

# HUMAN ACTION

[by Ludwig von Mises](#), 4th edition (1996)

## PART FIVE

### SOCIAL COOPERATION WITHOUT A MARKET

#### XXV. THE IMAGINARY CONSTRUCTION OF A SOCIALIST SOCIETY

##### 1. The Historical Origin of the Socialist Idea

When the social philosophers of the eighteenth century laid the foundations of praxeology and economics, they were confronted with an almost universally accepted and uncontested distinction between the petty selfish individuals and the state, the representative of the interests of the whole society. However, at that time the deification process which finally elevated the men managing the social apparatus of coercion and compulsion into the ranks of the gods was not yet completed. What people had in mind when speaking of government was not yet the quasi-theological notion of an omnipotent and omniscient deity, the perfect embodiment of all virtues; it was the concrete governments as they acted on the political scene. It was the various sovereign entities whose territorial size was the outcome of bloody wars, diplomatic intrigues, and dynastic intermarriage and succession. It was the princes whose private domain and revenue were in many countries not yet separated from the public treasury, and oligarchic republics, like Venice and some of the Swiss cantons, in which the ultimate objective of the conduct of public affairs was to enrich the ruling aristocracy. The interests of these rulers were in opposition to those of their "selfish" subjects exclusively committed to the pursuit of their own happiness on the one hand, and to those of foreign governments longing for booty and territorial aggrandizement on the other hand. In dealing with these antagonisms, the authors of books on public affairs were ready to espouse the cause of their own country's government. They assumed quite candidly that the rulers are the champions of the interests of the whole society, irreconcilably conflicting with those of the individuals. In checking the selfishness of their subjects, governments were promoting the welfare of the whole of society as against the mean concerns of individuals.

The liberal philosophy discarded these notions. From its point of view there are within the unhampered market society no conflicts of the rightly understood interests. The interests of the citizens are not opposed to those of the nation, the interests of each nation are not opposed to those of other nations.

Yet in demonstrating this thesis the liberal philosophers themselves contributed an essential element to the notion of the godlike state. They substituted in their inquiries the image of an ideal state for the real states of their age. They constructed the vague image of a government whose only objective is to make its citizens happy. This ideal had certainly no counterpart in the Europe of the *ancien regime*. In this Europe there were German princelings who sold their subjects like cattle to fight the wars of foreign nations; there were kings who seized every opportunity to rush upon the weaker neighbors; there was the shocking experience of the partitions of Poland; there was France successively governed by the century's most profligate

men, the Regent Orleans and Louis XV; and there was Spain, ruled by the ill-bred paramour of an adulterous queen. However, the liberal philosophers deal only with a state which has nothing in common with these governments of corrupt courts and aristocracies. The state, as it appears in their writings, is governed by a perfect superhuman being, a king whose only aim is to promote the welfare of his subjects. Starting from this assumption, they raise the question of whether the actions of the individual citizens when left free from any authoritarian control would not develop along lines of which this good and wise king would disapprove. The liberal philosopher answers this question in the negative. It is true, he admits, that the entrepreneurs are selfish and seek their own profit. However, in the market economy they can earn profits only by satisfying in the best possible way the most urgent needs of the consumers. The objectives of entrepreneurship do not differ from those of the perfect king. For this benevolent king too aims at nothing else than such an employment of the means of production that the maximum of consumer satisfaction can be reached.

It is obvious that this reasoning introduces value judgments and political bias into the treatment of the problems. This paternal ruler is merely an alias for the economist who by means of this trick elevates his personal value judgments to the dignity of a universally valid standard of absolute eternal values. The author identifies himself with the perfect king and calls the ends he himself would choose if he were equipped with this king's power, welfare, commonweal, and *volkswirtschaftliche* productivity as distinct from the ends toward which the selfish individuals are striving. He is so naive as not to see that this hypothetical chief of state is merely a hypostatization of his own arbitrary value judgments, and blithely assumes that he has discovered an incontestable standard of good and evil. Masked as the benevolent paternal autocrat, the author's own Ego is enshrined as the voice of the absolute moral law.

