

HUMAN ACTION

by Ludwig von Mises, 4th edition (1996)

PART FOUR

CATALLACTICS OR ECONOMICS OF THE MARKET SOCIETY

XXIV. HARMONY AND CONFLICT OF INTERESTS

1. The Ultimate Source of Profit and Loss on the Market

The changes in the data whose reiterated emergence prevents the economic system from turning into an evenly rotating economy and produces again and again entrepreneurial profit and loss are favorable to some members of society and unfavorable to others. Hence, people concluded, *the gain of one man is the damage of another; no man profits but by the loss of others*. This dogma was already advanced by some ancient authors. Among modern writers Montaigne was the first to restate it; we may fairly call it the *Montaigne dogma*. It was the quintessence of the doctrines of Mercantilism, old and new. It is at the bottom of all modern doctrines teaching that there prevails, within the frame of the market economy, an irreconcilable conflict among the interests of various social classes within a nation and furthermore between the interests of any nation and those of all other nations.¹

Now the Montaigne dogma is true with regard to the effects of cash-induced changes in the purchasing power of money on deferred payments. But it is entirely wrong with regard to any kind of entrepreneurial profit or loss, whether they emerge in a stationary economy in which the total amount of profits equals the total amount of losses or in a progressing or a retrogressing economy in which these two magnitudes are different.

What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's feeling of uneasiness. What hurts the sick is the plague, not the physician who treats the disease. The doctor's gain is not an outcome of the epidemics, but of the aid he hives to those affected. The ultimate source of profits is always the foresight of future conditions. Those who succeeded better than others in anticipating future events and in adjusting their activities to the future state of the market, reap profits because they are in a position to satisfy the most urgent needs of the public. The profits of those who have produced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expended. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the consumers.

¹ Cf. Montaigne, *Essais*, ed. F. Strowski, Bk. I, chap. 22 (Bordeaux, 1906), I, 135-136; A. Oncken, *Geschichte der Nationalökonomie* (Leipzig, 1902), pp. 152-153; E. F. Heckscher, *Mercantilism*, transl. by M. Shapiro (London, 1935), II, 26-27.

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External events affecting demand and supply may sometimes come so suddenly and unexpectedly that people say that no reasonable man could have foreseen them. Then the envious may consider the profits of those who gain from the change as unjustified. Yet such arbitrary value judgments do not alter the real state of interests. It is certainly better for a sick man to be cured by a doctor for a high fee than to lack medical assistance. If it were otherwise, he would not consult the physician.

There are in the market economy no conflicts between the interests of the buyers and sellers. There are disadvantages caused by inadequate foresight. It would be a universal boon if every man and all the members of the market society would always foresee future conditions correctly and in time and act accordingly. If this were the case, retrospection would establish that no particle of capital and labor was wasted for the satisfaction of wants which now are considered as less urgent than some other unsatisfied wants. However, man is not omniscient.

It is wrong to look at these problems from the point of view of resentment and envy. It is no less faulty to restrict one's observation to the momentary position of various individuals. These are social problems and must be judged with regard to the operation of the whole market system. What secures the best possible satisfaction of the demands of each member of society is precisely the fact that those who succeeded better than other people in anticipating future conditions are earning profits. If profits were to be curtailed for the benefit of those whom a change in the data has injured, the adjustment of supply to demand would not be improved but impaired. If one were to prevent doctors from occasionally earning high fees, one would not increase but rather decrease the number of those choosing the medical profession.

The deal is always advantageous both for the buyer and the seller. Even a man who sells at a loss is still better off than he would be if he could not sell at all, or only at a still lower price. He loses on account of his lack of foresight; the sale limits his loss even if the price received is low. If both the buyer and the seller were not to consider the transaction as the most advantageous action they could choose under the prevailing conditions, they would not enter into the deal.

The statement that one man's boon is the other man's damage is valid with regard to robbery, war, and booty. The robber's plunder is the damage of the despoiled victim. But war and commerce are two different things. Voltaire erred when--in 1764--he wrote in the article "Patrie" of his *Dictionnaire philosophique*: "To be a good patriot is to wish that one's own community should enrich itself by trade and acquire power by arms; it is obvious that a country cannot profit but at the expense of another and that it cannot conquer without inflicting harm on other people." Voltaire, like so many other authors who preceded and followed him, deemed it superfluous to familiarize himself with economic thought. If he had read the essays of his contemporary David Hume, he would have learned how false it is to identify war and foreign trade. Voltaire, the great debunker of age-old superstitions and popular fallacies, fell prey unawares to the most disastrous fallacy.

When the baker provides the dentist with bread and the dentist relieves the baker's toothache, neither the baker nor the dentist is harmed. It is wrong to consider such an exchange of services and the pillage of the baker's shop by armed gangsters as two manifestations of the same thing. Foreign trade differs from domestic trade only in so far as goods and services are exchanged beyond the borderlines separating the territories of two sovereign nations. It is monstrous that Prince Louis Napoleon Bonaparte, the later Emperor Napoleon III, should

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have written many decades after Hume, Adam Smith, and Ricardo: "The quantity of merchandise which a country exports is always in direct proportion to the number of shells it can discharge upon its enemies whenever its honor and its dignity may require it."² All the teachings of economics concerning the effects of the international division of labor and of international trade have up to now failed to destroy the popularity of the Mercantilist fallacy, "that the object of foreign trade is to pauperize foreigners."³ It is a task of historical investigation to disclose the sources of the popularity of this and other similar delusions and errors. For economics the matter is long since settled.

2. The Limitation of Offspring

The natural scarcity of the means of sustenance forces every living being to look upon all other living beings as deadly foes in the struggle for survival, and generates pitiless biological competition. But with man these irreconcilable conflicts of interests disappear when, and as far as, the division of labor is substituted for economic autarky of individuals, families, tribes, and nations. Within the system of society there is no conflict of interests as long as the optimum size of population has not been reached. As long as the employment of additional hands results in a more than proportionate increase in the returns, harmony of interests is substituted for conflict. People are no longer rivals in the struggle for the allocation of portions out of a strictly limited supply. They become cooperators in striving after ends common to all of them. An increase in population figures does not curtail, but rather augments, the average shares of the individuals.

