



## ECONOMIC FREEDOM AND INTERVENTIONISM

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# Economic Freedom and Interventionism

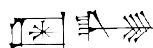
*An Anthology of Articles and Essays*

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LUDWIG VON MISES

Selected and Edited by Bettina Bien Greaves



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The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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To Percy L. Greaves, Jr.,  
my husband and mentor,  
who introduced me to the teachings  
of Professor Mises

## CONTENTS

Foreword	xi
Acknowledgments	xv

### PART I Economic Freedom

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1. The Economic Foundations of Freedom	3
2. The Individual in Society	12
3. The Elite under Capitalism	20
4. The Economic Role of Saving and Capital Goods	29
5. Luxuries into Necessities	35
6. The Saver as a Voter	37
7. The Market and the State	41
8. The Outlook for Saving and Investment	46
9. Inequality of Wealth and Incomes	50

### PART II Interventionism

---

10. The Why of Human Action	59
11. Deception of Government Intervention	66
12. The Agony of the Welfare State	70
13. Wage Interference by Government	76
14. Unemployment and the Height of Wage Rates	80
15. Wage Earners and Employers	86
16. Full Employment and Monetary Policy	88
17. Gold versus Paper	95
18. Inflation and You	101
19. Inflation	108
20. Inflation: An Unworkable Fiscal Policy	111

21. Socialism, Inflation, and the Thrifty Householder	117
22. Inflation Must End in a Slump	124
23. The Plight of Business Forecasting	126

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### PART III Mises as Critic

---

24. Why Read Adam Smith Today?	133
25. The Marxian Class Conflict Doctrine	136
26. The Marxian Theory of Wage Rates	142
27. The Soviet System's Economic Failure	148
28. On Some Atavistic Economic Ideas	151
29. <i>Capital and Interest</i> : Eugen von Böhm-Bawerk and the Discriminating Reader	155
30. The Symptomatic Keynes	158
31. Professor Hutt on Keynesianism	162
32. The Trade Cycle	165
33. How Can Europe Survive?	168
34. The Economic Point of View	170
35. Liberty and Its Antithesis	172
36. <i>Man, Economy and State</i> : A New Treatise on Economics	178
37. Understanding the Dollar Crisis	183
38. The Secret of American Prosperity	185
39. A Dangerous Recommendation for High School Economics	192
40. Foreign Spokesmen for Freedom	197
41. Freedom Has Made a Comeback	199

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### PART IV Economics and Ideas

---

42. The Objectives of Economic Education	203
43. On Current Monetary Problems	212
44. On the International Monetary Problem	225
45. Small and Big Business	234
46. Economics as a Bridge for Interhuman Understanding	253
47. Economic Freedom in the Present-Day World	268

Index	279
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## FOREWORD

When Professor Ludwig von Mises died in 1973, he was mourned by friends, associates, and students. His admirers at that time, though not numerous, had recognized him for decades as an intellectual giant and the leading spokesman of the subjective value, marginal utility, “Austrian” school of economics. Yet most of the world paid little attention to his passing.

Throughout his long life, Mises had gone quietly about his business—studying, writing, and lecturing. He persisted, even though his ideas appeared to be having little impact. In time, the quantity and quality of his contributions were prodigious. To give the reader some indication of the importance of his work, his major books, and the dates of their first editions, include *The Theory of Money and Credit* (1912), *Nation, State and Economy* (1919), *Socialism* (1922), *Liberalism* (1927), *Monetary Stabilization and Cyclical Policy* (1928), *Epistemological Problems of Economics* (1933), *Bureaucracy* (1944), *Omnipotent Government* (1944), *Human Action* (1949), *The Anti-capitalistic Mentality* (1956), *Theory and History* (1957), and *The Ultimate Foundation of Economic Science* (1962).

Since Mises’s death in 1973, his contributions have been gaining wider recognition. Many articles about him have appeared. His ideas and those of his students are being more widely studied and discussed. New organizations have sprung up to treat his teachings seriously. Interest in studying his works is on the rise, not only in this hemisphere but also apparently in eastern Europe and in the U.S.S.R.