The essential characteristic of the imaginary construction of this king's ideal regime is that all its citizens are unconditionally subject to authoritarian control. The king issues orders and all obey. This is not a market economy; there is no longer private ownership of the means of production. The terminology of the market economy is retained, but in fact there is no longer any private ownership of the means of production, no real buying and selling, and no market prices. Production is not directed by the conduct of the consumers displayed on the market, but by authoritarian decrees. The authority assigns to everybody his station in the system of the social division of labor, determines what should be produced, and how and what each individual is allowed to consume. This is what nowadays can properly be called the German variety of socialist management.

Now the economists compare this hypothetical system, which in their eyes embodies the moral law itself, with the market economy. The best they can say of the market economy is that it does not bring about a state of affairs different from that produced by the supremacy of the perfect autocrat. They approve of the market economy only because its operation, as they see it, ultimately attains the same results the perfect king would aim at. Thus the simple identification of what is morally good and economically expedient with the plans of the totalitarian dictator that characterizes all champions of planning and socialism was not contested by many of the old liberals. One must even assert that they originated this confusion when they substituted the ideal image of the perfect state for the wicked and unscrupulous despots and politicians of the real world. Of course, for the liberal thinker this perfect state was merely an auxiliary tool of reasoning, a model with which he compared the operation of the market economy. But it was not amazing that people finally raised the question as to why one should not transfer this ideal state from the realm of thought into the realm of reality.

All older social reformers wanted to realize the good society by a confiscation of all private property and its subsequent redistribution; each man's share should be equal to that of every other, and continuous vigilance by the authorities should safeguard the preservation of this equalitarian system. These plans became unrealizable when the large-scale enterprises in manufacturing, mining, and transportation appeared. There cannot be any question of splitting up large-scale business units and distributing the fragments in equal shares. The age-old program of redistribution was superseded by the idea of socialization. The means of production were to be expropriated, but no redistribution was to be resorted to. The state itself was to run all the plants and farms.

This inference became logically inescapable as soon as people began to ascribe to the *state* not only moral but also intellectual perfection. The liberal philosophers had described their imaginary state as an unselfish entity, exclusively committed to the best possible improvement of its subjects' welfare. They had discovered that in the frame of a market society the citizens' selfishness must bring about the same results that this unselfish state would seek to realize; it was precisely this fact that justified the preservation of the market economy in their eyes. But things became different as soon as people began to ascribe to the *state* not only the best intentions but also omniscience. Then one could not help concluding that the infallible state was in a position to succeed in the conduct of production activities better than erring individuals. It would avoid all those errors that often frustrate the actions of entrepreneurs and capitalists. There would no longer be malinvestment or squandering of scarce factors of production; wealth would multiply. The "anarchy" of production appears wasteful when contrasted with the planning of the *omniscient* state. The socialist mode of production then appears to be the only reasonable system, and the market economy seems the incarnation of unreason. In the eyes of the rationalist advocates of socialism, the market economy is simply an incomprehensible aberration of mankind. In the eyes of those influenced by historicism, the market economy is the social order of an inferior stage of human evolution which the inescapable process of progressive perfection will eliminate in order to establish the more adequate system of socialism. Both lines of thought agree that reason itself postulates the transition to socialism.

What the naive mind calls reason is nothing but the absolutization of its own value judgments. The individual simply identifies the products of his own reasoning with the shaky notion of an absolute reason. No socialist author ever gave a thought to the possibility that the abstract entity which he wants to vest with unlimited power--whether it is called humanity, society, nation, state, or government--could act in a way of which he himself disapproves. A socialist advocates socialism because he is fully convinced that the supreme dictator of the socialist commonwealth will be reasonable from his--the individual socialist's--point of view, that he will aim at those ends of which he--the individual socialist--fully approves, and that he will try to attain these ends by choosing means which he--the individual socialist--would also choose. Every socialist calls only that system a genuinely socialist system in which these conditions are completely fulfilled; all other brands claiming the name of socialism are counterfeit systems entirely different from true socialism. Every socialist is a disguised dictator. Woe to all dissenters! They have forfeited their right to live and must be "liquidated."