If men were to strive only after nourishment and sexual satisfaction, population would tend to increase beyond the optimum size to the limits drawn by the sustenance available. However, men want more than merely to live and to copulate; they want to live *humanly*. An improvement in conditions usually results, it is true, in an increase in population figures; but this increase lags behind the increase in bare sustenance. If it were otherwise, men would have never succeeded in the establishment of social bonds and in the development of civilization. As with rats, mice, and microbes, every increase in sustenance would have made population figures rise to the limits of bare sustenance; nothing would have been left for the seeking of other ends. The fundamental error implied in the iron law of wages was precisely the fact that it looked upon men--or at least upon the wage earners--as beings exclusively driven by animal impulses. Its champions failed to realize that man differs from the beasts as far as he aims also at specifically human ends, which one may call higher or more sublime ends.

The Malthusian law of population is one of the great achievements of thought. Together with the principle of the division of labor it provided the foundations for modern biology and for the theory of evolution; the importance of these two fundamental theorems for the sciences of human action is second only to the discovery of the regularity in the intertwinement and sequence of market phenomena and their inevitable determination by the market data. The objections raised against the Malthusian law as well as against the law of returns are vain and trivial. Both laws are indisputable. But the role to be assigned to them within the body of the sciences of human action is different from that which Malthus attributed to them.

² Cf. Louis Napoleon Bonaparte, *Extinction du pauperisme* (Bd. populaire, Paris, 1848), p. 6.

³ With these words H. G. Wells (*The Worm of William Clissold*, Bk. IV, sec. 10) characterizes the opinion of a typical representative of the British peerage.

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Nonhuman beings are entirely subject to the operation of the biological law described by Malthus.⁴ For them the statement that their numbers tend to encroach upon the means of subsistence and that the supernumerary specimens are weeded out by want of sustenance is valid without any exception. With reverence to the nonhuman animals the notion of minimum sustenance has an unequivocal, uniquely determined sense. But the case is different with man. Man integrates the satisfaction of the purely zoological impulses, common to all animals, into a scale of values, in which a place is also assigned to specifically human ends. Acting man also rationalizes the satisfaction of his sexual appetites. Their satisfaction is the outcome of a weighing of pros and cons. Man does not blindly submit to a sexual stimulation like a bull; he refrains from copulation if he deems the costs--the anticipated disadvantages--too high. In this sense we may, without any valuation or ethical connotation, apply the term *moral restraint* employed by Malthus.⁵

Rationalization of sexual intercourse already involves the rationalization of proliferation. Then later further methods of rationalizing the increase of progeny were adopted which were independent of abstention from copulation. People resorted to the egregious and repulsive practices of exposing or killing infants and of abortion. Finally they learned to perform the sexual act in such a way that no pregnancy results. In the last hundred years the technique of contraceptive devices has been perfected and the frequency of their employment increased considerably. Yet the procedures had long been known and practiced.

The affluence that modern capitalism bestows upon the broad masses of the capitalist countries and the improvement in hygienic conditions and therapeutical and prophylactic methods brought about by capitalism have considerably reduced mortality, especially infant mortality, and prolonged the average duration of life. Today in these countries the restriction in generating offspring can succeed only if it is more drastic than in earlier ages. The transition to capitalism--i.e., the removal of the obstacles which in former days had fettered the functioning of private initiative and enterprise--has consequently deeply influenced sexual customs. It is not the practice of birth control that is new, but merely the fact that it is more frequently resorted to. Especially new is the fact that the practice is no longer limited to the upper strata of the population, but is common to the whole population. For it is one of the most important social effects of capitalism that it deproletarianizes all strata of society. It raises the standard of living of the masses of the manual workers to such a height that they too turn into "bourgeois" and think and act like well-to-do burghers. Eager to preserve their standard of living for themselves and for their children, they embark upon birth control. With the spread and progress of capitalism, birth control becomes a universal practice. The transition to capitalism is thus accompanied by two phenomena: a decline both in fertility rates and in mortality rates. The average duration of life is prolonged.

In the days of Malthus it was not yet possible to observe these demographical characteristics of capitalism. Today it is no longer permissible to question them. But, blinded by romantic prepossessions, many describe them as phenomena of decline and degeneration peculiar only to the white-skinned peoples of Western civilization, grown old and decrepit. These romantics

⁴ The Malthusian law is, of course, a biological and not a praxeological law. However, its cognizance is indispensable for praxeology in order to conceive by contrast the essential characteristic of human action. As the natural sciences failed to discover it, the economists had to fill the gap. The history of the law of population too explodes the popular myth about the backwardness of the sciences of human action and their need to borrow from the natural sciences.

⁵ Malthus too employed this term without any valuation or ethical implication. Cf. Bonar, *Malthus and His Work* (London, 1885), p. 53. One could as well substitute the term *praxeological restraint* for *moral restraint*.

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are seriously alarmed by the fact that the Asiatics do not practice birth control to the same extent to which it is practiced in Western Europe, North America, and Australia. As modern methods of fighting and preventing disease have brought about a drop in mortality rates with these oriental peoples too, their population figures grow more rapidly than those of the Western nations. Will not the indigenes of India, Malaya, China, and Japan, who themselves did not contribute to the technological and therapeutical achievements of the West, but received them as an unexpected present, in the end by the sheer superiority of their numbers squeeze out the peoples of European descent?

These fears are groundless. Historical experience shows that all Caucasian peoples reacted to the drop in mortality figures brought about by capitalism with a drop in the birth rate. Of course, from such historical experience no general law may be deduced. But praxeological reflection demonstrates that there exists between these two phenomena a necessary concatenation. An improvement in the external conditions of well-being makes possible a corresponding increase in population figures. However, if the additional quantity of the means of sustenance is completely absorbed by rearing an additional number of people, nothing is left for a further improvement in the standard of living. The march of civilization is arrested; mankind reaches a state of stagnation.

