out in many

instances and is in the process of being proven in many others. A current example is the political campaign for socialized health care in America.

During the past two decades government health insurance has driven up the price of health care by creating a severe “moral hazard problem.” Other forms of government regulation have increased the costs of health care even further. Now that government’s own actions have driven the price of health care beyond the reach of many Americans, there are those within the government who are blaming rising health care costs on “private enterprise” and advocating socialized medicine. They conveniently ignore the fact that socialism or socialistic policies are the problem, not the solution. Middle-of-the-road policies lead to socialism.

The failure to understand this essential point has led many Americans to take seriously a preposterous chain of “logic” which I call “Friedman’s syllogism” because Milton Friedman has popularized it. The major premise of the syllogism is that socialism and socialistic policies have been disasters everywhere they have been tried. The minor premise is that capitalism, on the other hand, has been a great success whenever it has been allowed to exist. The conclusion, therefore, is that the obvious “solution” to our economic and social problems is more socialism!

Examples of this type of thinking abound: The “solution” to the failure of government schools is to

throw more taxpayers' money at them. The "solution" to a health care "crisis" caused by government intervention is more government intervention. The "solution" to the savings and loan debacle, which was caused by government regulation, government deposit insurance, and, indeed, by the governmental creation of the savings and loan industry in the first place, is more regulation. The "solution" to welfare dependency is to create even more dependency by increasing welfare benefits. The list is endless. "Middle-of-the-Road Policy Leads to Socialism" provides insights that are necessary to counteract such illogical thinking and dangerous policy prescriptions.

Mises exposes what is perhaps the most cynical of all arguments in favor of interventionism—the argument that the purpose of many government interventions is to save capitalism from itself. Because of some supposedly inherent "evils" of capitalism, the argument goes, it must be tamed through government regulation and regimentation. Antitrust regulation, for example, was originally defended on the grounds that if government did not control the alleged excesses of large-scale production, the public would demand something more severe, such as the nationalization of industry.

As Mises pointed out, however, precisely the opposite is true. Far from "saving" capitalism from

itself, government regulation only weakens it and leads it down the road to socialism. Once an industry is weakened by regulation, political demagogues typically take advantage of the situation by arguing that it is capitalism, not regulation, that is the problem. They then advocate even more regulation, which weakens the industry even further, making complete governmental control ever more likely.

Unable to achieve socialism through the outright nationalization of industry, today's socialists try to achieve their objectives in piecemeal fashion through regulatory strangulation. "From day to day," Mises wrote, "the field in which private enterprise is free to operate is narrowed down." The government-contrived health care and banking crises are clear examples of this phenomenon.

But socialism in the form of government control, if not outright ownership of the means of production is not inevitable, Mises wrote. What is needed is a change in ideology, which can only come from "an open positive endorsement of that system to which we owe all the wealth that distinguishes our age from the . . . conditions of ages gone by."

The public must come to a fuller understanding that without private property there is no liberty; that there is no safe middle of the road; and that we citizens are engaged in a constant struggle with government over how much of our own property, and

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of the fruits of our own labor, we will be able to keep and benefit from. As Mises recognized, “government is essentially the negation of liberty.” Our hope is that the reprinting of these essays will contribute to a further understanding of these principles and to a greater respect for and enhancement of liberty, property, and the freedom to pursue happiness.

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Liberty
and
Property

Liberty and Property

I

At the end of the eighteenth century there prevailed two notions of liberty, each of them very different from what we have in mind today referring to liberty and freedom.

The first of these conceptions was purely academic and without any application to the conduct of political affairs. It was an idea derived from the books of the ancient authors, the study of which was then the sum and substance of higher education. In the eyes of these Greek and Roman writers, freedom was not something that had to be granted to all men. It was a privilege of the minority, to be withheld from the majority. What the Greeks called democracy was, in the light of present-day terminology, not what Lincoln called government by the people, but oligarchy, the sovereignty of full-right citizens in a community in which the masses were metequés or

This article was originally delivered as a lecture at Princeton University, October 1958, at the 9th Meeting of the Mont Pelerin Society.

slaves. Even this rather limited freedom after the fourth century before Christ was not dealt with by the philosophers, historians, and orators as a practical constitutional institution. As they saw it, it was a feature of the past irretrievably lost. They bemoaned the passing of this golden age, but they did not know any method of returning to it.

The second notion of liberty was no less oligarchic, although it was not inspired by any literary reminiscences. It was the ambition of the landed aristocracy, and sometimes also of urban patricians, to preserve their privileges against the rising power of royal absolutism. In most parts of continental Europe, the princes remained victorious in these conflicts. Only in England and in the Netherlands did the gentry and the urban patricians succeed in defeating the dynasties. But what they won was not freedom for all, but only freedom for an elite, for a minority of the people.

We must not condemn as hypocrites the men who in those ages praised liberty, while they preserved the legal disabilities of the many, even serfdom and slavery. They were faced with a problem which they did not know how to solve satisfactorily. The traditional system of production was too narrow for a continually rising population. The number of people for whom there was, in a full sense of the term, no room left by the pre-capitalistic methods of agriculture and artisanship was

increasing. These supernumeraries were starving paupers. They were a menace to the preservation of the existing order of society and, for a long time, nobody could think of another order, a state of affairs, that would feed all of these poor wretches. There could not be any question of granting them full civil rights, still less of giving them a share of the conduct of affairs of state. The only expedient the rulers knew was to keep them quiet by resorting to force.

II

The pre-capitalistic system of product was restrictive. Its historical basis was military conquest. The victorious kings had given the land to their paladins. These aristocrats were lords in the literal meaning of the word, as they did not depend on the patronage of consumers buying or abstaining from buying on a market. On the other hand, they themselves were the main customers of the processing industries which, under the guild system, were organized on a corporative scheme. This scheme was opposed to innovation. It forbade deviation from the traditional methods of production. The number of people for whom there were jobs even in agriculture or in the arts and crafts was limited. Under these conditions, many a man, to use the words of Malthus, had to discover that “at nature’s mighty feast there is no vacant cover for him” and that “she

tells him to be gone.”¹ But some of these outcasts nevertheless managed to survive, begot children, and made the number of destitute grow hopelessly more and more.

