

Economic Freedom in the Present-Day World

The program of liberalism (in the original sense of the term as it was understood in nineteenth-century Europe and not in present-day America where it is sometimes a synonym for radical interventionism, or more often for socialism and communism) was based upon cognizance that within the market economy, i.e., within the social system of private ownership of the means of production and the division of labor, harmony prevails among the rightly understood or long-term interests of all individuals and groups of individuals.

The Only Fact that Matters

Earlier ages had labored under the misapprehension that no man or group of men can profit but by the loss of others. In entirely demolishing this fallacy, eighteenth-century social philosophy and economics paved the way for the unprecedented achievements of modern Western civilization.

The decline of liberalism in its original sense consists precisely in the fact that the policy of all nations is again guided by the idea that there prevails an irreconcilable conflict between the interests of various classes in the Marxian sense, and of the various nations and races. The decline of liberalism is not one of a series of equally important events that can be lifted out of the context of the history of recent generations

Response to a 1957 questionnaire from French economist Jacques Rueff. Rueff was seeking to revive the Centre Paul Hymans, which, on account of World War II, had not met since its international conference in Paris in 1938. This article appeared in the January 17, 1958, issue of *U.S.A.* magazine.

and treated separately. It is the essence of this history, the only fact that matters. All that has happened during these decades was the consistent application of the philosophy of irreconcilable conflict.

Big Business, Great Service

In the market economy the consumers, by their buying or abstention from buying, ultimately determine what is to be produced, of what quality, and in what quantity. They are continuously shifting control of the material factors of production into the hands of those entrepreneurs, capitalists, and landowners who have succeeded in supplying them in the best possible and cheapest way with all they are asking for.

The characteristic principle of capitalism is mass production for the satisfaction of the wants of the masses. Industry serves, first of all the consumers, the much-talked-about common man. All the major branches of industry, all enterprises, which ignorance and envy belabor as “big business,” produce for the many. Plants turning out what are considered luxury goods for the few never exceed small or medium size. Capitalism multiplies population figures and provides a standard of living for the average man which even the well-to-do of earlier ages would have deemed fabulous.

Economics shows that no other thinkable system of society’s economic organization could attain the degree of productivity which capitalism attains. It has entirely refuted all the arguments advanced in favor of socialism and interventionism.

There are, of course, people who do not want to acquiesce in the verdict of economic theory. They reject economic thinking as an allegedly spurious waste of time and declare that they trust only the teachings of experience. If, for the sake of argument, we admit their claims, we may ask: “Where is the experience that bears witness to the merits of socialism and the evils of capitalism?”

If historical experience could teach anything, it would be that no nation has ever reached or preserved prosperity and civilization without the institution of private property. Recent experience of the United States, Great Britain, Germany, and other countries has again shown that the repeal of any of the interventionist measures — the abandonment of inflationary policies, and even the limited reestablishment of the supremacy of the market — has immediately improved the general economic situation.

Blessings of Capitalism

Again there are people who contend that to look upon the problems of social organization merely with a concern for an ample supply of various goods and services is the disclosure of a vicious mentality. They reject this “mean materialism” on moral grounds and want to deal with the issues involved from what they call a higher and loftier point of view. Such ideas certainly agree with the worldview of a Buddhist monk. In his eyes a life in dirt and penury has a positive value, and earthly possessions are dangerous because they could divert a man from the right path.

It is different with the theological and philosophical moralists of the West. These men find fault with capitalism because there are still people whom the blessings of capitalism have not yet benefited and who are, therefore, in an unsatisfactory condition. They wish that the quantity of goods made available to these poor could be increased. They know that this *could* be effected only by intensifying production, that is, by intensifying capitalism. But, lightheartedly and unthinkingly endorsing all the socialist fallacies, they recommend methods that would decrease the total amount of goods available for sustenance and thereby impair the standard of living.

The anti-capitalistic attitudes of a great many contemporary religious leaders and teachers of a secular morality are dictated by resentment and ignorance. The achievements of capitalism — e.g., the drop in infant mortality, the successful fight against plagues and famines, the general improvement of the standard of living — are to be highly valued also from the point of view of the teachings of any religious creed and of any system of ethical doctrines. No religious or ethical tenet can justify a policy that aims at the substitution of a social system under which output per unit of input is lower for a system in which it is higher.

Mistaken “Moderates”

The dismal conditions that the Bolshevik “experiment” has brought about and the lamentable failure of all ventures of partial socialization and nationalization have to some extent damped the fanatical bigotry with which several generations of zealots were fighting for Georges Sorel’s ideal, the destruction of all that exists.

