HUMAN ACTION

by Ludwig von Mises, 4th edition (1996)

PART SIX

THE HAMPERED MARKET ECONOMY

Chapter XXIX. RESTRICTION OF PRODUCTION

1. The Nature of Restriction

We shall deal in this chapter with those measures which are directly and primarily intended to divert production (in the broadest meaning of the word, including commerce and transportation) from the ways it would take in the unhampered market economy. Each authoritarian interference with business diverts production, of course, from the lines it would take if it were only directed by the demand of the consumers as manifested on the market. The characteristic mark of restrictive interference with production is that the diversion of production is not merely an unavoidable and unintentional secondary effect, but precisely what the authority wants to bring about. Like any other act of intervention, such restrictive measures affect consumption also. But this again, in the case of the restrictive measures we are dealing with in this chapter, is not the primary end the authority aims at. The government wants to interfere with production. The fact that its measure influences the ways of consumption also is, from its point of view, either altogether contrary to its intentions or at least an unwelcome consequence with which it puts up because it is unavoidable and is considered as a minor evil when compared with the consequences of nonintervention.

Restriction of production means that the government either forbids or makes more difficult or more expensive the production, transportation, or distribution of definite articles, or the application of definite modes of production, transportation, or distribution. The authority thus eliminates some of the means available for the satisfaction of human wants. The effect of its interference is that people are prevented from using their knowledge and abilities, their labor and their material means of production in the way in which they would earn the highest returns and satisfy their needs as much as possible. Such interference makes people poorer and less satisfied.

This is the crux of the matter. All the subtlety and hair-splitting wasted in the effort to invalidate this fundamental thesis are vain. On the unhampered market there prevails an irresistible tendency to employ every factor of production for the best possible satisfaction of the most urgent needs of the consumers. If the government interferes with this process, it can only impair satisfaction; it can never improve it.

The correctness of this thesis has been proved in an excellent and irrefutable manner with regard to the historically most important class of government interference with production, the barriers to international trade. In this field the teaching of the classical economists, especially those of Ricardo, are final and settle the issue forever. All that a tariff can achieve is to divert production from those locations in which the output per unit of input is higher to locations in which it is lower. It does not increase production; it curtails it.

People expatiate on alleged government encouragement of production. However, government does not have the power to encourage one branch of production except by curtailing other branches. It withdraws the factors of production from those branches in which the unhampered market would employ them and directs them into other branches. It little matters what kind of administrative procedures the government resorts to for the realization of this effect. It may subsidize openly or disguise the subsidy in enacting tariffs and thus forcing its subjects to defray the costs. What alone counts is the fact that people are forced to forego some satisfactions which they value more highly and are compensated only by satisfactions which they value less. At the bottom of the interventionist argument there is always the idea that the government or the state is an entity outside and above the social process of production, that it owns something which is not derived from taxing its subjects, and that it can spend this mythical something for definite purposes. This is the Santa Claus fable raised by Lord Keynes to the dignity of an economic doctrine and enthusiastically endorsed by all those who expect personal advantage from government spending. As against these popular fallacies there is need to emphasize the truism that a government can spend or invest only what it takes away from its citizens and that its additional spending and investment curtails the citizens' spending and investment to the full extent of its quantity.

While government has no power to make people more prosperous by interference with business, it certainly does have the power to make them less satisfied by restriction of production.

2. The Price of Restriction

The fact that restricting production invariably involves a curtailment of the individual citizens' satisfaction does not mean that such restriction is necessarily to be regarded as a damage. A government does not wantonly resort to restrictive measures. It wants to attain certain ends and considers the restriction as the appropriate means for the realization of its plan. The appraisal of restrictive policies depends therefore on the answer to two questions: Is the means chosen by the government fitted to attain the end sought? Is the realization of this end a compensation for the individual citizens' privation? In raising these questions we look upon restriction of production as we look upon taxes. Payment of taxes also directly curtails the taxpayer's satisfaction. But it is the price he pays for the services which government renders to society and to each of its members. As far as the government fulfills its social functions and the taxes do not exceed the amount required for securing the smooth operation of the government apparatus, they are necessary costs and repay themselves.