The case becomes still more obvious if we assume that a prophylactic invention is made by a lucky chance and that its practical application requires neither a considerable investment of capital nor considerable current expenditure. Of course, modern medical research and still more its utilization absorb huge amounts of capital and labor. They are products of capitalism. They would never have come into existence in a noncapitalist environment. But there were, in earlier days, instances of a different character. The practice of smallpox inoculation did not originate from expensive laboratory research and, in its original crude form, could be applied at trifling costs. Now, what would the results of smallpox inoculation have been if its practice had become general in a precapitalist country not committed to birth control? It would have increased population figures without increasing sustenance, it would have impaired the average standard of living. It would not have been a blessing, but a curse.

Conditions in Asia and Africa are, by and large, the same. These backward peoples receive the devices for fighting and preventing disease ready-made from the West. It is true that in some of these countries imported foreign capital and the adoption of foreign technological methods by the comparatively small domestic capital synchronously tend to increase the per capita output of labor and thus to bring about a tendency toward an improvement in the average standard of living. However, this does not sufficiently counterbalance the opposite tendency resulting from the drop in mortality rates not accompanied by an adequate fall in fertility rates. The contact with the West has not yet benefitted these peoples because it has not yet affected their minds; it has not freed them from age-old superstitions, prejudices, and misapprehensions; it has merely altered their technological and therapeutical knowledge.

The reformers of the oriental peoples want to secure for their fellow citizens the material well-being that the Western nations enjoy. Deluded by Marxian, nationalist, and militarist ideas they think that all that is needed for the attainment of this end is the introduction of European and American technology. Neither the Slavonic Bolsheviks and nationalists nor their sympathizers in the Indies, in China, and in Japan realize that what their peoples need most is not Western technology, but the social order which in addition to other achievements has generated this technological knowledge. They lack first of all economic freedom and private initiative, entrepreneurs and capitalism. But they look only for engineers and machines. What

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separates East and West is the social and economic system. The East is foreign to the Western spirit that has created capitalism. It is of no use to import the paraphernalia of capitalism without admitting capitalism as such. No achievement of capitalist civilization would have been accomplished in a noncapitalistic environment or can be preserved in a world without a market economy.

If the Asiatics and Africans really enter into the orbit of Western civilization, they will have to adopt the market economy without reservations. Then their masses will rise above their present proletarian wretchedness and practice birth control as it is practiced in every capitalistic country. No excessive growth of population will longer hinder the improvement in the standards of living. But if the oriental peoples in the future confine themselves to mechanical reception of the tangible achievements of the West without embracing its basic philosophy and social ideologies, they will forever remain in their present state of inferiority and destitution. Their populations may increase considerably, but they will not raise themselves above distress. These miserable masses of paupers will certainly not be a serious menace to the independence of the Western nations. As long as there is a need for weapons, the entrepreneurs of the market society will never stop producing more efficient weapons and thus securing to their countrymen a superiority of equipment over the merely imitative noncapitalistic Orientals. The military events of both World Wars have proved anew that the capitalistic countries are paramount also in armaments production. No foreign aggressor can destroy capitalist civilization if it does not destroy itself. Where capitalistic entrepreneurship is allowed to function freely, the fighting forces will always be so well equipped that the biggest armies of the backward peoples will be no match for them. There has even been great exaggeration of the danger of making the formulas for manufacturing "secret" weapons universally known. If war comes again, the searching mind of the capitalistic world will always have a head start on the peoples who merely copy and imitate clumsily.

The peoples who have developed the system of the market economy and cling to it are in every respect superior to all other peoples. The fact that they are eager to preserve peace is not a mark of their weakness and inability to wage war. They love peace because they know that armed conflicts are pernicious and disintegrate the social division of labor. But if war becomes unavoidable, they show their superior efficiency in military affairs too. They repel the barbarian aggressors whatever their numbers may be.

The purposive adjustment of the birth rate to the supply of the material potentialities of well-being is an indispensable condition of human life and action, of civilization, and of any improvement in wealth and welfare. Whether the only beneficial method of birth control is abstention from coitus is a question which must be decided from the point of view of bodily and mental hygiene. It is absurd to confuse the issue by referring to ethical precepts developed in ages which were faced with different conditions. However, praxeology is not interested in the theological aspects of the problem. It has merely to establish the fact that where there is no limitation of offspring there cannot be any question of civilization and improvement in the standard of living.

A socialist commonwealth would be under the necessity of regulating the fertility rate by authoritarian control. It would have to regiment the sexual life of its wards no less than all other spheres of their conduct. In the market economy every individual is spontaneously intent upon not begetting children whom he could not rear without considerably lowering his family's standard of life. Thus the growth of population beyond the optimum size as

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determined by the supply of capital available and the state of technological knowledge is checked. The interests of each individual coincide with those of all other individuals.

Those fighting birth control want to eliminate a device indispensable for the preservation of peaceful human cooperation and the social division of labor. Where the average standard of living is impaired by the excessive increase in population figures, irreconcilable conflicts of interests arise. Each individual is again a rival of all other individuals in the struggle for survival. The annihilation of rivals is the only means of increasing one's own well-being. The philosophers and theologians who assert that birth control is contrary to the laws of God and Nature refuse to see things as they really are. Nature straitens the material means required for the improvement of human well-being and survival. As natural conditions are, man has only the choice between the pitiless war of each against each or social cooperation. But social cooperation is impossible if people give rein to the natural impulse of proliferation. In restricting procreation man adjusts himself to the natural conditions of his existence. The rationalization of the sexual passions is an indispensable condition of civilization and societal bonds. Its abandonment would in the long run not increase but decrease the numbers of those surviving, and would render life for everyone as poor and miserable as it was many thousands of years ago for our ancestors.

3. The Harmony of the "Rightly Understood" Interests

From time immemorial men have prattled about the blissful conditions their ancestors enjoyed in the original "state of nature." From old myths, fables, and poems the image of this primitive happiness passed into many popular philosophies of the seventeenth and eighteenth centuries. In their language the term *natural* denoted what was good and beneficial in human affairs, while the term *civilization* had the connotation of opprobrium. The fall of man was seen in the deviation from the primitive conditions of ages in which there was but little deference between man and other animals. At that time, these romantic eulogists of the past asserted, there were no conflicts between men. Peace was undisturbed in the Garden of Eden.

