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LUDWIG VON MISES

THE FOUNDATION FOR ECONOMIC EDUCATION

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**Ludwig von Mises** (1881–1973) taught in Vienna and New York and served as a close adviser to the Foundation for Economic Education. He is considered the leading theorist of the Austrian School of the 20th century.

# 1

## Liberty and Property

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

### 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 citizens in a community in which the masses were metèques or 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 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 landowners 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 watchword 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.

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.”<sup>[2]</sup> 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 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.<sup>[3]</sup> 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] 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 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 exoteric 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 Bolshevik, 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 willpower. 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 individual's 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 night-watchman 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."<sup>[6]</sup> 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. 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."<sup>[7]</sup>

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 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.

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 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, policyholders, 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 motor cars, 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.

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

[2] V.I. Lenin, *State and Revolution* (New York: International Publishers, 1917) p. 84.

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

[4] Joan 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.

[5] Joan 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.

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

[7] *Ibid.*, p. 5.

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

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

## **Profit and Loss**

### **A. The Economic Nature of Profit and Loss**

#### **1. The Emergence of Profit and Loss**

In the capitalist system of society's economic organization the entrepreneurs determine the course of production. In the performance of this function they are unconditionally and totally subject to the sovereignty of the buying public, the consumers. If they fail to produce in the cheapest and best possible way those commodities which the consumers are asking for most urgently, they suffer losses and are finally eliminated from their entrepreneurial position. Other men who know better how to serve the consumers replace them.

If all people were to anticipate correctly the future state of the market, the entrepreneurs would neither earn any profits nor suffer any losses. They would have to buy the complementary factors of production at prices which would, already at the instant of the purchase, fully reflect the future prices of the products. No room would be left either for profit or for loss. What makes profit emerge is the fact that the entrepreneur who judges the future prices of the products more correctly than other people do buys some or all of the factors of production at prices which, seen from the point of view of the future state of the market, are too low. Thus the total costs of production—including interest on the capital invested—lag behind the prices which the entrepreneur receives for the product. This difference is entrepreneurial profit.

On the other hand, the entrepreneur who misjudges the future prices of the products allows for the factors of production prices which, seen from the point of view of the future state of the market, are too high. His total costs of production exceed the prices at which he can sell the product. This difference is entrepreneurial loss.



Thus profit and loss are generated by success or failure in adjusting the course of production activities to the most urgent demand of the consumers. Once this adjustment is achieved, they disappear. The prices of the complementary factors of production reach a height at which total costs of production coincide with the price of the product. Profit and loss are ever-present features only on account of the fact that ceaseless change in the economic data makes again and again new discrepancies, and consequently the need for new adjustments originate.

## **2. The Distinction Between Profits and Other Proceeds**

Many errors concerning the nature of profit and loss were caused by the practice of applying the term profit to the totality of the residual proceeds of an entrepreneur.

Interest on the capital employed is not a component part of profit. The dividends of a corporation are not profit. They are interest on the capital invested plus profit or minus loss.

The market equivalent of work performed by the entrepreneur in the conduct of the enterprise's affairs is entrepreneurial quasi-wages but not profit.

If the enterprise owns a factor on which it can earn monopoly prices, it makes a monopoly gain. If this enterprise is a corporation, such gains increase the dividend. Yet they are not profit proper. Still more serious are the errors due to the confusion of entrepreneurial activity and technological innovation and improvement.

The maladjustment the removal of which is the essential function of entrepreneurship may often consist in the fact that new technological methods have not yet been utilized to the full extent to which they should be in order to bring about the best possible satisfaction of consumers' demand. But this is not necessarily always the case. Changes in the data, especially in consumers' demand, may require adjustments which have no reference at all to technological innovations and improvements. The entrepreneur who simply increases the production of an article by adding to the existing production facilities a new outfit without any change in the technological method of production is no less an entrepreneur than the man who inaugurates a new way of producing. The business of the entrepreneur

is not merely to experiment with new technological methods, but to select from the multitude of technologically feasible methods those which are best fit to supply the public in the cheapest way with the things they are asking for most urgently. Whether a new technological procedure is or is not fit for this purpose is to be provisionally decided by the entrepreneur and will be finally decided by the conduct of the buying public. The question is not whether a new method is to be considered as a more “elegant” solution of a technological problem. It is whether, under the given state of economic data, it is the best possible method of supplying the consumers in the cheapest way.

The activities of the entrepreneur consist in making decisions. He determines for what purpose the factors of production should be employed. Any other acts which an entrepreneur may perform are merely accidental to his entrepreneurial function. It is this that laymen often fail to realize. They confuse the entrepreneurial activities with the conduct of the technological and administrative affairs of a plant. In their eyes not the stockholders, the promoters and speculators, but hired employees are the real entrepreneurs. The former are merely idle parasites who pocket the dividends.

Now nobody ever contended that one could produce without working. But neither is it possible to produce without capital goods, the previously produced factors of further production. These capital goods are scarce, i.e., they do not suffice for the production of all things which one would like to have produced. Hence the economic problem arises: to employ them in such a way that only those goods should be produced which are fit to satisfy the most urgent demands of the consumers. No good should remain unproduced on account of the fact that the factors required for its production were used—wasted—for the production of another good for which the demand of the public is less intense. To achieve this is under capitalism the function of entrepreneurship that determines the allocation of capital to the various branches of production. Under socialism it would be a function of the state, the social apparatus of coercion and oppression. The problem whether a socialist directorate, lacking any method of economic calculation, could fulfill this function is not to be dealt with in this essay.

There is a simple rule of thumb to tell entrepreneurs from non-entrepreneurs. The entrepreneurs are those on whom the incidence of losses on the capital employed falls. Amateur-economists may confuse profits

with other kinds of intakes. But it is impossible to fail to recognize losses on the capital employed.

### **3. Non-Profit Conduct of Affair**

What has been called the democracy of the market manifests itself in the fact that profit-seeking business is unconditionally subject to the supremacy of the buying public.

Non-profit organizations are sovereign unto themselves. They are, within the limits drawn by the amount of capital at their disposal, in a position to defy the wishes of the public.

In the eyes of the laymen, the stockholders, promoters, and speculators, are merely idle parasites who pocket the dividends.

A special case is that of the conduct of government affairs, the administration of the social apparatus of coercion and oppression, viz. the police power. The objectives of government, the protection of the inviolability of the individuals' lives and health and of their efforts to improve the material conditions of their existence, are indispensable. They benefit all and are the necessary prerequisite of social cooperation and civilization. But they cannot be sold and bought in the way merchandise is sold and bought; they have therefore no price on the market. With regard to them there cannot be any economic calculation. The costs expended for their conduct cannot be confronted with a price received for the product. This state of affairs would make the officers entrusted with the administration of governmental activities irresponsible despots if they were not curbed by the budget system. Under this system the administrators are forced to comply with detailed instructions enjoined upon them by the sovereign, be it a self-appointed autocrat or the whole people acting through elected representatives. To the officers limited funds are assigned which they are bound to spend only for those purposes which the sovereign has ordered. Thus the management of public administration becomes bureaucratic, i.e., dependent on definite detailed rules and regulations.

Bureaucratic management is the only alternative available where there is no profit and loss management.[\[10\]](#)

## 4. The Ballot of the Market

The consumers by their buying and abstention from buying elect the entrepreneurs in a daily repeated plebiscite as it were. They determine who should own and who not, and how much each owner should own.

As is the case with all acts of choosing a person—choosing holders of public office, employees, friends, or a consort—the decision of the consumers is made on the ground of experience and thus necessarily always refers to the past. There is no experience of the future. The ballot of the market elevates those who in the immediate past have best served the consumers. However, the choice is not unalterable and can daily be corrected. The elected who disappoints the electorate is speedily reduced to the ranks.

Each ballot of the consumers adds only a little to the elected man's sphere of action. To reach the upper levels of entrepreneurship he needs a great number of votes, repeated again and again over a long period of time, a protracted series of successful strokes. He must stand every day a new trial, must submit anew to reelection as it were.

It is the same with his heirs. They can retain their eminent position only by receiving again and again confirmation on the part of the public. Their office is revocable. If they retain it, it is not on account of the deserts of their predecessor, but on account of their own ability to employ the capital for the best possible satisfaction of the consumers.

The entrepreneurs are neither perfect nor good in any metaphysical sense. They owe their position exclusively to the fact that they are better fit for the performance of the functions incumbent upon them than other people are. They earn profit not because they are clever in performing their tasks, but because they are more clever or less clumsy than other people are. They are not infallible and often blunder. But they are less liable to error and blunder less than other people do. Nobody has the right to take offense at the errors made by the entrepreneurs in the conduct of affairs and to stress the point that people would have been better supplied if the entrepreneurs had been more skillful and prescient. If the grumbler knew better, why did he not himself fill the gap and seize the opportunity to earn

profits? It is easy indeed to display foresight after the event. In retrospect all fools become wise.

A popular chain of reasoning runs this way: The entrepreneur earns profit not only on account of the fact that other people were less successful than he in anticipating correctly the future state of the market. He himself contributed to the emergence of profit by not producing more of the article concerned; but for intentional restriction of output on his part, the supply of this article would have been so ample that the price would have dropped to a point at which no surplus of proceeds over costs of production expended would have emerged. This reasoning is at the bottom of the spurious doctrines of imperfect and monopolistic competition. It was resorted to a short time ago by the American Administration when it blamed the enterprises of the steel industry for the fact that the steel production capacity of the United States was not greater than it really was.

Certainly those engaged in the production of steel are not responsible for the fact that other people did not likewise enter this field of production. The reproach on the part of the authorities would have been sensible if they had conferred on the existing steel corporations the monopoly of steel production. But in the absence of such a privilege, the reprimand given to the operating mills is not more justified than it would be to censure the nation's poets and musicians for the fact that there are not more and better poets and musicians. If somebody is to blame for the fact that the number of people who joined the voluntary civilian defense organization is not larger, then it is not those who have already joined but only those who have not.

That the production of a commodity  $p$  is not larger than it really is, is due to the fact that the complementary factors of production required for an expansion were employed for the production of other commodities. To speak of an insufficiency of the supply of  $p$  is empty rhetoric if it does not indicate the various products  $m$  which were produced in too large quantities with the effect that their production appears now, i.e., after the event, as a waste of scarce factors of production. We may assume that the entrepreneurs who instead of producing additional quantities of  $p$  turned to the production of excessive amounts of  $m$  and consequently suffered losses, did not intentionally make their mistake.

Neither did the producers of  $p$  intentionally restrict the production of  $p$ . Every entrepreneur's capital is limited; he employs it for those projects

which, he expects, will, by filling the most urgent demand of the public, yield the highest profit.

An entrepreneur at whose disposal are 100 units of capital employs, for instance, 50 units for the production of  $p$  and 50 units for the production of  $q$ . If both lines are profitable, it is odd to blame him for not having employed more, e.g., 75 units, for the production of  $p$ . He could increase the production of  $p$  only by curtailing correspondingly the production of  $q$ . But with regard to  $q$  the same fault could be found by the grumblers. If one blames the entrepreneur for not having produced more  $p$ , one must blame him also for not having produced more  $q$ . This means: one blames the entrepreneur for the facts that there is a scarcity of the factors of production and that the earth is not a land of Cockaigne.

Perhaps the grumbler will object on the ground that he considers  $p$  a vital commodity, much more important than  $q$ , and that therefore the production of  $p$  should be expanded and that of  $q$  restricted. If this is really the meaning of his criticism, he is at variance with the valuations of the consumers. He throws off his mask and shows his dictatorial aspirations. Production should not be directed by the wishes of the public but by his own despotic discretion. But if our entrepreneur's production of  $q$  involves a loss, it is obvious that his fault was poor foresight and not intentional.

Entrance into the ranks of the entrepreneurs in a market society, not sabotaged by the interference of government or other agencies resorting to violence, is open to everybody. Those who know how to take advantage of any business opportunity cropping up will always find the capital required. For the market is always full of capitalists anxious to find the most promising employment for their funds and in search of the ingenious newcomers, in partnership with whom they could execute the most remunerative projects.

People often failed to realize this inherent feature of capitalism because they did not grasp the meaning and the effects of capital scarcity. The task of the entrepreneur is to select from the multitude of technologically feasible projects those which will satisfy the most urgent of the not yet satisfied needs of the public. Those projects for the execution of which the capital supply does not suffice must not be carried out. The market is always crammed with visionaries who want to float such impracticable and unworkable schemes. It is these dreamers who always

complain about the blindness of the capitalists who are too stupid to look after their own interests. Of course, the investors often err in the choice of their investments. But these faults consist precisely in the fact that they preferred an unsuitable project to another that would have satisfied more urgent needs of the buying public.

People often err very lamentably in estimating the work of the creative genius. Only a minority of men are appreciative enough to attach the right value to the achievement of poets, artists, and thinkers. It may happen that the indifference of his contemporaries makes it impossible for a genius to accomplish what he would have accomplished if his fellow men had displayed better judgment. The way in which the poet laureate and the philosopher *à la mode* are selected is certainly questionable.

But it is impermissible to question the free market's choice of the entrepreneurs. The consumers' preference for definite articles may be open to condemnation from the point of view of a philosopher's judgment. But judgments of value are necessarily always personal and subjective. The consumer chooses what, as he thinks, satisfies him best. Nobody is called upon to determine what could make another man happier or less unhappy. The popularity of motor cars, television sets and nylon stockings may be criticized from a "higher" point of view. But these are the things that people are asking for. They cast their ballots for those entrepreneurs who offer them this merchandise of the best quality at the cheapest price.

In choosing between various political parties and programs for the commonwealth's social and economic organization most people are uninformed and groping in the dark. The average voter lacks the insight to distinguish between policies suitable to attain the ends he is aiming at and those unsuitable. He is at a loss to examine the long chains of aprioristic reasoning which constitute the philosophy of a comprehensive social program. He may at best form some opinion about the short-run effects of the policies concerned. He is helpless in dealing with the long-run effects. The socialists and communists in principle often assert the infallibility of majority decisions. However, they belie their own words in criticizing parliamentary majorities rejecting their creed, and in denying to the people, under the one-party system, the opportunity to choose between different parties.

But in buying a commodity or abstaining from its purchase there is nothing else involved than the consumer's longing for the best possible satisfaction of his instantaneous wishes. The consumer does not—like the voter in political voting—choose between different means whose effects appear only later. He chooses between things which immediately provide satisfaction. His decision is final.

An entrepreneur earns profit by serving the consumers, the people, as they are and not as they should be according to the fancies of some grumbler or potential dictator.

## **5. The Social Function of Profit and Loss**

Profits are never normal. They appear only where there is a maladjustment, a divergence between actual production and production as it should be in order to utilize the available material and mental resources for the best possible satisfaction of the wishes of the public. They are the prize of those who remove this maladjustment; they disappear as soon as the maladjustment is entirely removed. In the imaginary construction of an evenly rotating economy there are no profits. There the sum of the prices of the complementary factors of production, due allowance being made for time preference, coincides with the price of the product.

The greater the preceding maladjustments, the greater the profit earned by their removal. Maladjustments may sometimes be called excessive. But it is inappropriate to apply the epithet "excessive" to profits.

People arrive at the idea of excessive profits by confronting the profit earned with the capital employed in the enterprise and measuring the profit as a percentage of the capital. This method is suggested by the customary procedure applied in partnerships and corporations for the assignment of quotas of the total profit to the individual partners and shareholders. These men have contributed to a different extent to the realization of the project and share in the profits and losses according to the extent of their contribution.

But it is not the capital employed that creates profits and losses. Capital does not "beget profit" as Marx thought. The capital goods as such are dead things that in themselves do not accomplish anything. If they are utilized according to a good idea, profit results. If they are utilized



according to a mistaken idea, no profit or losses result. It is the entrepreneurial decision that creates either profit or loss. It is mental acts, the mind of the entrepreneur, from which profits ultimately originate. Profit is a product of the mind, of success in anticipating the future state of the market. It is a spiritual and intellectual phenomenon.

The absurdity of condemning any profits as excessive can easily be shown. An enterprise with a capital of the amount  $c$  produced a definite quantity of  $p$  which it sold at prices that brought a surplus of proceeds over costs of  $s$  and consequently a profit of  $n$  per cent. If the entrepreneur had been less capable, he would have needed a capital of  $2c$  for the production of the same quantity of  $p$ . For the sake of argument we may even neglect the fact that this would have necessarily increased costs of production as it would have doubled the interest on the capital employed, and we may assume that  $s$  would have remained unchanged. But at any rate  $s$  would have been confronted with  $2c$  instead of  $c$  and thus the profit would have been only  $n/2$  per cent of the capital employed. The “excessive” profit would have been reduced to a “fair” level. Why? Because the entrepreneur was less efficient and because his lack of efficiency deprived his fellow men of all the advantages they could have got if an amount  $c$  of capital goods had been left available for the production of other merchandise.

In branding profits as excessive and penalizing the efficient entrepreneurs by discriminatory taxation, people are injuring themselves. Taxing profits is tantamount to taxing success in best serving the public. The only goal of all production activities is to employ the factors of production in such a way that they render the highest possible output. The smaller the input required for the production of an article becomes, the more of the scarce factors of production is left for the production of other articles. But the better an entrepreneur succeeds in this regard, the more is he vilified and the more is he soaked by taxation. Increasing costs per unit of output, that is, waste, is praised as a virtue.

The most amazing manifestation of this complete failure to grasp the task of production and the nature and functions of profit and loss is shown in the popular superstition that profit is an addendum to the costs of production, the height of which depends uniquely on the discretion of the seller. It is this belief that guides governments in controlling prices. It is the same belief that has prompted many governments to make arrangements

with their contractors according to which the price to be paid for an article delivered is to equal costs of production expended by the seller increased by a definite percentage. The effect was that the purveyor got a surplus the higher, the less he succeeded in avoiding superfluous costs.

Contracts of this type enhanced considerably the sums the United States had to expend in the two World Wars. But the bureaucrats, first of all the professors of economics who served in the various war agencies, boasted of their clever handling of the matter.

All people, entrepreneurs as well as non-entrepreneurs, look askance upon any profits earned by other people. Envy is a common weakness of men. People are loath to acknowledge the fact that they themselves could have earned profits if they had displayed the same foresight and judgment the successful businessman did. Their resentment is the more violent, the more they are subconsciously aware of this fact.

There would not be any profits but for the eagerness of the public to acquire the merchandise offered for sale by the successful entrepreneur. But the same people who scramble for these articles vilify the businessman and call his profit ill-got.

The semantic expression of this enviousness is the distinction between earned and unearned income. It permeates the textbooks, the language of the laws and administrative procedure. Thus, for instance, the official Form 201 for the New York State Income Tax Return calls "Earnings" only the compensation received by employees and, by implication, all other income, also that resulting from the exercise of a profession, unearned income. Such is the terminology of a state whose governor is a Republican and whose state assembly has a Republican majority.

Public opinion condones profits only as far as they do not exceed the salary paid to an employee. All surplus is rejected as unfair. The objective of taxation is, under the ability-to-pay principle, to confiscate this surplus.