The adequacy of this mode of dealing with restrictive measures is especially manifest in all those cases in which restriction is resorted to as a substitute for taxation. The bulk of expenditure for national defense is defrayed by the treasury out of the public revenue. But occasionally another procedure is chosen. It happens sometimes that the nation's preparedness to repel aggression depends on the existence of certain branches of industry which would be absent in the unhampered market. These industries must be subsidized, and the subsidies granted are to be considered as any other armaments expenditure. Their character remains the same if the government grants them indirectly by the imposition of an import duty for the products concerned. The difference is only that then the consumers are directly burdened with the costs incurred, while in the case of a government subsidy they defray these costs indirectly by paying higher taxes.

In enacting restrictive measures governments and parliaments have hardly ever been aware of the consequences of their meddling with business. Thus, they have blithely assumed that protective tariffs are capable of raising the nation's standard of living, and they have stubbornly refused to admit the correctness of the economic teachings concerning the effects of protectionism. The economists' condemnation of protectionism is irrefutable and free of any party bias. For the economists do not say that protection is bad from any preconceived point of view. They show that protection cannot attain those ends which the governments as a rule want to attain by resorting to it. They do not question the ultimate end of the government's action; they merely reject the means chosen as inappropriate to realize the ends aimed at.

Most popular among all restrictive measures are those styled prolabor legislation. Here too the governments and public opinion badly misjudge the effects. They believe that restricting the hours of work and prohibiting child labor exclusively burdens the employers and is a "social gain" for the wage earners. However, this is true only to the extent that such laws reduce the supply of labor and thus raise the marginal productivity of labor as against the marginal productivity of capital. But the drop in the supply of labor results also in a decrease in the total amount of goods produced and thereby in the average per capita consumption. The total cake shrinks, but the portion of the smaller cake which goes to the wage earners is proportionately higher than what they received from the bigger cake; concomitantly the portion of the capitalists drops.[1] It depends on the concrete data of each case whether or not this outcome improves or impairs the real wage rates of the various groups of wage earners.

The popular appraisal of prolabor legislation was based on the error that wage rates have no causal relation whatever to the value that the workers' labor adds to the material. Wage rates, says the "iron law," are determined by the minimum amount of indispensable necessities of life;; they can never rise above the subsistence level. The difference between the value produced by the worker and the wages paid to him goes to the exploiting employer. If this surplus is curtailed by restricting the working hours, the wage earner is relieved of a part of his toil and trouble, his wages remain unchanged, and the employer is deprived of a part of his unfair profit. The restriction of total output curtails only the income of the exploiting bourgeois.

It has been pointed out already that the role which prolabor legislation played in the evolution of Western capitalism was until a few years ago much less important than would be suggested by the vehemence with which the problems involved have been publicly discussed. Labor legislation, for the most part, merely provided a legal recognition of changes in conditions already consummated by the rapid evolution of business.[2] But in the countries which were slow in adopting capitalistic modes of production and are backward in developing modern methods of processing and manufacturing, the problem of labor legislation is crucial. Deluded by the spurious doctrines of interventionism, the politicians of these nations believe that they can improve the lot of the destitute masses by copying the labor legislation of the most advanced capitalistic countries. They look upon the problems involved as if they were merely to be treated from what is erroneously called the "human angle" and fail to recognize the real issue.

It is a sad fact indeed that in Asia many millions of tender children are destitute and starving, that wages are extremely low when compared with American or Western European standards, that hours of work are long, and that sanitary conditions in the workshops are deplorable. But there is no means of eliminating these evils other than to work, to produce, and to save more and thus to accumulate more capital. This is indispensable for any lasting improvement. The restrictive measures advocated by self-styled philanthropists and humanitarians would be futile. They would not only fail to improve conditions, they would make things a good deal worse. If the parents are too poor to feed their children adequately, prohibition of child labor condemns the children to starvation. If the marginal productivity of labor is so low that a

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[1] Entrepreneurial profits and losses are not affected by prolabor legislation as they entirely depend on the more or less successful adjustment of production to the changing conditions of the market. With regard to these, labor legislation counts only as a factor producing change.