But then came capitalism. It is customary to see the radical innovations that capitalism brought about in the substitution of the mechanical factory for the more primitive and less efficient methods of the artisans' shops. This is a rather superficial view. The characteristic feature of capitalism that distinguishes it from pre-capitalist methods of production was its new principle of marketing. Capitalism is not simply mass production, but mass production to satisfy the needs of the masses. The arts and crafts of the good old days had catered almost exclusively to the wants of the well-to-do. But the factories produced cheap goods for the many. All the early factories turned out was designed to serve the masses, the same strata that worked in the factories. They served them either by supplying them directly or indirectly by exporting and thus providing for them foreign food and raw materials. This principle of marketing was the signature of early capitalism as it is of present-day capitalism. The employees themselves are the customers consuming the much

¹Thomas R. Malthus, *An Essay on the Principle of Population*, 2nd ed. (London, 1803), p. 531.

greater part of all goods produced. They are the sovereign customers who are "always right." Their buying or abstention from buying determines what has to be produced, in what quantity, and of what quality. In buying what suits them best they make some enterprises profit and expand and make other enterprises lose money and shrink. Thereby they are continually shifting control of the factors of production into the hands of those businessmen who are most successful in filling their wants. Under capitalism private property of the factors of production is a social function. The entrepreneurs, capitalists, and land owners are mandataries, as it were, of the consumers, and their mandate is revocable. In order to be rich, it is not sufficient to have once saved and accumulated capital. It is necessary to invest it again and again in those lines in which it best fills the wants of the consumers. The market process is a daily repeated plebiscite, and it ejects inevitably from the ranks of profitable people those who do not employ their property according to the orders given by the public. But business, the target of fanatical hatred on the part of all contemporary governments and self-styled intellectuals, acquires and preserves bigness only because it works for the masses. The plants that cater to the luxuries of the few never attain big size.

The shortcoming of nineteenth-century historians and politicians was that they failed to realize

that the workers were the main consumers of the products of industry. In their view, the wage earner was a man toiling for the sole benefit of a parasitic leisure class. They labored under the delusion that the factories had impaired the lot of the manual workers. If they had paid any attention to statistics they would easily have discovered the fallaciousness of their opinion. Infant mortality dropped, the average length of life was prolonged, the population multiplied, and the average common man enjoyed amenities of which even the well-to-do of earlier ages did not dream.

However this unprecedented enrichment of the masses were merely a by-product of the Industrial Revolution. Its main achievement was the transfer of economic supremacy from the owners of land to the totality of the population. The common man was no longer a drudge who had to be satisfied with the crumbs that fell from the tables of the rich. The three pariah castes which were characteristic of the pre-capitalistic ages—the slaves, the serfs, and those people whom patristic and scholastic authors as well as British legislation from the sixteenth to the nineteenth centuries referred to as the poor—disappeared. Their scions became, in this new setting of business, not only free workers, but also customers. This radical change was reflected in the emphasis laid by business on markets. What business needs first of all is markets and again markets. This was

the watch-word of capitalistic enterprise. Markets, that means patrons, buyers, consumers. There is under capitalism one way to wealth: to serve the consumers better and cheaper than other people do.

Within the shop and factory the owner—or in the corporations, the representative of the shareholders, the president—is the boss. But this mastership is merely apparent and conditional. It is subject to the supremacy of the consumers. The consumer is king, is the real boss, and the manufacturer is done for if he does not outstrip his competitors in best serving consumers.

It was this great economic transformation that changed the face of the world. It very soon transferred political power from the hands of a privileged minority into the hands of the people. Adult franchise followed in the wake of industrial enfranchisement. The common man, to whom the market process had given the power to choose the entrepreneur and capitalists, acquired the analogous power in the field of government. He became a voter.

It has been observed by eminent economists, I think first by the late Frank A. Fetter, that the market is a democracy in which every penny gives a right to vote. It would be more correct to say that representative government by the people is an attempt to arrange constitutional affairs according to the model of the market, but this design can never

be fully achieved. In the political field it is always the will of the majority that prevails, and the minorities must yield to it. It serves also minorities, provided they are not so insignificant in number as to become negligible. The garment industry produces clothes not only for normal people, but also for the stout, and the publishing trade publishes not only westerns and detective stories for the crowd, but also books for discriminating readers.

There is a second important difference. In the political sphere, there is no means for an individual or a small group of individuals to disobey the will of the majority. But in the intellectual field private property makes rebellion possible. The rebel has to pay a price for his independence; there are in this universe no prizes that can be won without sacrifices. But if a man is willing to pay the price, he is free to deviate from the ruling orthodoxy or neo-orthodoxy. What would conditions have been in the socialist commonwealth for heretics like Kierkegaard, Schopenhauer, Veblen, or Freud? For Monet, Courbet, Walt Whitman, Rilke, or Kafka? In all ages, pioneers of new ways of thinking and acting could work only because private property made contempt of the majority's ways possible. Only a few of these separatists were themselves economically independent enough to defy the government into the opinions of the majority. But they found in the climate of the free economy among the public people

prepared to aid and support them. What would Marx have done without his patron, the manufacturer Friedrich Engels?

III

What vitiates entirely the socialists' economic critique of capitalism is their failure to grasp the sovereignty of the consumers in the market economy. They see only hierarchical organization of the various enterprises and plans, and are at a loss to realize that the profit system forces business to serve the consumers. In their dealings with their employers, the unions proceed as if only malice and greed were to prevent what they call management from paying higher wage rates. Their shortsightedness does not see anything beyond the doors of the factory. They and their henchmen talk about the concentration of economic power, and do not realize that economic power is ultimately vested in the hands of the buying public of which the employees themselves form the immense majority. Their inability to comprehend things as they are is reflected in such inappropriate metaphors as industrial kingdom and dukedoms. They are too dull to see the difference between a sovereign king or duke who could be dispossessed only by a more powerful conqueror and a "chocolate king" who forfeits his "kingdom" as soon as the customers prefer to patronize another supplier.

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This distortion is at the bottom of all socialist plans. If any of the socialist chiefs had tried to earn his living by selling hot dogs, he would have learned something about the sovereignty of the customers. But they were professional revolutionaries and their only job was to kindle civil war. Lenin's ideal was to build a nation's production effort according to the model of the post office, an outfit that does not depend on the consumers, because its deficits are covered by compulsory collection of taxes. "The whole of society," he said, was to "become one office and one factory."² He did not see that the very character of the office and the factory is entirely changed when it is alone in the world and no longer grants to people the opportunity to choose among the products and services of various enterprises. Because his blindness made it impossible for him to see the role the market and the consumers play under capitalism, he could not see the difference between freedom and slavery. Because in his eyes the workers were only workers and not also customers, he believed they were already slaves under capitalism, and that one did not change their status when nationalizing all plants and shops. Socialism substitutes the sovereignty of a dictator, or committee of dictators, for the sovereignty of the consumers. Along with the economic sovereignty

²V. I. Lenin, *State and Revolution* (New York: International Publishers, s.d.) p. 84.

of the citizens disappears also their political sovereignty. To the unique production plan that annuls any planning on the part of the consumers corresponds in the constitutional sphere the one party principle that deprives the citizens of any opportunity to plan the course of public affairs. Freedom is indivisible. He who has not the faculty to choose among various brands of canned food or soap, is also deprived of the power to choose between various political parties and programs and to elect the officeholders. He is no longer a man; he becomes a pawn in the hands of the supreme social engineer. Even his freedom to rear progeny will be taken away by eugenics.