Yet nature does not generate peace and good will. The characteristic mark of the "state of nature" is irreconcilable conflict. Each specimen is the rival of all other specimens. The means of subsistence are scarce and do not grant survival to all. The conflicts can never disappear. If a band of men, united with the object of defeating rival bands, succeeds in annihilating its foes, new antagonisms arise among the victors over the distribution of the booty. The source of the conflicts is always the fact that each man's portion curtails the portions of all other men.

What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural conflict of interests. For where there is division of labor, there is no longer question of the distribution of a supply not capable of enlargement. Thanks to the higher productivity of labor performed under the division of tasks, the supply of goods multiplies. A pre-eminent common interest, the preservation and further intensification of social cooperation, becomes paramount and obliterates all essential collisions. Catallactic competition is substituted for biological competition. It makes for harmony of the interests of all members of society. The very condition from which the irreconcilable conflicts of biological competition arise--viz., the fact that all people by and large strive after the same things--is transformed into a factor making for harmony of interests. Because many people or even all people want bread, clothes, shoes, and cars, large-scale production of these goods becomes feasible and reduces the costs of production to such an extent that they are accessible at low prices. The fact that my fellow man wants to acquire shoes as I do, does not make it

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harder for me to get shoes, but easier. What enhances the price of shoes is the fact that nature does not provide a more ample supply of leather and other raw material required, and that one must submit to the disutility of labor in order to transform these raw materials into shoes. The catallactic competition of those who, like me, are eager to have shoes makes shoes cheaper, not more expensive.

This is the meaning of the theorem of the harmony of the rightly understood interests of all members of the market society.⁶ When the classical economists made this statement, they were trying to stress two points: First, that everybody is interested in the preservation of the social division of labor, the system that multiplies the productivity of human efforts. Second, that in the market society consumers' demand ultimately directs all production activities. The fact that not all human wants can be satisfied is not due to inappropriate social institutions or to deficiencies of the system of the market economy. It is a natural condition of human life. The belief that nature bestows upon man inexhaustible riches and that misery is an outgrowth of man's failure to organize the good society is entirely fallacious. The "state of nature" which the reformers and utopians depicted as paradisiac was in fact a state of extreme poverty and distress. "Poverty," says Bentham, "is not the work of the laws, it is the primitive condition of the human race."⁷ Even those at the base of the social pyramid are much better off than they would have been in the absence of social cooperation. They too are benefitted by the operation of the market economy and participate in the advantages of civilized society.

The nineteenth-century reformers did not drop the cherished fable of the original earthly paradise. Frederick Engels incorporated it in the Marxian account of mankind's social evolution. However, they no longer set up the bliss of the *aurea aetas* as a pattern for social and economic reconstruction. They contrast the alleged depravity of capitalism with the ideal happiness man will enjoy in the socialist Elysium of the future. The socialist mode of production will abolish the fetters by means of which capitalism checks the development of the productive forces, and will increase the productivity of labor and wealth beyond all measure. The preservation of free enterprise and the private ownership of the means of production benefits exclusively the small minority of parasitic exploiters and harms the immense majority of working men. Hence there prevails within the frame of the market society an irreconcilable conflict between the interests of "capital" and those of "labor." This class struggle can disappear only when a fair system of social organization--either socialism or interventionism--is substituted for the manifestly unfair capitalist mode of production.

Such is the almost universally accepted social philosophy of our age. It was not created by Marx, although it owes its popularity mainly to the writings of Marx and the Marxians. It is today endorsed not only by the Marxians, but no less by most of those parties who emphatically declare their anti-Marxism and pay lip service to free enterprise. It is the official social philosophy of Roman Catholicism as well as of Anglo-Catholicism; it is supported by many eminent champions of the various Protestant denominations and of the Orthodox Oriental Church. It is an essential part of the teachings of Italian Fascism and of German nazism and of all varieties of interventionist doctrines. It was the ideology of the Sozialpolitik of the Hohenzollerns in Germany and of the French royalists aiming at the restoration of the house of Bourbon-Orleans, of the New Deal of President Roosevelt, and of the nationalists of Asia and Latin America. The antagonisms between these parties and factions refer to accidental issues--such as religious dogma, constitutional institutions, foreign policy--and, first of all, to the characteristic features of the social system that is to be substituted for

⁶ For "rightly understood" interests we may as well say interests "in the long run."

⁷ Cf. Bentham, *Principles of the Civil Code*, in "Works," I, 309.

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capitalism. But they all agree in the fundamental thesis that the very existence of the capitalist system harms the vital interests of the immense majority of workers, artisans, and small farmers, and they all ask in the name of social justice for the abolition of capitalism.⁸

All socialist and interventionist authors and politicians base their analysis and critique of the market economy on two fundamental errors. First, they fail to recognize the speculative character inherent in all endeavors to provide for future want-satisfaction, i.e., in all human action. They naively assume that there cannot exist any doubt about the measures to be applied for the best possible provisioning of the consumers. In a socialist commonwealth there will be no need for the production tsar (or the central board of production management) to speculate. He will "simply" have to resort to those measures which are beneficial to his wards. The advocates of a planned economy have never conceived that the problem is to allocate scarce factors of production in the various branches of production in such a way that no wants considered more urgent should remain unsatisfied because the factors of production required for their satisfaction were employed, i.e., wasted, for the satisfaction of wants considered less urgent. This economic problem must not be confused with the technological problem. Technological knowledge can merely tell us what could be achieved under the present state of our scientific insight. It does not answer the questions as to what should be produced and in what quantities, and which of the multitude of technological processes available should be chosen. Deluded by their failure to grasp this essential matter, the advocates of a planned society believe that the production tsar will never err in his decisions. In the market economy the entrepreneurs and capitalists cannot avoid committing serious blunders because they know neither what the consumers want nor what their competitors are doing. The general manager of a socialist state will be infallible because he alone will have the power to determine what should be produced and how, and because no action of other people will cross his plans.⁹