The market economy makes peaceful cooperation among people possible in spite of the fact that they disagree with regard to their value judgments. In the plans of the socialists there is no room left for dissenting views. Their principle is *Gleichschaltung*, perfect uniformity enforced by the police.

People frequently call socialism a religion. It is indeed the religion of self-deification. The State and Government of which the planners speak, the People of the nationalists, the Society of the Marxians and the Humanity of Comte's positivism are name for the God of the new religions. But all these idols are merely aliases for the individual reformer's own will. In ascribing to his idol all those attributes which the theologians ascribe to God, the inflated Ego glorifies itself. It is infinitely good, omnipotent, omnipresent, omniscient, eternal. It is the only perfect being in this imperfect world.

Economics is not called to examine blind faith and bigotry. The faithful are proof against every criticism. In their eyes criticism is scandalous, a blasphemous revolt of wicked men against the imperishable splendor of their idol. Economics deals merely with the socialist plans, not with the psychological factors that impel people to espouse the religion of statolatry.

## **2. The Socialist Doctrine**

Karl Marx was not the originator of socialism. The ideal of socialism was fully elaborated when Marx adopted the socialist creed. Nothing could be added to the praxeological conception of the socialist system as developed by his predecessors, and Marx did not add anything. Neither did Marx refute the objections against the feasibility, desirability, and advantageousness of socialism raised by earlier authors and by his contemporaries. He never even embarked upon such a venture, fully aware as he was of his inability to succeed in it. All that he did to fight the criticisms of socialism was to hatch out the doctrine of polylogism.

However, the services that Marx rendered to the socialist propaganda were not confined to the invention of polylogism. Still more important was his doctrine of the inevitability of socialism.

Marx lived in an age in which the doctrine of evolutionary meliorism was almost generally accepted. The invisible hand of Providence leads men, independently of their wills, from lower and less perfect stages to higher and more perfect ones. There prevails in the course of human history an inevitable tendency toward progress and improvement. Each later stage of human affairs is, by virtue of its being a later stage, also a higher and better stage. Nothing is permanent in human conditions except this irresistible urge toward progress. Hegel, who died a few years before Marx entered the scene, had presented this doctrine in his fascinating philosophy of history, and Nietzsche, who entered the scene at the time when Marx withdrew, made it the focal point of his no less fascinating writings. It has been the myth of the last two hundred years.

What Marx did was to integrate the socialist creed into this meliorist doctrine. The coming of socialism is inevitable, and this by itself proves that socialism is a higher and more perfect state of human affairs than the preceding state of capitalism. It is vain to discuss the pros and cons of socialism. Socialism is bound to come "with the inexorability of a law of nature." Only morons can be so stupid as to question whether what is bound to come is more beneficial than what preceded it. Only bribed apologists of the unjust claims of the exploiters can be so insolent as to find any fault with socialism.

If we attribute the epithet Marxian to all those who agree with this doctrine, we must call the immense majority of our contemporaries Marxians. These people agree that the coming of socialism is both absolutely inevitable and highly desirable. The "wave of the future" drives

mankind toward socialism. Of course, they disagree with one another as to who is to be entrusted with the captaincy of the socialist ship of state. There are many candidates for this job.

Marx tried to prove his prophecy in a twofold way. The first is the method of Hegelian dialectics. Capitalist private property is the first negation of individual private property and must beget its own negation, viz., the establishment of public property in the means of production. Things were as simple as that for the hosts of Hegelian writers who infested Germany in the days of Marx.