Of course, the socialist leaders occasionally assure us that dictatorial tyranny is to last only for the period of transition from capitalism and representative government to the socialist millennium in which everybody's wants and wishes will be fully satisfied.³ Once the socialist regime is "sufficiently secure to risk criticism," Miss Joan Robinson, the eminent representative of the British neo-Cambridge school, is kind enough to promise us, "even independent philharmonic societies" will be allowed to exist.⁴

³Karl Marx, *Sur Kritik des Sozialdemokratischen Programms von Gotha*, ed. Kreibich (Reichenberg, 1920), p. 23.

⁴Joan Robinson, *Private Enterprise and Public Control* (published for the Association for Education in Citizenship by the English Universities Press, Ltd., s.d.), pp. 13-14.

Thus the liquidation of all dissenters is the condition that will bring us what the communists call freedom. From this point of view we may also understand what another distinguished Englishman, Mr. J. G. Crowther, had in mind when he praised inquisition as “beneficial to science when it protects a rising class.”⁵ The meaning of all this is clear. When all people meekly bow to a dictator, there will no longer be any dissenters left for liquidation. Caligula, Torquemada, Robespierre would have agreed with this solution.

The socialists have engineered a semantic revolution in converting the meaning of terms into their opposite. In the vocabulary of their “Newspeak,” as George Orwell called it, there is a term “the one-party principle.” Now etymologically party is derived from the noun part. The brotherless part is no longer different from its antonym, the whole; it is identical with it. A brotherless party is not a party, and the one party principle is in fact a no-party principle. It is a suppression of any kind of opposition. Freedom implies the right to choose between assent and dissent. But in Newspeak it means the duty to assent unconditionally and strict interdiction of dissent. This reversal of the traditional connotation of all words of the political terminology is not merely a

⁵J. G. Crowther, *Social Relations of Science* (London, 1941), p. 333.

peculiarity of the language of the Russian Communists and their Fascist and Nazi disciples. The social order that in abolishing private property deprives the consumers of their autonomy and independence, and thereby subjects every man to the arbitrary discretion of the central planning board, could not win the support of the masses if they were not to camouflage its main character. The socialists would have never duped the voters if they had openly told them that their ultimate end is to cast them into bondage. For esoteric use they were forced to pay lip-service to the traditional appreciation of liberty.

IV

It was different in the esoteric discussions among the inner circles of the great conspiracy. There the initiated did not dissemble their intentions concerning liberty. Liberty was, in their opinion, certainly a good feature in the past in the frame of bourgeois society because it provided them with the opportunity to embark on their schemes. But once socialism has triumphed, there is no longer any need for free thought and autonomous action on the part of individuals. Any further change can only be a deviation from the perfect state that mankind has attained in reaching the bliss of socialism. Under such conditions, it would be simply lunacy to tolerate dissent.

Liberty, says the Bolshevist, is a bourgeois prejudice. The common man does not have any ideas of his own, he does not write books, does not hatch heresies, and does not invent new methods of production. He just wants to enjoy life. He has no use for the class interests of the intellectuals who make a living as professional dissenters and innovators.

This is certainly the most arrogant disdain of the plain citizen ever devised. There is no need to argue this point. For the question is not whether or not the common man can himself take advantage of the liberty to think, to speak, and to write books. The question is whether or not the sluggish routinist profits from the freedom granted to those who eclipse him in intelligence and will power. The common man may look with indifference and even contempt upon the dealings of better people. But he is delighted to enjoy all the benefits which the endeavors of the innovators put at his disposal. He has no comprehension of what in his eyes is merely inane hair-splitting. But as soon as these thoughts and theories are utilized by enterprising businessmen for satisfying some of his latent wishes, he hurries to acquire the new products. The common man is without doubt the main beneficiary of all the accomplishments of modern science and technology.

It is true, a man of average intellectual abilities has no chance to rise to the rank of a captain of

industry. But the sovereignty that the market assigns to him in economic affairs stimulates technologists and promoters to convert to his use all the achievements of scientific research. Only people whose intellectual horizon does not extend beyond the internal organization of the factory and who do not realize what makes the businessmen run, fail to notice this fact.

The admirers of the Soviet system tell us again and again that freedom is not the supreme good. It is “not worth having,” if it implies poverty. To sacrifice it in order to attain wealth for the masses, is in their eyes fully justified. But for a few unruly individualists who cannot adjust themselves to the ways of regular fellows, all people in Russia are perfectly happy. We may leave it undecided whether this happiness was also shared by the millions of Ukrainian peasants who died from starvation, by the inmates of the forced labor camps, and by the Marxian leaders who were purged. But we cannot pass over the fact that the standard of living was incomparably higher in the free countries of the West than in the communist East. In giving away liberty as the price to be paid for the acquisition of prosperity, the Russians made a poor bargain. They now have neither the one nor the other.

V

Romantic philosophy labored under the illusion that in the early ages of history the individual was free and that the course of historical evolution deprived him of his primordial liberty. As Jean Jacques Rousseau saw it, nature accorded men freedom and society enslaved him. In fact, primeval man was at the mercy of every fellow who was stronger and therefore could snatch away from him the scarce means of subsistence. There is in nature nothing to which the name of liberty could be given. The concept of freedom always refers to social relations between men. True, society cannot realize the illusory concept of the individual's absolute independence. Within society everyone depends on what other people are prepared to contribute to his well-being in return for his own contribution to their well-being. Society is essentially the mutual exchange of services. As far as individuals have the opportunity to choose, they are free; if they are forced by violence or threat of violence to surrender to the terms of an exchange, no matter how they feel about it, they lack freedom. This slave is unfree precisely because the master assigns him his tasks and determines what he has to receive if he fulfills it.

As regards the social apparatus of repression and coercion, the government, there cannot be any

question of freedom. Government is essentially the negation of liberty. It is the recourse to violence or threat of violence in order to make all people obey the orders of the government, whether they like it or not. As far as the government's jurisdiction extends, there is coercion, not freedom. Government is a necessary institution, the means to make the social system of cooperation work smoothly without being disturbed by violent acts on the part of gangsters whether of domestic or of foreign origin. Government is not, as some people like to say, a necessary evil; it is not an evil, but a means, the only means available to make peaceful human coexistence possible. But it is the opposite of liberty. It is beating, imprisoning, hanging. Whatever a government does it is ultimately supported by the actions of armed constables. If the government operates a school or a hospital, the funds required are collected by taxes, i.e., by payments exacted from the citizens.