Now one of the main functions of profits is to shift the control of capital to those who know how to employ it in the best possible way for the satisfaction of the public. The more profits a man earns, the greater his wealth consequently becomes, the more influential does he become in the conduct of business affairs. Profit and loss are the instruments by means of which the consumers pass the direction of production activities into the hands of those who are best fit to serve them. Whatever is undertaken to

curtail or to confiscate profits impairs this function. The result of such measures is to loosen the grip the consumers hold over the course of production. The economic machine becomes, from the point of view of the people, less efficient and less responsive.

The jealousy of the common man looks upon the profits of the entrepreneurs as if they were totally used for consumption. A part of them is, of course, consumed. But only those entrepreneurs attain wealth and influence in the realm of business who consume merely a fraction of their proceeds and plough back the much greater part into their enterprises. What makes small business develop into big business is not spending, but saving and capital accumulation.

## **6. Profit and Loss in the Progressing and in the Retrogressing Economy**

We call a stationary economy an economy in which the per head quota of the income and wealth of the individuals remains unchanged. In such an economy what the consumers spend more for the purchase of some articles must be equal to what they spend less for other articles. The total amount of the profits earned by one part of the entrepreneurs equals the total amount of losses suffered by other entrepreneurs.

“Profit is a product of the mind, of success in anticipating the future state of the market.”

A surplus of the sum of all profits earned in the whole economy above the sum of all losses suffered emerges only in a progressing economy, that is in an economy in which the per head quota of capital increases. This increment is an effect of saving that adds new capital goods to the quantity already previously available. The increase of capital available creates maladjustments insofar as it brings about a discrepancy between the actual state of production and that state which the additional capital makes possible. Thanks to the emergence of additional capital, certain projects which hitherto could not be executed become feasible. In directing the new capital into those channels in which it satisfies the most urgent among the previously not satisfied wants of the consumers, the entrepreneurs earn profits which are not counterbalanced by the losses of other entrepreneurs.

The enrichment which the additional capital generates goes only in part to those who have created it by saving. The rest goes, by raising the marginal productivity of labor and thereby wage rates, to the earners of wages and salaries and, by raising the prices of definite raw materials and foodstuffs, to the owners of land, and, finally, to the entrepreneurs who integrate this new capital into the most economical production processes. But while the gain of the wage earners and of the landowners is permanent, the profits of the entrepreneurs disappear once this integration is accomplished. Profits of the entrepreneurs are, as has been mentioned already, a permanent phenomenon only on account of the fact that maladjustments appear daily anew by the elimination of which profits are earned.

Let us for the sake of argument resort to the concept of national income as employed in popular economics. Then it is obvious that in a stationary economy no part of the national income goes into profits. Only in a progressing economy is there a surplus of total profits over total losses. The popular belief that profits are a deduction from the income of workers and consumers is entirely fallacious. If we want to apply the term deduction to the issue, we have to say that this surplus of profits over losses as well as the increments of the wage earners and the landowners is deducted from the gains of those whose saving brought about the additional capital. It is their saving that is the vehicle of economic improvement, that makes the employment of technological innovations possible and raises productivity and the standard of living. It is the entrepreneurs whose activity takes care of the most economical employment of the additional capital. As far as they themselves do not save, neither the workers nor the landowners contribute anything to the emergence of the circumstances which generate what is called economic progress and improvement. They are benefited by other peoples' saving that creates additional capital on the one hand and by the entrepreneurial action that directs this additional capital toward the satisfaction of the most urgent wants on the other hand. A retrogressing economy is an economy in which the per head quota of capital invested is decreasing. In such an economy the total amount of losses incurred by entrepreneurs exceeds the total amount of profits earned by other entrepreneurs.

## 7. The Computation of Profit and Loss

The originary praxeological categories of profit and loss are psychic qualities and not reducible to any interpersonal description in quantitative terms. They are intensive magnitudes. The difference between the value of the end attained and that of the means applied for its attainment is profit if it is positive and loss if it is negative.

Where there are social division of efforts and cooperation as well as private ownership of the means of production, economic calculation in terms of monetary units becomes feasible and necessary. Profit and loss are computable as social phenomena. The psychic phenomena of profit and loss, from which they are ultimately derived, remain, of course, incalculable intensive magnitudes.

The fact that in the frame of the market economy entrepreneurial profit and loss are determined by arithmetical operations has misled many people. They fail to see that essential items that enter into this calculation are estimates emanating from the entrepreneur's specific understanding of the future state of the market. They think that these computations are open to examination and verification or alteration on the part of a disinterested expert. They ignore the fact that such computations are as a rule an inherent part of the entrepreneur's speculative anticipation of uncertain future conditions.

For the task of this essay it suffices to refer to one of the problems of cost accounting. One of the items of a bill of costs is the establishment of the difference between the price paid for the acquisition of what is commonly called durable production equipment and its present value. This present value is the money equivalent of the contribution this equipment will make to future earnings. There is no certainty about the future state of the market and about the height of these earnings. They can only be determined by a speculative anticipation on the part of the entrepreneur. It is preposterous to call in an expert and to substitute his arbitrary judgment for that of the entrepreneur. The expert is objective insofar as he is not affected by an error made. But the entrepreneur exposes his own material well-being.

Of course, the law determines magnitudes which it calls profit and loss. But these magnitudes are not identical with the economic concepts of profit and loss and must not be confused with them. If a tax law calls a magnitude profit, it in effect determines the height of taxes due. It calls this magnitude profit because it wants to justify its tax policy in the eyes of the public. It would be more correct for the legislator to omit the term profit and simply to speak of the basis for the computation of the tax due.

The tendency of the tax laws is to compute what they call profit as high as possible in order to increase immediate public revenue. But there are other laws which are committed to the tendency to restrict the magnitude they call profit. The commercial codes of many nations were and are guided by the endeavor to protect the rights of creditors. They aimed at restricting what they called profit in order to prevent the entrepreneur from withdrawing to the prejudice of creditors too much from the firm or corporation for his own benefit. It was these tendencies which were operative in the evolution of the commercial usages concerning the customary height of depreciation quotas.

There is no need today to dwell upon the problem of the falsification of economic calculation under inflationary conditions. All people begin to comprehend the phenomenon of illusory profits, the offshoot of the great inflations of our age.

Failure to grasp the effects of inflation upon the customary methods of computing profits originated the modern concept of *profiteering*. An entrepreneur is dubbed a profiteer if his profit and loss statement, calculated in terms of a currency subject to a rapidly progressing inflation, shows profits which other people deem "excessive." It has happened very often in many countries that the profit and loss statement of such a profiteer, when calculated in terms of a non-inflated or less inflated currency, showed not only no profit at all but considerable losses.

Even if we neglect for the sake of argument any reference to the phenomenon of merely inflation-induced illusory profits, it is obvious that the epithet profiteer is the expression of an arbitrary judgment of value. There is no other standard available for the distinction between profiteering and earning fair profits than that provided by the censor's personal envy and resentment.

It is strange indeed that an eminent logician, the late L. Susan Stebbing, entirely failed to perceive the issue involved. Professor Stebbing equated the concept of profiteering to concepts which refer to a clear distinction of such a nature that no sharp line can be drawn between extremes. The distinction between excess profits or profiteering, and “legitimate profits,” she declared, is clear, although it is not a sharp distinction.[\[11\]](#) Now this distinction is clear only in reference to an act of legislation that defines the term excess profits as used in its context. But this is not what Stebbing had in mind. She explicitly emphasized that such legal definitions are made “in an arbitrary manner for the practical purposes of administration.” She used the term *legitimate* without any reference to legal statutes and their definitions. But is it permissible to employ the term legitimate without reference to any standard from the point of view of which the thing in question is to be considered as legitimate? And is there any other standard available for the distinction between profiteering and legitimate profits than one provided by personal judgments of value?

Professor Stebbing referred to the famous *acervus* and *calvus* arguments of the old logicians. Many words are vague insofar as they apply to characteristics which may be possessed in varying degrees. It is impossible to draw a sharp line between those who are bald and those who are not. It is impossible to define precisely the concept of baldness. But what Professor Stebbing failed to notice is that the characteristic according to which people distinguish between those who are bald and those who are not is open to a precise definition. It is the presence or the absence of hair on the head of a person. This is a clear and unambiguous mark of which the presence or absence is to be established by observation and to be expressed by propositions about existence. What is vague is merely the determination of the point at which non-baldness turns into baldness. People may disagree with regard to the determination of this point. But their disagreement refers to the interpretation of the convention that attaches a certain meaning to the word baldness. No judgments of value are implied. It may, of course, happen that the difference of opinion is in a concrete case caused by bias. But this is another thing.

The vagueness of words like bald is the same that is inherent in the indefinite numerals and pronouns. Language needs such terms as for many purposes of daily communication between men an exact arithmetical

establishment of quantities is superfluous and too bothersome. Logicians are badly mistaken in attempting to attach to such words whose vagueness is intentional and serves definite purposes the precision of the definite numerals. For an individual who plans to visit Seattle the information that there are many hotels in this city is sufficient. A committee that plans to hold a convention in Seattle needs precise information about the number of hotel beds available.

Professor Stebbing's error consisted in the confusion of existential propositions with judgments of value. Her unfamiliarity with the problems of economics, which all her otherwise valuable writings display, led her astray. She would not have made such a blunder in a field that was better known to her. She would not have declared that there is a clear distinction between an author's "legitimate royalties" and "illegitimate royalties." She would have comprehended that the height of the royalties depends on the public's appreciation of a book and that an observer who criticizes the height of royalties merely expresses his personal judgment of value.

## **B. The Condemnation of Profit**

### **1. Economics and the Abolition of Profit**

Those who spurn entrepreneurial profit as "unearned" mean that it is lucre unfairly withheld either from the workers or from the consumers or from both. Such is the idea underlying the alleged "right to the whole produce of labor" and the Marxian doctrine of exploitation. It can be said that most governments—if not all—and the immense majority of our contemporaries by and large endorse this opinion although some of them are generous enough to acquiesce in the suggestion that a fraction of profits should be left to the "exploiters."

There is no use in arguing about the adequacy of ethical precepts. They are derived from intuition; they are arbitrary and subjective. There is no objective standard available with regard to which they could be judged. Ultimate ends are chosen by the individual's judgments of value. They cannot be determined by scientific inquiry and logical reasoning. If a man says, "This is what I am aiming at whatever the consequences of my



conduct and the price I shall have to pay for it may be," nobody is in a position to oppose any arguments against him. But the question is whether it is really true that this man is ready to pay any price for the attainment of the end concerned. If this latter question is answered in the negative, it becomes possible to enter into an examination of the issue involved.

If there were really people who are prepared to put up with all the consequences of the abolition of profit, however detrimental they may be, it would not be possible for economics to deal with the problem. But this is not the case. Those who want to abolish profit are guided by the idea that this confiscation would improve the material well-being of all non-entrepreneurs. In their eyes the abolition of profit is not an ultimate end but a means for the attainment of a definite end, viz., the enrichment of the non-entrepreneurs. Whether this end can really be attained by the employment of this means and whether the employment of this means does not perhaps bring about some other effects which may to some or to all people appear more undesirable than conditions before the employment of this means, these are questions which economics is called upon to examine.

## **2. The Consequences of the Abolition of Profit**

The idea to abolish profit for the advantage of the consumers involves that the entrepreneur should be forced to sell the products at prices not exceeding the costs of production expended. As such prices are, for all articles the sale of which would have brought profit, below the potential market price, the available supply is not sufficient to make it possible for all those who want to buy at these prices to acquire the articles. The market is paralyzed by the maximum price decree. It can no longer allocate the products to the consumers. A system of rationing must be adopted.

The suggestion to abolish the entrepreneur's profit for the benefit of the employees aims not at the abolition of profit. It aims at wresting it from the hands of the entrepreneur and handing it over to his employees.

Under such a scheme the incidence of losses incurred falls upon the entrepreneur, while profits go to the employees. It is probable that the effect of this arrangement would consist in making losses increase and profits dwindle. At any rate, a greater part of the profits would be consumed and less would be saved and ploughed back into the enterprise. No capital

would be available for the establishment of new branches of production and for the transfer of capital from branches which—in compliance with the demand of the customers—should shrink into branches which should expand. For it would harm the interests of those employed in a definite enterprise or branch to restrict the capital employed in it and to transfer it into another enterprise or branch. If such a scheme had been adopted half a century ago, all the innovations accomplished in this period would have been rendered impossible. If, for the sake of argument, we were prepared to neglect any reference to the problem of capital accumulation, we would still have to realize that giving profit to the employees must result in rigidity of the once attained state of production and preclude any adjustment, improvement, and progress.

In fact, the scheme would transfer ownership of the capital invested into the hands of the employees. It would be tantamount to the establishment of syndicalism and would generate all the effects of syndicalism, a system which no author or reformer ever had the courage to advocate openly.

A third solution of the problem would be to confiscate all the profits earned by the entrepreneurs for the benefit of the state. A one hundred per cent tax on profits would accomplish this task. It would transform the entrepreneurs into irresponsible administrators of all plants and workshops. They would no longer be subject to the supremacy of the buying public. They would just be people who have the power to deal with production as it pleases them.

The policies of all contemporary governments which have not adopted outright socialism apply all these three schemes jointly. They confiscate by various measures of price control a part of the potential profits for the alleged benefit of the consumers. They support the labor unions in their endeavors to wrest, under the ability-to-pay principle of wage determination, a part of the profits from the entrepreneurs. And, last but not least, they are intent upon confiscating, by progressive income taxes, special taxes on corporation income and “excess profits” taxes, an ever increasing part of profits for public revenue. It can easily be seen that these policies if continued will very soon succeed in abolishing entrepreneurial profit altogether.

The joint effect of the application of these policies is already today rising chaos. The final effect will be the full realization of socialism by smoking out the entrepreneurs. Capitalism cannot survive the abolition of profit. It is profit and loss that force the capitalists to employ their capital for the best possible service to the consumers. It is profit and loss that make those people supreme in the conduct of business who are best fit to satisfy the public. If profit is abolished, chaos results.

### **3. The Anti-Profit Arguments**

All the reasons advanced in favor of an anti-profit policy are the outcome of an erroneous interpretation of the operation of the market economy.

The tycoons are too powerful, too rich, and too big. They abuse their power for their own enrichment. They are irresponsible tyrants. Bigness of an enterprise is in itself an evil. There is no reason why some men should own millions while others are poor. The wealth of the few is the cause of the poverty of the masses.

Each word of these passionate denunciations is false. The businessmen are not irresponsible tyrants. It is precisely the necessity of making profits and avoiding losses that gives to the consumers a firm hold over the entrepreneurs and forces them to comply with the wishes of the people. What makes a firm big is its success in best filling the demands of the buyers. If the bigger enterprise did not better serve the people than a smaller one, it would long since have been reduced to smallness. There is no harm in a businessman's endeavors to enrich himself by increasing his profits. The businessman has in his capacity as a businessman only one task: to strive after the highest possible profit. Huge profits are the proof of good service rendered in supplying the consumers. Losses are the proof of blunders committed, of failure to perform satisfactorily the tasks incumbent upon an entrepreneur. The riches of successful entrepreneurs is not the cause of anybody's poverty; it is the consequence of the fact that the consumers are better supplied than they would have been in the absence of the entrepreneur's effort. The penury of millions in the backward countries is not caused by anybody's opulence; it is the correlative of the fact that their country lacks entrepreneurs who have acquired riches. The standard of living of the common man is highest in those countries which have the

greatest number of wealthy entrepreneurs. It is to the foremost material interest of everybody that control of the factors of production should be concentrated in the hands of those who know how to utilize them in the most efficient way.

It is the avowed objective of the policies of all present-day governments and political parties to prevent the emergence of new millionaires. If this policy had been adopted in the United States fifty years ago, the growth of the industries producing new articles would have been stunted. Motorcars, refrigerators, radio sets, and a hundred other less spectacular but even more useful innovations would not have become standard equipment of most of the American family households.

The average wage earner thinks that nothing else is needed to keep the social apparatus of production running and to improve and to increase output than the comparatively simple routine work assigned to him. He does not realize that the mere toil and trouble of the routinist is not sufficient. Sedulousness and skill are spent in vain if they are not directed toward the most important goal by the entrepreneur's foresight and are not aided by the capital accumulated by capitalists. The American worker is badly mistaken when he believes that his high standard of living is due to his own excellence. He is neither more industrious nor more skillful than the workers of Western Europe. He owes his superior income to the fact that his country clung to "rugged individualism" much longer than Europe. It was his luck that the United States turned to an anti-capitalistic policy as much as forty or fifty years later than Germany. His wages are higher than those of the workers of the rest of the world because the capital equipment per head of the employee is highest in America and because the American entrepreneur was not so much restricted by crippling regimentation as his colleagues in other areas. The comparatively greater prosperity of the United States is an outcome of the fact that the New Deal did not come in 1900 or 1910, but only in 1933.

If one wants to study the reasons for Europe's backwardness, it would be necessary to examine the manifold laws and regulations that prevented in Europe the establishment of an equivalent of the American drug store and crippled the evolution of chain stores, department stores, supermarkets, and kindred outfits. It would be important to investigate the German Reich's effort to protect the inefficient methods of traditional *Handwerk*

(handicraft) against the competition of capitalist business. Still more revealing would be an examination of the Austrian *Gewerbepolitik*, a policy that from the early eighties on aimed at preserving the economic structure of the ages preceding the Industrial Revolution.

The worst menace to prosperity and civilization and to the material well-being of the wage earners is the inability of union bosses, of “union economists” and of the less intelligent strata of the workers themselves to appreciate the role entrepreneurs play in production. This lack of insight has found a classical expression in the writings of Lenin. As Lenin saw it all that production requires besides the manual work of the laborer and the designing of the engineers is “control of production and distribution,” a task that can easily be accomplished “by the armed workers.” For this accounting and control “have been *simplified* by capitalism to the utmost, till they have become the extraordinarily simple operations of watching, recording and issuing receipts, within the reach of everybody who can read and write and knows the first four rules of arithmetic.”[\[12\]](#) No further comment is needed.

#### **4. The Equality Argument**

In the eyes of the parties who style themselves progressive and leftist the main vice of capitalism is the inequality of incomes and wealth. The ultimate end of their policies is to establish equality. The moderates want to attain this goal step by step; the radicals plan to attain it at one stroke, by a revolutionary overthrow of the capitalist mode of production.

However, in talking about equality and asking vehemently for its realization, nobody advocates a curtailment of his own present income. The term equality as employed in contemporary political language always means upward leveling of one’s income, never downward leveling. It means getting more, not sharing one’s own affluence with people who have less.

If the American automobile worker, railroadman or compositor says equality, he means expropriating the holders of shares and bonds for his own benefit. He does not consider sharing with the unskilled workers who earn less. At best, he thinks of equality of all American citizens. It never occurs to him that the peoples of Latin America, Asia, and Africa may

interpret the postulate of equality as world equality and not as national equality.

The political labor movement as well as the labor union movement flamboyantly advertise their internationalism. But this internationalism is a mere rhetorical gesture without any substantial meaning. In every country in which average wage rates are higher than in any other area, the unions advocate insurmountable immigration barriers in order to prevent foreign “comrades” and “brothers” from competing with their own members. Compared with the anti-immigration laws of the European nations, the immigration legislation of the American republics is mild indeed because it permits the immigration of a limited number of people. No such normal quotas are provided in most of the European laws.