[2] Cf. above, pp. 614-617.

worker can earn in ten hours only wages which are substandard when compared with American wages, one does not benefit the laborer by decreeing the eight-hour day.

The problem under discussion is not the desirability of improving the wage earners' material well-being. The advocates of what are miscalled prolabor laws intentionally confuse the issue in repeating again and again that more leisure, higher real wages, and freeing children and married women from the necessity of seeking jobs would make the families of the workers happier. They resort to falsehood and mean calumny in calling those who oppose such laws as detrimental to the vital interests of the wage earners "labor-baiters" and "enemies of labor." The disagreement does not refer to the ends sought; it concerns solely the means to be applied for their realization. The question is not whether or not improvement of the masses' welfare is desirable. It is exclusively whether or not government decreed restricting the hours of work and the employment of women and children are the right means for raising the workers' standard of living. This is a purely catallactic problem to be solved by economics. Emotional talk is beside the point. It is a poor disguise for the fact that these self-righteous advocates of restriction are unable to advance any tenable objections to the economists' well-founded argumentation.

The fact that the standard of living of the average American worker is incomparably more satisfactory than that of the average Hindu worker, that in the United States hours of work are shorter and that the children are sent to school and not to the factories, is not an achievement of the government and of the laws of the country. It is the outcome of the fact that the capital invested per head of the employees is much greater than in India and that consequently the marginal productivity of labor is much higher. This is not the merit of "social policies"; it is the result of the laissez faire methods of the past which abstained from sabotaging the evolution of capitalism. It is this laissez faire that the Asiatics must adopt if they want to improve the lot of their peoples.

The poverty of Asia and other backward countries is due to the same causes which made conditions unsatisfactory in the early periods of Western capitalism. While population figures increased rapidly, restrictive policies delayed the adjustment of production methods to the needs of the growing number of mouths. It is to the imperishable credit of the laissez faire economists, whom the typical textbooks of our universities dismiss as pessimists and apologists of the unfair greed of exploiting bourgeois, that they paved the way for economic freedom which raised the average standard of living to an unprecedented height.

Economics is not dogmatic, as the self-styled "unorthodox" advocates of government omnipotence and totalitarian dictatorship contend. Economics neither approves nor disapproves of government measures restricting production and output. It merely considers it its duty to clarify the consequences of such measures. The choice of policies to be adopted devolves upon the people. But in choosing they must not disregard the teachings of economics if they want to attain the ends sought.

There are certainly cases in which people may consider definite restrictive measures as justified. Regulations concerning fire prevention are restrictive and raise the cost of production. But the curtailment of total output they bring about is the price to be paid for avoidance of greater disaster. The decision about each restrictive measure is to be made on the ground of a meticulous weighing of the costs to be incurred and the prize to be obtained. No reasonable man could possibly question this rule.

3. Restriction as a Privilege

Every disarrangement of the market data affects various individuals and groups of individuals in a different way. For some people it is a boon, for others a blow. Only after a while, when production is adjusted to the emergence of the new datum, are these effects exhausted. Thus a restrictive measure, while placing the immense majority at a disadvantage, may temporarily improve some people's position. For those favored the measure is tantamount to the acquisition of a privilege. They are asking for such measures because they want to be privileged.

Here again the most striking example is provided by protectionism. The imposition of a duty on the importation of a commodity burdens the consumers. But to the domestic producers it is a boon. From their point of view decreeing new tariffs and raising already existing tariffs is an excellent thing.

The same is valid with regard to many other restrictive measures. If the government restricts--either by direct restriction or by fiscal discrimination--big business and corporations, the competitive position of small-size enterprises is strengthened. If it restricts the operation of big stores and chain stores, the small shopkeepers rejoice.

It is important to realize that what those benefitted by these measures consider an advantage for themselves lasts only for a limited time. In the long run the privilege accorded to a definite class of producers loses its power to create specific gains. The privileged branch attracts newcomers, and their competition tends to eliminate the specific gains derived from the privilege. Thus the eagerness of the law's pet children to acquire privileges is insatiable. They continue to ask for new privileges because the old ones lose their power.