If we take into account the fact that, as human nature is, there can neither be civilization nor peace without the functioning of the government apparatus of violent action, we may call government the most beneficial human institution. But the fact remains that government is repression not freedom. Freedom is to be found only in the sphere in which government does not interfere. Liberty is always freedom from the government. It is the restriction of the government's interference. It prevails only in the

fields in which the citizens have the opportunity to choose the way in which they want to proceed. Civil rights are the statutes that precisely circumscribe the sphere in which the men conducting the affairs of state are permitted to restrict the individuals' freedom to act.

The ultimate end that men aim at by establishing government is to make possible the operation of a definite system of social cooperation under the principle of the division of labor. If the social system which people want to have is socialism (communism, planning) there is no sphere of freedom left. All citizens are in every regard subject to orders of the government. The state is a total state; the regime is totalitarian. The government alone plans and forces everybody to behave according with this unique plan.

In the market economy the individuals are free to choose the way in which they want to integrate themselves into the frame of social cooperation. As far as the sphere of market exchange extends, there is spontaneous action on the part of individuals. Under this system that is called *laissez-faire*, and which Ferdinand Lassalle dubbed as the nightwatchman state, there is freedom because there is a field in which individuals are free to plan for themselves.

The socialists must admit there cannot be any

freedom under a socialist system. But they try to obliterate the difference between the servile state and economic freedom by denying that there is any freedom in the mutual exchange of commodities and services on the market. Every market exchange is, in the words of a school of pro-socialist lawyers, “a coercion over other people’s liberty.” There is, in their eyes, no difference worth mentioning between a man’s paying a tax or a fine imposed by a magistrate, or his buying a newspaper or admission to a movie. In each of these cases the man is subject to governing power. He’s not free, for, as professor Hale says, a man’s freedom means “the absence of any obstacle to his use of material goods.”⁶ This means: I am not free, because a woman who has knitted a sweater, perhaps as a birthday present for her husband, puts an obstacle to my using it. I myself am restricting all other people’s freedom because I object to their using my toothbrush. In doing this I am, according to this doctrine, exercising private governing power, which is analogous to public government power, the powers that the government exercises in imprisoning a man in Sing Sing.

Those expounding this amazing doctrine consistently conclude that liberty is nowhere to be found.

⁶Robert L. Hale, *Freedom Through Law, Public Control of Private Governing Power* (New York: Columbia University, 1952), pp. 4 ff.

They assert that what they call economic pressures do not essentially differ from the pressures the masters practice with regard to their slaves. They reject what they call private governmental power, but they don't object to the restriction of liberty by public government power. They want to concentrate all what they call restrictions of liberty in the hands of the government. They attack the institution of private property and the laws that, as they say, stand "ready to enforce property rights—that is, to deny liberty to anyone to act in a way which violates them."⁷

A generation ago all housewives prepared soup by proceeding in accordance with the recipes that they had got from their mothers or from a cookbook. Today many housewives prefer to buy a canned soup, to warm it and to serve it to their family. But, say our learned doctors, the canning corporation is in a position to restrict the housewife's freedom because, in asking a price for the tin can, it puts an obstacle to her use of it. People who did not enjoy the privilege of being tutored by these eminent teachers, would say that the canned product was turned out by the cannery, and that the corporation in producing it removed the greatest obstacle to a consumer's getting and using a can, viz., its nonexistence. The

⁷Ibid., p. 5.

mere essence of a product cannot gratify anybody without its existence. But they are wrong, say the doctors. The corporation dominates the housewife, it destroys by its excessive concentrated power over her individual freedom, and it is the duty of the government to prevent such a gross offense. Corporations, say, under the auspices of the Ford Foundation, another of this group, Professor Berle, must be subjected to the control of the government.⁸

Why does our housewife buy the canned product rather than cling to the methods of her mother and grandmother? No doubt because she thinks this way of acting is more advantageous for her than the traditional custom. Nobody forced her. There were people—they are called jobbers, promoters, capitalists, speculators, stock exchange gamblers—who had the idea of satisfying a latent wish of millions of housewives by investing in the cannery industry. And there are other equally selfish capitalists who, in many hundreds of other corporations, provide consumers with many hundreds of other things. The better a corporation serves the public, the more customers it gets, the bigger it grows. Go into the home of the average American family and you will see for whom the wheels of the machines are turning.

⁸A. A. Berle, Jr., *Economic Power and the Free Society, a Preliminary Discussion of the Corporation* (New York: The Fund for the Republic, 1954).

In a free country nobody is prevented from acquiring riches by serving the consumers better than they are served already. What he needs is only brains and hard work. "Modern civilization, nearly all civilization," said Edwin Cannan, the last in a long line of eminent British economists, "is based on the principle of making things pleasant for those who please the market, and unpleasant for those who fail to do so."⁹ All this talk about the concentration of economic power is vain. The bigger a corporation is, the more people it serves, the more does it depend on pleasing the consumers, the many, the masses. Economic power, in the market economy, is in the hands of the consumers.

Capitalistic business is not perseverance in the once attained state of production. It is rather ceaseless innovation, daily repeated attempts to improve the provision of the consumers by new, better and cheaper products. Any actual state of production activities is merely transitory. There prevails incessantly the tendency to supplant what is already achieved by something that serves the consumers better. There is consequently under capitalism a continuous circulation of elites. What characterizes the men whom one calls the captains of industry is

⁹Edwin Cannan, *An Economist's Protest* (London, 1928), pp. VI ff.

the ability to contribute new ideas and to put them to work. However big a corporation must be, it is doomed as soon as it does not succeed in adjusting itself daily anew to the best possible methods of serving the consumers. But the politicians and other would-be reformers see only the structure of industry as it exists today. They think that they are clever enough to snatch from business control of the plants as they are today, and to manage them by sticking to already established routines. While the ambitious newcomer, who will be the tycoon of tomorrow, is already preparing plans for things unheard of before, all they have in mind is to conduct affairs along tracks already beaten. There is no record of an industrial innovation contrived and put into practice by bureaucrats. If one does not want to plunge into stagnation, a free hand must be left to those today unknown men who have the ingenuity to lead mankind forward on the way to more and more satisfactory conditions. This is the main problem of a nation's economic organization.