Significant changes are taking place in the climate of opinion. The main doctrines of Mises’s principal antagonists—Karl Marx and John Maynard Keynes—have been discredited. Their names are not so widely cited as authorities. Their collectivist theories are no longer taken as “gospel” by the man in the street. The attitude of people toward



government has shifted somewhat. Many find government corrupt and expensive and have come to doubt its effectiveness. To ask for government help is no longer as popular as it once was. At the same time, people still do not completely trust free markets and open competition. Thus, the most important ideas of both Marx and Keynes linger on in “mainstream” thinking and have been incorporated in legislation.

With respect to the ideas of Marx, most people still assume that a certain amount of government regulation and control is necessary to preserve the capitalistic system and to prevent the “exploitation” by big businessmen of employees and consumers. There is less talk of confiscatory taxation than there was during the heyday of the “welfare state.” Yet Marxian egalitarianism continues to find expression in programs such as progressive taxation, public housing, relief, welfare, and subsidies for students, the unemployed, and the elderly.

When it comes to the ideas of Keynes, most people still believe that the government, through the Federal Reserve, should use monetary policy to assure economic prosperity and employment. Deficit financing and pump priming may not be as openly advocated as in the days of the New Deal, the Fair Deal, and the Great Society. Yet when tax funds fail to cover government expenses, governments resort to deficit financing, inflation, and credit expansion. Our own Federal Reserve, consistent with Keynes, continues to follow an expansionist policy. High interest rates are considered bad for business. Bankers and businessmen are eager for “easy money,” fostered by artificially low interest rates to spur business activity. People do not realize that nonmanipulated *market* interest rates have an important role to play. Thus, even though the infatuation with Keynes per se has declined, his doctrine of deficit financing and monetary manipulation survives and the value of the U.S. dollar has declined, although fortunately, thanks to the relative caution of the “Fed,” not as much as has the value of the national currencies of other more expansionist central banks.

Dramatic changes have taken place in the international field since Mises’s death. The U.S.S.R.\* no longer appears to pose the threat to

\* The U.S.S.R. was officially disbanded on December 26, 1991. Mikhail Gorbachev, General Secretary of the Communist Party, had introduced *perestroika* and *glasnost*. The U.S.S.R. had undergone unrest, economic turmoil, and on August 19, 1991, a general strike called by Boris Yeltsin, president of the Russian Republic. On August 24, 1991, Mikhail Gorbachev resigned as leader of the Communist Party. Several republics declared independence. The Soviet Parliament suspended all activities of the Communist Party on August 29, 1991, and the U.S.S.R. broke up officially on December 26, 1991. The former Soviet Republics then became independent states.

international peace that it did in the years just after World War II when these articles were written. The popularity and power of communism has declined. There is also somewhat less tendency to blame the poverty of the “Third World” on the success of the industrialized nations. People here and abroad now give lip service to free enterprise, entrepreneurship, and the market forces of supply and demand.

Yet most people are still fearful of completely free *laissez faire*. They do not realize the importance of protecting the unadulterated right to own, use, and dispose of private property. They are not prepared to leave the determination of wages, prices, and interest rates to the market. They reject out of hand any thought of the gold standard. On the one hand, they ask government to regulate businesses lest they exploit workers and produce shoddy and dangerous products that would harm consumers. On the other hand, they want to give some businesses special protection, lest they fail and force workers into unemployment. Moreover, many people want government to undertake programs they are not willing to pay for in taxes, programs that, therefore, can only be financed by inflation or credit expansion. They remain ideological, if not intellectual, Marxians and Keynesians.

The articles in this collection were written at a time when the spread of Communism, Progressivism, and the power of labor unions were major national concerns. Although these no longer appear to be such immediate threats, they continue to influence government policies with respect to spending, special privileges, inflation, credit expansion, unemployment, and wage rates.