The second method is the demonstration of the unsatisfactory conditions brought about by capitalism. Marx's critique of the capitalist mode of production is entirely wrong. Even the most orthodox Marxians are not bold enough to support seriously its essential thesis, namely, that capitalism results in a progressive impoverishment of the wage earners. But if one admits for the sake of argument all the absurdities of the Marxian analysis of capitalism, nothing is yet won for the demonstration of the two theses, viz., that socialism is bound to come and that it is not only a better system than capitalism, but even the most perfect system, the final realization of which will bring to man eternal bliss in his earthly life. All the sophisticated syllogisms of the ponderous volumes published by Marx, Engels, and hundreds of Marxian authors cannot conceal the fact that the only and ultimate source of Marx's prophecy is an alleged inspiration by virtue of which Marx claims to have guessed the plans of the mysterious powers determining the course of history. Like Hegel, Marx was a prophet communicating to the people the revelation that an inner voice had imparted to him.

The outstanding fact in the history of socialism between 1848 and 1920 was that the essential problems concerning its working were hardly ever touched upon. The Marxian taboo branded all attempts to examine the economic problems of a socialist commonwealth as "unscientific." Nobody was bold enough to defy this ban. It was tacitly assumed by both the friends and the foes of socialism that socialism is a realizable system of mankind's economic organization. The vast literature concerning socialism dealt with alleged shortcomings of capitalism and with the general cultural implications of socialism. It never dealt with the economics of socialism as such.

The socialist creed rests upon three dogmas:

*First: Society* is an omnipotent and omniscient being, free from human frailty and weakness.

*Second:* The coming of socialism is inevitable.

*Third:* As history is a continuous progress from less perfect conditions to more perfect conditions, the coming of socialism is desirable.

For praxeology and economics the only problem to be discussed in regard to socialism is this: Can a socialist system operate as a system of the division of labor?

### **3. The Praxeological Character of Socialism**

The essential mark of socialism is that *one will* alone acts. It is immaterial whose will it is. The director may be an anointed king or a dictator, ruling by virtue of his *charisma*, he may be a Fuhrer or a board of Fuhrers appointed by the vote of the people. The main thing is that

the employment of all factors of production is directed by one agency only. One will alone chooses, decides, directs, acts, gives orders. All the rest simply obey orders and instructions. Organization and a planned order are substituted for the "anarchy" of production and for various people's initiative. Social cooperation under the division of labor is safeguarded by a system of hegemonic bonds in which a director peremptorily calls upon the obedience of all his wards.

In terming the director *society* (as the Marxians do), *state* (with a capital *S*), *government*, or *authority*, people tend to forget that the director is always a human being, not an abstract notion or a mythical collective entity. We may admit that the director or the board of directors are people of superior ability, wise and full of good intentions. But it would be nothing short of idiocy to assume that they are omniscient and infallible.

In a praxeological analysis of the problems of socialism, we are not concerned with the moral and ethical character of the director. Neither do we discuss his value judgments and his choice of ultimate ends. What we are dealing with is merely the question of whether any mortal man, equipped with the logical structure of the human mind, can be equal to the tasks incumbent upon a director of a socialist society.

We assume that the director has at his disposal all the technological knowledge of his age. Moreover, he has a complete inventory of all the material factors of production available and a roster enumerating all manpower employable. In these respects the crowd of experts and specialists which he assembles in his offices provide him with perfect information and answer correctly all questions he may ask them. Their voluminous reports accumulate in huge piles on his desk. But now he must act. He must choose among an infinite variety of projects in such a way that no want which he himself considers more urgent remains unsatisfied because the factors of production required for its satisfaction are employed for the satisfaction of wants which he considers less urgent.

It is important to realize that this problem has nothing at all to do with the valuation of the ultimate ends. It refers only to the means by the employment of which the ultimate ends chosen are to be attained. We assume that the director has made up his mind with regard to the valuation of ultimate ends. We do not question his decision. Neither do we raise the question of whether the people, the wards, approve or disapprove of their director's decisions. We may assume for the sake of argument, that a mysterious power makes everyone agree with one another and with the director in the valuation of ultimate ends.

Our problem, the crucial and only problem of socialism, is a purely economic problem, and as such refers merely to means and not to ultimate ends.