Private property of the material factors of production is not a restriction of the freedom of all other people to choose what suits them best. It is, on the contrary, the means that assigns to the common man, in his capacity as a buyer, supremacy in all economic affairs. It is the means to stimulate a nation's most enterprising men to exert themselves to the best of their abilities in the service of all of the people.

VI

However, one does not exhaustively describe the sweeping changes that capitalism brought about in the conditions of the common man if one merely deals with the supremacy he enjoys on the market as a consumer and in the affairs of state as a voter and with the unprecedented improvement of his standard of living. No less important is the fact that capitalism has made it possible for him to save, to accumulate capital and to invest it. The gulf that in the pre-capitalistic status and caste society separated the owners of property from the penniless poor has been narrowed down. In older ages the journeyman had such a low pay that he could hardly lay by something and, if he nevertheless did so, he could only keep his savings by hoarding and hiding a few coins. Under capitalism his competence makes saving possible, and there are institutions that enable him to invest his funds in business. A not inconsiderable amount of the capital employed in American industries is the counterpart of the savings of employees. In acquiring savings deposits, insurance policies, bonds and also common stock, wage earners and salaried people are themselves earning interest and dividends and thereby, in the terminology of Marxism, are exploiters. The common man is directly interested in the flowering of business not only as a consumer and as an employee, but also as an investor. There prevails a tendency to efface to some extent the once sharp

difference between those who own factors of production and those who do not. But, of course, this trend can only develop where the market economy is not sabotaged by allegedly social policies. The welfare state with its methods of easy money, credit expansion and undisguised inflation continually takes bites out of all claims payable in units of the nation's legal tender. The self-styled champions of the common man are still guided by the obsolete idea that a policy that favors the debtors at the expense of the creditors is very beneficial to the majority of the people. Their inability to comprehend the essential characteristics of the market economy manifests itself also in their failure to see the obvious fact that those whom they feign to aid are creditors in their capacity as savers, policy holders, and owners of bonds.

VII

The distinctive principle of Western social philosophy is individualism. It aims at the creation of a sphere in which the individual is free to think, to choose, and to act without being restrained by the interference of the social apparatus of coercion and oppression, the State. All the spiritual and material achievements of Western civilization were the result of the operation of this idea of liberty.

This doctrine and the policies of individualism and of capitalism, its application to economic matters, do

not need any apologists or propagandists. The achievements speak for themselves.

The case for capitalism and private property rests, apart from other considerations, also upon the incomparable efficiency of its productive effort. It is this efficiency that makes it possible for capitalistic business to support a rapidly increasing population at a continually improving standard of living. The resulting progressive prosperity of the masses creates a social environment in which the exceptionally gifted individuals are free to give to their fellow-citizens all they are able to give. The social system of private property and limited government is the only system that tends to debarbarize all those who have the innate capacity to acquire personal culture.

It is a gratuitous pastime to belittle the material achievements of capitalism by observing that there are things that are more essential for mankind than bigger and speedier motorcars, and homes equipped with central heating, air conditioning, refrigerators, washing machines, and television sets. There certainly are such higher and nobler pursuits. But they are higher and nobler precisely because they cannot be aspired to by any external effort, but require the individual's personal determination and exertion. Those levelling this reproach against capitalism display a rather crude and materialistic view in assuming that moral and spiritual culture could be built either by the government or by

the organization of production activities. All that these external factors can achieve in this regard is to bring about an environment and a competence which offers the individuals the opportunity to work at their own personal perfection and edification. It is not the fault of capitalism that the masses prefer a boxing match to a performance of Sophocles' *Antigone*, jazz music to Beethoven symphonies, and comics to poetry. But it is certain that while pre-capitalistic conditions as they still prevail in the much greater part of the world makes these good things accessible only to a small minority of people, capitalism gives to the many a favorable chance of striving after them.

From whatever angle one may look at capitalism there is no reason to lament the passing of the allegedly good old days. Still less is it justified to long for the totalitarian utopias, whether of the Nazi or of the Soviet type.

We are inaugurating tonight the ninth meeting of the Mont Pelerin Society. It is fitting to remember on this occasion that meetings of this kind in which opinions opposed to those of the majority of our contemporaries and to those of their governments are advanced and are possible only in the climate of liberty and freedom that is the most precious mark of Western civilization. Let us hope that this right to dissent will never disappear.

Middle-of-the-Road
Policy Leads to
Socialism

Middle-of-the-Road Policy Leads to Socialism

The fundamental dogma of all brands of socialism and communism is that the market economy or capitalism is a system that hurts the vital interests of the immense majority of people for the sole benefit of a small minority of rugged individualists. It condemns the masses to progressing impoverishment. It brings about misery, slavery, oppression, degradation and exploitation of the working men, while it enriches a class of idle and useless parasites.

This doctrine was not the work of Karl Marx. It had been developed long before Marx entered the scene. Its most successful propagators were not the

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Marxian authors, but such men as Carlyle and Ruskin, the British Fabians, the German professors and the American Institutionalists. And it is a very significant fact that the correctness of this dogma was contested only by a few economists who were very soon silenced and barred from access to the universities, the press, the leadership of political parties and, first of all, public office. Public opinion by and large accepted the condemnation of capitalism without any reservation.

1. Socialism

But, of course, the practical political conclusions which people drew from this dogma were not uniform. One group declared that there is but one way to wipe out these evils, namely to abolish capitalism entirely. They advocate the substitution of public control of the means of production for private control. They aim at the establishment of what is called socialism, communism, planning, or state capitalism. All these terms signify the same thing. No longer should the consumers, by their buying and abstention from buying, determine what should be produced, in what quantity and of what quality. Henceforth a central authority alone should direct all production activities.

2.

**Interventionism, Allegedly a
Middle-of-the-Road Policy**

A second group seems to be less radical. They reject socialism no less than capitalism. They recommend a third system, which, as they say, is as far from capitalism as it is from socialism, which as a third system of society's economic organization, stands midway between the two other systems, and while retaining the advantages of both, avoids the disadvantages inherent in each. This third system is known as the system of interventionism. In the terminology of American politics it is often referred to as the middle-of-the-road policy.

What makes this third system popular with many people is the particular way they choose to look upon the problems involved. As they see it, two classes, the capitalists and entrepreneurs on the one hand and the wage earners on the other hand, are arguing about the distribution of the yield of capital and entrepreneurial activities. Both parties are claiming the whole cake for themselves. Now, suggest these mediators, let us make peace by splitting the disputed value equally between the two classes. The State as an impartial arbiter should interfere, and should curb the greed of the capitalists and assign a part of the profits to the working classes. Thus it will be possible to dethrone the

moloch capitalism without enthroning the moloch of totalitarian socialism.