One recurring theme throughout Mises’s writings is that men act on the basis of ideas. Today is the product of past ideas. And the ideas of today will produce tomorrow. The idea that government has the power to cure almost any social ill permitted big government to triumph throughout the world. To reverse this trend, to create a world of free markets, to change governments, to repeal government programs, the ideas men hold must be changed. Government should stick to its fundamental role of protecting the people against those who would violate their rights to life and property. Market checks and balances and free and open competition would then protect the interests of consumers, minimize the injury private industry could cause, and keep unemployment at a minimum.

People must come to respect and protect private property. They must realize that entrepreneurs should be free to make their own decisions

and then to benefit, or suffer the consequences. They must insist that governments not interfere with voluntary transactions among private individuals. They must not allow the dividing line between capitalism and interventionism to blur. As Mises points out, big government is a far greater threat to people than are the mistakes and the misdeeds of big business.

“Nothing is more important today,” Mises wrote in 1957, “than to enlighten public opinion about the basic differences between genuine liberalism, which advocates the free market economy, and the various interventionist parties which are advocating government interference with prices, wages, the rate of interest, profits and investment, confiscatory taxation, tariffs and other protectionist measures, huge government spending, and finally inflation.” This is the goal to which Mises devoted his life. And this is the purpose for which Mises wrote the articles in this book.



If an author’s contributions are worth preserving, his works must be published and available in libraries. English-language editions of Mises’s major works are still in print. Although quite a few of his articles have been collected in anthologies, many of his short pieces that appeared in ephemeral sources, newspapers, and little-known journals have been practically inaccessible. The purpose of this collection is to rescue some of those articles from obscurity and make them available to future generations of students. Quite a few others still remain to be resurrected, including several that appeared in European publications not available in many U.S. libraries. These should be translated one day, published in book format, and preserved in libraries where students can read them and future generations of scholars will be able to find them.

Bettina Bien Greaves  
March 1990

## ACKNOWLEDGMENTS

Most of the articles in this collection were published during the years when I was attending Professor Ludwig von Mises's graduate seminar at New York University. At that time I was trying to assemble all his writings for a bibliography of his works and Mises would always give me copies of any of his articles that appeared in journals I might not otherwise see. Thus Professor Mises deserves special thanks for making this collection possible.

Thanks are due, also, to Mrs. Mises, who approves of my resurrecting many of her late husband's articles that might otherwise be forgotten.

Many of the articles in this collection were published first in *The Freeman*, the monthly journal of The Foundation for Economic Education. Others appeared in newspapers and magazines now defunct. However, special thanks must go to the several firms that are still publishing, who gave us permission to reprint Mises articles that appeared within their pages: *The Commercial and Financial Chronicle*, the Institute for Humane Studies, Liberty Fund (publisher of the reprinted *New Individualist Review*), *National Review*, *New American* (successor to *American Opinion*), *New Guard* (publication of the Young Americans for Freedom), and Regnery Gateway, Inc. Thanks go to The Foundation for Economic Education, of course, for their support of this project. Mary Ann Murphy did an excellent job of entering all these articles on the computer. I am grateful also for the helpful editorial advice of Beth Hoffman and the careful proofreading of Debra Anderson and Deane Brasfield.

Side-heads have been added to make for ease of reading. Also for the sake of clarity, a few sentences have been edited slightly. The Foundation's style of punctuation and capitalization has been followed throughout.

In addition to being a profound and thoughtful economist, Mises had a remarkable understanding of history and a wealth of historical

knowledge, as evidenced by his frequent references to historical personages and events. With the hope of helping future generations of students appreciate Mises's contributions to economic understanding, the editor has added symbolized footnotes to identify the more obscure individuals and historical events mentioned in this anthology.



## ECONOMIC FREEDOM AND INTERVENTIONISM



# Economic Freedom

At one of his seminars, a student asked Professor Mises, “Why aren’t all businessmen in favor of capitalism?”

“That very question,” Mises answered, “is Marxist.”