On the other hand, the repeal of a restrictive measure to the existence of which the structure of production has already been adjusted means a new disarrangement of the market data, favors the short-run interests of some people and hurts the short-run interests of other people. Let us illustrate the issue by referring to a tariff item. Ruritania years ago, let us say in 1920, decreed a tariff on the importation of leather. This was a boon for the enterprises which at the moment happened to be engaged in the tanning industry. But then later the size of the industry expanded and the windfall gains which the tanners enjoyed in 1920 an in the following years petered out. What remains is merely the fact that a part of the world's leather production is shifted from locations in which the output per unit of input is higher, to locations in Ruritania in which production requires higher costs. The residents of Ruritania pay higher prices for leather than they would pay in the absence of the tariff. As a greater part of Ruritania's capital and labor is employed in the tanneries than would be the case under free trade for leather, some other domestic industries shrank or were at least prevented from growing. Less leather is imported from abroad and a smaller amount of Ruritanian products is exported as payment for leather imported. The volume of Ruritania's foreign trade is curtailed. Not a single soul in the whole world derives any advantage from the preservation of the old tariff. On the contrary, everyone is hurt by the drop in the total output of mankind's industrial effort. If the policy adopted by Ruritania with regard to leather were to be adopted by all nations and with regard to every kind of merchandise in the most rigid way so as to abolish international trade altogether and to make every nation perfectly autarkic, all people would have to forego entirely the advantages which the international division of labor gives them.

It is obvious that the repeal of the Ruritanian tariff on leather must in the long run benefit everybody, Ruritanians as will as foreigners. However, in the short run it would hurt the interests of the capitalists who have invested in Ruritanian tanneries. It would no less hurt the short-run interests of the Ruritanian workers specialized in tannery work. A part of them would have either to emigrate or to change their occupation. These capitalists and workers passionately fight all attempts to lower the leather tariff or to abolish it altogether.

This shows clearly why it is politically extremely difficult to brush away measures restricting production once the structure of business has been adjusted to their existence. Although their effects are pernicious to everybody, their disappearance is in the short run disadvantageous to special groups. These special groups interested in the preservation of the restrictive measures are, of course, only minorities. In Ruritania only the small fraction of the population engaged in the tanneries can suffer from the abolition of the tariff on leather. The immense majority are buyers of leather and leather goods and would be benefitted by a drop in their prices. Outside the boundaries of Ruritania, only those people would be hurt who are engaged in those industries which will shrink because the leather industry will expand.

The last objection advanced by the opponents of free trade runs this way: Granted that only those Ruritanians engaged in tanning hides are immediately interested in the preservation of the tariff on leather. But every Ruritanian belongs to one of the many branches of production. If each domestic product is protected by the tariff, the transition to free trade hurts the interests of each industry and thereby those of all specialized groups of capital and labor the sum of which is the whole nation. It follows that repealing the tariff would in the short run be prejudicial to all citizens. And it is short-run interests only that count.

This argument involves a threefold error. First, it is not true that all branches of industry would be hurt by the transition to free trade. On the contrary. Those branches in which the comparative costs of production are lowest will expand under free trade. Their short-run interests would be favored by the abolition of the tariff. The tariff on those products they themselves turn out is of no advantage for them, as they could not only survive, but expand under free trade. The tariff on those products for which the comparative cost of production is higher in Ruritania than abroad hurts them by directing capital and labor, which otherwise would have fertilized them, into those other branches.

Second, the short-run principle is entirely fallacious. In the short run every change in the market data hurts those who did not anticipate it in time. A consistent champion of the short-run principle must advocate perfect rigidity and immutability of all data and oppose any change, including any therapeutical and technological improvement.[3] If in acting people were always to prefer the avoidance of an evil in the nearer future to the avoidance of an evil in the remoter future, they would come down to the animal level. It is the very essence of human action as distinct from animal behavior that it consciously renounces some temporally nearer satisfaction in order to reap some greater but temporally remoter satisfaction.[4]