Yet this mode of judging the issue is entirely fallacious. The antagonism between capitalism and socialism is not a dispute about the distribution of booty. It is a controversy about which two schemes for society's economic organization, capitalism or socialism, is conducive to the better attainment of those ends which all people consider as the ultimate aim of activities commonly called economic, viz., the best possible supply of useful commodities and services. Capitalism wants to attain these ends by private enterprise and initiative, subject to the supremacy of the public's buying and abstention from buying on the market. The socialists want to substitute the unique plan of a central authority for the plans of the various individuals. They want to put in place of what Marx called the "anarchy of production" the exclusive monopoly of the government. The antagonism does not refer to the mode of distributing a fixed amount of amenities. It refers to the mode of producing all those goods which people want to enjoy.

The conflict of the two principles is irreconcilable and does not allow for any compromise. Control is indivisible. Either the consumers' demand as manifested on the market decides for what purposes and how the factors of production should be employed, or the government takes care of these matters. There is

nothing that could mitigate the opposition between these two contradictory principles. They preclude each other.

Interventionism is not a golden mean between capitalism and socialism. It is the design of a third system of society's economic organization and must be appreciated as such.

3.

How Interventionism Works

It is not the task of today's discussion to raise any questions about the merits either of capitalism or of socialism. I am dealing today with interventionism alone. And I do not intend to enter into an arbitrary evaluation of interventionism from any preconceived point of view. My only concern is to show how interventionism works and whether or not it can be considered as a pattern of a permanent system for society's economic organization.

The interventionists emphasize that they plan to retain private ownership of the means of production, entrepreneurship and market exchange. But, they go on to say, it is peremptory to prevent these capitalist institutions from spreading havoc and unfairly exploiting the majority of people. It is the duty of government to restrain, by orders and prohibitions, the greed of the propertied classes lest their acquisitiveness harm the poorer classes. Unhampered or

laissez-faire capitalism is an evil. But in order to eliminate its evils, there is no need to abolish capitalism entirely. It is possible to improve the capitalist system by government interference with the actions of the capitalists and entrepreneurs. Such government regulation and regimentation of business is the only method to keep off totalitarian socialism and to salvage those features of capitalism which are worth preserving.

On the ground of this philosophy, the interventionists advocate a galaxy of various measures. Let us pick out one of them, the very popular scheme of price control.

4. **How Price Control Leads to Socialism**

The government believes that the price of a definite commodity, e.g., milk, is too high. It wants to make it possible for the poor to give their children more milk. Thus it resorts to a price ceiling and fixes the price of milk at a lower rate than that prevailing on the free market. The result is that the marginal producers of milk, those producing at the highest cost, now incur losses. As no individual farmer or businessman can go on producing at a loss, these marginal producers stop producing and selling milk on the market. They will use their cows and their

skill for other more profitable purposes. They will, for example, produce butter, cheese or meat. There will be less milk available for the consumers, not more. This, of course, is contrary to the intentions of the government. It wanted to make it easier for some people to buy more milk. But, as an outcome of its interference, the supply available drops. The measure proves abortive from the very point of view of the government and the groups it was eager to favor. It brings about a state of affairs, which—again from the point of view of the government—is even less desirable than the previous state of affairs which it was designed to improve.

Now, the government is faced with an alternative. It can abrogate its decree and refrain from any further endeavors to control the price of milk. But if it insists upon its intention to keep the price of milk below the rate the unhampered market would have determined and wants nonetheless to avoid a drop in the supply of milk, it must try to eliminate the causes that render the marginal producers' business unremunerative. It must add to the first decree concerning only the price of milk a second decree fixing the prices of the factors of production necessary for the production of milk at such a low rate that the marginal producers of milk will no longer suffer losses and will therefore abstain from restricting output. But then the same story repeats itself on a remoter plane. The supply of the factors of production

required for the production of milk drops, and again the government is back where it started. If it does not want to admit defeat and to abstain from any meddling with prices, it must push further and fix the prices of those factors of production which are needed for the production of the factors necessary for the production of milk. Thus the government is forced to go further and further, fixing step by step the prices of all consumers' goods and of all factors of production—both human, i.e., labor, and material—and to order every entrepreneur and every worker to continue work at these prices and wages. No branch of industry can be omitted from this all-round fixing of prices and wages and from this obligation to produce those quantities which the government wants to see produced. If some branches were to be left free out of regard for the fact that they produce only goods qualified as non-vital or even as luxuries, capital and labor would tend to flow into them and the result would be a drop in the supply of those goods, the prices of which government has fixed precisely because it considers them as indispensable for the satisfaction of the needs of the masses.

But when this state of all-round control of business is attained, there can no longer be any question of a market economy. No longer do the citizens by their buying and abstention from buying determine what should be produced and how. The power to

decide these matters has devolved upon the government. This is no longer capitalism; it is all-round planning by the government, it is socialism.

5.

The Zwangswirtschaft
Type of Socialism

It is, of course, true that this type of socialism preserves some of the labels and the outward appearance of capitalism. It maintains, seemingly and nominally, private ownership of the means of production, prices, wages, interest rates and profits. In fact, however, nothing counts but the government's unrestricted autocracy. The government tells the entrepreneurs and capitalists what to produce and in what quantity and quality, at what prices to buy and from whom, at what prices to sell and to whom. It decrees at what wages and where the workers must work. Market exchange is but a sham. All the prices, wages, and interest rates are determined by the authority. They are prices, wages, and interest rates in appearance only; in fact they are merely quantity relations in the government's orders. The government, not the consumers, directs production. The government determines each citizen's income, it assigns to everybody the position in which he has to work. This is socialism in the outward guise of

capitalism. It is the *Zwangswirtschaft* of Hitler's German Reich and the planned economy of Great Britain.

6. German and British Experience

For the scheme of social transformation which I have depicted is not merely a theoretical construction. It is a realistic portrayal of the succession of events that brought about socialism in Germany, in Great Britain and in some other countries.

The Germans, in the first World War, began with price ceilings for a small group of consumers' goods considered as vital necessities. It was the inevitable failure of these measures that impelled them to go further and further until, in the second period of the war, they designed the *Hindenburg plan*. In the context of the Hindenburg plan no room whatever was left for a free choice on the part of the consumers and for initiative action on the part of business. All economic activities were unconditionally subordinated to the exclusive jurisdiction of the authorities. The total defeat of the Kaiser swept the whole imperial apparatus of administration away and with it went also the grandiose plan. But when in 1931 Chancellor Brüning embarked anew on a policy of price control and his successors, first of all Hitler, obstinately clung to it, the same story repeated itself.