“The standard of living of the common man is highest in those countries which have the greatest number of wealthy entrepreneurs.”

All the arguments advanced in favor of income equalization within a country can with the same justification or lack of justification also be advanced in favor of world equalization. An American worker has no better title to claim the savings of the American capitalist than has any foreigner. That a man has earned profits by serving the consumers and has not entirely consumed his funds but ploughed back the greater part of them into industrial equipment does not give anybody a valid title to expropriate this capital for his own benefit. But if one maintains the opinion to the contrary, there is certainly no reason to ascribe to anybody a better right to expropriate than to anybody else. There is no reason to assert that only Americans have the right to expropriate other Americans. The big shots of American business are the scions of people who immigrated to the United States from England, Scotland, Ireland, France, Germany, and other European countries. The people of their country of origin contend that they have the same title to seize the property acquired by these men as the American people have. The American radicals are badly mistaken in believing that their social program is identical or at least compatible with the objectives of the radicals of other countries. It is not. The foreign radicals will not acquiesce in leaving to the Americans, a minority of less than 7% of the world's total population, what they think is a privileged position. A world government of the kind the American radicals are asking for would try to confiscate by a world income tax all the surplus an average

American earns above the average income of a Chinese or Indian worker. Those who question the correctness of this statement, would drop their doubts after a conversation with any of the intellectual leaders of Asia.

There is hardly any Iranian who would qualify the objections raised by the British Labour Government against the confiscation of the oil wells as anything else but a manifestation of the most reactionary spirit of capitalist exploitation. Today governments abstain from virtually expropriating—by foreign exchange control, discriminatory taxation and similar devices—foreign investments only if they expect to get in the next years more foreign capital and thus to be able in the future to expropriate a greater amount.

The disintegration of the international capital market is one of the most important effects of the anti-profit mentality of our age. But no less disastrous is the fact that the greater part of the world's population looks upon the United States—not only upon the American capitalists but also upon the American workers—with the same feelings of envy, hatred, and hostility with which, stimulated by the socialist and communist doctrines, the masses everywhere look upon the capitalists of their own nation.

## **5. Communism and Poverty**

A customary method of dealing with political programs and movements is to explain and to justify their popularity by referring to the conditions which people found unsatisfactory and to the goals they wanted to attain by the realization of these programs.

However, the only thing that matters is whether or not the program concerned is fit to attain the ends sought. A bad program and a bad policy can never be explained, still less justified by pointing to the unsatisfactory conditions of its originators and supporters. The sole question that counts is whether or not these policies can remove or alleviate the evils which they are designed to remedy.

Yet almost all our contemporaries declare again and again: If you want to succeed in fighting communism, socialism, and interventionism, you must first of all improve peoples' material conditions. The policy of *laissez faire* aims precisely at making people more prosperous. But it cannot succeed as long as want is worsened more and more by socialist and interventionist measures.

In the very short run the conditions of a part of the people can be improved by expropriating entrepreneurs and capitalists and by distributing the booty. But such predatory inroads, which even the *Communist Manifesto* described as “despotic” and as “economically insufficient and untenable,” sabotage the operation of the market economy, impair very soon the conditions of all the people and frustrate the endeavors of entrepreneurs and capitalists to make the masses more prosperous. What is good for a quickly vanishing instant, (i.e., in the shortest run) may very soon (i.e., in the long run) result in most detrimental consequences.

Historians are mistaken in explaining the rise of Nazism by referring to real or imaginary adversities and hardships of the German people. What made the Germans support almost unanimously the twenty-five points of the “unalterable” Hitler program was not some conditions which they deemed unsatisfactory, but their expectation that the execution of this program would remove their complaints and render them happier. They turned to Nazism because they lacked common sense and intelligence. They were not judicious enough to recognize in time the disasters that Nazism was bound to bring upon them.

The immense majority of the world’s population is extremely poor when compared with the average standard of living of the capitalist nations. But this poverty does not explain their propensity to adopt the communist program. They are anti-capitalistic because they are blinded by envy, ignorant, and too dull to appreciate correctly the causes of their distress. There is but one means to improve their material conditions, namely, to convince them that only capitalism can render them more prosperous.

The worst method to fight communism is that of the Marshall Plan. It gives to the recipients the impression that the United States alone is interested in the preservation of the profit system while their own concerns require a communist regime. The United States, they think, is aiding them because its people have a bad conscience. They themselves pocket this bribe but their sympathies go to the socialist system. The American subsidies make it possible for their governments to conceal partially the disastrous effects of the various socialist measures they have adopted.

Not poverty is the source of socialism, but spurious ideological prepossessions. Most of our contemporaries reject beforehand, without having ever studied them, all the teachings of economics as aprioristic



nonsense. Only experience, they maintain, is to be relied upon. But is there any experience that would speak in favor of socialism?

Retorts the socialist: But capitalism creates poverty; look at India and China. The objection is vain. Neither India nor China has ever established capitalism. Their poverty is the result of the absence of capitalism.

What happened in these and other underdeveloped countries was that they were benefited from abroad by some of the fruits of capitalism without having adopted the capitalist mode of production. European, and in more recent years also American, capitalists invested capital in their areas and thereby increased the marginal productivity of labor and wage rates. At the same time these peoples received from abroad the means to fight contagious diseases, medications developed in the capitalist countries. Consequently mortality rates, especially infant mortality, dropped considerably. In the capitalist countries this prolongation of the average length of life was partially compensated by a drop in the birth rate. As capital accumulation increased more quickly than population, the per head quota of capital invested grew continuously. The result was progressing prosperity. It was different in the countries which enjoyed some of the effects of capitalism without turning to capitalism. There the birth rate did not decline at all or not to the extent required to make the per head quota of capital invested rise. These nations prevent by their policies both the importation of foreign capital and the accumulation of domestic capital. The joint effect of the high birth rate and the absence of an increase in capital is, of course, increasing poverty.

There is but one means to improve the material well-being of men, viz., to accelerate the increase in capital accumulated as against population. No psychological lucubrations, however sophisticated, can alter this fact. There is no excuse whatever for the pursuit of policies which not only fail to attain the ends sought, but even seriously impair conditions.

## **6. The Moral Condemnation of the Profit Motive**

As soon as the problem of profits is raised, people shift it from the praxeological sphere into the sphere of ethical judgments of value. Then everybody glories in the aureole of a saint and an ascetic. He himself does not care for money and material well-being. He serves his fellow men to the

best of his abilities unselfishly. He strives after higher and nobler things than wealth. Thank God, he is not one of those egoistic profiteers.

The businessmen are blamed because the only thing they have in mind is to succeed. Yet everybody—without any exception—in acting aims at the attainment of a definite end. The only alternative to success is failure; nobody ever wants to fail. It is the very essence of human nature that man consciously aims at substituting a more satisfactory state of affairs for a less satisfactory. What distinguishes the decent man from the crook is the different goals they are aiming at and the different means they are resorting to in order to attain the ends chosen. But they both want to succeed in their sense. It is logically impermissible to distinguish between people who aim at success and those who do not.

Practically everybody aims at improving the material conditions of his existence. Public opinion takes no offense at the endeavors of farmers, workers, clerks, teachers, doctors, ministers, and people from many other callings to earn as much as they can. But it censures the capitalists and entrepreneurs for their greed. While enjoying without any scruples all the goods business delivers, the consumer sharply condemns the selfishness of the purveyors of this merchandise. He does not realize that he himself creates their profits by scrambling for the things they have to sell.

Neither does the average man comprehend that profits are indispensable in order to direct the activities of business into those channels in which they serve him best. He looks upon profits as if their only function were to enable the recipients to consume more than he himself does. He fails to realize that their main function is to convey control of the factors of production into the hands of those who best utilize them for his own purposes. He did not, as he thinks, renounce becoming an entrepreneur out of moral scruples. He chose a position with a more modest yield because he lacked the abilities required for entrepreneurship or, in rare cases indeed, because his inclinations prompted him to enter upon another career.

Mankind ought to be grateful to those exceptional men who out of scientific zeal, humanitarian enthusiasm, or religious faith sacrificed their lives, health, and wealth, in the service of their fellow men. But the philistines practice self-deception in comparing themselves with the pioneers of medical X-ray application or with nuns who attend people afflicted with the plague. It is not self-denial that makes the average

physician choose a medical career, but the expectation of attaining a respected social position and a suitable income.

Everybody is eager to charge for his services and accomplishments as much as the traffic can bear. In this regard there is no difference between the workers, whether unionized or not, the ministers, and teachers on the one hand and the entrepreneurs on the other hand. Neither of them has the right to talk as if he were Francis d'Assisi.

There is no other standard of what is morally good and morally bad than the effects produced by conduct upon social cooperation. A—hypothetical—isolated and self-sufficient individual would not in acting have to take into account anything else than his own well-being. Social man must in all his actions avoid indulging in any conduct that would jeopardize the smooth working of the system of social cooperation. In complying with the moral law, man does not sacrifice his own concerns to those of a mythical higher entity, whether it is called class, state, nation, race, or humanity. He curbs some of his own instinctive urges, appetites and greed, that is his short-run concerns, in order to serve best his own—rightly understood or long-run—interests. He foregoes a small gain that he could reap instantly lest he miss a greater but later satisfaction. For the attainment of all human ends, whatever they may be, is conditioned by the preservation and further development of social bonds and interhuman cooperation. What is an indispensable means to intensify social cooperation and to make it possible for more people to survive and to enjoy a higher standard of living is morally good and socially desirable. Those who reject this principle as unchristian ought to ponder over the text: “That thy days may be long upon the land which the Lord thy God giveth thee.” They can certainly not deny that capitalism has made man's days longer than they were in the pre-capitalistic ages.

There is no reason why capitalists and entrepreneurs should be ashamed of earning profits. It is silly that some people try to defend American capitalism by declaring: “The record of American business is good; profits are not too high.” The function of entrepreneurs is to make profits; high profits are the proof that they have well performed their task of removing maladjustments of production.

Of course, as a rule capitalists and entrepreneurs are not saints excelling in the virtue of self-denial. But neither are their critics saintly.

And with all the regard due to the sublime self-effacement of saints, we cannot help stating the fact that the world would be in a rather desolate condition if it were peopled exclusively by men not interested in the pursuit of material well-being.

## **7. The Static Mentality**

The average man lacks the imagination to realize that the conditions of life and action are in a continual flux. As he sees it, there is no change in the external objects that constitute his well-being. His world view is static and stationary. It mirrors a stagnating environment. He knows neither that the past differed from the present nor that there prevails uncertainty about future things. He is at a complete loss to conceive the function of entrepreneurship because he is unaware of this uncertainty. Like children who take all the things the parents give them without asking any questions, he takes all the goods business offers him. He is unaware of the efforts that supply him with all he needs. He ignores the role of capital accumulation and of entrepreneurial decisions. He simply takes it for granted that a magic table appears at a moment's notice laden with all he wants to enjoy.

This mentality is reflected in the popular idea of socialization. Once the parasitic capitalists and entrepreneurs are thrown out, he himself will get all that they used to consume. It is but the minor error of this expectation that it grotesquely over-rates the increment in income, if any, each individual could receive from such a distribution. Much more serious is the fact that it assumes that the only thing required is to continue in the various plants production of those goods they are producing at the moment of the socialization in the ways they were hitherto produced. No account is taken of the necessity to adjust production daily anew to perpetually changing conditions. The dilettante-socialist does not comprehend that a socialization effected fifty years ago would not have socialized the structure of business as it exists today but a very different structure. He does not give a thought to the enormous effort that is needed in order to transform business again and again to render the best possible service.

This dilettantish inability to comprehend the essential issues of the conduct of production affairs is not only manifested in the writings of Marx

and Engels. It permeates no less the contributions of contemporary pseudo-economics.

The imaginary construction of an evenly rotating economy is an indispensable mental tool of economic thinking. In order to conceive the function of profit and loss, the economist constructs the image of a hypothetical, although unrealizable, state of affairs in which nothing changes, in which tomorrow does not differ at all from today and in which consequently no maladjustments can arise and no need for any alteration in the conduct of business emerges. In the frame of this imaginary construction there are no entrepreneurs and no entrepreneurial profits and losses. The wheels turn spontaneously as it were. But the real world in which men live and have to work can never duplicate the hypothetical world of this mental makeshift.

Now one of the main shortcomings of the mathematical economists is that they deal with this evenly rotating economy—they call it the static state—as if it were something really existing. Prepossessed by the fallacy that economics is to be treated with mathematical methods, they concentrate their efforts upon the analysis of static states which, of course, allow a description in sets of simultaneous differential equations. But this mathematical treatment virtually avoids any reference to the real problems of economics. It indulges in quite useless mathematical play without adding anything to the comprehension of the problems of human acting and producing. It creates the misunderstanding as if the analysis of static states were the main concern of economics. It confuses a merely ancillary tool of thinking with reality.

The mathematical economist is so blinded by his epistemological prejudice that he simply fails to see what the tasks of economics are. He is anxious to show us that socialism is realizable under static conditions. As static conditions, as he himself admits, are unrealizable, this amounts merely to the assertion that in an unrealizable state of the world socialism would be realizable. A very valuable result, indeed, of a hundred years of the joint work of hundreds of authors, taught at all universities, publicized in innumerable textbooks and monographs and in scores of allegedly scientific magazines!

There is no such thing as a static economy. All the conclusions derived from preoccupation with the image of static states and static equilibrium are

of no avail for the description of the world as it is and will always be.

### **C. The Alternative**

A social order based on private control of the means of production cannot work without entrepreneurial action and entrepreneurial profit and, of course, entrepreneurial loss. The elimination of profit, whatever methods may be resorted to for its execution, must transform society into a senseless jumble. It would create poverty for all.

In a socialist system there are neither entrepreneurs nor entrepreneurial profit and loss. The supreme director of the socialist commonwealth would, however, have to strive in the same way after a surplus of proceeds over costs as the entrepreneurs do under capitalism. It is not the task of this essay to deal with socialism. Therefore it is not necessary to stress the point that, not being able to apply any kind of economic calculation, the socialist chief would never know what the costs and what the proceeds of his operations are.

What matters in this context is merely the fact that there is no third system feasible. There cannot be any such thing as a non-socialist system without entrepreneurial profit and loss. The endeavors to eliminate profits from the capitalist system are merely destructive. They disintegrate capitalism without putting anything in its place. It is this that we have in mind in maintaining that they result in chaos.

Men must choose between capitalism and socialism. They cannot avoid this dilemma by resorting to a capitalist system without entrepreneurial profit. Every step toward the elimination of profit is progress on the way toward social disintegration.

In choosing between capitalism and socialism people are implicitly also choosing between all the social institutions which are the necessary accompaniment of each of these systems, its “superstructure” as Marx said. If control of production is shifted from the hands of entrepreneurs, daily anew elected by a plebiscite of the consumers, into the hands of the supreme commander of the “industrial armies” (Marx and Engels) or of the “armed workers” (Lenin), neither representative government nor any civil liberties can survive. Wall Street, against which the self-styled idealists are

battling, is merely a symbol. But the walls of the Soviet prisons within which all dissenters disappear forever are a hard fact.

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[10] Cf. Mises, *Human Action*, Yale University Press, 1949, pp. 306–07; *Bureaucracy*, Yale University Press, 1944, pp. 40–73.

[11] Cf. L. Susan Stebbing, *Thinking to Some Purpose*. (Pelican Books A44), pp. 185–187.

[12] Lenin, *State and Revolution*, 1917 (Edition by International Publishers, New York, pp. 83–84). The italics are Lenin's (or the communist translator's).

# 3

## Planned Chaos

### Introductory Remarks

The characteristic mark of this age of dictators, wars and revolutions is its anti-capitalistic bias. Most governments and political parties are eager to restrict the sphere of private initiative and free enterprise. It is an almost unchallenged dogma that capitalism is done for and that the coming of all-round regimentation of economic activities is both inescapable and highly desirable.

None the less capitalism is still very vigorous in the Western Hemisphere. Capitalist production has made very remarkable progress even in these last years. Methods of production were greatly improved. Consumers have been supplied with better and cheaper goods and with many new articles unheard of a short time ago. Many countries have expanded the size and improved the quality of their manufacturing. In spite of the anti-capitalistic policies of all governments and of almost all political parties, the capitalist mode of production is in many countries still fulfilling its social function in supplying the consumers with more, better and cheaper goods.

It is certainly not a merit of governments, politicians and labour union officers that the standard of living is improving in the countries committed to the principle of private ownership of the means of production. Not offices and bureaucrats, but big business deserves credit for the fact that most of the families in the United States own a motor car and a radio set. The increase in per capita consumption in America as compared with conditions a quarter of a century ago is not an achievement of laws and executive orders. It is an accomplishment of business men who enlarged the size of their factories or built new ones.

One must stress this point because our contemporaries are inclined to ignore it. Entangled in the superstitions of statism and government omnipotence, they are exclusively preoccupied with governmental



measures. They expect everything from authoritarian action and very little from the initiative of enterprising citizens. Yet, the only means to increase well-being is to increase the quantity of products. This is what business aims at.

It is grotesque that there is much more talk about the achievements of the Tennessee Valley Authority than about all the unprecedented and unparalleled achievements of American privately operated processing industries. However, it was only the latter which enabled the United Nations to win the war and today enables the United States to come to the aid of the Marshall Plan countries.

The dogma that the State or the Government is the embodiment of all that is good and beneficial and that the individuals are wretched underlings, exclusively intent upon inflicting harm upon one another and badly in need of a guardian, is almost unchallenged. It is taboo to question it in the slightest way. He who proclaims the godliness of the State and the infallibility of its priests, the bureaucrats, is considered as an impartial student of the social sciences. All those raising objections are branded as biased and narrow-minded. The supporters of the new religion of statolatry are no less fanatical and intolerant than were the Mohammedan conquerors of Africa and Spain.

History will call our age the age of the dictators and tyrants. We have witnessed in the last years the fall of two of these inflated supermen. But the spirit which raised these knaves to autocratic power survives. It permeates textbooks and periodicals, it speaks through the mouths of teachers and politicians, it manifests itself in party programmes and in plays and novels. As long as this spirit prevails there cannot be any hope of durable peace, of democracy, of the preservation of freedom or of a steady improvement in the nation's economic well-being.

## **2. The Dictatorial, Anti-Democratic and Socialist Character of Interventionism**

Many advocates of interventionism are bewildered when one tells them that in recommending interventionism they themselves are fostering anti-democratic and dictatorial tendencies and the establishment of totalitarian

socialism. They protest that they are sincere believers and opposed to tyranny and socialism. What they aim at is only the improvement of the conditions of the poor. They say that they are driven by considerations of social justice, and favour a fairer distribution of income precisely because they are intent upon preserving capitalism and its political corollary or superstructure, viz., democratic government.

What these people fail to realize is that the various measures they suggest are not capable of bringing about the beneficial results aimed at. On the contrary they produce a state of affairs which from the point of view of their advocates is worse than the previous state which they were designed to alter. If the government, faced with this failure of its first intervention, is not prepared to undo its interference with the market and to return to a free economy, it must add to its first measure more and more regulations and restrictions. Proceeding step by step on this way it finally reaches a point in which all economic freedom of individuals has disappeared. Then socialism of the German pattern, the *Zwangswirtschaft* of the Nazis, emerges.