Finally, if the problem of the abolition of Ruritania's comprehensive tariff system is under discussion, one must not forget the fact that the short-run interests of those engaged in tanning are hurt only by the abolition of one of the items of the tariff while they are favored by the abolition of the other items concerning the products of the industries in which comparative cost is high. It is true that wage rates of the tannery workers will drop for some time as against those in other branches and that some time will elapse until the appropriate long-run proportion between wage rates in the various branches of Ruritanian production will be established. But concomitantly with the merely temporary drop in their earnings, these workers will experience a drop in the prices of many articles they are buying. And this tendency toward an improvement in their conditions is not a phenomenon only of the period of transition. It is the consummation of the lasting blessings of free trade which, in shifting every branch of industry to the location in which comparative cost is lowest, increases the

[3] This consistency was displayed by some Nazi philosophers. Cf. Sombart, *A New Social Philosophy*, pp. 242-245.
[4] See above, pp. 479-488.

productivity of labor and the total quantity of goods produced. It is the lasting long-run boon which free trade secures to every member of the market society.

The opposition to the abolition of tariff protection would be reasonable from the personal point of view of those engaged in the leather industry if the tariff on leather were the only tariff. Then one could explain their attitude as dictated by status interests, the interests of a caste which would be temporarily hurt by the abolition of a privilege although its mere preservation no longer confers any benefit on them. But in this hypothetical case the opposition of the tanners would be hopeless. The majority of the nation would overrule it. What strengthens the ranks of the protectionists is the fact that the tariff on leather is no exception, that many branches of industry are in a similar position and are fighting the abolition of tariff items concerning their own branch. This is, of course, not an alliance based on each group's special group interests. If everybody is protected to the same extent, everybody not only loses as consumer as much as he gains as producer. Everybody, moreover, is harmed by the general drop in the productivity of labor which the shifting of industries from more favorable to less favorable locations brings about. Conversely the abolition of all tariff items would benefit everybody in the long run, while the short-run harm which the abolition of some special tariff item brings to the special interests of the group concerned is already in the short run at least partly compensated by the consequences of the abolition of the tariff on the products the members of this group are buying and consuming.

Many people look upon tariff protection as if it were a privilege accorded to their nation's wage earners, procuring them, for the full duration of its existence, a higher standard of living than they would enjoy under free trade. This argument is advanced not only in the United States, but in every country in the world in which average real wage rates are higher than in some other country.

Now, it is true that under perfect mobility of capital and labor there would prevail all over the world a tendency toward an equalization of the price paid for labor of the same kind and quality.[5] Yet, even if there were free trade for products, this tendency is absent in our real world of migration barriers and institutions hindering foreign investment of capital. The marginal productivity of labor is higher in the United States than it is in India because capital invested per head of the working population is greater, and because Indian workers are prevented from moving to America and competing on the American labor market. There is no need, in dealing with the explanation of this difference, to investigate whether natural resources are or are not more abundant in America than in India and whether or not the Indian worker is racially inferior to the American worker. However this may be, these facts, namely,

[5] For a detailed analysis, cf. above, p. 627.

the institutional checks upon the mobility of capital and labor, suffice to account for the absence of the equalization tendency. As the abolition of the American tariff could not affect these two facts, it could not impair the standard of living of the American wage earner in an adverse sense.

On the contrary. Given a state of affairs in which the mobility of capital and labor is restricted, the transition to free trade for products must necessarily raise the American standard of life. Those industries in which American costs are higher (American productivity is lower) would shrink and those in which costs are lower (productivity is higher) would expand.

Under free trade the Swiss watchmakers would expand their sales on the American market and the sales of their American competitors would shrink. But this is only a part of the consequences of free trade. Selling and producing more, the Swiss would earn and buy more. It does not matter whether they themselves buy more of the products of other American industries or whether they increase their domestic purchases and those in other countries, for instance, in France. Whatever happens, the equivalent of the additional dollars they earned must finally go to the United States and increase the sales of some American industries. If the Swiss do not give away their products as a gift, they must spend these dollars in buying.