The second fundamental error involved in the socialists' critique of the market economy stems from their faulty theory of wages. They have failed to realize that wages are the price paid for the earner's achievement, i.e., for the contribution of his efforts to the processing of the good concerned or, as people say, for the value which his services add to the value of the materials. No matter whether there are time wages or piecework wages, the employer always buys the worker's performance and services, not his time. It is therefore not true that in the unhampered market economy the worker has no personal interest in the execution of his task. The

⁸ The official doctrine of the Roman Church is outlined in the encyclical *Quadragesimo anno* of Pope Pius XI (1931). The Anglo-Catholic doctrine is presented by the late William Temple, Archbishop of Canterbury, in the book *Christianity and the Social Order* (Penguin Special, 1942). Representative of the ideas of European continental Protestantism is the book of Emil Brunner, *Justice and the Social Order*, trans. by M. Hottinger (New York, 1945). A highly significant document is the section on "The Church and Disorder of Society" of the draft report which the World Council of Churches in September, 1948, recommended for appropriate action to the one hundred and fifty odd denominations whose delegates are member of the Council. For the ideas of Nicolas Berdyawe, the most eminent apologist of Russian Orthodoxy, cf. his book *The Origin of Russian Communism* (London, 1937), especially pp. 217-218 and 225. It is often asserted that an essential difference between the Marxians and the other socialist and interventionist parties is to be found in the fact that the Marxians stand for class struggle, while the latter parties look at the class struggle as upon a deplorable outgrowth of the irreconcilable conflict of class interest inherent in capitalism and want to overcome it by the realization of the reforms they recommend. However, the Marxians do not praise and kindle the class struggle for its own sake. In their eyes the class struggle is good only because it is the device by means of which the "productive forces," those mysterious forces directing the course of human evolution, are bound to bring about the "classless" society in which there will be neither classes nor class conflicts.

⁹ The thorough exposure of this delusion is provided by the proof of the impossibility of economic calculation under socialism. See below the fifth part of this book.

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socialists are badly mistaken in asserting that those paid a certain rate per hour, per day, per week, per month, or per year are not impelled by their own selfish interests when they work efficiently. It is not lofty ideals and the sense of duty that deter a worker paid according to the length of time worked from carelessness and loafing around the shop, but very substantial arguments. He who works more and better gets higher pay, and he who wants to earn more must increase the quantity and improve the quality of his performance. The hard-boiled employers are not so gullible as to let themselves be cheated by slothful employees; they are not so negligent as those governments who pay salaries to hosts of loafing bureaucrats. Neither are the wage earners so stupid as not to know that laziness and inefficiency are heavily penalized on the labor market.¹⁰

On the shaky ground of their misconception of the catallactic nature of wages, the socialist authors have advanced fantastic fables about the increase in the productivity of labor to be expected from the realization of their plans. Under capitalism, they say, the worker's zeal is seriously impaired because he is aware of the fact that he himself does not reap the fruits of his labor and that his toil and trouble enrich merely his employer, this parasitic and idle exploiter. But under socialism every worker will know that he works for the benefit of society, of which he himself is a part. This knowledge will provide him with the most powerful incentive to do his best. An enormous increase in the productivity of labor and thereby in wealth will result.

However, the identification of the interests of each worker and those of the socialist commonwealth is a purely legalistic and formalistic fiction which has nothing to do with the real state of affairs. While the sacrifices an individual worker makes in intensifying his own exertion burden him alone, only an infinitesimal fraction of the produce of his additional exertion benefits himself and improves his own well-being. While the individual worker enjoys completely the pleasures he may reap by yielding to the temptation to carelessness and laziness, the resulting impairment of the social dividend curtails his own share only infinitesimally. Under such a socialist mode of production all personal incentives which selfishness provides under capitalism are removed, and a premium is put upon laziness and negligence. Whereas in a capitalist society selfishness incites everyone to the utmost diligence, in a socialist society it makes for inertia and laxity. The socialists may still babble about the miraculous change in human nature that the advent of socialism will effect, and about the substitution of lofty altruism for mean egotism. But they must no longer indulge in fables about the marvelous effects the selfishness of each individual will bring about under socialism.¹¹

No judicious man can fail to conclude from the evidence of these considerations that in the market economy the productivity of labor is incomparably higher than it would be under socialism. However, this cognition does not settle the question between the advocates of capitalism and those of socialism from a praxeological, i.e., scientific, point of view.

A bona fide advocate of socialism who is free from bigotry, prepossession, and malice could still contend: "It may be true that *P*, the total net income turned out in a market society, is

¹⁰ Cf. above, pp. 600-602.

¹¹ The doctrine refuted in the text found its most brilliant expositor in John Stuard Mill (*Principles of Political Economy* [People's ed. London, 1867], pp. 126 ff.). However, Mill resorted to this doctrine merely in order to refute an objection raised against socialism, viz., that, by eliminating the incentive provided by selfishness, it would impair the productivity of labor. He was not so blind as to assert that the productivity of labor would multiply under socialism. For an analysis and refutation of Mill's reasoning, cf. Mises, *Socialism*, pp. 173-181.

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larger than p , the total net income turned out in a socialist society. But if the socialist system assigns to each of its members an equal share of p (viz., $p/z = d$), all those whose income in the market society is smaller than d are favored by the substitution of socialism for capitalism. It may happen that this group of people includes the majority of men. At any rate it becomes evident that the doctrine of the harmony between the rightly understood interests of all members of the market society is untenable. There is a class of men whose interests are hurt by the very existence of the market economy and who would be better off under socialism." The advocates of the market economy contest the conclusiveness of this reasoning. They believe that p will lag so much behind P that d will be smaller than the income which even those earning the lowest wages get in the market society. there can be no doubt that this objection is well founded. However, it is not based on praxeological considerations and therefore lacks the apodictic and incontestable argumentative power inherent in a praxeological demonstration. It is based on a judgment of relevance, the quantitative appraisal of the difference between the two magnitudes P and p . In the field of human action such quantitative cognition is obtained by understanding, with regard to which full agreement between men cannot be reached. Praxeology, economics, and catallactics are of no use for the settlement of such dissensions concerning quantitative issues.