We have already mentioned the case of minimum wage rates. Let us illustrate the matter further by an analysis of a typical case of price control.

If the government wants to make it possible for poor parents to give more milk to their children, it must buy milk at the market price and sell it to those poor people with a loss at a cheaper rate; the loss may be covered from the means collected by taxation. But if the government simply fixes the price of milk at a lower rate than the market, the results obtained will be contrary to the aims of the government. The marginal producers will, in order to avoid losses, go out of the business of producing and selling milk. There will be less milk available for the consumers, not more. This outcome is contrary to the government's intentions. The government interfered because it considered milk as a vital necessity. It did not want to restrict its supply.

Now the government has to face the alternative: either to refrain from any endeavours to control prices, or to add to its first measure a second one, i.e., to fix the prices of the factors of production necessary for the production of milk. Then the same story repeats itself on a remoter plane: the government has again to fix the prices of the factors of production necessary for the production of those factors of production which are needed for the production of milk. Thus the government has to go further

and further, fixing the prices of all the factors of production—both human (labour) and material—and forcing every entrepreneur and every worker to continue work at these prices and wages. No branch of production can be omitted from this all-round fixing of prices and wages and this general order to continue production. If some branches of production were left free, the result would be a shifting of capital and labour to them and a corresponding fall of the supply of the goods whose prices the government had fixed. However, it is precisely these goods which the government considers as especially important for the satisfaction of the needs of the masses.

But when this state of all-round control of business is achieved, the market economy has been replaced by a system of planned economy, by socialism. Of course, this is not the socialism of immediate state management of every plant by the government as in Russia, but the socialism of the German or Nazi pattern.

Many people were fascinated by the alleged success of German price control. They said: You have only to be as brutal and ruthless as the Nazis and you will succeed in controlling prices. What these people, eager to fight Nazism by adopting its methods, did not see was that the Nazis did not enforce price control within a market society, but they established a full socialist system, a totalitarian commonwealth.

Price control is contrary to purpose if it is limited to some commodities only. It cannot work satisfactorily within a market economy. If the government does not draw from this failure the conclusion that it must abandon all attempts to control prices, it must go further and further until it substitutes socialist all-round planning for the market economy.

Production can either be directed by the prices fixed on the market by the buying and by the abstention from buying on the part of the public. Or it can be directed by the government's central board of production management. There is no third solution available. There is no third social system feasible which would be neither market economy nor socialism. Government control of only a part of prices must result in a state of affairs which—without any exception—everybody considers as absurd and contrary to purpose. Its inevitable result is chaos and social unrest.

It is this that the economists have in mind in referring to economic law and asserting that interventionism is contrary to economic law.

In the market economy the consumers are supreme. Their buying and their abstention from buying ultimately determine what the entrepreneurs produce and in what quantity and quality. It determines directly the prices of the consumers' goods and indirectly the prices of all producers' goods, viz., labour and material factors of production. It determines the emergence of profits and losses and the formation of the rate of interest. It determines every individual's income. The focal point of the market economy is the market, i.e., the process of the formation of commodity prices, wage rates and interest rates and their derivatives, profits and losses. It makes all men in their capacity as producers responsible to the consumers. This dependence is direct with entrepreneurs, capitalists, farmers and professional men, and indirect with people working for salaries and wages. The market adjusts the efforts of all those engaged in supplying the needs of the consumers to the wishes of those for whom they produce, the consumers. It subjects production to consumption.

The market is a democracy in which every penny gives a right to vote. It is true that the various individuals have not the same power to vote. The richer man casts more ballots than the poorer fellow. But to be rich and to earn a higher income is, in the market economy, already the outcome of a previous election. The only means to acquire wealth and to preserve it, in a market economy not adulterated by government-made privileges and restrictions, is to serve the consumers in the best and cheapest way. Capitalists and landowners who fail in this regard suffer losses. If they do not change their procedure, they lose their wealth and become poor. It is consumers who make poor people rich and rich people poor. It is the consumers who fix the wages of a movie star and an opera singer at a higher level than those of a welder or an accountant.

Every individual is free to disagree with the outcome of an election campaign or of the market process. But in a democracy he has no other means to alter things than persuasion. If a man were to say: "I do not like the mayor elected by majority vote; therefore I ask the government to replace him by the man I prefer," one would hardly call him a democrat. But if the same claims are raised with regard to the market, most people are too dull to discover the dictatorial aspirations involved.

The consumers have made their choices and determined the income of the shoe manufacturer, the movie star and the welder. Who is Professor X to

arrogate to himself the privilege of overthrowing their decision? If he were not a potential dictator, he would not ask the government to interfere. He would try to persuade his fellow-citizens to increase their demand for the products of the welders and to reduce their demand for shoes and pictures.

The consumers are not prepared to pay for cotton prices which would render the marginal farms, i.e., those producing under the least favourable conditions, profitable. This is very unfortunate indeed for the farmers concerned; they must discontinue growing cotton and try to integrate themselves in another way into the whole of production.

But what shall we think of the statesman who interferes by compulsion in order to raise the price of cotton above the level it would reach on the free market? What the interventionist aims at is the substitution of police pressure for the choice of the consumers. All this talk: the state should do this or that, ultimately means: the police should force consumers to behave otherwise than they would behave spontaneously. In such proposals as: let *us* raise farm prices, let *us* raise wage rates, let *us* lower profits, let *us* curtail the salaries of executives, the *us* ultimately refers to the police. Yet the authors of these projects protest that they are planning for freedom and industrial democracy.

In most non-socialist countries the labour unions are granted special rights. They are permitted to prevent non-members from working. They are allowed to call a strike and, when on strike, are virtually free to employ violence against all those who are prepared to continue working, viz., the strike-breakers. This system assigns an unlimited privilege to those engaged in vital branches of industry. Those workers whose strike cuts off the supply of water, light, food and other necessities are in a position to obtain all they want at the expense of the rest of the population. It is true that in the United States their unions have up to now exercised some moderation in taking advantage of this opportunity. Other American unions and many European unions have been less cautious. They are intent upon enforcing wage increases without bothering about the disaster inevitably resulting.

The interventionists are not shrewd enough to realize that labour union pressure and compulsion are absolutely incompatible with any system of social organization. The union problem has no reference whatsoever to the right of citizens to associate with one another in assemblies and associations; no democratic country denies its citizens this right. Neither

does anybody dispute a man's right to stop work and to go on strike. The only question is whether or not the unions should be granted the privilege of resorting with impunity to violence. This privilege is no less incompatible with socialism than with capitalism. No social co-operation under the division of labour is possible when some people or unions of people are granted the right to prevent by violence and the threat of violence other people from working. When enforced by violence, a strike in vital branches of production or a general strike are tantamount to a revolutionary destruction of society.

A government abdicates if it tolerates any non-governmental agency's use of violence. If the government forsakes its monopoly of coercion and compulsion, anarchic conditions result. If it were true that a democratic system of government is unfit to protect unconditionally every individual's right to work in defiance of the orders of a union, democracy would be doomed. Then dictatorship would be the only means to preserve the division of labour and to avoid anarchy. What generated dictatorship in Russia and Germany was precisely the fact that the mentality of these nations made suppression of union violence unfeasible under democratic conditions. The dictators abolished strikes and thus broke the spine of labour unionism. There is no question of strikes in the Soviet empire.

It is illusory to believe that arbitration of labour disputes could bring the unions into the framework of the market economy and make their functioning compatible with the preservation of domestic peace. Judicial settlement of controversies is feasible if there is a set of rules available, according to which individual cases can be judged. But if such a code is valid and its provisions are applied to the determination of the height of wage rates, it is no longer the market which fixes them, but the code and those who legislate with regard to it. Then the government is supreme and no longer the consumers buying and selling on the market. If no such code exists, a standard according to which a controversy between employers and employees could be decided is lacking. It is vain to speak of "fair" wages in the absence of such a code. The notion of fairness is nonsensical if not related to an established standard. In practice, if the employers do not yield to the threats of the unions, arbitration is tantamount to the determination of wage rates by the government-appointed arbitrator. Peremptory

authoritarian decision is substituted for the market price. The issue is always the same: the government *or* the market. There is no third solution.

Metaphors are often very useful in elucidating complicated problems and in making them comprehensible to less intelligent minds. But they become misleading and result in nonsense if people forget that every comparison is imperfect. It is silly to take metaphorical idioms literally and to deduce from their interpretation features of the object one wished to make more easily understandable by their use. There is no harm in the economists' description of the operation of the market as *automatic* and in their custom of speaking of the *anonymous* forces operating on the market. They could not anticipate that anybody would be so stupid as to take these metaphors literally.

No "automatic" and "anonymous" forces actuate the "mechanism" of the market. The only factors directing the market and determining prices are purposive acts of men. There is no automatism; there are men consciously aiming at ends chosen and deliberately resorting to definite means for the attainment of these ends. There are no mysterious mechanical forces; there is only the will of every individual to satisfy his demand for various goods. There is no anonymity; there are you and I and Bill and Joe and all the rest. And each of us is engaged both in production and consumption. Each contributes his share to the determination of prices.

The dilemma is not between automatic forces and planned action. It is between the democratic process of the market, in which every individual has his share, and the exclusive rule of a dictatorial body. Whatever people do in the market economy, is the execution of their own plans. In this sense every human action means planning. What those calling themselves planners advocate is not the substitution of planned action for letting things go. It is the substitution of the planner's own plan for the plans of his fellow-men. The planner is a potential dictator who wants to deprive all other people of the power to plan and act according to their own plans. He aims at one thing only: the exclusive absolute pre-eminence of his own plan.

It is no less erroneous to declare that a government that is not socialistic has no plan. Whatever a government does is the execution of a plan, i.e., of a design. One may disagree with such a plan. But one must not say that it is not a plan at all. Professor Wesley C. Mitchell maintained that

the British liberal government “planned to have no plan.”[\[13\]](#) However, the British government in the liberal age certainly had a definite plan. Its plan was private ownership of the means of production, free initiative and market economy. Great Britain was very prosperous indeed under this plan which according to Professor Mitchell is “no plan.”

The planners pretend that their plans are scientific and that there cannot be disagreement with regard to them among well-intentioned and decent people. However, there is no such thing as a scientific *ought*. Science is competent to establish what is. It can never dictate what ought to be and what ends people should aim at. It is a fact that men disagree in their value judgments. It is insolent to arrogate to oneself the right to overrule the plans of other people and to force them to submit to the plan of the planner. Whose plan should be executed? The plan of the CIO or those of any other group? The plan of Trotsky or that of Stalin? The plan of Hitler or that of Strasser?

When people were committed to the idea that in the field of religion only one plan must be adopted, bloody wars resulted. With the acknowledgment of the principle of religious freedom these wars ceased. The market economy safeguards peaceful economic co-operation because it does not use force upon the economic plans of the citizens. If one master plan is to be substituted for the plans of each citizen, endless fighting must emerge. Those who disagree with the dictator’s plan have no other means to carry on than to defeat the despot by force of arms.

It is an illusion to believe that a system of planned socialism could be operated according to democratic methods of government. Democracy is inextricably linked with capitalism. It cannot exist where there is planning. Let us refer to the words of the most eminent of the contemporary advocates of socialism. Professor Harold Laski declared that the attainment of power by the British Labour Party in the normal parliamentary fashion must result in a radical transformation of parliamentary government. A socialist administration needs “guarantees” that its work of transformation would not be “disrupted” by repeal in event of its defeat at the polls. Therefore the suspension of the Constitution is “inevitable.”[\[14\]](#) How pleased would Charles I and George III have been if they had known the books of Professor Laski!



Sidney and Beatrice Webb (Lord and Lady Passfield) tell us that “in any corporate action a loyal unity of thought is so important that, if anything is to be achieved, public discussion must be suspended between the promulgation of the decision and the accomplishment of the task.” Whilst “the work is in progress” any expression of doubt, or even of fear that the plan will not be successful, is “an act of disloyalty, or even of treachery.”<sup>[15]</sup> Now as the process of production never ceases and some work is always in progress and there is always something to be achieved, it follows that a socialist government must never concede any freedom of speech and the press. “A loyal unity of thought,” what a high-sounding circumlocution for the ideals of Philip II and the Inquisition! In this regard another eminent admirer of the Soviets, Mr. T. G. Crowther, speaks without any reserve. He plainly declares that inquisition is “beneficial to science when it protects a rising class,”<sup>[16]</sup> i.e., when Mr. Crowther’s friends resort to it. Hundreds of similar dicta could be quoted.

In the Victorian age, when John Stuart Mill wrote his essay *On Liberty*, such views as those held by Professor Laski, Mr. and Mrs. Webb and Mr. Crowther were called reactionary. Today they are called “progressive” and “liberal.” On the other hand people who oppose the suspension of parliamentary government and of the freedom of speech and the press and the establishment of inquisition are scorned as “reactionaries,” as “economic royalists” and as “Fascists.”

Those interventionists who consider interventionism as a method of bringing about full socialism step by step are at least consistent. If the measures adopted fail to achieve the beneficial results expected and end in disaster, they ask for more and more government interference until the government has taken over the direction of all economic activities. But those interventionists who look at interventionism as a means of improving capitalism and thereby preserving it are utterly confused.

In the eyes of these people all the undesired and undesirable effects of government interference with business are caused by capitalism. The very fact that a governmental measure has brought about a state of affairs which they dislike is for them a justification of further measures. They fail, for instance, to realize that the role monopolistic schemes play in our time is the effect of government interference such as tariffs and patents. They advocate government action for the prevention of monopoly. One could

hardly imagine a more unrealistic idea. For the governments whom they ask to fight monopoly are the same governments who are devoted to the principle of monopoly. Thus, the American New Deal Government embarked upon a thorough-going monopolistic organization of every branch of American business, by the NRA, and aimed at organizing American farming as a vast monopolistic scheme, restricting farm output for the sake of substituting monopoly prices for the lower market prices. It was a party to various international commodity control agreements the undisguised aim of which was to establish international monopolies of various commodities. The same is true of all other governments. The Union of Soviet Socialist Republics was also a party to some of these intergovernmental monopolistic conventions.<sup>[17]</sup> Its repugnance for collaboration with the capitalistic countries was not so great as to cause it to miss any opportunity for fostering monopoly.

The programme of this self-contradictory interventionism is dictatorship, supposedly to make people free. But the liberty its supporters advocate is liberty to do the “right” things, i.e., the things they themselves want to be done. They are not only ignorant of the economic problem involved. They lack the faculty of logical thinking.

The most absurd justification of interventionism is provided by those who look upon the conflict between capitalism and socialism as if it were a contest over the distribution of income. Why should not the propertied classes be more compliant? Why should they not accord to the poor workers a part of their ample revenues? Why should they oppose the government’s design to raise the share of the underprivileged by decreeing minimum wage rates and maximum prices and by cutting profits and interest rates down to a “fairer” level? Pliability in such matters, they say, would take the wind from the sails of the radical revolutionaries and preserve capitalism. The worst enemies of capitalism, they say, are those intransigent doctrinaires whose excessive advocacy of economic freedom, of *laissez-faire* and Manchesterism renders vain all attempts to come to a compromise with the claims of labour. These adamant reactionaries are alone responsible for the bitterness of contemporary party strife and the implacable hatred it generates. What is needed is the substitution of a constructive programme for the purely negative attitude of the economic

royalists. And, of course, “constructive” is in the eyes of these people only interventionism.

However, this mode of reasoning is entirely vicious. It takes for granted that the various measures of government interference with business will attain those beneficial results which their advocates expect from them. It blithely disregards all that economics says about their futility in attaining the ends sought, and their unavoidable and undesirable consequences. The question is not whether minimum wage rates are fair or unfair, but whether or not they bring about unemployment of a part of those eager to work. By calling these measures just, the interventionist does not refute the objections raised against their expediency by the economists. He merely displays ignorance of the question at issue.

The conflict between capitalism and socialism is not a contest between two groups of claimants concerning the size of the portions to be allotted to each of them out of a definite supply of goods. It is a dispute concerning what system of social organization best serves human welfare. Those fighting socialism do not reject socialism because they envy the workers the benefits they (the workers) could allegedly derive from the socialist mode of production. They fight socialism precisely because they are convinced that it would harm the masses in reducing them to the status of poor serfs entirely at the mercy of irresponsible dictators.

In this conflict of opinions everybody must make up his mind and take a definite stand. Everybody must side either with the advocates of economic freedom or with those of totalitarian socialism. One cannot evade this dilemma by adopting an allegedly middle-of-the-road position, namely interventionism. For interventionism is neither a middle way nor a compromise between capitalism and socialism. It is a third system. It is a system the absurdity and futility of which is agreed upon not only by all economists but even by the Marxians.

There is no such thing as an “excessive” advocacy of economic freedom. On the one hand, production can be directed by the efforts of each individual to adjust his conduct so as to fill the most urgent wants of the consumers in the most appropriate way. This is the market economy. On the other hand, production can be directed by authoritarian decree. If these decrees concern only some isolated items of the economic structure, they fail to attain the ends sought, and their own advocates do not like their

outcome. If they come up to all-round regimentation, they mean totalitarian socialism.

Men must choose between the market economy and socialism. The state can preserve the market economy in protecting life, health and private property against violent or fraudulent aggression; or it can itself control the conduct of all production activities. Some agency must determine what should be produced. If it is not the consumers by means of demand and supply on the market, it must be the government by compulsion.

### **3. Socialism and Communism**

In the terminology of Marx and Engels the words communism and socialism are synonymous. They are alternately applied without any distinction between them. The same was true for the practice of all Marxian groups and sects until 1917. The political parties of Marxism which considered the *Communist Manifesto* as the unalterable gospel of their doctrine called themselves *socialist* parties. The most influential and most numerous of these parties, the German party, adopted the name Social Democratic Party. In Italy, in France and in all other countries in which Marxian parties already played a role in political life before 1917, the term *socialist* likewise superseded the term *communist*. No Marxian ever ventured, before 1917, to distinguish between communism and socialism.

In 1875, in his Criticism of the Gotha Programme of the German Social Democratic Party, Marx distinguished between a lower (earlier) and a higher (later) phase of the future communist society. But he did not reserve the name of communism to the higher phase, and did not call the lower phase socialism as differentiated from communism.

One of the fundamental dogmas of Marx is that socialism is bound to come “with the inexorability of a law of nature.” Capitalist production begets its own negation and establishes the socialist system of public ownership of the means of production. This process “executes itself through the operation of the inherent laws of capitalist production.”<sup>[18]</sup> It is independent of the wills of people.<sup>[19]</sup> It is impossible for men to accelerate it, to delay it or to hinder it. For “no social system ever disappears before all the productive forces are developed for the development of which it is broad enough, and new higher methods of

production never appear before the material conditions of their existence have been hatched out in the womb of previous society.”[\[20\]](#)

This doctrine is, of course, irreconcilable with Marx’s own political activities and with the teachings he advanced for the justification of these activities. Marx tried to organize a political party which by means of revolution and civil war should accomplish the transition from capitalism to socialism. The characteristic feature of their parties was, in the eyes of Marx and all Marxian doctrinaires, that they were revolutionary parties invariably committed to the idea of violent action. Their aim was to rise in rebellion, to establish the dictatorship of the proletarians and to exterminate mercilessly all bourgeois. The deeds of the Paris Communards in 1871 were considered as the perfect model of such a civil war. The Paris revolt, of course, had lamentably failed. But later uprisings were expected to succeed.  
[\[21\]](#)

However, the tactics applied by the Marxian parties in various European countries were irreconcilably opposed to each of these two contradictory varieties of the teachings of Karl Marx. They did not place confidence in the inevitability of the coming of socialism. Neither did they trust in the success of a revolutionary upheaval. They adopted the methods of parliamentary action. They solicited votes in election campaigns and sent their delegates into the parliaments. They “degenerated” into democratic parties. In the parliaments they behaved like other parties of the opposition. In some countries they entered into temporary alliances with other parties, and occasionally socialist members sat in the cabinets. Later, after the end of the first World War, the socialist parties became paramount in many parliaments. In some countries they ruled exclusively, in others in close co-operation with “bourgeois” parties.