Mises’s response shocked me at the time. It took me some time to realize what he meant. The questioner assumed, as had Karl Marx, that businessmen had a special group or “class” interest in capitalism that other people didn’t.

“Capitalism,” Mises went on, “benefits everyone — consumers, the masses. It doesn’t benefit only businessmen. As a matter of fact, under capitalism some businessmen suffer losses. A businessman’s position on the market is never secure; the door is always open to competitors who may challenge his position and deprive him of profits. Yet it is this very competition under capitalism that assures consumers that businessmen will do their best to furnish them, the consumers, with the goods and services they want.”

In the articles and papers in this first section, Mises reveals again and again that he is no apologist for business or businessmen. He is interested in determining the economic system which best improves the welfare of individuals and the living conditions of the masses. And that economic system is economic freedom under capitalism. Only with economic freedom, Mises says, are more goods and services produced. Only under capitalism do wages rise and the living standards of the masses improve. The reason? Consumers are sovereign in capitalist free markets. They are in a position to let entrepreneurs know what

they want most urgently, by rewarding with profits those who satisfy their wants and by imposing losses and thus withdrawing wealth from those who fail. This system of rewards and penalties guides production and makes sure that more of the goods and services consumers want will be produced, thus raising the wages of workers and the living standards of everyone.

The market is the outcome of peaceful social cooperation and economic freedom. And it is the market that makes individual freedom, justice, morality, innovation, and social harmony possible. As Mises writes in this section:

“A man has freedom as far as he shapes his life according to his own plans,” and

“[M]orality makes sense only when addressing individuals who are free agents.”



# The Economic Foundations of Freedom

Animals are driven by instinctive urges. They yield to the impulse which prevails at the moment and peremptorily asks for satisfaction. They are the puppets of their appetites.

Man's eminence is to be seen in the fact that he chooses between alternatives. He regulates his behavior deliberately. He can master his impulses and desires; he has the power to suppress wishes the satisfaction of which would force him to renounce the attainment of more important goals. In short: man acts; he purposively aims at ends chosen. This is what we have in mind in stating that man is a moral person, responsible for his conduct.

## Freedom as a Postulate of Morality

All the teachings and precepts of ethics, whether based upon a religious creed or whether based upon a secular doctrine like that of the Stoic philosophers, presuppose this moral autonomy of the individual and therefore appeal to the individual's conscience. They presuppose that the individual is free to choose among various modes of conduct and require him to behave in compliance with definite rules, the rules of morality. Do the right things, shun the bad things.

It is obvious that the exhortations and admonishments of morality make sense only when addressing individuals who are free agents. They are vain when directed to slaves. It is useless to tell a bondsman what is morally good and what is morally bad. He is not free to determine his comporment; he is forced to obey the orders of his master. It is difficult to blame him if he prefers yielding to the commands of his master to

the most cruel punishment threatening not only him but also the members of his family.

This is why freedom is not only a political postulate, but no less a postulate of every religious or secular morality.

### The Struggle for Freedom

Yet for thousands of years a considerable part of mankind was either entirely or at least in many regards deprived of the faculty to choose between what is right and what is wrong. In the status society of days gone by the freedom to act according to their own choice was, for the lower strata of society, the great majority of the population, seriously restricted by a rigid system of controls. An outspoken formulation of this principle was the statute of the Holy Roman Empire that conferred upon the princes and counts of the Reich (Empire) the power and the right to determine the religious allegiance of their subjects.

The Orientals meekly acquiesced in this state of affairs. But the Christian peoples of Europe and their scions that settled in overseas territories never tired in their struggle for liberty. Step by step they abolished all status and caste privileges and disabilities until they finally succeeded in establishing the system that the harbingers of totalitarianism try to smear by calling it the bourgeois system.

### The Supremacy of the Consumers

The economic foundation of this bourgeois system is the market economy in which the consumer is sovereign. The consumer, i.e., everybody, determines by his buying or abstention from buying what should be produced, in what quantity and of what quality. The businessmen are forced by the instrumentality of profit and loss to obey the orders of the consumers. Only those enterprises can flourish that supply in the best possible and cheapest way those commodities and services which the buyers are most anxious to acquire. Those who fail to satisfy the public suffer losses and are finally forced to go out of business.