The design of a “social revolution” which at one blow would transform the earth into the land of Cockaigne has lost a good deal of its

attraction. It was a tremendous shock for the parlor Communists, the socialist professors and bureaucrats, and the union bosses when they discovered that the revolutionary Moloch devours not only the capitalists, “sycophants of the bourgeoisie,” and kulaks, but also people of their own kind. They stopped talking about the necessity of “finishing the unfinished revolution” and turned to a program for bringing about socialism step-by-step in a series of interventionist measures. They returned to the plan that Marx and Engels had outlined in the *Communist Manifesto*, but virtually had dropped in the later development of their doctrine because it was incompatible with the essential dogmas of dialectic materialism and the Marxian scheme of a philosophy of history.

The few lines in which the *Communist Manifesto* explains and justifies its ten-point program for the gradual realization of socialism are the best Marx and Engels ever wrote about economic issues; they are in fact the only acceptable observations contributed by Marx and Engels to economics. They call the measures they suggest “despotic inroads on the rights of property and on the conditions of bourgeois production” and declare that these measures “appear economically insufficient and untenable,” and that “in the course of the movement they outstrip themselves and are unavoidable as a means of entirely revolutionizing the mode of production.”

Later, forty years after the first publication of the German text of the *Manifesto*, five years after the death of Marx, when an “authorized English translation” of the *Manifesto*, “edited and annotated by Frederick Engels,” was published, Engels provided an addition to the text in order to explain what the rather puzzling words “outstrip themselves” (*über sich selbst hinaustreiben*) meant. He inserted between the words “outstrip themselves” and “and are unavoidable” the words “necessitate further inroads upon the old social order.” In these eight words Engels condensed the teachings of classical economics concerning the effects of interference with the market and to some extent even anticipated the modern economists’ theory of interventionism.

This theory of interventionism deals with the effects of coercion and compulsion on the part of the government or agencies, like the labor unions to whom the government has virtually granted the privilege of resorting to violence. Such coercion and compulsion force entrepreneurs and capitalists to employ some of the factors of production differently from what they would have if they were obeying only the dictates of the consumers as conveyed to them by the state of the market.

This theory points out that the effects of such an interference are — from the very point of view of the government and the advocates and supporters of the measure concerned — more undesirable than the previous state of affairs that it was designed to alter. If the government is prepared neither to repeal its intervention nor to acquiesce in the unsatisfactory state of affairs that it has generated, then it is forced to add to its first intervention a second one, and as the result is, again from the government's point of view, more unsatisfactory than the previous state, a third one, and so forth until its authoritarian decrees regiment every aspect of human activities and thereby establish the social system that is known under the terms socialism, communism, planning, totalitarianism.

When people who aim at the substitution of socialism for the market economy advocate interventionist measures, they are consistent from the point of view of their aims. But those people are badly mistaken who consider interventionism as a third solution of the problem of society's economic organization, a system which, as they say, is as far from socialism as from capitalism, while combining what is "good" in each of these two systems and avoiding what is "bad" in them.

Interventionism cannot be considered a lasting system of society's economic organization. It is a method of realizing socialism by installment. Production can be directed either by the wishes of the consumers — as shown in their buying or desisting from buying — or by the state, the social apparatus of coercion and compulsion. A concrete factor of production — for instance a specific piece of steel — can either be used according to the orders of the consumers or according to the orders of the police. There is nothing in between.

What optimists view as a revival of true liberalism is merely the slowing down of the march toward socialism that the spectacular failure of all socialist adventures has begotten. If the New Deal had not failed to do away with mass unemployment in the 1930s, and if the Tennessee Valley Authority had not been an extremely costly fiasco, if the nationalization of British coal mining and steel making had made any sense, if German Nazism and Italian Fascism had not ruined everything that could be ruined, if the state-operated post offices, telegraphs and telephones, railroads, and other services had not, through their deficits, jeopardized many nations' budgetary equilibrium, the self-styled "progressives" would still pursue their policies with the same vigor with which their forerunners proceeded some years ago.

It is a mistake to look upon these “moderates” as if they were liberals in the classical sense of the term. The American Eisenhower Republicans and the British Conservatives are not advocates of the market economy and of economic freedom. What distinguishes them from the New Deal Democrats and from the Labour Party is not principles, but the degree of their reformist ardor and the pace of their march toward statism. They are always retreating, putting up today with measures which they vehemently opposed some time ago. In a few years they will very likely adopt measures which make them shudder today.