The popular opinion to the contrary is due to the illusory idea that America could expand its purchases of imported products by reducing the total sum of its citizens' cash holdings. This is the notorious fallacy according to which people buy without regard to the size of their cash holdings, and according to which the very existence of cash holdings is simply the outcome of the fact that something is left over because there is nothing more to buy. We have already shown why this Mercantilist doctrine is entirely wrong.[6]

What the tariff really brings about in the field of wage rates and the wage earners' standard of living is something quite different.

In a world in which there is free trade for commodities, while the migration of workers and foreign investment are restricted, there prevails a tendency toward an establishment of a definite relation between the wages paid for the same kind and quality of labor in various countries. There cannot prevail a tendency toward an equalization of wage rates. But the final price to be paid for labor in various countries is in a certain numerical relation. This final price is characterized by the fact that all those eager to earn wages get a job and all those eager to employ workers are able to hire as many hands as they want. There is "full employment."

[6] See above, pp. 448-452.

Let us assume that there are two countries only--Ruritania and Laputania. In Ruritania the final wage rate is double what it is in Laputania. Now the government of Ruritania resorts to one of those measures which are erroneously styled "prolabor." It burdens the employers with an additional expenditure the size of which is proportional to the number of workers employed. For example, it reduces the hours of work without permitting a corresponding drop in weekly wage rates. The result is a drop in the quantity of goods produced and a rise in the price of the unit of every good. The individual worker enjoys more leisure, but his standard of living is curtailed. What else could a general decrease in the quantity of goods available bring about?

This outcome is an internal event in Ruritania. It would emerge also in the absence of any foreign trade. The fact that Ruritania is not autarkic, but buys from and sells to Laputania, does not alter its essential features. But it implicates Laputania. As the Ruritanians produce and consume less, they will buy less from Laputania. In Laputania there will not be a general drop in production. But some industries which produced for export to Ruritania will henceforth have to produce for the domestic Laputanian market. Laputania will see the volume of its foreign trade drop; it will become, willy-nilly, more autarkic. This is a blessing in the eyes of the protectionists. In truth, it means deterioration in the standard of living; production at higher costs is substituted for that at lower costs. What Laputania experiences is the same thing that the residents of an autarkic country would experience if an act of God were to curtail the productivity of one of the country's industries. As far as there is division of labor, everybody is affected by a drop in the amount other people contribute to supplying the market.

However, these inexorable final international consequences of Ruritania's new pro-labor law will not affect the various branches of Laputania's industry in the same way. A sequence of steps is needed in both countries until at last a perfect adjustment of production to the new state of data is brought about. These short-run effects are different from the long-run effects. They are more spectacular than the long-run effects. While hardly anybody can fail to notice the short-run effects, the long-run effects are recognized only by economists. While it is not difficult to conceal the long-run effects from the public, something must be done about the easily recognizable short-run effects lest the enthusiasm for such allegedly pro-labor legislation fade away.

The first short-run effect to appear is the weakening of the competitive power of some Ruritanian branches of production as against those of Laputania. As prices rise in Ruritania, it becomes possible for some Laputanians to expand their sales in Ruritania. This is a temporary effect only; in the end the total sales of all Laputanian industries in Ruritania will drop. It is possible that in spite of this general drop in the amount of Laputanian exports to Ruritania, some of the Laputanian industries will expand their sales in the long run. (This depends on the new configuration of comparative costs.) But there is no necessary interconnection between these short-run and long-run effects. The adjustments of the period of transition create kaleidoscopically changing situations which may differ entirely from the final outcome. Yet the short-sighted public's attention is completely absorbed by these short-run effects. They hear the businessmen affected complain that the new Ruritanian law gives to Laputanians the opportunity to undersell both in Ruritania and in Laputania. They see that some Ruritanian businessmen are forced to restrict their production and to discharge workers. And they begin to suspect that something may be wrong with the teachings of the self-styled "unorthodox friends of labor."

But the picture is different if there is in Ruritania a tariff high enough to prevent Laputanians from even temporarily expanding their sales on the Ruritanian market. Then the most spectacular short-run effects of the new measure are masked in such a way that the public does not become aware of them. The long-run effects, of course, cannot be avoided. But they are brought about by another sequence of short-run effects which is less offensive because less visible. The talk about alleged "social gains" produced by the shortening of the hours of work is not exploded by the immediate emergence of effects which everyone, and most of all the discharged workers, consider undesirable.