It is true that these domesticated socialists before 1917 never abandoned lip service to the rigid principles of orthodox Marxism. They repeated again and again that the coming of socialism is unavoidable. They emphasized the inherent revolutionary character of their parties. Nothing could arouse their anger more than when somebody dared to dispute their adamant revolutionary spirit. However, in fact they were parliamentary parties like all other parties.

From a correct Marxian point of view, as expressed in the later writings of Marx and Engels (but not yet in the Communist Manifesto), all

measures designed to restrain, to regulate and to improve capitalism were simply “petty-bourgeois” nonsense stemming from an ignorance of the immanent laws of capitalist evolution. True socialists should not place any obstacles in the way of capitalist evolution. For only the full maturity of capitalism could bring about socialism. It is not only vain, but harmful to the interests of the proletarians to resort to such measures. Even labour-unionism is not an adequate means for the improvement of the conditions of the workers. [22] Marx did not believe that interventionism could benefit the masses. He violently rejected the idea that such measures as minimum wage rates, price ceilings, restriction of interest rates, social security and so on are preliminary steps in bringing about socialism. He aimed at the radical abolition of the wages system which can be accomplished only by communism in its higher phase. He would have sarcastically ridiculed the idea of abolishing the “commodity character” of labour within the frame of a capitalist society by the enactment of a law.

But the socialist parties as they operated in the European countries were virtually no less committed to interventionism than the *Sozialpolitik* of the Kaiser’s Germany and the American New Deal. It was against this policy that George Sorel and Syndicalism directed their attacks. Sorel, a timid intellectual of a bourgeois background, deprecated the “degeneration” of the socialist parties for which he blamed their penetration by bourgeois intellectuals. He wanted to see the spirit of ruthless aggressiveness, inherent in the masses, revived and freed from the guardianship of intellectual cowards. For Sorel nothing counted but riots. He advocated *action directe*, i.e., sabotage and the general strike, as initiatory steps towards the final great revolution.

Sorel had success mostly among snobbish and idle intellectuals and no less snobbish and idle heirs of wealthy entrepreneurs. He did not perceptibly move the masses. For the Marxian parties in Western and Central Europe his passionate criticism was hardly more than a nuisance. His historical importance consisted mainly in the role his ideas played in the evolution of Russian Bolshevism and Italian Fascism.

In order to understand the mentality of the Bolshevists we must again refer to the dogmas of Karl Marx. Marx was fully convinced that capitalism is a stage of economic history which is not limited to a few advanced countries only. Capitalism has the tendency to convert all parts of the world

into capitalist countries. The bourgeoisie forces all nations to become capitalist nations. When the final hour of capitalism sounds, the whole world will be uniformly in the stage of mature capitalism, ripe for the transition to socialism. Socialism will emerge at the same time in all parts of the world.

Marx erred on this point no less than in all his other statements. Today even the Marxians cannot and do not deny that there still prevail enormous differences in the development of capitalism in various countries. They realize that there are many countries which, from the point of view of the Marxian interpretation of history, must be described as pre-capitalistic. In these countries the bourgeoisie has not yet attained a ruling position and has not yet set the historical stage of capitalism which is the necessary prerequisite of the appearance of socialism. These countries therefore must first accomplish their "bourgeois revolution" and must go through all phases of capitalism before there can be any question of transforming them into socialist countries. The only policy which Marxians could adopt in such countries would be to support the bourgeois unconditionally, first in their endeavours to seize power and then in their capitalistic ventures. A Marxian party could for a very long time have no other task than to be subservient to bourgeois liberalism. This alone is the mission which historical materialism, if consistently applied, could assign to Russian Marxians. They would be forced to wait quietly until capitalism should have made their nation ripe for socialism.

But the Russian Marxians did not want to wait. They resorted to a new modification of Marxism according to which it was possible for a nation to skip one of the stages of historical evolution. They shut their eyes to the fact that this new doctrine was not a modification of Marxism, but rather the denial of the last remnant which was left of it. It was an undisguised return to the pre-Marxian and anti-Marxian socialist teachings according to which men are free to adopt socialism at any time if they consider it as a system more beneficial to the commonweal than capitalism. It utterly exploded all the mysticism inwrought into dialectical materialism and in the alleged Marxian discovery of the inexorable laws of mankind's economic evolution.

Having emancipated themselves from Marxian determinism, the Russian Marxians were free to discuss the most appropriate tactics for the

realization of socialism in their country. They were no longer bothered with economic problems. They had no longer to investigate whether or not the time had come. They had only one task to accomplish, the seizure of the reins of government.

One group maintained that lasting success could be expected only if the support of a sufficient number of the people, though not necessarily of the majority, could be won. Another group did not favour such a time-consuming procedure. They suggested a bold stroke. A small group of fanatics should be organized as the vanguard of the revolution. Strict discipline and unconditional obedience to the chief should make these professional revolutionists fit for a sudden attack. They should supplant the Czarist government and then rule the country according to the traditional methods of the Czar's police.

The terms used to signify these two groups—Bolshevists (majority) for the latter and Mensheviks (minority) for the former—refer to a vote taken in 1903 at a meeting held for the discussion of these tactical issues. The only difference dividing the two groups from one another was this matter of tactical methods. They both agreed with regard to the ultimate end: socialism.

Both sects tried to justify their respective points of view by quoting passages from Marx's and Engels's writings. This is, of course, the Marxian custom. And each sect was in a position to discover in these sacred books dicta confirming its own stand.

Lenin, the Bolshevik chief, knew his countrymen much better than his adversaries and their leader, Plekhanov, did. He did not, like Plekhanov, make the mistake of applying to Russians the standards of the Western nations. He remembered how foreign women had twice simply usurped supreme power and quietly ruled for a life-time. He was aware of the fact that the terrorist methods of the Czar's secret police were successful and he was confident that he could considerably improve on these methods. He was a ruthless dictator and he knew that the Russians lacked the courage to resist oppression. Like Cromwell, Robespierre and Napoleon, he was an ambitious usurper and fully trusted the absence of revolutionary spirit in the immense majority. The autocracy of the Romanovs was doomed because the unfortunate Nicholas II was a weakling. The socialist lawyer Kerensky failed because he was committed to the principle of parliamentary



government. Lenin succeeded because he never aimed at anything else than his own dictatorship. And the Russians yearned for a dictator, for a successor of the Terrible Ivan.

The rule of Nicholas II was not ended by a real revolutionary upheaval. It collapsed on the battlefields. Anarchy resulted which Kerensky could not master. A skirmish in the streets of Saint Petersburg removed Kerensky. A short time later Lenin had his eighteenth Brumaire. In spite of all the terror practised by the Bolshevists the Constituent Assembly, elected by universal franchise for men and women, had only about twenty per cent Bolshevik members. Lenin dispelled by force of arms the Constituent Assembly. The short-lived “liberal” interlude was liquidated. Russia passed from the hands of the inept Romanovs into those of a real autocrat.

Lenin did not content himself with the conquest of Russia. He was fully convinced that he was destined to bring the bliss of socialism to all nations, not only to Russia. The official name which he chose for his government—Union of the Soviet Socialist Republics—does not contain any reference to Russia. It was designed as the nucleus of a world government. It was implied that all foreign comrades by rights owed allegiance to this government and that all foreign bourgeois who dared to resist were guilty of high treason and deserved capital punishment. Lenin did not doubt in the least that all Western countries were on the eve of the great final revolution. He daily expected its outbreak.

There was in the opinion of Lenin only one group in Europe that might—although without any prospect of success—try to prevent the revolutionary upheaval: the depraved members of the intelligentsia who had usurped the leadership of the socialist parties. Lenin had long hated these men for their addiction to parliamentary procedure and their reluctance to endorse his dictatorial aspirations. He raged against them because he held them responsible for the fact that the socialist parties had supported the war effort of their countries. Already in his Swiss exile, which ended in 1917, Lenin began to split the European socialist parties. Now he set up a new, a Third International which he controlled in the same dictatorial manner in which he directed the Russian Bolshevists. For this new party Lenin chose the name Communist Party. The communists were to fight unto death the various European socialist parties, these “social traitors,” and they were to arrange the immediate liquidation of the bourgeoisie and seizure of power

by the armed workers. Lenin did not differentiate between socialism and communism as social systems. The goal which he aimed at was not called communism as opposed to socialism. The official name of the Soviet government is Union of the *Socialist* (not of the *Communist*) Soviet Republics. In this regard he did not want to alter the traditional terminology which considered the terms as synonymous. He merely called his partisans, the only sincere and consistent supporters of the revolutionary principles of orthodox Marxism, *communists* and their tactical methods *communism* because he wanted to distinguish them from the “treacherous hirelings of the capitalist exploiters,” the wicked Social Democratic leaders like Kautsky and Albert Thomas. These traitors, he emphasized, were anxious to preserve capitalism. They were not true socialists. The only genuine Marxians were those who rejected the name of socialists, irremediably fallen into disrepute.

Thus the distinction between communists and socialists came into being. Those Marxians who did not surrender to the dictator in Moscow called themselves social democrats or, in short, socialists. What characterized them was the belief that the most appropriate method for the realization of their plans to establish socialism, the final goal common to them as well as to the communists, was to win the support of the majority of their fellow-citizens. They abandoned the revolutionary slogans and tried to adopt democratic methods for the seizure of power. They did not bother about the problem whether or not a socialist regime is compatible with democracy. But for the attainment of socialism they were resolved to apply democratic procedures.

The communists, on the other hand, were in the early years of the Third International firmly committed to the principle of revolution and civil war. They were loyal only to their Russian chief. They expelled from their ranks everybody who was suspected of feeling himself bound by any of his country’s laws. They plotted unceasingly and squandered blood in unsuccessful riots.

Lenin could not understand why the communists failed everywhere outside Russia. He did not expect much from the American workers. In the United States, the communists agreed, the workers lacked the revolutionary spirit because they were spoiled by well-being and steeped in the vice of money-making. But Lenin did not doubt that the European masses were

class-conscious and therefore fully committed to revolutionary ideas. The only reason why the revolution had not been realized was in his opinion the inadequacy and cowardice of the communist officials. Again and again he deposed his vicars and appointed new men. But he did not succeed any better.

In the Anglo-Saxon and in the Latin-American countries the socialist voters place confidence in democratic methods. Here the number of people who seriously aim at a communist revolution is very small. Most of those who publicly proclaim their adherence to the principles of communism would feel extremely unhappy if the revolution were to arise and expose their lives and their property to danger. If the Russian armies were to march into their countries or if domestic communists were to seize power without engaging them in the fight, they would probably rejoice in the hope of being rewarded for their Marxian orthodoxy. But they themselves do not long for revolutionary laurels.

It is a fact that in all these thirty years of passionate pro-Soviet agitation not a single country outside Russia went communist of its citizens' own accord. Eastern Europe turned to communism only when the diplomatic arrangements of international power politics had converted it into a sphere of exclusive Russian influence and hegemony. It is unlikely that Western Germany, France, Italy and Spain will espouse communism if the United States and Great Britain do not adopt a policy of absolute diplomatic "*désintéressement*." What gives strength to the communist movement in these and in some other countries is the belief that Russia is driven by an unflinching "dynamism" while the Anglo-Saxon powers are indifferent and not very much interested in their fate.

Marx and the Marxians erred lamentably when they assumed that the masses long for a revolutionary overthrow of the "bourgeois" order of society. The militant communists are to be found only in the ranks of those who make a living from their communism or expect that a revolution would further their personal ambitions. The subversive activities of these professional plotters are dangerous precisely on account of the naivety of those who are merely flirting with the revolutionary idea. Those confused and misguided sympathizers who call themselves "liberals" and whom the communists call "useful innocents," the fellow-travellers and even the majority of the officially registered party members, would be terribly

frightened if they were to discover one day that their chiefs mean business when preaching sedition. But then it may be too late to avert disaster.

For the time being, the ominous peril of the communist parties in the West lies in their stand on foreign affairs. The distinctive mark of all present-day communist parties is their devotion to the aggressive foreign policy of the Soviets. Whenever they must choose between Russia and their own country, they do not hesitate to prefer Russia. Their principle is: Right or wrong, my Russia. They strictly obey all orders issued from Moscow. When Russia was an ally of Hitler, the French communists sabotaged their own country's war effort and the American communists passionately opposed President Roosevelt's plans to aid England and France in their struggle against the Nazis. The communists all over the world branded all those who defended themselves against the German invaders as "imperialist warmongers." But as soon as Hitler attacked Russia, the imperialist war of the capitalists changed overnight into a just war of defence. Whenever Stalin conquers one more country, the communists justify this aggression as an act of self-defence against "Fascists."

In their blind worship of everything that is Russian, the communists of Western Europe and the United States by far surpass the worst excesses ever committed by chauvinists. They wax rapturous about Russian movies, Russian music and the alleged discoveries of Russian science. They speak in ecstatic words about the economic achievements of the Soviets. They ascribe the victory of the United Nations to the deeds of the Russian armed forces. Russia, they contend, has saved the world from the Fascist menace. Russia is the only free country while all other nations are subject to the dictatorship of the capitalists. The Russians alone are happy and enjoy the bliss of living a full life; in the capitalist countries the immense majority are suffering from frustration and unfulfilled desires. Just as the pious Muslim yearns for a pilgrimage to the Prophet's tomb at Mecca, so the communist intellectual deems a pilgrimage to the holy shrines of Moscow as the event of his life.

However, the distinction in the use of the terms communists and socialists did not affect the meaning of the terms communism and socialism as applied to the final goal of the policies common to them both. It was only in 1928 that the programme of the Communist International, adopted by the

sixth congress in Moscow,[\[23\]](#) began to differentiate between communism and socialism (and not merely between communists and socialists).

According to this new doctrine there is, in the economic evolution of mankind, between the historical stage of capitalism and that of communism, a third stage, namely that of socialism. Socialism is a social system based on public control of the means of production and full management of all processes of production and distribution by a planning central authority. In this regard it is equal to communism. But it differs from communism in so far as there is no equality of the portions allotted to each individual for his own consumption. There are still wages paid to the comrades and these wage rates are graduated according to economic expediency as far as the central authority deems it necessary for securing the greatest possible output of products. What Stalin calls socialism corresponds by and large to Marx's concept of the "early phase" of communism. Stalin reserves the term communism exclusively for what Marx called the "higher phase" of communism. Socialism, in the sense in which Stalin has lately used the term, is moving towards communism, but is in itself not yet communism. Socialism will turn into communism as soon as the increase in wealth to be expected from the operation of the socialist methods of production has raised the lower standard of living of the Russian masses to the higher standard which the distinguished holders of important offices enjoy in present-day Russia.[\[24\]](#)

The apologetical character of this new terminological practice is obvious. Stalin finds it necessary to explain to the vast majority of his subjects why their standard of living is extremely low, much lower than that of the masses in the capitalist countries and even lower than that of the Russian proletarians in the days of Czarist rule. He wants to justify the fact that salaries and wages are unequal, that a small group of Soviet officials enjoys all the luxuries modern technique can provide, that a second group, more numerous than the first one, but less numerous than the middle class in imperial Russia, lives in "bourgeois" style, while the masses, ragged and barefooted, subsist in congested slums and are poorly fed. He can no longer blame capitalism for this state of affairs. Thus he was compelled to resort to a new ideological makeshift.

Stalin's problem was the more burning as the Russian communists in the early days of their rule had passionately proclaimed income equality as

a principle to be enforced from the first instant of the proletarians' seizure of power. Moreover, in the capitalist countries the most powerful demagogic trick applied by the Russia-sponsored communist parties is to excite the envy of those with lower incomes against all those with higher incomes. The main argument advanced by the communists for the support of their thesis that Hitler's National Socialism was not genuine socialism, but, on the contrary, the worst variety of capitalism, was that there was in Nazi Germany inequality in the standard of living.

Stalin's new distinction between socialism and communism is in open contradiction to the policy of Lenin, and no less to the tenets of the propaganda of the communist parties outside the Russian frontiers. But such contradictions do not matter in the realm of the Soviets. The word of the dictator is the ultimate decision, and nobody is so foolhardy as to venture opposition.

It is important to realize that Stalin's semantical innovation affects merely the terms communism and socialism. He did not alter the meaning of the terms socialist and communist. The Bolshevist party is just as before called communist. The Russophile parties beyond the borders of the Soviet Union call themselves communist parties and are violently fighting the socialist parties which, in their eyes, are simply social traitors. But the official name of the Union of Soviet *Socialist* Republics remains unchanged.

## **6. The Liberation of the Demons**

The history of mankind is the history of ideas. For it is ideas, theories and doctrines that guide human action, determine the ultimate ends men aim at, and the choice of the means employed for the attainment of these ends. The sensational events which stir the emotions and catch the interest of superficial observers are merely the consummation of ideological changes. There are no such things as abrupt sweeping transformations of human affairs. What is called, in rather misleading terms, a "turning point in history" is the coming on the scene of forces which were already for a long time at work behind the scene. New ideologies, which had already long since superseded the old ones, throw off their last veil and even the dullest people become aware of the changes which they did not notice before.

In this sense Lenin's seizure of power in October 1917 was certainly a turning point. But its meaning was very different from that which the communists attribute to it.

The Soviet victory played only a minor role in the evolution towards socialism. The pro-socialist policies of the industrial countries of Central and Western Europe were of much greater consequence in this regard. Bismarck's social security scheme was a more momentous pioneering on the way towards socialism than was the expropriation of the backward Russian manufactures. The Prussian National Railways had provided the only instance of a government-operated business which, for some time at least, had avoided manifest financial failure. The British had already before 1914 adopted essential parts of the German social security system. In all industrial countries, the governments were committed to interventionist policies which were bound to result ultimately in socialism. During the war most of them embarked upon what was called war socialism. The German Hindenburg Programme which, of course, could not be executed completely on account of Germany's defeat, was no less radical but much better designed than the much talked-about Russian Five-Year Plans.

For the socialists in the predominantly industrial countries of the West, the Russian methods could not be of any use. For these countries, production of manufactures for export was indispensable. They could not adopt the Russian system of economic autarky. Russia had never exported manufactures in quantities worth mentioning. Under the Soviet system it withdrew almost entirely from the world market of cereals and raw materials. Even fanatical socialists could not help admitting that the West could not learn anything from Russia. It is obvious that the technological achievements in which the Bolsheviks gloried were merely clumsy imitations of things accomplished in the West. Lenin defined communism as: "the Soviet power plus electrification." Now, electrification was certainly not of Russian origin, and the Western nations surpass Russia in the field of electrification no less than in every other branch of industry.