The advocates of socialism could even go farther and say: "Granted that each individual will be worse off under socialism than even the poorest under capitalism. Yet we spurn the market economy in spite of the fact that it supplies everybody with more goods than socialism. We disapprove of capitalism on ethical grounds as an unfair and amoral system. We prefer socialism on grounds commonly called non-economic and put up with the fact that it impairs everybody's well-being."¹² It cannot be denied that this haughty indifference with regard to material well-being is a privilege reserved to ivory-tower intellectuals, secluded from reality, and to ascetic anchorites. What made socialism popular with the immense majority of its supporters was, on the contrary, the illusion that it would supply them with more amenities than capitalism. But however this may be, it is obvious that this type of prosocialist argumentation cannot be touched by the liberal reasoning concerning the productivity of labor.

If no other objections could be raised to the socialist plans than that socialism will lower the standard of living of all or at least of the immense majority, it would be impossible for praxeology to pronounce a final judgment. Men would have to decide the issue between capitalism and socialism on the ground of judgments of value and of judgments of relevance. They would have to choose between the two systems as they choose between many other things. No objective standard could be discovered which would make it possible to settle the dispute in a manner which allows no contradiction and must be accepted by every sane individual. The freedom of each man's choice and discretion would not be annihilated by inexorable necessity. However, the true state of affairs is entirely different. Man is not in a position to choose between these two systems. Human cooperation under the system of the social division of labor is possible only in the market economy. Socialism is not a realizable system of society's economic organization because it lacks any method of economic calculation. To deal with this fundamental problem is the task of the fifth part of this book.

¹² This mode of reasoning was mainly resorted to by some eminent champions of Christian socialism. The Marxians used to recommend socialism on the ground that it would multiply productivity and bring unprecedented material wealth to everybody. Only lately have they changed their tactics. They declare that the Russian worker is happier than the American worker in spite of the fact that his standard of living is much lower; the knowledge that he lives under a fair system compensates by far for all his material hardships.

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The establishment of this truth does not amount to a depreciation of the conclusiveness and the convincing power of the antisocialist argument derived from the impairment of productivity to be expected from socialism. The weight of this objection raised to the socialist plans is so overwhelming that no judicious man could hesitate to choose capitalism. Yet this would still be a choice between alternative systems of society's economic organization, preference given to one system as against another. However, such is not the alternative. Socialism cannot be realized because it is beyond human power to establish it as a social system. The choice is between capitalism and chaos. A man who chooses between drinking a glass of milk and a glass of a solution of potassium cyanide does not choose between two beverages; he chooses between life and death. A society that chooses between capitalism and socialism does not choose between two social systems; it chooses between social cooperation and the disintegration of society. Socialism is not an alternative to capitalism; it is an alternative to any system under which men can live as *human* beings. To stress this point is the task of economics as it is the task of biology and chemistry to teach that potassium cyanide is not a nutriment but deadly poison.

The convincing power of the productivity argument is in fact so irresistible that the advocates of socialism were forced to abandon their old tactics and to resort to new methods. They are eager to divert attention from the productivity issue by throwing into relief the monopoly problem. All contemporary socialist manifestoes expatiate on monopoly power. Statesmen and professors try to outdo one another in depicting the evils of monopoly. Our age is called the age of monopoly capitalism. The foremost argument advanced today in favor of socialism is the reference to monopoly.

Now, it is true that the emergence of monopoly prices (not of monopoly as such without monopoly prices) creates a discrepancy between the interests of the monopolist and those of the consumers. The monopolist does not employ the monopolized good according to the wishes of the consumers. As far as there are monopoly prices, the interests of the monopolists take precedence over those of the public and the democracy of the market is restricted. With regard to monopoly prices there is not harmony, but conflict of interests.

It is possible to contest these statements with regard to the monopoly prices received in the sale of articles under patents and copyrights. One may argue that in the absence of patent and copyright legislation these books, compositions, and technological innovations would never have come into existence. The public pays monopoly prices for things it would not have enjoyed at all under competitive prices. However, we may fairly disregard this issue. It has little to do with the great monopoly controversy of our day. When people deal with the evils of monopoly, they imply that there prevails within the unhampered market economy a general and inevitable tendency toward the substitution of monopoly prices for competitive prices. This is, they say, a characteristic mark of "mature" or "late" capitalism. Whatever conditions may have been in the earlier stages of capitalist evolution and whatever one may think about the validity of the classical economists' statements concerning the harmony of the rightly understood interests, today there is no longer any question of such a harmony.

As has been pointed out already¹³, there is no such tendency toward monopolization. It is a fact that with many commodities in many countries monopoly prices prevail, and moreover,

¹³ Cf. above, p. 366.

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some articles are sold at monopoly prices on the world market. However, almost all of these instances of monopoly prices are the outgrowth of government interference with business. They were not created by the interplay of the factors operating on a free market. They are not products of capitalism, but precisely of the endeavors to counteract the forces determining the height of the market prices. It is a distortion of fact to speak of monopoly capitalism. It would be more appropriate to speak of monopoly interventionism or of monopoly statism.