The German Ordo-Liberalism is different only in details from the *Sozialpolitik* of the Schmoller and Wagner school.* After the episodes of Weimar radicalism and Nazi socialism, it is a return in principle to the *Wohlfahrtsstaat* of Bismarck and Posadovsky.†

All these movements are, of course, moderate when compared with the thoroughness of the dictators. But there is no substantial difference between *more* or *less* moderate interventionism. All interventionist measures, as Engels pertinently observed, “necessitate further inroads upon the old social order” and thereby finally lead to full socialism.

The Need for Sound Money

Interventionism believes that lowering the rate of interest below the height it would attain in an unhampered market is very beneficial, and considers credit expansion as the right means for the attainment of this end. But the boom artificially created by credit expansion cannot last. It must end in a general depression of trade, an economic crisis.

From this explanation of the trade cycle, the so-called monetary or circulation credit theory, one must infer that there is only one means to avoid the return of periods of economic depression, viz., to abstain from any attempts to produce by credit expansion a passing artificial boom. But the interventionists are not prepared to renounce their cherished policy of making people happy for a short time by an illusory prosperity. Fully aware of the fact that it is impossible to refute and to discredit the monetary theory of the trade cycle, they pass over it in silence, or distort it and sneeringly deride it.

* Gustav Schmoller (1838–1917) and Adolf Wagner (1835–1917) were economists. Both men were advocates of social reform, the welfare state, and state socialism.

† Arthur Posadovsky (1845–1932), a prominent official in the German government from 1897 through World War I, was responsible for much of the social and economic reform of that era.

In place of this banished doctrine, officialdom and the universities propagate a doctrine which, like that of Karl Marx, interprets the periodical return of industrial crises as a necessary outgrowth of capitalism. The crises, declares the *Communist Manifesto*, disclose the inability of the capitalistic mode of production, of private property and free enterprise, to manage productive forces. Economic crises are an inherent feature of the bourgeois system, and will return at ever shorter intervals, each time more threateningly, as long as socialist all-around planning has not been substituted for the capitalistic “anarchy of production.”

Socialists and interventionists agree that the crises are necessary outcomes of the very operation of the market economy. They disagree with regard to the methods to be resorted to for the prevention of future periods of economic depression.

The orthodox Marxians declare that there is but one means available for this purpose, the unconditional and total adoption of the Soviet type of socialist management.

The interventionists, however, ascribe to the government the power to prevent or, at least, to mitigate considerably the harshness and duration of the slump by measures which they call “anti-cyclical.” Under this high-sounding name they recommend, for the emergency in which government revenue is shrinking on account of the depression, tax abatement, on the one hand, and, on the other hand, a huge increase in government spending through gigantic public works and an increase in unemployment compensation. Though the crisis is the inevitable outcome of the creation of additional quantities of money and money substitutes, the interventionists want to cure it by still further inflation. They blithely neglect to take cognizance of the teachings of both theory and history concerning the final outcome of a protracted inflationary policy.

Inflation is also the only solution interventionism suggests for the problem of mass unemployment. Here again the fateful concatenation of all attempts at tampering with the market wreaks havoc. First, the government or the labor unions decree and enforce minimum wage rates that are higher than the potential market rates. Then, as this inevitably results in prolonging mass unemployment indefinitely, the government proceeds to inflation. The inflation results in higher commodity prices and a higher cost of living which cause the government and the unions to interfere in order to raise wage rates anew above the potential market rate. And so on.

A liberal (in its original sense) movement must never forget that sound money is one of the fundamental principles of liberalism, old or new.

Fables Can Cause War

The legal foundations of Western civilization and prosperity were provided by the institution of private property. What separates East and West is precisely the fact that the Orient did not develop the ideological, legal, and political framework within which property rights and their efficacious protection against arbitrariness on the part of rulers could thrive. Under these conditions no capital accumulation and no large-scale investment could be effected and result in the development of industrial plants and factories.

The natural conditions for production were in large parts of Asia more favorable than in Europe north of the Alps. On the eve of the “Industrial Revolution,” India and China were considered as richer than even the most flourishing European countries. In technological skill and in the talents required for success in scientific research, Asian students of Western methods seem not to be inferior to the Europeans. What was lacking and is still lacking in the East is the spirit of freedom, which generated that great concept of the individual’s rights that no one must infringe upon.

The vital principle of a liberal constitution is the independence of the judiciary that protects the individual and his property against any violator, whether king or common robber. To the institutions which the “progressives” try to ridicule with ironical sneers by dubbing them “the divine rights of capital,” the “proletarians” of the West owe all that distinguishes their conditions from those of the indigent masses in Asia and Africa.