Great Britain and all the other countries which in the first World War adopted measures of price control, had to experience the same failure. They too were pushed further and further in their attempts to make the initial decrees work. But they were still at a rudimentary stage of this development when the victory and the opposition of the public brushed away all schemes for controlling prices.

It was different in the second World War. Then Great Britain again resorted to price ceilings for a few vital commodities and had to run the whole gamut proceeding further and further until it had substituted all-round planning of the country's whole economy for economic freedom. When the war came to an end, Great Britain was a socialist commonwealth.

It is noteworthy to remember that British socialism was not an achievement of Mr. Attlee's Labor Government, but of the war cabinet of Mr. Winston Churchill. What the Labor Party did was not the establishment of socialism in a free country, but retaining socialism as it had developed during the war and in the post-war period. The fact has been obscured by the great sensation made about the nationalization of the Bank of England, the coal mines and other branches of business. However, Great Britain is to be called a socialist country not because certain enterprises have been formally expropriated and nationalized, but because all the economic activities of all citizens are subject to full

control of the government and its agencies. The authorities direct the allocation of capital and of manpower to the various branches of business. They determine what should be produced. Supremacy in all business activities is exclusively vested in the government. The people are reduced to the status of wards, unconditionally bound to obey orders. To the businessmen, the former entrepreneurs, merely ancillary functions are left. All that they are free to do is to carry into effect, within a nearly circumscribed narrow field, the decisions of the government departments.

What we have to realize is that price ceilings affecting only a few commodities fail to attain the ends sought. On the contrary. They produce effects which from the point of view of the government are even worse than the previous state of affairs which the government wanted to alter. If the government, in order to eliminate these inevitable but unwelcome consequences, pursues its course further and further, it finally transforms the system of capitalism and free enterprise into socialism of the Hindenburg pattern.

7.

Crises and Unemployment

The same is true of all other types of meddling with the market phenomena. Minimum wage rates, whether decreed and enforced by the government or

by labor union pressure and violence, result in mass unemployment prolonged year after year as soon as they try to raise wage rates above the height of the unhampered market. The attempts to lower interest rates by credit expansion generate, it is true, a period of booming business. But the prosperity thus created is only an artificial hot-house product and must inexorably lead to the slump and to the depression. People must pay heavily for the easy-money orgy of a few years of credit expansion and inflation.

The recurrence of periods of depression and mass unemployment has discredited capitalism in the opinion of injudicious people. Yet these events are not the outcome of the operation of the free market. They are on the contrary the result of well-intentioned but ill-advised government interference with the market. There are no means by which the height of wage rates and the general standard of living can be raised other than by accelerating the increase of capital as compared with population. The only means to raise wage rates permanently for all those seeking jobs and eager to earn wages is to raise the productivity of the industrial effort by increasing the per-head quota of capital invested. What makes American wage rates by far exceed the wage rates of Europe and Asia is the fact that the American worker's toil and trouble is aided by more and better tools. All that good government can do to improve the material well-being of

the people is to establish and to preserve an institutional order in which there are no obstacles to the progressing accumulation of new capital required for the improvement of technological methods of production. This is what capitalism did achieve in the past and will achieve in the future too if not sabotaged by a bad policy.

8. Two Roads to Socialism

Interventionism cannot be considered as an economic system destined to stay. It is a method for the transformation of capitalism into socialism by a series of successive steps. It is as such different from the endeavors of the communists to bring about socialism at one stroke. The difference does not refer to the ultimate end of the political movement; it refers mainly to the tactics to be resorted to for the attainment of an end that both groups are aiming at.

Karl Marx and Friedrich Engels recommended successively each of these two ways for the realization of socialism. In 1848, in the *Communist Manifesto*, they outlined a plan for the step-by-step transformation of capitalism into socialism. The proletariat should be raised to the position of the ruling class and use its political supremacy "to wrest, by degrees, all capital from the bourgeoisie." This, they declare, "cannot be effected except by means of

despotic inroads on the rights of property and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which in the course of the movement outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production." In this vein they enumerate by way of example ten measures.

In later years Marx and Engels changed their minds. In his main treatise, *Das Capital*, first published in 1867, Marx saw things in a different way. Socialism is bound to come "with the inexorability of a law of nature." But it cannot appear before capitalism has reached its full maturity. There is but *one* road to the collapse of capitalism, namely the progressive evolution of capitalism itself. Then only will the great final revolt of the working class give it the finishing stroke and inaugurate the everlasting age of abundance.

From the point of view of this later doctrine Marx and the school of orthodox Marxism reject all policies that pretend to restrain, to regulate and to improve capitalism. Such policies, they declare, are not only futile, but outright harmful. For they rather delay the coming of age of capitalism, its maturity, and thereby also its collapse. They are therefore not progressive, but reactionary. It was this idea that led the German Social Democratic party to vote against Bismarck's social

security legislation and to frustrate Bismarck's plan to nationalize the German tobacco industry. From the point of view of the same doctrine, the communists branded the American New Deal as a reactionary plot extremely detrimental to the true interests of the working people.

What we must realize is that the antagonism between the interventionists and the communists is a manifestation of the conflict between the two doctrines of the early Marxism and of the late Marxism. It is the conflict between the Marx of 1848, the author of the *Communist Manifesto*, and the Marx of 1867, the author of *Das Capital*. And it is paradoxical indeed that the document in which Marx endorsed the policies of the present-day self-styled anti-communists is called the *Communist Manifesto*.

There are two methods available for the transformation of capitalism into socialism. One is to expropriate all farms, plants, and shops and to operate them by a bureaucratic apparatus as departments of the government. The whole of society, says Lenin, becomes "one office and one factory, with equal work and equal pay,"¹ the whole economy will be organized "like the postal system."² The

¹Cf. *Lenin, State and Revolution* (New York: Little Lenin Library No. 14, 1932), p. 84.

²*Ibid.*, p. 44.

second method is the method of the Hindenburg plan, the originally German pattern of the welfare state and of planning. It forces every firm and every individual to comply strictly with the orders issued by the government's central board of production management. Such was the intention of the National Industrial Recovery Act of 1933 which the resistance of business frustrated and the Supreme Court declared unconstitutional. Such is the idea implied in the endeavors to substitute planning for private enterprise.

9. Foreign Exchange Control

The foremost vehicle for the realization of this second type of socialism in industrial countries like Germany and Great Britain is foreign exchange control. These countries cannot feed and clothe their people out of domestic resources. They must import large quantities of food and raw materials. In order to pay for these badly needed imports, they must export manufactures, most of them produced out of imported raw material. In such countries almost every business transaction directly or indirectly is conditioned either by exporting or importing or by both exporting and importing. Hence the government's monopoly of buying and selling foreign exchange makes every kind of business activity depend on the

discretion of the agency entrusted with foreign exchange control. In this country matters are different. The volume of foreign trade is rather small when compared with the total volume of the nation's trade. Foreign exchange control would only slightly affect the much greater part of American business. This is the reason why in the schemes of our planners there is hardly any question of foreign exchange control. Their pursuits are directed toward the control of prices, wages, and interest rates, toward the control of investment and the limitation of profits and incomes.