The main function of tariffs and other protectionist devices today is to disguise the real effects of interventionist policies designed to raise the standard of living of the masses. Economic nationalism is the necessary complement of these popular policies which pretend to improve the wage earners' material well-being while they are in fact impairing it.[7]

4. Restriction as an Economic System

There are, as has been shown, cases in which a restrictive measure can attain the end sought by its application. If those resorting to such a measure think that the attainment of this goal is more important than the disadvantages brought about by the restriction--i.e., the curtailment in the quantity of material goods available for consumption--the recourse to restriction is justified from the point of view of their value judgments. They incur costs and pay a price in order to get something that they value more than what they had to expend or to forego. Nobody, and certainly not the theorist, is in a position to argue with them about the propriety of their value judgments.

[7] See also what has been said about the function of cartels on pp. 365-369.

The only adequate mode of dealing with measures restricting production is to look at them as sacrifices made for the attainment of a definite end. They are quasi-expenditures and quasi-consumption. They are an employment of things that could be produced and consumed in one way for the realization of certain other ends. These things are prevented from coming into existence, but this quasi-consumption is precisely what satisfies the authors of these measures better than the increase in goods available which the omission of the restriction would have produced.

With certain restrictive measures this point of view is universally adopted. If a government decrees that a piece of land should be kept in its natural state as a national park and should be withheld from any other utilization, nobody would classify such a venture as anything else than an expenditure. The government deprives the citizens of the increment in various products which the cultivation of this land could bring about, in order to provide them with another satisfaction.

It follows that restriction of production can never play any role other than that of an ancillary complement of a system of production. One cannot construct a system of economic action out of such restrictive measures alone. No complex of such measures can be linked together into an integrated economic system. They cannot form a system of production. They belong in the sphere of consumption, not in the sphere of production.

In scrutinizing the problems of interventionism we are intent upon examining the claims of the advocates of government interference with business that their system offers an alternative to other economic systems. No such claim can reasonably be raised with regard to measures restricting production. The best they can attain is curtailment of output and satisfaction. Wealth is produced by expending a certain quantity of factors of production. Curtailing this quantity does not increase, but decreases, the amount of goods produced. Even if the ends aimed at by shortening the hours of work could be attained by such a decree, it would not be a measure of production. It is invariably a way of cutting down output.

Capitalism is a system of social production. Socialism, say the socialists, is also a system of social production. But with regard to measures restricting production, even the interventionists cannot raise a similar claim. They can only say that under capitalism too much is produced and that they want to prevent the production of this surplus in order to realize other ends. They themselves must confess that there are limits to the application of restriction.

Economics does not contend that restriction is a bad system of production. It asserts that it is not at all a system of production but rather a system of quasi-consumption. Most of the ends the interventionists want to attain by restriction cannot be attained this way. But even where restrictive measures are fit to attain the ends sought, they are only restrictive.[8] [8]

The enormous popularity which restriction enjoys in our day is due to the fact that people do not recognize its consequences. In dealing with the problem of shortening the hours of work by government decree, the public is not aware of the fact that total output must drop and that it is very probable that the wage earners' standard of living will be potentially lowered too. It is a dogma of present-day "unorthodoxy" that such a "prolabor" measure is a "social gain" for the workers and that the costs of these gains fall entirely upon the employers. Whoever questions this dogma is branded as a "sycophantic" apologist of the unfair pretensions of rugged exploiters, and pitilessly persecuted. It is insinuated that he wants to reduce the wage earners to the poverty and the long working hours of the early stages of modern industrialism.

As against all this slander it is important to emphasize again that what produces wealth and well-being is production and not restriction. That in the capitalist countries the average wage earner consumes more goods and can afford to enjoy more leisure than his ancestors, and that he can support his wife and children and need not send them to work, is not an achievement of governments and labor unions. It is the outcome of the fact that profit-seeking business has accumulated and invested more capital and thus increased the marginal productivity of labor.

[8] As for the objections raised against this thesis from the point of view of the Ricardo effect, see below, pp. 773-776.