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The Free Market and the Interventionist State

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Ebeling lectures extensively on privatization and monetary reform throughout the United States, Latin America, and the former Soviet Union, where he has consulted with the Lithuanian government, the city of Moscow, and the Russian parliament. Currently, he is also working on a biography of Ludwig von Mises. ♣

In this issue, Richard M. Ebeling offers a compelling historical and economic analysis of America's experiments with free market and interventionist policies. His remarks were delivered at Hillsdale College's Center for Constructive Alternatives and Ludwig von Mises Lecture Series seminar, "Between Power and Liberty: Economics and the Law," last March. All the presentations from this seminar will be published in November in Volume 25 of Champions of Freedom from the Hillsdale College Press.

In 1926, Austrian economist Ludwig von Mises visited the United States on a lecture tour. Upon his return, he delivered a talk on "Changes in American Economic Policy" at a meeting of the Vienna Industrial Club. He explained:

The United States has become great and rich under the power of an economic system that has set no limits on the free pursuit of the individual, and has thereby made room for the development of the country's productive power. America's unprecedented economic prosperity is not the result of the richness of the American land, but rather of the economic policy that understood how best to take advantage of the opportunities that the land offers. American economic policy has always rejected—and still rejects today—any protection for inferiority and uncompetitiveness over efficiency and competitiveness. The success of this policy has been so great that one would believe the Americans would never change it.

But Mises went on to tell his Viennese audience that new voices were being heard in America, voices that claimed that America's economic system was not "rational" enough and that it wasn't democratic enough because the voters did not have it in their immediate power to influence the direction of industrial development. Governmental controls were being introduced not to nationalize private enterprise but to direct it through various regulatory methods.

In comparison to Europe, America was certainly noticeably less regulated. But there were strong trends moving the nation along the same heavily interventionist path Europe had been traveling for a long time. In the America of 1926, Mises observed, "Both political parties, the Republicans as well as the Democrats, are ready to take radical steps in this direction, in order to retain the votes of the electorate." He concluded that "the results from such a policy will be no different in America than from those 'achieved' in Europe."

In Europe, the trend towards collectivism in the 1930s and 1940s took some extreme forms. Socialism, communism, fascism and Nazism were all tried on the other side of the Atlantic. They represented a total rejection of a free economy and individual liberty. In America, the collectivist trend never went to such an extreme, though Franklin D. Roosevelt's first New Deal came very close to the fascist model.

Defining the Free Market Economy

Socialism, communism, fascism and Nazism are now all but dead. They have failed miserably. But they have been replaced by what is merely another more watered down form of collectivism that may be called "interventionism." Indeed, interventionism is *the* predominant economic system in the world today. In 1929, Mises published a collection of essays under the title, *Critique of Interventionism*. He argued,

Nearly all writers on economic policy and nearly all statesmen and party leaders are seeking an ideal system which, in their belief, is neither [purely] capitalistic nor socialistic, is based neither on [unrestricted] private property in the means of production nor on public property. They are searching for a system of private property that is hampered, regulated, and directed through government intervention and other social forces, such as labor

unions. We call such an economic policy *interventionism*, the system itself the *hampered market order*.

He added, "All its followers and advocates fully agree that it is the correct policy for the coming decades, yea, even the coming generations. And all agree that interventionism constitutes an economic policy that will prevail in the foreseeable future."

With the demise of communism, public policy—especially in the Western world—is back to where it was when Mises wrote these words nearly seventy years ago. Comprehensive government ownership of the means of production and a fully centralized planned economy have very few adherents left, even "on the left." At the same time, in spite of all the casual rhetoric about the triumph of capitalism, we have not seen much evidence. Here are eight points that define a genuine free market economy, or what Mises referred to as the "unhampered economy":

1. All means of production are privately owned.
2. The use of the means of production is under the control of private owners who may be individuals or corporate entities.
3. Consumer demands determine how the means of production will be used.
4. Competitive forces of supply and demand determine prices for consumer goods and various factors of production like labor.
5. The success or failure of individual and corporate enterprises is determined by the profits or losses these enterprises earn, based on their greater or lesser ability to satisfy consumer demand in competition with their rivals in the marketplace.
6. The market is not confined to domestic transactions and includes freedom of international trade.
7. The monetary system is based on a market-determined commodity (e.g., gold or silver), and the banking system is private and competitive, neither controlled nor regulated by government.
8. Government is limited in its activities to the enforcement and protection of life, liberty, and property.