In the precapitalistic ages the rich were the owners of large landed estates. They or their ancestors had acquired their property as gifts—feuds or fiefs—from the sovereign who—with their aid—had conquered the country and subjugated its inhabitants. These aristocratic

landowners were real lords as they did not depend on the patronage of buyers. But the rich of a capitalistic industrial society are subject to the supremacy of the market. They acquire their wealth by serving the consumers better than other people do and they forfeit their wealth when other people satisfy the wishes of the consumers better or cheaper than they do. In the free market economy the owners of capital are forced to invest it in those lines in which it best serves the public. Thus ownership of capital goods is continually shifted into the hands of those who have best succeeded in serving the consumers. In the market economy private property is in this sense a public service imposing upon the owners the responsibility of employing it in the best interests of the sovereign consumers. This is what economists mean when they call the market economy a democracy in which every penny gives a right to vote.

### The Political Aspects of Freedom

Representative government is the political corollary of the market economy. The same spiritual movement that created modern capitalism substituted elected officeholders for the authoritarian rule of absolute kings and hereditary aristocracies. It was this much-decried bourgeois liberalism that brought freedom of conscience, of thought, of speech, and of the press and put an end to the intolerant persecution of dissenters.

A free country is one in which every citizen is free to fashion his life according to his own plans. He is free to compete on the market for the most desirable jobs and on the political scene for the highest offices. He does not depend more on other people's favor than these others depend on his favor. If he wants to succeed on the market, he has to satisfy the consumers; if he wants to succeed in public affairs he has to satisfy the voters. This system has brought to the capitalistic countries of Western Europe, America, and Australia an unprecedented increase in population figures and the highest standard of living ever known in history. The much talked-about common man has at his disposal amenities of which the richest men in precapitalistic ages did not even dream. He is in a position to enjoy the spiritual and intellectual achievements of science, poetry, and art that in earlier days were accessible only to a small elite of well-to-do people. And he is free to worship as his conscience tells him.

## The Socialist Misrepresentation of the Market Economy

All the facts about the operation of the capitalistic system are misrepresented and distorted by the politicians and writers who arrogated to themselves the label of liberalism, the school of thought that in the nineteenth century crushed the arbitrary rule of monarchs and aristocrats and paved the way for free trade and enterprise. As these advocates of a return to despotism see it, all the evils that plague mankind are due to sinister machinations on the part of big business. What is needed to bring about wealth and happiness for all decent people is to put the corporations under strict government control. They admit, although only obliquely, that this means the adoption of socialism, the system of the Union of Soviet Socialist Republics. But they protest that socialism will be something entirely different in the countries of Western civilization from what it is in Russia. And anyway, they say, there is no other method to deprive the mammoth corporations of the enormous power they have acquired and to prevent them from further damaging the interests of the people.

Against all this fanatical propaganda there is need to emphasize again and again the truth that it is big business that brought about the unprecedented improvement of the masses' standard of living. Luxury goods for a comparatively small number of well-to-do can be produced by small-size enterprises. But the fundamental principle of capitalism is to produce for the satisfaction of the wants of the many. The same people who are employed by the big corporations are the main consumers of the goods turned out. If you look around in the household of an average American wage-earner, you will see for whom the wheels of the machines are turning. It is big business that makes all the achievements of modern technology accessible to the common man. Everybody is benefited by the high productivity of big scale production.

It is silly to speak of the "power" of big business. The very mark of capitalism is that supreme power in all economic matters is vested in the consumers. All big enterprises grew from modest beginnings into bigness because the patronage of the consumers made them grow. It would be impossible for small- or medium-size firms to turn out those products which no present-day American would like to do without. The bigger a corporation is, the more does it depend on the consumers' readiness to buy its wares. It was the wishes — or, as some say, the folly — of the consumers that drove the automobile industry into the production of ever