The real significance of the Lenin revolution is to be seen in the fact that it was the bursting forth of the principle of unrestricted violence and oppression. It was the negation of all the political ideals that had for three thousand years guided the evolution of Western civilization.

State and government are the social apparatus of violent coercion and repression. Such an apparatus, the police power, is indispensable in order to prevent anti-social individuals and bands from destroying social co-operation. Violent prevention and suppression of anti-social activities benefit the whole of society and each of its members. But violence and oppression are none the less evils and corrupt those in charge of their application. It is necessary to restrict the power of those in office lest they become absolute despots. Society cannot exist without an apparatus of violent coercion. But neither can it exist if the office holders are irresponsible tyrants free to inflict harm upon those they dislike.

It is the social function of the laws to curb the arbitrariness of the police. The rule of law restricts the arbitrariness of the Officers as much as possible. It strictly limits their discretion, and thus assigns to the citizens a sphere in which they are free to act without being frustrated by government interference.

Freedom and liberty always mean freedom from police interference. In nature there are no such things as liberty and freedom. There is only the adamant rigidity of the laws of nature to which man must unconditionally submit if he wants to attain any ends at all. Neither was there liberty in the imaginary paradisaical conditions which, according to the fantastic prattle of many writers, preceded the establishment of societal bonds. Where there is no government, everybody is at the mercy of his stronger neighbour. Liberty can be realized only within an established state ready to prevent a gangster from killing and robbing his weaker fellows. But it is the rule of law alone which hinders the rulers from turning themselves into the worst gangsters.

The laws establish norms of legitimate action. They fix the procedures required for the repeal or alteration of existing laws and for the enactment of new laws. They likewise fix the procedures required for the application of the laws in definite cases, the due process of law. They establish courts and tribunals. Thus they are intent upon avoiding a situation in which the individuals are at the mercy of the rulers.

Mortal men are liable to error, and legislators and judges are mortal men. It may happen again and again that the valid laws or their interpretation by the courts prevent the executive organs from resorting to some measures which could be beneficial. No great harm, however, can



result. If the legislators recognize the deficiency of the valid laws, they can alter them. It is certainly a bad thing that a criminal may sometimes evade punishment because there is a loophole left in the law, or because the prosecutor has neglected some formalities. But it is the minor evil when compared with the consequences of unlimited discretionary power on the part of the “benevolent” despot.

It is precisely this point which antisocial individuals fail to see. Such people condemn the formalism of the due process of law. Why should the laws hinder the government from resorting to beneficial measures? Is it not fetishism to make supreme the laws, and not expediency? They advocate the substitution of the welfare state (*Wohlfahrtsstaat*) for the state governed by the rule of law (*Rechtsstaat*). In this welfare state, paternal government should be free to accomplish all things it considers beneficial to the commonweal. No “scraps of paper” should restrain an enlightened ruler in his endeavours to promote the general welfare. All opponents must be crushed mercilessly lest they frustrate the beneficial action of the government. No empty formalities must protect them any longer against their well-deserved punishment.

It is customary to call the point of view of the advocates of the welfare state the “social” point of view as distinguished from the “individualistic” and “selfish” point of view of the champions of the rule of law. In fact, however, the supporters of the welfare state are utterly anti-social and intolerant zealots. For their ideology tacitly implies that the government will exactly execute what they themselves deem right and beneficial. They entirely disregard the possibility that there could arise disagreement with regard to the question of what is right and expedient and what is not. They advocate enlightened despotism, but they are convinced that the enlightened despot will in every detail comply with their own opinion concerning the measures to be adopted. They favour planning, but what they have in mind is exclusively their own plan, not those of other people. They want to exterminate all opponents, that is, all those who disagree with them. They are utterly intolerant and are not prepared to allow any discussion. Every advocate of the welfare state and of planning is a potential dictator. What he plans is to deprive all other men of all their rights, and to establish his own and his friends’ unrestricted omnipotence. He refuses to convince his fellow-citizens. He prefers to “liquidate” them. He scorns the “bourgeois”

society that worships law and legal procedure. He himself worships violence and bloodshed.

The irreconcilable conflict of these two doctrines, rule of law versus welfare state, was at issue in all the struggles which men fought for liberty. It was a long and hard evolution. Again and again the champions of absolutism triumphed. But finally the rule of law predominated in the realm of Western civilization. The rule of law, or limited government, as safeguarded by constitutions and bills of rights, is the characteristic mark of this civilization. It was the rule of law that brought about the marvelous achievements of modern capitalism and of its—as consistent Marxians should say—“superstructure,” democracy. It secured for a steadily increasing population unprecedented well-being. The masses in the capitalist countries enjoy today a standard of living far above that of the well-to-do of earlier ages.

All these accomplishments have not restrained the advocates of despotism and planning. However, it would have been preposterous for the champions of totalitarianism to disclose the inextricable dictatorial consequences of their endeavours openly. In the nineteenth century the ideas of liberty and the rule of law had won such a prestige that it seemed crazy to attack them frankly. Public opinion was firmly convinced that despotism was done for and could never be restored. Was not even the Czar of barbarian Russia forced to abolish serfdom, to establish trial by jury, to grant a limited freedom to the press and to respect the laws?

Thus the socialists resorted to a trick. They continued to discuss the coming dictatorship of the proletariat, i.e., the dictatorship of each socialist author's own ideas, in their esoteric circles. But to the broad public they spoke in a different way. Socialism, they asserted, will bring true and full liberty and democracy. It will remove all kinds of compulsion and coercion. The state will “wither away.” In the socialist commonwealth of the future there will be neither judges and policemen nor prisons and gallows.

But the Bolshevists took off the mask. They were fully convinced that the day of their final and unshakable victory had dawned. Further dissimulation was neither possible nor required. The gospel of bloodshed could be preached openly. It found an enthusiastic response among all the degenerate literati and parlour intellectuals who for many years already had raved about the writings of Sorel and Nietzsche. The fruits of the “treason

of the intellectuals”[\[25\]](#) mellowed to maturity. The youths who had been fed on the ideas of Carlyle and Ruskin were ready to seize the reins.

Lenin was not the first usurper. Many tyrants had preceded him. But his predecessors were in conflict with the ideas held by their most eminent contemporaries. They were opposed by public opinion because their principles of government were at variance with the accepted principles of right and legality. They were scorned and detested as usurpers. But Lenin’s usurpation was seen in a different light. He was the brutal superman for whose coming the pseudo-philosophers had yearned. He was the counterfeit saviour whom history had elected to bring salvation through bloodshed. Was he not the most orthodox adept of Marxian “scientific” socialism? Was he not the man destined to realize the socialist plans for whose execution the weak statesmen of the decaying democracies were too timid? All well-intentioned people asked for socialism; science, through the mouths of the infallible professors, recommended it; the churches preached Christian socialism; the workers longed for the abolition of the wage system. Here was the man to fulfil all these wishes. He was judicious enough to know that you cannot make an omelet without breaking eggs.

Half a century ago all civilized people had censured Bismarck when he declared that history’s great problems must be solved by blood and iron. Now the majority of quasi-civilized men bowed to the dictator who was prepared to shed much more blood than Bismarck ever did.

This was the true meaning of the Lenin revolution. All the traditional ideas of right and legality were overthrown. The rule of unrestrained violence and usurpation was substituted for the rule of law. The “narrow horizon of bourgeois legality,” as Marx had dubbed it, was abandoned. Henceforth no laws could any longer limit the power of the elect. They were free to kill *ad libitum*. Man’s innate impulses towards violent extermination of all whom he dislikes, repressed by a long and wearisome evolution, burst forth. The demons were unfettered. A new age, the age of the usurpers, dawned. The gangsters were called to action, and they listened to the Voice.

Of course, Lenin did not mean this. He did not want to concede to other people the prerogatives which he claimed for himself. He did not want to assign to other men the privilege of liquidating their adversaries. Him alone had history elected and entrusted with the dictatorial power. He was

the only “legitimate” dictator because—an inner voice had told him so. Lenin was not bright enough to anticipate that other people, imbued with other creeds, could be bold enough to pretend that they also were called by an inner voice. Yet, within a few years too such men, Mussolini and Hitler, became quite conspicuous.

It is important to realize that Fascism and Nazism were socialist dictatorships. The communists, both the registered members of the communist parties and the fellow-travellers, stigmatize Fascism and Nazism as the highest and last and most depraved stage of capitalism. This is in perfect agreement with their habit of calling every party which does not unconditionally surrender to the dictates of Moscow—even the German Social Democrats, the classical party of Marxism—hirelings of capitalism.

It is of much greater consequence that the communists have succeeded in changing the semantic connotation of the term Fascism. Fascism, as will be shown later, was a variety of Italian socialism. It was adjusted to the particular conditions of the masses in overpopulated Italy. It was not a product of Mussolini’s mind and will survive the fall of Mussolini. The foreign policies of Fascism and Nazism, from their early beginnings, were rather opposed to one another. The fact that the Nazis and the Fascists closely co-operated after the Ethiopian war, and were allies in the second World War, did not eradicate the differences between these two tenets any more than did the alliance between Russia and the United States eradicate the differences between Sovietism and the American economic system. Fascism and Nazism were both committed to the Soviet principle of dictatorship and violent oppression of dissenters. If one wants to assign Fascism and Nazism to the same class of political systems, one must call this class *dictatorial regime* and one must not neglect to assign the Soviets to the same class.

In recent years the communists’ semantic innovations have gone even further. They call everybody whom they dislike, every advocate of the free enterprise system, a Fascist. Bolshevism, they say, is the only really democratic system. All non-communist countries and parties are essentially undemocratic and Fascist.

It is true that sometimes also non-socialists—the last vestiges of the old aristocracy—toyed with the idea of an aristocratic revolution modelled according to the pattern of Soviet dictatorship. Lenin had opened their eyes.

What dupes, they moaned, have we been! We have let ourselves be deluded by the spurious catchwords of the liberal bourgeoisie. We believed that it was not permissible to deviate from the rule of law and to crush mercilessly those challenging our rights. How silly were these Romanovs in granting to their deadly foes the benefits of a fair legal trial! If somebody arouses the suspicion of Lenin, he is done for. Lenin does not hesitate to exterminate, without any trial, not only every suspect, but all his kin and friends too. But the Czars were superstitiously afraid of infringing the rules established by those scraps of paper called laws. When Alexander Ulyanov conspired against the Czar's life, he alone was executed; his brother Vladimir was spared. Thus Alexander III himself preserved the life of Ulyanov-Lenin, the man who ruthlessly exterminated his son, his daughter-in-law and their children and with them all the other members of the family he could catch. Was this not the most stupid and suicidal policy?

However, no action could result from the daydreams of these old Tories. They were a small group of powerless grumblers. They were not backed by any ideological forces and they had no followers.

The idea of such an aristocratic revolution motivated the German Stahlhelm and the French *Cagoullards*.[\[26\]](#) The Stahlhelm was simply dispelled by order of Hitler. The French Government could easily imprison the Cagoullards before they had any opportunity to do harm.

The nearest approach to an aristocratic dictatorship is Franco's regime. But Franco was merely a puppet of Mussolini and Hitler, who wanted to secure Spanish aid for the impending war against France or at least Spanish "friendly" neutrality. With his protectors gone, he will either have to adopt Western methods of government or face removal.

Dictatorship and violent oppression of all dissenters are today exclusively socialist institutions. This becomes clear as we take a closer look at Fascism and Nazism.

## **7. Fascism**

When the war broke out in 1914, the Italian socialist party was divided as to the policy to be adopted.

One group clung to the rigid principles of Marxism. This war, they maintained, is a war of the capitalists. It is not seemly for the proletarians to

side with any of the belligerent parties. The proletarians must wait for the great revolution, the civil war of the united socialists against the united exploiters. They must stand for Italian neutrality.

The second group was deeply affected by the traditional hatred of Austria. In their opinion the first task of the Italians was to free their unredeemed brethren. Only then would the day of the socialist revolution appear.

In this conflict Benito Mussolini, the outstanding man in Italian socialism, chose at first the orthodox Marxian position. Nobody could surpass Mussolini in Marxian zeal. He was the intransigent champion of the pure creed, the unyielding defender of the rights of the exploited proletarians, the eloquent prophet of the socialist bliss to come. He was an adamant adversary of patriotism, nationalism, imperialism, monarchical rule and all religious creeds. When Italy in 1911 opened the great series of wars by an insidious assault upon Turkey, Mussolini organized violent demonstrations against the departure of troops for Libya. Now, in 1914, he branded the war against Germany and Austria as an imperialist war. He was then still under the dominating influence of Angelica Balabanoff, the daughter of a wealthy Russian landowner. Miss Balabanoff had initiated him into the subtleties of Marxism. In her eyes the defeat of the Romanovs counted more than the defeat of the Habsburgs. She had no sympathy for the ideals of the Risorgimento.

But the Italian intellectuals were first of all nationalists. As in all other European countries, most of the Marxians longed for war and conquest. Mussolini was not prepared to lose his popularity. The thing he hated most was not to be on the side of the victorious faction. He changed his mind and became the most fanatical advocate of Italy's attack on Austria. With French financial aid he founded a newspaper to fight for the cause of the war.

The anti-Fascists blame Mussolini for this defection from the teachings of rigid Marxism. He was bribed, they say, by the French. Now, even these people should know that the publication of a newspaper requires funds. They themselves do not speak of bribery if a wealthy American provides a man with the money needed for the publication of a fellow-traveller newspaper, or if funds mysteriously flow into the communist publishing firms. It is a fact that Mussolini entered the scene of world politics as an

ally of the democracies, while Lenin entered it as a virtual ally of imperial Germany.

More than anybody else Mussolini was instrumental in achieving Italy's entry into the first World War. His journalistic propaganda made it possible for the government to declare war on Austria. Only those few people have a right to find fault with his attitude in the years 1914 to 1918 who realize that the disintegration of the Austro-Hungarian Empire spelled the doom of Europe. Only those Italians are free to blame Mussolini who begin to understand that the only means of protecting the Italian-speaking minorities in the littoral districts of Austria against the threatening annihilation by the Slavonic majorities was to preserve the integrity of the Austrian state, whose constitution guaranteed equal rights to all linguistic groups. Mussolini was one of the most wretched figures of history. But the fact remains that his first great political deed still meets with the approval of all his countrymen and of the immense majority of his foreign detractors.

When the war came to an end, Mussolini's popularity dwindled. The communists, swept into popularity by events in Russia, carried on. But the great communist venture, the occupation of the factories in 1920, ended in complete failure, and the disappointed masses remembered the former leader of the socialist party. They flocked to Mussolini's new party, the Fascists. The youth greeted with turbulent enthusiasm the self-styled successor of the Caesars. Mussolini boasted in later years that he had saved Italy from the danger of communism. His foes passionately dispute his claims. Communism, they say, was no longer a real factor in Italy when Mussolini seized power. The truth is that the frustration of communism swelled the ranks of the Fascists and made it possible for them to destroy all other parties. The overwhelming victory of the Fascists was not the cause, but the consequence, of the communist fiasco.

The programme of the Fascists, as drafted in 1919, was vehemently anti-capitalistic.<sup>[27]</sup> The most radical New Dealers and even communists could agree with it. When the Fascists came to power, they had forgotten those points of their programme which referred to the liberty of thought and the press and the right of assembly. In this respect they were conscientious disciples of Bukharin and Lenin. Moreover they did not suppress, as they had promised, the industrial and financial corporations. Italy badly needed foreign credits for the development of its industries. The main problem for

Fascism, in the first years of its rule, was to win the confidence of the foreign bankers. It would have been suicidal to destroy the Italian corporations.

Fascist economic policy did not—at the beginning—essentially differ from those of all other Western nations. It was a policy of interventionism. As the years went on, it more and more approached the Nazi pattern of socialism. When Italy, after the defeat of France, entered the second World War, its economy was by and large already shaped according to the Nazi pattern. The main difference was that the Fascists were less efficient and even more corrupt than the Nazis.

But Mussolini could not long remain without an economic philosophy of his own invention. Fascism posed as a new philosophy, unheard of before and unknown to all other nations. It claimed to be the gospel which the resurrected spirit of ancient Rome brought to the decaying democratic peoples whose barbarian ancestors had once destroyed the Roman empire. It was the consummation both of the *Rinascimento* and the *Risorgimento* in every respect, the final liberation of the Latin genius from the yoke of foreign ideologies. Its shining leader, the peerless Duce, was called to find the ultimate solution for the burning problems of society's economic organization and of social justice.

From the dust-heap of discarded socialist utopias, the Fascist scholars salvaged the scheme of guild socialism. Guild socialism was very popular with British socialists in the last years of the first World War and in the first years following the Armistice. It was so impracticable that it disappeared very soon from socialist literature. No serious statesman ever paid any attention to contradictory and confused plans of guild socialism. It was almost forgotten when the Fascists attached it to a new label, and flamboyantly proclaimed *corporativism* as the new social panacea. The public inside and outside of Italy was captivated. Innumerable books, pamphlets and articles were written in praise of the *stato corporativo*. The governments of Austria and Portugal very soon declared that they were committed to the noble principles of corporativism. The papal encyclical *Quadragesimo Anno* (1931) contained some paragraphs which could be interpreted—but need not be—as an approval of corporativism. In France its ideas found many eloquent supporters.



It was mere idle talk. Never did the Fascists make any attempt to realize the corporatist programme, industrial self-government. They changed the name of the chambers of commerce into corporative councils. They called *corporazione* the compulsory organizations of the various branches of industry which were the administrative units for the execution of the German pattern of socialism they had adopted. But there was no question of the *corporazione's* self-government. The Fascist cabinet did not tolerate anybody's interference with its absolute authoritarian control of production. All the plans for the establishment of the corporative system remained a dead letter.

Italy's main problem is its comparative overpopulation. In this age of barriers to trade and migration, the Italians are condemned to subsist permanently on a lower standard of living than that of the inhabitants of the countries more favoured by nature. The Fascists saw only one means to remedy this unfortunate situation: conquest. They were too narrow-minded to comprehend that the redress they recommended was spurious and worse than the evil. They were moreover so entirely blinded by self-conceit and vain-glory that they failed to realize that their provocative speeches were simply ridiculous. The foreigners whom they insolently challenged knew very well how negligible Italy's military forces were.

Fascism was not, as its advocates boasted, an original product of the Italian mind. It began with a split in the ranks of Marxian socialism, which certainly was an imported doctrine. Its economic programme was borrowed from German non-Marxian socialism and its aggressiveness was likewise copied from Germans, the *All-deutsche* or Pan-German forerunners of the Nazis. Its conduct of government affairs was a replica of Lenin's dictatorship. Corporativism, its much advertised ideological adornment, was of British origin. The only home-grown ingredient of Fascism was the theatrical style of its processions, shows and festivals.

The short-lived Fascist episode ended in blood, misery and ignominy. But the forces which generated Fascism are not dead. Fanatical nationalism is a feature common to all present-day Italians. The communists are certainly not prepared to renounce their principle of dictatorial oppression of all dissenters. Neither do the Catholic parties advocate freedom of thought, of the press or of religion. There are in Italy only very few people

indeed who comprehend that the indispensable prerequisite of democracy and the rights of men is economic freedom.