Those instances of monopoly prices which would appear also on a market not hampered and sabotaged by the interference of the various national governments and by conspiracies between groups of governments are of minor importance. They concern some raw materials the deposits of which are few and geographically concentrated, and local limited-space monopolies. However, it is a fact that in these cases monopoly prices can be realized even in the absence of government policies aiming directly or indirectly at their establishment. It is necessary to realize that consumers' sovereignty is not perfect and that there are limits to the operation of the democratic process of the market. There is in some exceptional and rare cases of minor importance even on a market not hampered and sabotaged by government interference an antagonism between the interests of the owners of factors of production and those of the rest of the people. However, the existence of such antagonisms by no means impairs the concord of the interests of all people with regard to the preservation of the market economy. The market economy is the only system of society's economic organization that can function and really has been functioning. Socialism is unrealizable because of its inability to develop a method for economic calculation. Interventionism must result in a state of affairs which, from the point of view of its advocates, is less desirable than the conditions of the unhampered market economy which it aims to alter. In addition, it liquidates itself as soon as it is pushed beyond a narrow field of application¹⁴. Such being the case, the only social order that can preserve and further intensify the social division of labor is the market economy. All those who do not wish to disintegrate social cooperation and to return to the conditions of primitive barbarism are interested in the perpetuation of the market economy.

The classical economists' teachings concerning the harmony of the rightly understood interests were defective in so far as they failed to recognize the fact that the democratic process of the market is not perfect, because in some instances of minor importance, even in the unhampered market economy, monopoly prices may appear. But much more conspicuous was their failure to recognize that and why no socialist system can be considered as a system of society's economic organization. They based the doctrine of the harmony of interests upon the erroneous assumption that there are no exceptions to the rule that the owners of the means of production are forced by the market process to employ their property according to the wishes of the consumers. Today this theorem must be based on the knowledge that no economic calculation is feasible under socialism.

4. Private Property

Private ownership of the means of production is the fundamental institution of the market economy. It is the institution the presence of which characterizes the market economy as such. Where it is absent, there is no question of a market economy.

Ownership means full control of the services that can be derived from a good. This catallactic notion of ownership and property rights is not to be confused with the legal definition of

¹⁴ Cf. the sixth part of this book.

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ownership and property rights as stated in the laws of various countries. It was the idea of legislators and courts to define the legal concept of property in such a way as to give to the proprietor full protection by the governmental apparatus of coercion and compulsion and to prevent anybody from encroaching upon his rights. As far as this purpose was adequately realized, the legal concept of property rights corresponded to the catallactic concept. However, nowadays there are tendencies to abolish the institution of private property by a change in the laws determining the scope of the actions which the proprietor is entitled to undertake with regard to the things which are his property. While retaining the term private property, these reforms aim at the substitution of public ownership for private ownership. This tendency is the characteristic mark of the plans of various schools of Christian socialism and of nationalist socialism. But few of the champions of these schools have been so keen as the Nazi philosopher Othmar Spann, who explicitly declared that the realization of his plans would bring about a state of affairs in which the institution of private property will be preserved only in a "formal sense, while in fact there will be only public ownership."¹⁵ There is need to mention these things in order to avoid popular fallacies and confusion. In dealing with private property, catallactics deals with control, not with legal terms, concepts and definitions. Private ownership means that the proprietors determine the employment of the factors of production, while public ownership means that the government controls their employment.

Private property is a human device. It is not sacred. It came into existence in early ages of history, when people with their own power and by their own authority appropriated to themselves what had previously not been anybody's property. Again and again proprietors were robbed of their property by expropriation. The history of private property can be traced back to a point at which it originated out of acts which were certainly not legal. Virtually every owner is the direct or indirect legal successor of people who acquired ownership either by arbitrary appropriation of ownerless things or by violent spoliation of their predecessor.

However, the fact that legal formalism can trace back every title either to arbitrary appropriation or to violent expropriation has no significance whatever for the conditions of a market society. Ownership in the market economy is no longer linked up with the remote origin of private property. Those events in a far-distant past, hidden in the darkness of primitive mankind's history, are no longer of any concern for our day. For in an unhampered market society the consumers daily decide anew who should own and how much he should own. The consumers allot control of the means of production to those who know how to use them best for the satisfaction of the most urgent wants of the consumers. Only in a legal and formalistic sense can the owners be considered the successors of appropriators and expropriators. In fact, they are mandataries of the consumers, bound by the operation of the market to serve the consumers best. Under capitalism, private property is the consummation of the self-determination of the consumers.

The meaning of private property in the market society is radically different from what it is under a system of each household's autarky. Where each household is economically self-sufficient, the privately owned means of production exclusively serve the proprietor. He alone reaps all the benefits derived from their employment. In the market society the proprietors of capital and land can enjoy their property only by employing it for the satisfaction of other people's wants. They must serve the consumers in order to have any advantage from what is their own. The very fact that they own means of production forces them to submit to the

¹⁵ Cf. Spann, *der wahre Staat* (Leipzig, 1921), p. 249.

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wishes of the public. Ownership is an asset only for those who know how to employ it in the best possible way for the benefit of the consumers. It is a social function.

5. The Conflicts of Our Age

Popular opinion sees the source of the conflicts which bring about the civil wars and international wars of our age in the collision of "economic" interests inherent in the market economy. Civil war is the rebellion of the "exploited" masses against the "exploiting" classes. Foreign war is the revolt of the "have-not" nations against those nations who have appropriated to themselves an unfair share of the earth's natural resources and, with insatiable greed, want to snatch even more of this wealth destined for the use of all. He who in face of these facts speaks of the harmony of the rightly understood interests, is either a moron or an infamous apologist of a manifestly unjust social order. No intelligent and honest man could fail to realize that there prevail today irreconcilable conflicts of material interests which can be settled only by recourse to arms.

It is certainly true that our age is full of conflicts which generate war. However, these conflicts do not spring from the operation of the unhampered market society. It may be permissible to call them economic conflicts because they concern that sphere of human life which is, in common speech, known as the sphere of economic activities. But it is a serious blunder to infer from this appellation that the source of these conflicts are conditions which develop within the frame of a market society. It is not capitalism that produces them, but precisely the anticapitalistic policies designed to check the functioning of capitalism. They are an outgrowth of the various governments' interference with business, of trade and migration barriers and discrimination against foreign labor, foreign products, and foreign capital.