Defining the Interventionist Economy

Unfortunately, many modern politicians and academics who say they endorse such an economy are willing to tolerate a great deal of hampering indeed. When it comes to identifying the role of government in their conception of the market order, many if not most conservative economists still assume that government must be responsible

for a social safety net that includes Social Security and unemployment compensation; must have discretionary monetary and fiscal powers to support desired levels of employment and output; must regulate industry to assure “competitive” conditions in the market and “fair” labor conditions for workers; and must directly supply certain goods and services that the market allegedly does not provide.

Indeed, thousands of individuals who claim to be “on the right” believe that government should institute some or all of these “public policies.” It is important to appreciate, however, that the very notion of “public policy,” as the term is almost always used, supports government intervention in the market in ways that are simply inconsistent with a genuine free market economy. Interventionism as public policy is not consistent with the free market since it intentionally prevents or modifies the outcomes of the market. Here are the eight points of the interventionist economy:

1. The private ownership of the means of production is restricted or abridged.
2. The use of the means of production by private owners is prohibited, limited, or regulated.
3. The users of the means of production are prevented from being guided by consumer demand.
4. Government influences or controls the formation of prices for consumer goods and/or the factors of production.
5. Government reduces the impact of market supply and demand on the success or failure of various enterprises while it increases the impact of its own influence and control through such artificial means as price and production regulation, limits on freedom of entry into segments of the market, and direct or indirect subsidies.
6. Free entry into the domestic market by potential foreign rivals is discouraged or outlawed through import prohibitions, quotas, or tariffs.
7. The monetary system is regulated by government for the purpose of influencing what is used as money, the value of money, and the rate at which the quantity of money is increased or decreased. And all these are used as tools for affecting employment, output, and growth in the economy.
8. Government’s role is not limited to the protection of life, liberty, and property.

It is important to note that the “public policies” these eight points represent must be implemented through violent means. Only the threat or use of force can make people follow courses of action that are different from the ones that they would have peacefully taken if it were not for government intervention. There is really nothing “public” about these policies, after all; they are coercive policies.

The “Law of Association”

Contrast these policies with the policies of the free market. What is most striking is the voluntary nature of economic arrangements. The means of production are privately owned, and the owners are free to determine how the means of production will be employed. Thus, control over the means of production is depoliticized. Since it is not located in one place but is dispersed among a wide segment of the society’s population, it is also decentralized. Individuals control the means through which they can maintain and improve their own circumstances and they are not dependent upon a single political source for employment or the necessities and luxuries of life. But it is not just the owners of the means of production who have a high degree of autonomy in the free market economy; consumers do, too, since they are the ones who determine what products and services will be in demand.

The basis of society, Mises always emphasized, is what he called “the law of association.” Men can more successfully improve their individual condition through cooperation, and the means through which that cooperation can be made most productive is the division of labor. By taking advantage of individual talents and circumstances through specialization, the total quantity and quality of society’s output can be dramatically improved. Individuals do not have to try to satisfy all their own wants through isolated activity.

And once they specialize their activities, they become interdependent; they rely upon each other for the vast majority of goods and services they desire. But it is this very interdependency that gives production its real and true social character. If men are to acquire from others what they desire, they must devote their energies to producing what others are willing to accept in trade. The fundamental rule of the market is mutual agreement and voluntary exchange. Each member of society must orient his activities toward serving the wants of at least some of the other members in an unending circle of trade. The Scottish moral philosopher Adam Smith observed over two hundred years ago:

Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is to their own advantage to do for him what

he requires of them. Whosoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard for their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities but of their own advantages.

This is what assures that the uses for which the means of production are applied are guided by consumer demand. Each individual must find a way to satisfy some of the needs of others before he can satisfy himself. As a result, the prices for consumer goods and the factors of production are not decreed by government but are formed in the marketplace through the competitive forces of supply and demand. Success or failure is determined by the profits and losses earned on the basis of the greater or lesser ability to meet consumer demand in competition with rivals in the marketplace.