It may happen that Fascism will be resurrected under a new label and with new slogans and symbols. But if this happens, the consequences will be detrimental. For Fascism is not as the Fascists trumpeted a “new way to life,”<sup>[28]</sup> it is a rather old way towards destruction and death.

## 8. Nazism

The philosophy of the Nazis, the *German National Socialist Labour Party*, is the purest and most consistent manifestation of the anti-capitalistic and socialistic spirit of our age. Its essential ideas are not German or “Aryan” in origin, nor are they peculiar to the present day Germans. In the genealogical tree of the Nazi doctrine such Latins as Sismondi and Georges Sorel, and such Anglo-Saxons as Carlyle, Ruskin and Houston Stewart Chamberlain, were more conspicuous than any German. Even the best known ideological attire of Nazism, the fable of the superiority of the Aryan master race, was not of German provenance; its author was a Frenchman, Gobineau. Germans of Jewish descent, like Lassalle, Lasson, Stahl and Walter Rathenau, contributed more to the essential tenets of Nazism than such men as Sombart, Spann and Ferdinand Fried. The slogan into which the Nazis condensed their economic philosophy, viz., *Gemeinnutz geht vor Eigennutz* (i.e., the commonweal ranks above private profit), is likewise the idea underlying the American New Deal and the Soviet management of economic affairs. It implies that profit-seeking business harms the vital interests of the immense majority, and that it is the sacred duty of popular government to prevent the emergence of profits by public control of production and distribution.

The only specifically German ingredient in Nazism was its striving after the conquest of *Lebensraum*. And this, too, was an outcome of their agreement with the ideas guiding the policies of the most influential political parties of all other countries. These parties proclaim income equality as the main thing. The Nazis do the same. What characterizes the Nazis is the fact that they are not prepared to acquiesce in a state of affairs in which the Germans are doomed forever to be “imprisoned,” as they say, in a comparatively small and overpopulated area in which the productivity

of labour must be smaller than in the comparatively underpopulated countries, which are better endowed with natural resources and capital goods. They aim at a fairer distribution of earth's natural resources. As a "have-not" nation they look at the wealth of the richer nations with the same feelings with which many people in the Western countries look at the higher incomes of some of their countrymen. The "progressives" in the Anglo-Saxon countries assert that "liberty is not worth having" for those who are wronged by the comparative smallness of their incomes. The Nazis say the same with regard to international relations. In their opinion the only freedom that matters is *Nahrungsfreiheit* (viz., freedom from importing food). They aim at the acquisition of a territory so large and rich in natural resources that they could live in economic self-sufficiency at a standard not lower than that of any other nation. They consider themselves as revolutionaries fighting for their inalienable natural rights against the vested interests of a host of reactionary nations.

It is easy for economists to explode the fallacies involved in the Nazi doctrines. But those who disparage economics as "orthodox and reactionary," and fanatically support the spurious creeds of socialism and economic nationalism, were at a loss to refute them. For Nazism was nothing but the logical application of their own tenets to the particular conditions of comparatively overpopulated Germany.

For more than seventy years the German professors of political science, history, law, geography and philosophy eagerly imbued their disciples with a hysterical hatred of capitalism, and preached the war of "liberation" against the capitalistic West. The German "socialists of the chair," much admired in all foreign countries, were the pacemakers of the two World Wars. At the turn of the century the immense majority of the Germans were already radical supporters of socialism and aggressive nationalism. They were then already firmly committed to the principles of Nazism. What was lacking and was added later was only a new term to signify their doctrine.

When the Soviet policies of mass extermination of all dissenters and of ruthless violence removed the inhibitions against wholesale murder, which still troubled some of the Germans, nothing could any longer stop the advance of Nazism. The Nazis were quick to adopt the Soviet methods. They imported from Russia: the one-party system and the pre-eminence of

this party in political life; the paramount position assigned to the secret police; the concentration camps; the administrative execution or imprisonment of all opponents; the extermination of the families of suspects and of exiles; the methods of propaganda; the organization of affiliated parties abroad and their employment for fighting their domestic governments and espionage and sabotage; the use of the diplomatic and consular service for fomenting revolution; and many other things besides. There were nowhere more docile disciples of Lenin, Trotsky and Stalin than the Nazis were.

Hitler was not the founder of Nazism; he was its product. He was, like most of his collaborators, a sadistic gangster. He was uneducated and ignorant; he had failed even in the lower grades of high school. He never had any honest job. It is a fable that he had ever been a paperhanger. His military career in the first World War was rather mediocre. The First Class Iron Cross was given to him after the end of the war as a reward for his activities as a political agent. He was a maniac obsessed by megalomania. But learned professors nourished his self-conceit. Werner Sombart, who once had boasted that his life was devoted to the task of fighting for the ideas of Marx,<sup>[29]</sup> Sombart, whom the American Economic Association had elected to Honorary membership and many non-German universities to honorary degrees, candidly declared that *Führertum* means a permanent revelation and that the *Führer* received his orders directly from God, the supreme *Führer* of the Universe.<sup>[30]</sup>

The Nazi plan was more comprehensive and therefore more pernicious than that of the Marxians. It aimed at abolishing *laissez-faire* not only in the production of material goods, but no less in the production of men. The Führer was not only the general manager of all industries; he was also the general manager of the breeding-farm intent upon rearing superior men and eliminating inferior stock. A grandiose scheme of eugenics was to be put into effect according to “scientific” principles.

It is vain for the champions of eugenics to protest that they did not mean what the Nazis executed. Eugenics aims at placing some men, backed by the police power, in complete control of human reproduction. It suggests that the methods applied to domestic animals be applied to men. This is precisely what the Nazis tried to do. The only objection which a consistent eugenist can raise is that his own plan differs from that of the Nazi scholars

and that he wants to rear another type of men than the Nazis. As every supporter of economic planning aims at the execution of his own plan only, so every advocate of eugenic planning aims at the execution of his own plan and wants himself to act as the breeder of human stock.

The eugenists pretend that they want to eliminate criminal individuals. But the qualification of a man as a criminal depends upon the prevailing laws of the country and varies with the change in social and political ideologies. John Huss, Giordano Bruno and Galileo Galilei were criminals from the point of view of the laws which their judges applied. When Stalin robbed the Russian State Bank of several million rubles, he committed a crime. Today it is an offence in Russia to disagree with Stalin. In Nazi Germany sexual intercourse between “Aryans” and the members of an “inferior” race was a crime. Whom do the eugenists want to eliminate, Brutus or Caesar? Both violated the laws of their country. If eighteenth-century eugenists had prevented alcohol addicts from generating children, their planning would have eliminated Beethoven.

It must be emphasized again: there is no such thing as a scientific *ought*. Which men are superior and which are inferior can only be decided by personal value judgments not liable to Verification or falsification. The eugenists delude themselves in assuming that they themselves will be called to decide what qualities are to be conserved in the human stock. They are too dull to take into account the possibility that other people might make the choice according to their own value judgments.[\[31\]](#) In the eyes of the Nazis the brutal killer, the “fair-haired beast,” is the most perfect specimen of mankind.

The mass slaughters perpetrated in the Nazi horror camps are too horrible to be adequately described by words. But they were the logical and consistent application of doctrines and policies parading as applied science and proved by some men who in a sector of the natural sciences have displayed acumen and technical skill in laboratory research.

## **10. The Alleged Inevitability of Socialism**

Many people believe that the coming of totalitarianism is inevitable. The “wave of the future,” they say, “carries mankind inexorably towards a

system under which all human affairs are managed by omnipotent dictators. It is useless to fight against the unfathomable decrees of history.”

The truth is that most people lack the intellectual ability and courage to resist a popular movement, however pernicious and ill-considered. Bismarck once deplored the lack of what he called civilian courage, i.e., bravery in dealing with civic affairs, on the part of his countrymen. But neither did the citizens of other nations display more courage and judiciousness when faced with the menace of communist dictatorship. They either yielded silently, or timidly raised some trifling objections.

One does not fight socialism by criticizing only some accidental features of its schemes. In attacking many socialists' stand on divorce and birth control, or their ideas about art and literature, one does not refute socialism. It is not enough to disapprove of the Marxian assertions that the theory of relativity or the philosophy of Bergson or psycho-analysis is “bourgeois” moonshine. Those who find fault with Bolshevism and Nazism only for their anti-Christian leanings implicitly endorse all the rest of these bloody schemes.

On the other hand, it is sheer stupidity to praise the totalitarian regimes for alleged achievements which have no reference whatever to their political and economic principles. It is questionable whether the observations that in Fascist Italy the railway trains ran on schedule and the bug population of second-rate hotel beds was decreasing, were correct or not; but it is in any case of no importance for the problem of Fascism. The fellow-travellers are enraptured by Russian films, Russian music and Russian caviar. But there lived greater musicians in other countries and under other social systems; good pictures were produced in other countries too; and it is certainly not a merit of Generalissimo Stalin that the taste of caviar is delicious. Neither does the prettiness of Russian ballet dancers or the construction of a great power station on the Dnieper expiate for the mass slaughter of the Kulaks.

The readers of picture magazines and the movie-fans long for the picturesque. The operatic pageants of the Fascists and the Nazis and the parading of the girl-battalions of the Red army are after their heart. It is more fun to listen to the radio speeches of a dictator than to study economic treatises. The entrepreneurs and technologists who pave the way for economic improvement work in seclusion; their work is not suitable to be

visualized on the screen. But the dictators, intent upon spreading death and destruction, are spectacularly in sight of the public. Dressed in military garb they eclipse in the eyes of the movie-goers the colourless bourgeois in plain clothes.

The problems of society's economic organization are not suitable for light talk at fashionable cocktail parties. Neither can they be dealt with adequately by demagogues haranguing mass assemblies. They are serious things. They require painstaking study. They must not be taken lightly.

The socialist propaganda never encountered any decided opposition. The devastating critique by which the economists exploded the futility and impracticability of the socialist schemes and doctrines did not reach the moulders of public opinion. The universities were mostly dominated by socialist or interventionist pedants not only in continental Europe, where they were owned and operated by the governments, but even in the Anglo-Saxon countries. The politicians and the statesmen, anxious not to lose popularity, were lukewarm in their defence of freedom. The policy of appeasement, so much criticized when applied in the case of the Nazis and the Fascists, was practised universally for many decades with regard to all other brands of socialism. It was this defeatism that made the rising generation believe that the victory of socialism is inevitable.

It is not true that the masses are vehemently asking for socialism and that there is no means to resist them. The masses favour socialism because they trust the socialist propaganda of the intellectuals. The intellectuals, not the populace, are moulding public opinion. It is a lame excuse of the intellectuals that they must yield to the masses. They themselves have generated the socialist ideas and indoctrinated the masses with them. No proletarian or son of a proletarian has contributed to the elaboration of the interventionist and socialist programmes. Their authors were all of bourgeois background. The esoteric writings of dialectical materialism, of Hegel, the father both of Marxism and of German aggressive nationalism, the books of Georges Sorel, of Gentile and of Spengler were not read by the average man; they did not move the masses directly. It was the intellectuals who popularized them.

The intellectual leaders of the peoples have produced and propagated the fallacies which are on the point of destroying liberty and Western civilization. The intellectuals alone are responsible for the mass slaughters

which are the characteristic mark of our century. They alone can reverse the trend and pave the way for a resurrection of freedom.

Not mythical “material productive forces,” but reason and ideas determine the course of human affairs. What is needed to stop the trend towards socialism and despotism is common sense and moral courage.

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[13] Wesley C. Mitchell, “The Social Sciences and National Planning” in *Planned Society*, ed. Findlay Mackenzie (New York, 1937), p. 112

[14] Laski, *Democracy in Crisis* (Chapel Hill, 1933), pp. 87–8.

[15] Sidney and Beatrice Webb, *Soviet Communism: A New Civilization?* (New York, 1936), Vol. II, pp. 1038–39.

[16] T. G. Crowther, *Social Relations of Science* (London, 1941), p. 333.

[17] The collection of these conventions, published by The International Labour Office under the title *Intergovernmental Commodity Control Agreements* (Montreal, 1943).

[18] Karl Marx, *Das Kapital*, 7th ed. (Hamburg, 1914), Vol. I, p. 728. Publisher’s Note: In English edition, p. 836.

[19] Karl Marx, *Zur Kritik der politischen Ökonomie*, ed. Kautsky (Stuttgart, 1897), p. xi. Publisher’s Note: In English edition by Kerr, pp. 11–12; by Eastman, p. 10.

[20] *Ibid.*, p. xii. Publisher’s Note: In English edition by Kerr, p. 12; by Eastman, p. 11.

[21] Karl Marx, *Der Bürgerkrieg in Frankreich*, ed. Pfemfert (Berlin, 1919), *passim*. Publisher’s Note: In English, “The Civil War in France.” Reprinted in Eastman anthology, pp. 367–429.

[22] Marx, *Value, Price and Profit*, ed. Eleanor Marx Aveling (New York, 1901), pp. 72–74.



[23] *Blueprint for World Conquest as Outlined by the Communist International*, Human Events (Washington and Chicago, 1946), pp. 181–82.

[24] David J. Dallin, *The Real Soviet Russia* (Yale University Press, 1944), pp. 88–95.

[25] Benda, *La trahison des clercs* (Paris, 1927). Publisher's Note: In English, *The Treason of the Intellectuals* (New York: William Morrow, 1928) and *The Betrayal of the Intellectuals* (Boston: Beacon Press, 1955)

[26] Stahlhelm was an association of German World War veterans, established 1918. Cagoulards were members of a secret French extreme rightist, terrorist organization, the Cagoule. It was responsible for several assassinations of socialists and Italian anti-fascists and it collaborated with the Nazis and the French Vichy government during WWII (Pub.)

[27] This programme is reprinted in English in Count Carlo Sforza's book, *Contemporary Italy*, translated by Drake and Denise de Kay (New York, 1944), pp. 295–6.

[28] For instance Mario Palmieri, *The Philosophy of Fascism* (Chicago, 1936), p. 248.

[29] Sombart, *Das Lebenswerk von Karl Marx* (Jena, 1909), p. 3.

[30] Sombart, *A New Social Philosophy*, trans. and ed. K. F. Geiser (Princeton University Press, 1937), p. 194.

[31] The devastating critique of eugenics by H. S. Jennings, *The Biological Basis of Human Nature* (New York, 1930), pp. 223–52.

## **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 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.

### **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.

## **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.

### **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.

## **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-around 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-around 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-around planning by the government, it is socialism.

### **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, 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.

## **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-around 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.

## **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.

## **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 Kapital*, 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 Kapital*. 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,”<sup>[32]</sup> the whole economy will be organized “like the postal system.”<sup>[33]</sup> The 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.

### **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.

### **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.

### **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.

### **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.

## **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-roads 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.

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[32] Cf. Vladimir Ilyich Lenin, *State and Revolution* (Little Lenin Library No. 14, New York, 1932) p. 84.

[33] *Ibidem* p. 44.

## **The Place of Economics in Learning**

### **1. The Study of Economics**

The natural sciences are ultimately based on the facts as established by laboratory experiment. Physical and biological theories are confronted with these facts, and are rejected when in conflict with them. The perfection of these theories no less than the improvement of technological and therapeutical procedures requires more and better laboratory research. These experimental ventures absorb time, painstaking effort of specialists, and costly expenditure of material. Research can no longer be conducted by isolated and penniless scientists, however ingenious. The seat of experimentation today is in the huge laboratories supported by governments, universities, endowments, and big business. Work in these institutions has developed into professional routine. The majority of those employed in it are technicians recording those facts which the pioneers, of whom some are themselves experimenters, will one day use as building stones for their theories. As far as the progress of scientific theories is concerned, the achievements of the rank-and-file researcher are only ancillary. But very often his discoveries have immediate practical results in improving the methods of therapeutics and of business.

Ignoring the radical epistemological difference between the natural sciences and the sciences of human action, people believe that what is needed to further economic knowledge is to organize economic research according to the well-tried methods of the institutes for medical, physical, and chemical research. Considerable sums of money have been spent for what is labeled economic research. In fact the subject matter of the work of all these institutes is recent economic history.

It is certainly a laudable thing to encourage the study of economic history. However instructive the result of such studies may be, one must not confuse them with the study of economics. They do not produce facts in the sense in which this term is applied with regard to the events tested in

laboratory experiments. They do not deliver bricks for the construction of a posteriori hypotheses and theorems. On the contrary, they are without meaning if not interpreted in the light of theories developed without reference to them. There is no need to add anything to what has been said in this respect in the preceding chapters. No controversy concerning the causes of a historical event can be solved on the ground of an examination of the facts which is not guided by definite praxeological theories.

The foundation of institutes for cancer research can possibly contribute to the discovery of methods for fighting and preventing this pernicious disease. But a business cycle research institute is of no help in endeavors to avoid the recurrence of depressions. The most exact and reliable assemblage of all the data concerning economic depressions of the past is of little use for our knowledge in this field. Scholars do not disagree with regard to these data; they disagree with regard to the theorems to be resorted to in their interpretation.

Still more important is the fact that it is impossible to collect the data concerning a concrete event without reference to the theories held by the historian at the very outset of his work. The historian does not report all facts, but only those which he considers as relevant on the ground of his theories; he omits data considered irrelevant for the interpretation of the events. If he is misled by faulty theories, his report becomes clumsy and may be almost worthless.

Even the most faithful examination of a chapter of economic history, though it be the history of the most recent period of the past, is no substitute for economic thinking. Economics, like logic and mathematics, is a display of abstract reasoning. Economics can never be experimental and empirical. The economist does not need an expensive apparatus for the conduct of his studies. What he needs is the power to think clearly and to discern in the wilderness of events what is essential from what is merely accidental.

There is no conflict between economic history and economics. Every branch of knowledge has its own merits and its own rights. Economists have never tried to belittle or deny the significance of economic history. Neither do real historians object to the study of economics. The antagonism was intentionally called into being by the socialists and interventionists who could not refute the objections raised against their doctrines by the economists. The Historical School and the Institutionalists tried to displace



economics and to substitute “empirical” studies for it precisely because they wanted to silence the economists. Economic history, as they planned it, was a means of destroying the prestige of economics and of propagandizing for interventionism.

## **2. Economics as a Profession**

The early economists devoted themselves to the study of the problems of economics. In lecturing and writing books they were eager to communicate to their fellow citizens the results of their thinking. They tried to influence public opinion in order to make sound policies prevail in the conduct of civic affairs. They never conceived of economics as a profession.

The development of a profession of economists is an offshoot of interventionism. The professional economist is the specialist who is instrumental in designing various measures of government interference with business. He is an expert in the field of economic legislation, which today invariably aims at hindering the operation of the market economy.

There are thousands and thousands of such professional experts busy in the bureaus of the governments and of the various political parties and pressure groups and in the editorial offices of party newspapers and pressure-group periodicals. Others are employed as advisers by business or run independent agencies. Some of them have nation-wide or even world-wide reputations; many are among the most influential men of their country. It often happens that such experts are called to direct the affairs of big banks and corporations, are elected into the legislature, and are appointed as cabinet ministers. They rival the legal profession in the supreme conduct of political affairs. The eminent role they play is one of the most characteristic features of our age of interventionism.