None of these conflicts could have emerged in an unhampered market economy. Imagine a world in which everybody were free to live and work as entrepreneur or as employee where he wanted and how he chose, and ask which of these conflicts could still exist. Imagine a world in which the principle of private ownership of the means of production is fully realized, in which there are no institutions hindering the mobility of capital, labor, and commodities, in which the laws, the courts, and the administrative officers do not discriminate against any individual or groups of individuals, whether native or alien. Imagine a state of affairs in which governments are devoted exclusively to the task of protecting the individual's life, health, and property against violent and fraudulent aggression. In such a world the frontiers are drawn on the maps, but they do not hinder anybody from the pursuit of what he thinks will make him more prosperous. No individual is interested in the expansion of the size of his nation's territory, as he cannot derive any gain from such an aggrandizement. Conquest does not pay and war becomes obsolete.

In the ages preceding the rise of liberalism and the evolution of modern capitalism, people for the most part consumed only what could be produced out of raw materials available in their own neighborhood. The development of the international division of labor has radically altered this state of affairs. Food and raw materials imported from distant countries are articles of mass consumption. The most advanced European nations could do without these imports only at the price of a very considerable lowering of their standard of living. They must pay for the badly needed purchase of minerals, lumber, oil, cereals, fat, coffee, tea, cocoa, fruit, wool, and cotton by exporting manufactures, most of them processed out of imported raw materials. Their vital interests are hurt by the protectionist trade policies of the countries producing these primary products.

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Two hundred years ago it was of little concern to the Swedes or the Swiss whether or not a non-European country was efficient in utilizing its natural resources. But today economic backwardness in a foreign country, endowed by rich natural resources, hurts the interests of all those whose standard of living could be raised if a more appropriate mode of utilizing this natural wealth were adopted. The principle of each nation's unrestricted sovereignty is *in a world of government interference with business* a challenge to all other nations. The conflict between the have-nots and the haves is a real conflict. But it is present only in a world in which any sovereign government is free to hurt the interests of all peoples--its own included--by depriving the consumers of the advantages a better exploitation of this country's resources would give them. It is not sovereignty as such that makes for war, but sovereignty of governments not entirely committed to the principles of the market economy.

Liberalism did not and does not build its hopes upon abolition of the sovereignty of the various national governments, a venture which would result in endless wars. It aims at a general recognition of the idea of economic freedom. If all peoples become liberal and conceive that economic freedom best serves their own interests, national sovereignty will no longer engender conflict and war. What is needed to make peace durable is neither international treaties and covenants nor international tribunals and organizations like the defunct League of Nations or its successor, the United Nations. If the principle of the market economy is universally accepted, such makeshifts are unnecessary; if it is not accepted, they are futile. Durable peace can only be the outgrowth of a change in ideologies. As long as the peoples cling to the Montaigne dogma and think that they cannot prosper economically except at the expense of other nations, peace will never be anything other than a period of preparation for the next war.

Economic nationalism is incompatible with durable peace. Yet economic nationalism is unavoidable where there is government interference with business. Protectionism is indispensable where there is no domestic free trade. Where there is government interference with business, free trade even in the short run would frustrate the aims sought by the various interventionist measures¹⁶.

It is an illusion to believe that a nation would lastingly tolerate other nations' policies which harm the vital interest of its own citizens. Let us assume that the United Nations had been established in the year 1600 and that the Indian tribes of North America had been admitted as members of this organization. Then the sovereignty of these Indians would have been recognized as inviolable. They would have been given the right to exclude all aliens from entering their territory and from exploiting its rich natural resources which they themselves did not know how to utilize. Does anybody really believe that any international covenant or charter could have prevented the Europeans from invading these countries?

Many of the richest deposits of various mineral substances are located in areas whose inhabitants are too ignorant, too inert, or too dull to take advantage of the riches nature has bestowed upon them. If the governments of these countries prevent aliens from exploiting these deposits, or if their conduct of public affairs is so arbitrary that no foreign peoples whose material well-being could be improved by a more adequate utilization of the deposits concerned. It does not matter whether the policies of these governments are the outcome of a

¹⁶ Cf. above, pp. 366-368, and below, pp. 823-825.

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general cultural backwardness or of the adoption of the now fashionable ideas of interventionism and economic nationalism. The result is the same in both cases.

There is no use in conjuring away these conflicts by wishful thinking. What is needed to make peace durable is a change in ideologies. What generates war is the economic philosophy almost universally espoused today by governments and political parties. As this philosophy sees it, there prevail within the unhampered market economy irreconcilable conflicts between the interests of various nations. Free trade harms a nation; it brings about impoverishment. It is the duty of government to prevent the evils of free trade by trade barriers. We may, for the sake of argument, disregard the fact that protectionism also hurts the interests of the nations which resort to it. But there can be no doubt that protectionism aims at damaging the interests of foreign peoples and really does damage them. It is an illusion to assume that those injured will tolerate other nations' protectionism if they believe that they are strong enough to brush it away by the use of arms. The philosophy of protectionism is a philosophy of war. The wars of our age are not at variance with popular economic doctrines; they are, on the contrary, the inescapable result of a consistent application of these doctrines.

The League of Nations did not fail because its organization was deficient. It failed because it lacked the spirit of genuine liberalism. It was a convention of governments imbued with the spirit of economic nationalism and entirely committed to the principles of economic warfare. While the delegates indulged in mere academic talk about good will among the nations, the governments whom they represented inflicted a good deal of evil upon all other nations. The two decades of the League's functioning were marked by each nation's adamant economic warfare against all other nations. The tariff protectionism of the years before 1914 was mild indeed when compared with what developed in the 'twenties and 'thirties--viz., embargoes, quantitative trade control, foreign exchange control, monetary devaluation, and so on¹⁷.

The prospects for the United Nations are not much better, but rather worse. Every nation looks upon imports, especially upon imports of manufactured goods, as upon a disaster. It is the avowed goal of almost all countries to bar foreign manufactures as much as possible from access to their domestic markets. Almost all nations are fighting against the specter of an unfavorable balance of trade. They do not want to cooperate; they want to protect themselves against the alleged dangers of cooperation.

¹⁷ For an appraisal of the abortive attempts of the League to do away with economic warfare, cf. Rappard, *Le Nationalisme ?conomique et la Soci?t? des Nations* (Paris, 1938).