Abandoning Our Constitution

In 1936, the Swiss economist and political scientist William E. Rappard delivered a lecture in Philadelphia on "The Relation of the Individual to the State" in which he emphasized that no one could read the accounts of the constitutional debates of 1787 or the famous *Federalist Papers* without realizing that the Founders were "essentially animated by the desire to free the individual from the state." He even went on to say, "I do not think that anyone who has serious-

ly studied the origin of the Constitution of the United States will deny that it is an essentially individualistic document, inspired by the suspicion that the state is always, or always tends to be, dictatorial." Reflecting upon the trends he observed in the United States in the New Deal era of the 1930s, Professor Rappard concluded: "The individual demanding that the state provide him with every security has thereby jeopardized his possession of that freedom for which his ancestors fought and bled."

Is Soviet-style communist central planning now in the ashheap of history in the 1990s? Yes. Are masses of people in the West willing to walk in blind, lockstep obedience to fascist demagogues in torchlight parades? No. And hopefully neither form of totalitarianism will ever again cast its dark collectivist shadow over the West. However, six decades after Professor Rappard's observations about statist trends in America and around

the world, Western democracies are still enveloped in the tight grip of the interventionist state.

Private property increasingly exists only on paper. And with the abridgment of property rights has come the abridgment of all the other individual liberties upon which a free society is based. Our lives are supervised, regulated, controlled, directed and overseen by the state. Look at any part of our economic and social lives and try to find even one corner that is free

from some form of direct or indirect government intrusion. It is practically impossible to find such a corner. This is because our lives are not our own anymore. They are the property of the state. We are the tools and the victims of public policies that are intended to construct brave new worlds concocted by intellectual and political elites who still dream the utopian dream that they know better than us how our lives should be lived.

Today, it is not free market forces but political directives that most often influence what goods and services are produced, where and how they are produced and for what purposes they may be used. If we pick up any product in any store anywhere in the United States we will discover that hundreds of federal and state regulations have actually deter-

Socialism, communism, fascism and Nazism are now all but dead. They have failed miserably. But they have been replaced by what is merely another more watered down form of collectivism that may be called "interventionism." Indeed, interventionism is *the* predominant economic system in the world today.

mined the methods by which it has been manufactured, its quality and content, its packaging and terms of sale, and the conditions under which it may be “safely” used by the purchaser. If we buy a tract of land or a building, we will be trapped in a spider’s web of restrictions on how we may use, improve, or sell it. Every facet of our lives is now subject to the whims of the state.

Economics, Morality, and the Law

In an environment in which “public policy” determines individual lives and fortunes and in which social and economic life has become politicized, it is not surprising that many Americans have turned their attention to politics to improve their market position and relative income share. Legalized coercion has become the method by which they get ahead in life. And make no mistake about it: Every income transfer, every tariff or import quota, every business subsidy, every regulation or prohibition on who may compete or how a product may be produced and marketed, and every restraint on the use and transfer of property is an act of coercion. Political force is interjected into what would otherwise be a system of peaceful and voluntary transactions.

Over time, interventionism blurs the distinction between what is moral and what is not. In ordinary life, most people take for granted that certain forms of conduct are permissible while others are not. These are the Golden Rules they live by. Government’s task in human society is to enforce and protect these rules, which, as I have already indicated, are summarized in two basic principles: Neither force nor fraud shall be practiced in dealings with others; and rights and property of others must be respected. In the moral order that is the free market economy, these principles are the well-spring of honesty and trust. Without them, America is threatened with ultimate ruin—with a war of all-against-all in the pursuit of plunder.

When individuals began to ask government to do things for them, rather than merely to secure rights and property, they began asking government to violate other’s rights and property for their benefit. Their demands on government have been rationalized by intellectuals and social engineers who have persuaded them that what they wanted but didn’t have was due to the greed, exploitation, and immorality of others. Basic morality and jus-

tice has been transcended in the political arena in order to take from the “haves” and give to the “have nots.” Theft through political means has become the basis of a “higher” morality: social justice, which is supposed to remedy the alleged injustices of the free market economy.