The inhabitants of the “underdeveloped” countries hanker for the material paraphernalia of Western capitalism and thereby implicitly acknowledge the superiority of Western methods of economic management. But their governments, in this regard fully supported by the “intellectuals,” are sabotaging any attempts to intensify production and thereby to improve the average standard of living. What these countries need, first of all, is more investment of more capital. Yet their policies prevent both the accumulation of domestic capital and the importation of foreign capital.

Conditions in England and other European countries were no less grievous on the eve of the “Industrial Revolution” than they are today in many Asian and African lands. But while England had to lift itself by its own bootstraps, assembling the capital acquired and accumulating technological experience in a time-consuming process, these latter countries can freely use the technology of the West. And they got, and could still get if they did not prevent it, substantial aid by the investment of foreign capital.

Confused by the Communist fables that depict foreign investment as an outgrowth of predatory imperialism, Western “progressivism” labors under a sense of guilt in dealing with the conditions of the East. Western European and later also North American capitalists built most of the railroads, canals, other transportation and communication facilities, and public utilities in the “underdeveloped” countries, developed their natural resources, and constructed factories. A great part, perhaps the greater part of the capital invested in this way in these “underdeveloped” countries, has been expropriated under various pretexts. The amazing thing is that these confiscatory measures were enthusiastically approved by the “progressive” countrymen of the capitalist victims of such expropriation. Many governments not only did not protest against the expropriation of these investments, but virtually encouraged its perpetrators.

One of the main paradoxes of the modern world is this: The achievements of laissez-faire liberalism and the capitalistic market economy have finally instilled in all Eastern peoples the conviction that what the Western ideologies recommend and the Western policies practice is the right thing to be done. But by the time the East got this confidence in Western ways, the ideologies and policies of socialism and interventionism had supplanted liberalism in Europe and America.

In adopting the doctrines that condemned all things labelled “bourgeois” as the worst of all evils, the East meant to adopt the ideas that had made for the West’s prosperity and civilization. From these allegedly modern and progressive American and Western doctrines, the Easterners got the inspiration for the war cries they are using today in their fight against the West. This applies also to Russian Communism which, from the Russian point of view, is seen as Western ideology imported by disciples of Hegel, Fourier, Marx, Sorel, and the Webbs, with the outspoken intention of “westernizing” their backward nation.

Led by the Soviet power, the peoples of Asia and Africa are engaged in what they believe is a struggle for their emancipation from the “yoke

of capitalism.” From the point of view of the Western nations, their fanatical anti-Westernism is certainly a highly deplorable fact. But it also hurts the vital interests of the Eastern peoples more seriously than those of the West. And it may kindle a new, an atomic, world war.

Dissenters’ Role

The advocates of socialism (communism or planning) want to substitute for private control public (government) control of the means of production.

The advocates of interventionism declare that they do not want to abolish the market economy entirely. They want, they say, only to improve its functioning by various acts of government interference with business.

These two doctrines are today taught at schools, expounded in books, magazines, and newspapers, professed by political parties, and practiced by governments. There are socialist schools, books, periodicals, parties, and governments, and there are interventionist schools, books, periodicals, parties, and governments.

There are also a few dissenters who think that the market economy, the laissez-faire system or capitalism, is the only system that makes for prosperity and civilization, and that it alone can prevent the ruin of the West and the relapse into chaos and barbarism. Some of these dissenters have published books and articles. But almost no politician or bureaucrat takes notice of their ideas. Public opinion is not aware of the fact that such doctrines exist. The political idiom of the United States does not even have a word to signify them and their supporters. The word “liberal” means in America today socialist or interventionist. . . .

The state of affairs we have to face is this: The interventionist policies adopted by all governments and supported by all parties this side of the Iron Curtain will sooner or later bring about, to put it mildly, very unsatisfactory conditions. Since public opinion mistakenly considers these interventionist policies as procapitalistic policies, or as the Communists and many allegedly anti-Communist authors say “as a last desperate effort to salvage capitalism,” people will argue, “Now capitalism has failed; nothing is left to us except to try the Russian methods.”

These people will not see that what failed was not capitalism, not the system of the unhampered market economy, but interventionism. How

could they realize this, when there are so many groups eager to represent a policy of interventionism as a policy for the preservation of economic freedom and the market economy? . . .

Therefore nothing is more important today than to enlighten public opinion about the basic differences between genuine liberalism, which advocates the free market economy, and the various interventionist parties which are advocating government interference with prices, wages, the rate of interest, profits and investment, confiscatory taxation, tariffs and other protectionist measures, huge government spending, and finally, inflation.