10. Progressive Taxation

Looking backward on the evolution of income tax rates from the beginning of the Federal income tax in 1913 until the present day, one can hardly expect that the tax will not one day absorb 100 percent of all surplus above the income of the average voter. It is this that Marx and Engels had in mind when in the *Communist Manifesto* they recommended "a heavy progressive or graduated income tax."

Another of the suggestions of the *Communist Manifesto* was "abolition of all right of inheritance." Now, neither in Great Britain nor in this country have the laws gone up to this point. But again, looking backward upon the past history of the estate taxes, we

have to realize that they more and more have approached the goal set by Marx. Estate taxes of the height they have already attained for the upper brackets are no longer to be qualified as taxes. They are measures of expropriation.

The philosophy underlying the system of progressive taxation is that the income and the wealth of the well-to-do classes can be freely tapped. What the advocates of these tax rates fail to realize is that the greater part of the income taxed away would not have been consumed but saved and invested. In fact, this fiscal policy does not only prevent the further accumulation of new capital. It brings about capital decumulation. This is certainly today the state of affairs in Great Britain.

11. The Trend Toward Socialism

The course of events in the past thirty years shows a continuous, although sometimes interrupted progress toward the establishment in this country of socialism of the British and German pattern. The United States embarked later than these two other countries upon this decline and is today still farther away from its end. But if the trend of this policy will not change, the final result will only in accidental and negligible points differ from what happened in the England of Attlee and

in the Germany of Hitler. The middle-of-the-road policy is not an economic system that can last. It is a method for the realization of socialism by installments.

12. Loopholes Capitalism

Many people object. They stress the fact that most of the laws which aim at planning or at expropriation by means of progressive taxation have left some loopholes which offer to private enterprise a margin within which it can go on. That such loopholes still exist and that thanks to them this country is still a free country is certainly true. But this loopholes capitalism is not a lasting system. It is a respite. Powerful forces are at work to close these loopholes. From day to day the field in which private enterprise is free to operate is narrowed down.

13. The Coming of Socialism is Not Inevitable

Of course, this outcome is not inevitable. The trend can be reversed as was the case with many other trends in history. The Marxian dogma according to which socialism is bound to come "with the inexorability of a law of nature" is just an arbitrary

surmise devoid of any proof. But the prestige which this vain prognostic enjoys not only with the Marxians, but with many self-styled non-Marxians, is the main instrument of the progress of socialism. It spreads defeatism among those who otherwise would gallantly fight the socialist menace. The most powerful ally of Soviet Russia is the doctrine that the “wave of the future” carries us toward socialism and that it is therefore “progressive” to sympathize with all measures that restrict more and more the operation of the market economy.

Even in this country which owes to a century of “rugged individualism” the highest standard of living ever attained by any nation, public opinion condemns *laissez-faire*. In the last fifty years thousands of books have been published to indict capitalism and to advocate radical interventionism, the welfare state and socialism. The few books which tried to explain adequately the working of the free market economy were hardly noticed by the public. Their authors remained obscure, while such authors as Veblen, Commons, John Dewey and Laski were exuberantly praised. It is a well-known fact that the legitimate stage as well as the Hollywood industry are no less radically critical of free enterprise than are many novels. There are in this country many periodicals which in every issue furiously attack economic freedom. There is hardly any magazine of opinion that would plead for the system that supplied the

immense majority of the people with good food and shelter, with cars, refrigerators, radio sets and other things which the subjects of other countries call luxuries.

The impact of this state of affairs is that practically very little is done to preserve the system of private enterprise. There are only middle-of-the-roaders who think they have been successful when they have delayed for some time an especially ruinous measure. They are always in retreat. They put up today with measures which only ten or twenty years ago they would have considered as undiscussable. They will in a few years acquiesce in other measures which they today consider as simply out of the question.

What can prevent the coming of totalitarian socialism is only a thorough change in ideologies. What we need is neither anti-socialism nor anti-communism but an open positive endorsement of that system to which we owe all the wealth that distinguishes our age from the comparatively straitened conditions of ages gone by.

About the Author . . .

Ludwig von Mises (1881–1973)

The economist of the century. Throughout seven decades of teaching and writing, Ludwig von Mises reconstructed the whole of economics on a sound foundation of reason and human action. He was born in 1881 in the Austro-Hungarian city of Lemberg, the son of a successful engineer. At the age of 19, he entered the University of Vienna, and received his doctorate at 27. He studied in the stimulating tradition of Carl Menger and Eugen Böhm-Bawerk and eventually went on to surpass his teachers.

Mises published his first great work, *The Theory of Money and Credit*, in 1912 which made the 31-year old Mises one of the top economists in Europe. But with World War I driving economists and universities away from laissez-faire, Mises was never given the academic position that was his due. He taught at the University of Vienna, but as an unpaid *privatdozent*. So from 1909 to 1934, he was economic advisor to the Austrian Chamber of Commerce, during which time he established the Austrian Institute for Business Cycle Research and held a weekly private seminar attracting scholars from all over Europe.

Seeing that the Nazis were coming to power in

Two Essays by Ludwig von Mises

Austria, Mises left to teach in Switzerland and then moved to the United States, where he eventually secured a non-paying visiting professorship at New York University, thanks to the help of economist and businessman Lawrence Fertig. Mises's lifetime of scholarly output resulted in 25 books and over 250 articles. Since his death in 1973, his writings have inspired a resurgence in free-market thought and a growing number of scholars who associate themselves with the Austrian school of economics.

About the Ludwig von Mises Institute . . .

Founded in October 1982, the Ludwig von Mises Institute is dedicated to the work of Ludwig von Mises and the advancement of Austrian economics. The Institute's board is chaired by Mrs. Ludwig von Mises. The founder and president is Llewellyn H. Rockwell. Professor Murray N. Rothbard, Mises's top American student, is vice president for academic affairs.

In six decades of teaching and writing, Professor Mises rebuilt the science of economics, and the defense of the free market and honest money, on a foundation of individual human action. From then on, Marxists, Socialists, and Keynesians might retain their positions of power in governments and universities, but they had been defeated in the intellectual battle.

Mises dedicated himself to scholarship and freedom. The Mises Institute pursues the same goals through an extensive program of:

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