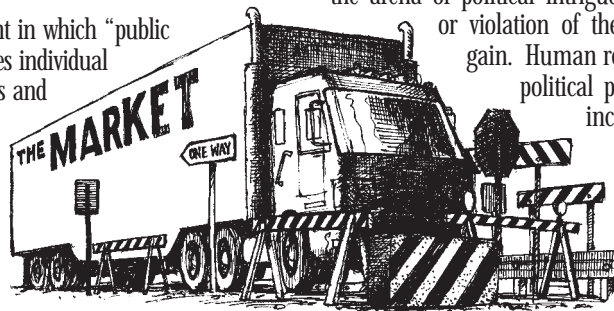
But once the market became politicized in this manner, morality began to disintegrate. Increasingly, the only way to survive in society is to resort to the same types of political methods for gain as others are using or to devise ways to evade controls and regulations. More and more people have been drawn into the arena of political intrigue and manipulation or violation of the law for economic gain. Human relationships and the political process have become increasingly corrupted.

In the 1920s, Mises explained a crucial aspect of this corruption of morality and law:

By constantly violating criminal laws and moral decrees [people] lose the ability to distinguish between right and wrong, good and bad. The merchant who began by violating foreign exchange controls, import and export restrictions, price ceilings, etc., easily proceeds to defraud his partners. The decay of business morals. . . is the inevitable concomitant of the regulations imposed on trade.

Mises was, of course, repeating the lesson that the French classical economist Frederic Bastiat had attempted to teach in the 1850s in his famous essay, “The Law.” When the state becomes the violator of liberty and property rather than its guarantor, it debases respect for all law. People in society develop an increasing disrespect and disregard for what the law demands. They view the law as the agent for immorality in the form of legalized plunder for the benefit of some at the expense of others. And this same disrespect and disregard sooner or later starts to creep into dealings between individuals. Society verges on the brink of lawlessness.

Bastiat predicted the moral bankruptcy that has been brought on by the interventionist state. But are we condemned to continue in a state of moral and political corruption? Many thoughtful observers shake their heads and conclude that the answer is “yes.” But it is worth recalling that in 1951 Mises wrote an essay called “Trends Can Change.” He was



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A Historic Find: Lost Papers Exhibited During March 1997 Ludwig von Mises Lectures

Photos in order of appearance: Mises Professor Richard Ebeling and his wife Anna receive the Mises Medal from Mexico's Instituto Cultural de Ludwig von Mises President Carolina de Bolivar; sponsors Mr. and Mrs. Quinten Ward tour the exhibit with Professor Ebeling; newspaper publisher William Morris speaks to a capacity crowd; off-campus guests examine Mises's correspondence and unpublished monographs written before World War II; a 1951 document regarding the secret storage of the Lost Papers in the Central State Special Archives of the U.S.S.R. Vienna.



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replying to those who despaired that socialist central planning was increasingly dominating the world. At the time, the situation did seem irreversible; political, economic, and social trends all seemed to be heading in the direction of comprehensive collectivism:

One of the cherished dogmas implied in contemporary fashionable doctrines is the belief that tendencies of social evolution as manifested in the recent past will prevail in the future, too. Any attempt to reverse or even to stop a trend is doomed to failure.... The prestige of this myth is so enormous that it quells any opposition. It spreads defeatism among those who do not share the opinion that everything which comes later is better than what preceded, and are fully aware of the disastrous effects of all-round planning, i.e., totalitarian socialism. They, too, meekly submit to what the pseudo-scholars tell them is inevitable. It is this mentality of passively accepting defeat that has made socialism triumph in many European countries and may very soon make it conquer in this country [the United States] too.... Now trends of evolution can change, and hitherto they almost always have changed. But they changed only because they met firm opposition.

The prevailing trend toward what Hilaire Belloc called the servile state will certainly not be reversed if nobody has the courage to attack its underlying dogmas.

The trend towards totalitarian socialism *was* reversed. It was reversed by its own inherent unworkability. It was reversed by the faith of millions of people in the Soviet bloc who would not give up on the dream of freedom and by a courageous few who sacrificed their careers, their property, and even their lives to make that dream a reality. And it was reversed by friends of freedom in the West who helped prevent its triumph in their homelands and who provided an intellectual defense of liberty and the free market.

Interventionism in America in the late twentieth century is a trend that can also be reversed. Its own inherent unworkability and strangulation of the wealth-creating mechanisms of the market will start the reversal process. But that is not enough. We must rekindle our belief in and desire for freedom. And some of us have to speak out and refute the rationales for interventionism. We need to share with our fellow citizens a powerful vision of the free society and the unhampered economy. If we succeed, the great trend of the twenty-first century will be a trend toward greater individual freedom, an expanding global marketplace, and rising standards of living and liberty for all. ▲

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