There can be no doubt that a class of men who are so preponderant includes extremely talented individuals, even the most eminent men of our age. But the philosophy that guides their activities narrows their horizon. By virtue of their connection with definite parties and pressure groups, eager to acquire special privileges, they become one-sided. They shut their eyes to the remoter consequences of the policies they are advocating. With them nothing counts but the short-run concerns of the group they are serving. The ultimate aim of their efforts is to make their clients prosper at

the expense of other people. They are intent upon convincing themselves that the fate of mankind coincides with the short-run interests of their group. They try to sell this idea to the public. In fighting for a higher price of silver, of wheat, or of sugar, for higher wages for the members of their union, or for a tariff on cheaper foreign products, they claim to be fighting for the supreme good, for liberty and justice, for their nation's flowering, and for civilization.

The public looks askance upon the lobbyists and blames them for the dismal features of interventionist legislation. However, the seat of the evil is much deeper. The philosophy of the various pressure groups has penetrated the legislative bodies. There are in the present-day parliaments representatives of wheat growers, of cattle breeders, of farmers' cooperatives, of silver, of the various labor unions, of industries which cannot stand foreign competition without tariffs, and of many other pressure groups. There are few for whom the nation counts more than their pressure group. The same holds true for the departments of the administration. The cabinet minister of agriculture considers himself the champion of the interests of farming; his main objective is to make food prices soar. The minister of labor considers himself the advocate of labor unions; his foremost aim is to make the unions as formidable as possible. Each department follows its own course and works against the endeavors of the other departments.

Many people complain today about the lack of creative statesmanship. However, under the predominance of interventionist ideas, a political career is open only to men who identify themselves with the interests of a pressure group. The mentality of a union leader or of a secretary of farmers' associations is not what is required for a far-sighted statesman. Service to the short-run interests of a pressure group is not conducive to the development of those qualities which make a great statesman. Statesmanship is invariably long-run policy; but pressure groups do not bother about the long run. The lamentable failure of the German Weimar system and of the Third Republic in France was primarily due to the fact that their politicians were merely experts in pressure group interests.

### **3. Forecasting as a Profession**

When the businessmen finally learned that the boom created by credit expansion cannot last and must necessarily lead to a slump, they realized that it was important for them to know in time the date of the break. They turned to the economists for advice.

The economist knows that such a boom must result in a depression. But he does not and cannot know when the crisis will appear. This depends on the special conditions of each case. Many political events can influence the outcome. There are no rules according to which the duration of the boom or of the following depression can be computed. And even if such rules were available, they would be of no use to businessmen. What the individual businessman needs in order to avoid losses is knowledge about the date of the turning point at a time when other businessmen still believe that the crash is farther away than is really the case. Then his superior knowledge will give him the opportunity to arrange his own operations in such a way as to come out unharmed. But if the end of the boom could be calculated according to a formula, all businessmen would learn the date at the same time. Their endeavors to adjust their conduct of affairs to this information would immediately result in the appearance of all the phenomena of the depression. It would be too late for any of them to avoid being victimized.

If it were possible to calculate the future state of the market, the future would not be uncertain. There would be neither entrepreneurial loss nor profit. What people expect from the economists is beyond the power of any mortal man.

The very idea that the future is predictable, that some formulas could be substituted for the specific understanding which is the essence of entrepreneurial activity, and that familiarity with these formulas could make it possible for anybody to take over the conduct of business is, of course, an outgrowth of the whole complex of fallacies and misconceptions which are at the bottom of present-day anti-capitalistic policies. There is in the whole body of what is called the Marxian philosophy not the slightest reference to the fact that the main task of action is to provide for the events of an *uncertain* future. The fact that the term speculator is today used only with an opprobrious connotation clearly shows that our contemporaries do not even suspect in what the fundamental problem of action consists.

Entrepreneurial judgment cannot be bought on the market. The entrepreneurial idea that carries on and brings profit is precisely that idea which did not occur to the majority. It is not correct foresight as such that yields profits, but foresight better than that of the rest. The prize goes only to the dissenters, who do not let themselves be misled by the errors accepted by the multitude. What makes profits emerge is the provision for future needs for which others have neglected to make adequate provision

Entrepreneurs and capitalists expose their own material well-being if they are fully convinced of the soundness of their plans. They would never venture to take their economic life into their hands because an expert advised them to do so. Those ignorant people who operate on the stock and commodity exchanges according to tips are destined to lose their money, from whatever source they may have got their inspiration and “inside” information.

In fact reasonable businessmen are fully aware of the uncertainty of the future. They realize that the economists do not dispense any reliable information about things to come and that all that they provide is interpretation of statistical data referring to the past. For the capitalists and entrepreneurs the economists’ opinions about the future count only as questionable conjectures. They are skeptical and not easily fooled. But as they quite correctly believe that it is useful to know all the data which could possibly have any relevance for their affairs, they subscribe to the newspapers and periodicals publishing the forecasts. Anxious not to neglect any source of information available, big business employs staffs of economists and statisticians.

Business forecasting fails in the vain attempts to make the uncertainty of the future disappear and to deprive entrepreneurship of its inherent speculative character. But it renders some services in assembling and interpreting the available data about economic trends and developments of the recent past.

#### **4. Economics and the Universities**

Tax-supported universities are under the sway of the party in power. The authorities try to appoint only professors who are ready to advance ideas of which they themselves approve. As all non-socialist governments are today

firmly committed to interventionism, they appoint only interventionists. In their opinion, the first duty of the university is to sell the official social philosophy to the rising generation. They have no use for economists.

However, interventionism prevails also at many of the independent universities.

According to an age-old tradition the objective of the universities is not only teaching, but also the promotion of knowledge and science. The duty of the university teacher is not merely to hand down to the students the complex of knowledge developed by other men. He is supposed to contribute to the enlargement of this treasure by his own work. It is assumed that he is a full-fledged member of the world-embracing republic of scholarship, an innovator and a pioneer on the road toward more and better knowledge. No university would admit that the members of its faculty are inferior to anybody in their respective fields. Every university professor considers himself equal to all other masters of his science. Like the greatest of them, he too contributes his share to the advancement of learning.

This idea of the equality of all professors is, of course, fictitious. There is an enormous difference between the creative work of the genius and the monograph of a specialist. Yet in the field of empirical research it is possible to cling to this fiction. The great innovator and the simple routinist resort in their investigations to the same technical methods of research. They arrange laboratory experiments or collect historical documents. The outward appearance of their work is the same. Their publications refer to the same subjects and problems. They are commensurable.

It is quite otherwise in theoretical sciences like philosophy and economics. Here there is nothing that the routinist can achieve according to a more or less stereotyped pattern. There are no tasks which require the conscientious and painstaking effort of sedulous monographers. There is no empirical research; all must be achieved by the power to reflect, to meditate, and to reason. There is no specialization, as all problems are linked with one another. In dealing with any part of the body of knowledge one deals actually with the whole. An eminent historian once described the psychological and educational significance of the doctoral thesis by declaring that it gives the author the proud assurance that there is a little corner, although small, in the field of learning in the knowledge of which he

is second to none. It is obvious that this effect cannot be realized by a thesis on a subject of economic analysis. There are no such isolated corners in the complex of economic thought.

There never lived at the same time more than a score of men whose work contributed anything essential to economics. The number of creative men is as small in economics as it is in other fields of learning. Besides, many of the creative economists do not belong to the teaching profession. But there is a demand for thousands of university and college teachers of economics. Scholastic tradition requires that each of them should attest his worth by the publication of original contributions, not merely by compiling textbooks and manuals. An academic teacher's reputation and salary depend more on his literary work than on his didactic abilities. A professor cannot help publishing books. If he does not feel the vocation to write on economics, he turns to economic history or descriptive economics. But then, in order not to lose face, he must insist on the claim that the problems he treats are economics proper, not economic history. He must even pretend that his writings cover the only legitimate field of economic studies, that they alone are empirical, inductive, and scientific, while the merely deductive outpourings of the "armchair" theorists are idle speculations. If he were to neglect this, he would admit that there are among the teachers of economics two classes—those who themselves have contributed to the advancement of economic thought and those who have not, although they may have done a fine job in other disciplines such as recent economic history. Thus the academic atmosphere becomes unpropitious for the teaching of economics. Many professors—happily not all of them—are intent upon disparaging "mere theory." They try to substitute an unsystematically assembled collection of historical and statistical information for economic analysis. They dissolve economics into a number of integrated branches. They specialize in agriculture, in labor, in Latin American conditions, and in many other similar subdivisions.

It is certainly one of the tasks of university training to make students familiar with economic history in general and no less with recent economic developments. But all such endeavors are doomed to failure if not firmly grounded upon a thorough acquaintance with economics. Economics does not allow of any breaking up into special branches. It invariably deals with the interconnectedness of all the phenomena of action. The catallactic

problems cannot become visible if one deals with each branch of production separately. It is impossible to study labor and wages without studying implicitly commodity prices, interest rates, profit and loss, money and credit, and all the other major problems. The real problems of the determination of wage rates cannot even be touched in a course on labor. There are no such things as “economics of labor” or “economics of agriculture.” There is only one coherent body of economics.

What these specialists deal with in their lectures and publications is not economics, but the doctrines of the various pressure groups. Ignoring economics, they cannot help falling prey to the ideologies of those aiming at special privileges for their group. Even those specialists who do not openly side with a definite pressure group and who claim to maintain a lofty neutrality unwittingly endorse the essential creeds of the interventionist doctrine. Dealing exclusively with the innumerable varieties of government interference with business, they do not want to cling to what they call mere negativism. If they criticize the measures resorted to, they do it only in order to recommend their own brand of interventionism as a substitute for other people’s interventionism. Without a qualm they endorse the fundamental thesis of both interventionism and socialism that the unhampered market economy unfairly harms the vital interests of the immense majority for the sole benefit of callous exploiters. As they see it, an economist who demonstrates the futility of interventionism is a bribed champion of the unjust claims of big business. It is imperative to bar such scoundrels from access to the universities and their articles from being printed in the periodicals of the associations of university teachers.

The students are bewildered. In the courses of the mathematical economists they are fed formulas describing hypothetical states of equilibrium in which there is no longer any action. They easily conclude that these equations are of no use whatever for the comprehension of economic activities. In the lectures of the specialists they hear a mass of detail concerning interventionist measures. They must infer that conditions are paradoxical indeed, because there is never equilibrium, and wage rates and the prices of farm products are not so high as the unions or the farmers want them to be. It is obvious, they conclude, that a radical reform is indispensable. But what kind of reform?

The majority of the students espouse without any inhibitions the interventionist panaceas recommended by their professors. Social conditions will be perfectly satisfactory when the government enforces minimum wage rates and provides everybody with adequate food and housing, or when the sale of margarine and the importation of foreign sugar are prohibited. They do not see the contradictions in the words of their teachers, who one day lament the madness of competition and the next day the evils of monopoly, who one day complain about falling prices and the next day about rising living costs. They take their degrees and try as soon as possible to get a job with the government or a powerful pressure group.

But there are many young men who are keen enough to see through the fallacies of interventionism. They accept their teachers' rejection of the unhampered market economy. But they do not believe that the isolated measures of interventionism could succeed in attaining the ends sought. They consistently carry their preceptors' thoughts to their ultimate logical consequences. They turn toward socialism. They hail the Soviet system as the dawn of a new and better civilization.

However, what has made many of the present-day universities by and large nurseries of socialism is not so much the conditions prevailing in the departments of economics as the teachings handed down in other departments. In the departments of economics there can still be found some economists, and even the other teachers may be familiar with some of the objections raised against the practicability of socialism. The case is different with many of the teachers of philosophy, history, literature, sociology, and political science. They interpret history on the ground of a garbled vulgarization of dialectical materialism. Even many of those who passionately attack Marxism on account of its materialism and atheism are under the sway of the ideas developed in the *Communist Manifesto* and in the program of the Communist International. They explain depressions, mass unemployment, inflation, war and poverty as evils necessarily inherent in capitalism and intimate that these phenomena can disappear only with the passing of capitalism.

## **5. General Education and Economics**



In countries which are not harassed by struggles between various linguistic groups public education can work if it is limited to reading, writing, and arithmetic. With bright children it is even possible to add elementary notions of geometry, the natural sciences, and the valid laws of the country. But as soon as one wants to go farther, serious difficulties appear. Teaching at the elementary level necessarily turns into indoctrination. It is not feasible to represent to adolescents all the aspects of a problem and to let them choose between dissenting views. It is no less impossible to find teachers who could hand down opinions of which they themselves disapprove in such a way as to satisfy those who hold these opinions. The party that operates the schools is in a position to propagandize its tenets and to disparage those of other parties.

In the field of religious education the nineteenth-century liberals solved this problem by the separation of state and church. In liberal countries religion is no longer taught in public schools. But the parents are free to send their children into denominational schools supported by religious communities.

However, the problem does not refer only to the teaching of religion and of certain theories of the natural sciences at variance with the Bible. It concerns even more the teaching of history and economics.

The public is aware of the matter only with regard to the international aspects of the teaching of history. There is some talk today about the necessity of freeing the teaching of history from the impact of nationalism and chauvinism. But few people realize that the problem of impartiality and objectivity is no less present in dealing with the domestic aspects of history. The teacher's or the textbook author's own social philosophy colors the narrative. The more the treatment must be simplified and condensed in order to be comprehensible to the immature minds of children and adolescents, the worse are the effects.

As the Marxians and the interventionists see it, the teaching of history in the schools is tainted by the endorsement of the ideas of classical liberalism. They want to substitute their own interpretation of history for the "bourgeois" interpretation. In Marxian opinion the English Revolution of 1688, the American Revolution, the great French Revolution, and the nineteenth-century revolutionary movements in continental Europe were bourgeois movements. They resulted in the defeat of feudalism and in the

establishment of bourgeois supremacy. The proletarian masses were not emancipated; they merely passed from the class rule of the aristocracy to the class rule of the capitalist exploiters. To free the working man, the abolition of the capitalist mode of production is required. This, contend the interventionists, should be brought about by Sozialpolitik or the New Deal. The orthodox Marxians, on the other hand, assert that only the violent overthrow of the bourgeois system of government could effectively emancipate the proletarians.

It is impossible to deal with any chapter of history without taking a definite stand on these controversial issues and the implied economic doctrines. The textbooks and the teachers cannot adopt a lofty neutrality with regard to the postulate that the “unfinished revolution” needs to be completed by the communist revolution. Every statement concerning events of the last three hundred years involves a definite judgment on these controversies. One cannot avoid choosing between the philosophy of the Declaration of Independence and the Gettysburg Address and that of the *Communist Manifesto*. The challenge is there, and it is useless to bury one’s head in the sand.

On the high school level and even on the college level the handing down of historical and economic knowledge is virtually indoctrination. The greater part of the students are certainly not mature enough to form their own opinion on the ground of a critical examination of their teachers’ representation of the subject.

If public education were more efficient than it really is, the political parties would urgently aim at the domination of the school system in order to determine the mode in which these subjects are to be taught. However, general education plays only a minor role in the formation of the political, social, and economic ideas of the rising generation. The impact of the press, the radio, and environmental conditions is much more powerful than that of teachers and textbooks. The propaganda of the churches, the political parties, and the pressure groups outstrips the influence of the schools, whatever they may teach. What is learned in school is often very soon forgotten and cannot carry on against the continuous hammering of the social milieu in which a man moves.

## 6. Economics and the Citizen

Economics must not be relegated to classrooms and statistical offices and must not be left to esoteric circles. It is the philosophy of human life and action and concerns everybody and everything. It is the pith of civilization and of man's human existence.

To mention this fact is not to indulge in the often derided weakness of specialists who overrate the importance of their own branch of knowledge. Not the economists, but all the people today assign this eminent place to economics.

All present-day political issues concern problems commonly called economic. All arguments advanced in contemporary discussion of social and public affairs deal with fundamental matters of praxeology and economics. Everybody's mind is preoccupied with economic doctrines. Philosophers and theologians seem to be more interested in economic problems than in those problems which earlier generations considered the subject matter of philosophy and theology. Novels and plays today treat all things human—including sex relations—from the angle of economic doctrines. Everybody thinks of economics whether he is aware of it or not. In joining a political party and in casting his ballot, the citizen implicitly takes a stand upon essential economic theories.

In the sixteenth and seventeenth centuries religion was the main issue in European political controversies. In the eighteenth and nineteenth centuries in Europe as well as in America the paramount question was representative government versus royal absolutism. Today it is the market economy versus socialism. This is, of course, a problem the solution of which depends entirely on economic analysis. Recourse to empty slogans or to the mysticism of dialectical materialism is of no avail.

There is no means by which anyone can evade his personal responsibility. Whoever neglects to examine to the best of his abilities all the problems involved voluntarily surrenders his birthright to a self-appointed elite of supermen. In such vital matters blind reliance upon "experts" and uncritical acceptance of popular catchwords and prejudices is tantamount to the abandonment of self-determination and to yielding to other people's domination. As conditions are today, nothing can be more

important to every intelligent man than economics. His own fate and that of his progeny is at stake.

Very few are capable of contributing any consequential idea to the body of economic thought. But all reasonable men are called upon to familiarize themselves with the teachings of economics. This is, in our age, the primary civic duty.

Whether we like it or not, it is a fact that economics cannot remain an esoteric branch of knowledge accessible only to small groups of scholars and specialists. Economics deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen.

## **7. Economics and Freedom**

The paramount role that economic ideas play in the determination of civic affairs explains why governments, political parties, and pressure groups are intent upon restricting the freedom of economic thought. They are anxious to propagandize the "good" doctrine and to silence the voice of the "bad" doctrines. As they see it, truth has no inherent power which could make it ultimately prevail solely by virtue of its being true. In order to carry on, truth needs to be backed by violent action on the part of the police or other armed troops. In this view, the criterion of a doctrine's truth is the fact that its supporters succeeded in defeating by force of arms the champions of dissenting views. It is implied that God or some mythical agency directing the course of human affairs always bestows victory upon those fighting for the good cause. Government is from God and has the sacred duty of exterminating the heretic.

It is useless to dwell upon the contradictions and inconsistencies of this doctrine of intolerance and persecution of dissenters. Never before has the world known such a cleverly contrived system of propaganda and oppression as that instituted by contemporary governments, parties, and pressure groups. However, all these edifices will crumble like houses of cards as soon as a great ideology attacks them.

Not only in the countries ruled by barbarian and neobarbarian despots, but no less in the so-called Western democracies, the study of economics is practically outlawed today. The public discussion of economic problems

ignores almost entirely all that has been said by economists in the last two hundred years. Prices, wage rates, interest rates, and profits are dealt with as if their determination were not subject to any law. Governments try to decree and to enforce maximum commodity prices and minimum wage rates. Statesmen exhort businessmen to cut down profits, to lower prices, and to raise wage rates as if these matters were dependent on the laudable intentions of individuals. In the treatment of international economic relations people blithely resort to the most naïve fallacies of Mercantilism. Few are aware of the shortcomings of all these popular doctrines, or realize why the policies based upon them invariably spread disaster.

These are sad facts. However, there is only one way in which a man can respond to them: by never relaxing in the search for truth.

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