



INTERVENTIONISM

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LUDWIG VON MISES

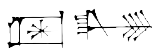
Interventionism

An Economic Analysis



LUDWIG VON MISES

Edited and with a Foreword 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.

Interventionism was written by Ludwig von Mises in 1940 and is here translated from the original German by Thomas Francis McManus and Heinrich Bund.

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CONTENTS

Foreword	ix
Author's Preface	xiii
Introduction	
1 The Problem	1
2 Capitalism or Market Economy	2
3 The Socialist Economy	6
4 The Capitalist State and the Socialist State	9
5 The Interventionist State	10
6 The Plea for Moral Reform	13
I Interference by Restriction	
1 The Nature of Restrictive Measures	19
2 Costs and Benefits of Restrictive Measures	20
3 The Restrictive Measure as a Privilege	21
4 Restrictive Measures as Expenditures	22
II Interference by Price Control	
1 The Alternative: Statutory Law versus Economic Law	24
2 The Reaction of the Market	27
3 Minimum Wages and Unemployment	31
4 The Political Consequences of Unemployment	34
III Inflation and Credit Expansion	
1 Inflation	37
2 Credit Expansion	41
3 Foreign Exchange Control	47
4 The Flight of Capital and the Problem of "Hot Money"	49

IV	Confiscation and Subsidies	
1	Confiscation	53
2	The Procurement of Funds for Public Expenditure	55
3	Unprofitable Public Works and Subsidies	58
4	“Altruistic” Entrepreneurship	60
V	Corporativism and Syndicalism	
1	Corporativism	62
2	Syndicalism	66
VI	War Economy	
1	War and the Market Economy	69
2	Total War and War Socialism	70
3	Market Economy and National Defense	73
VII	The Economic, Social, and Political Consequences of Interventionism	
1	The Economic Consequences	78
2	Parliamentary Government and Interventionism	81
3	Freedom and the Economic System	83
4	The Great Delusion	86
5	The Source of Hitler’s Success	88
VIII	Conclusions	93
	Reading References	97
	Index	99

FOREWORD

Ludwig von Mises lived a long life—from 1881 to 1973. He was born within the borders of the huge European empire of Austria-Hungary and was for many years the leading spokesman of what became known as the Austrian School of Economics. This theoretical school differs from other schools of economics because it does not deal with aggregates, large numbers, or historical data. It uses a *micro* rather than a *macro* approach to economics. It traces all economic phenomena back to the actions of individuals—to their subjective values and to the value each market participant places on the marginal utility of a particular good or service. The Austrians view the world economy as a giant auction in which everyone is always bidding for the various goods and services he or she wants by offering something he or she has. By starting from the viewpoint of the individual actor and by reasoning logically step by step, Mises and his fellow Austrian economists were able to explain the development of prices, wages, money, production, trade, and so on.

Mises was prolific. He wrote many books and articles. He traveled and lectured widely throughout Europe and gained an international reputation as a strong advocate of capitalism and an ardent critic of interventionism. However, Mises's teachings were drowned out for many years by the overwhelming popularity of John Maynard Keynes, Keynes's macroeconomic doctrines, and his proposals for government intervention and politically expedient spending programs.

Mises left Vienna for Switzerland before the Germans, under Hitler, occupied Austria. He taught in Geneva at the Institute for International Studies until 1940, when he migrated to the United States. His reputation had been well established in Europe. But when he arrived in this country at age 59, he was a stranger in a strange land, obliged

to start almost all over again. He soon obtained an appointment at the National Bureau of Economic Research, which gave him the opportunity to write the manuscript for this book.

Anyone who is familiar with Mises's other writings will not find anything particularly surprising in this book. Mises frequently criticized the various aspects of government intervention and he often described how government intervention interferes with the attempts of individuals to accomplish their various goals. However, in none of his other writings does he explain government intervention and its consequences more clearly and simply than he does here.

Mises wrote *Interventionism: An Economic Analysis** in his native German tongue. After it had been translated by Drs. Thomas McManus and Heinrich Bund, he considered it "ready for publication." However, apparently nothing was done about the manuscript and it disappeared from view. When this project came to nought, Mises, of necessity, turned his efforts toward other writing and lecturing. In 1944, his *Bureaucracy* and *Omnipotent Government* were published. In 1945, he received an appointment as visiting professor at New York University Graduate School of Business Administration and began teaching again. Then in 1946, he joined the staff of the Foundation for Economic Education as a part-time adviser. Many other books followed, including especially his magnum opus, *Human Action*, in 1949.

This book, *Interventionism*, was written in 1940, before the United States was officially involved in World War II. Here Mises offers a rare insight into the war economies of Hitler's Germany and Mussolini's Italy. He also criticizes the pre-World War II Allied governments for having favored socialism and interventionism over capitalist methods of production. As a matter of fact, he blames the Allies' lack of military preparedness on their having fallen prey to anti-capitalist propaganda and for having spent more effort trying to prevent war profiteering than on creating an economic climate conducive to the production of armaments. "When the capitalist nations in time of war give up the industrial superiority which their economic system provides them, their power to resist and their chances to win are considerably reduced. . . . The defeat of France and the destruction of English cities

* In spite of the similar title, Mises's *Critique of Interventionism* (1929; English translation, 1977) is a very different book from this one. That book is an anthology of articles criticizing the doctrines and proposals of specific interventionists of the 1920s; this book is a clear and simple exposition of the theory of government intervention.

was the first price paid for the interventionist suppression of war profits” (pp. 76, 77).

Throughout his career, Mises pointed out that individuals face risk and uncertainty in their struggle to survive. They encounter many obstacles—both natural and man-made. Natural catastrophes such as earthquakes, floods, tornadoes, hurricanes, landslides, avalanches, and fires may disrupt their plans. Man-made catastrophes such as wars, theft, fraud, and government interventions may also disrupt their plans. With respect to the obstacles nature places in their paths, men have no alternative but to cope as best they can. With respect to man-made obstacles, however, the situation is different; men are not completely helpless; they have the capability of avoiding and/or removing them.

In explaining how the market functions, Mises criticized man-made government interventions—controls, regulations, restrictions, special privileges, and subsidies for some at the expense of others. He always pointed out, as he does in this book, that although enacted with the best of intentions, such government interventions lead to conditions that even their advocates consider worse than those they were trying to alleviate. However, he also explained that such obstacles, being man-made, were avoidable and removable—once people came to realize that government should not interfere with peaceful interpersonal relationships.

Mises also pointed out that government’s role should be limited. Government should protect equally the lives and property of all persons under its jurisdiction. It should adjudicate disputes among individuals so as to assure, insofar as possible, equal justice to all. Otherwise, it should leave people free to work out their own destinies. We are fortunate indeed that this manuscript, which explains in such clear terms these basic principles, has resurfaced from among the papers left at Mises’s death and is now being made available.

Bettina Bien Greaves
October 1997

AUTHOR'S PREFACE

It is the purpose of this essay to analyze the problems of government interference in business from the economic standpoint. The political and social consequences of the policy of interventionism¹ can only be understood and judged on the basis of an understanding of its economic implications and effects.

Ever since the European governments in the last decades of the nineteenth century embarked on this policy, which today frequently is called "progressive" but which actually represents a return to the mercantilist policy of the seventeenth and early eighteenth centuries, economists have persistently pointed out the inconsistency and futility of these measures and have predicted their political and social consequences. Governments, political parties, and public opinion have just as persistently ignored their warnings. They ridiculed the alleged doctrinarism of "orthodox" economics and boasted of their "victories" over economic theory. But these were Pyrrhic victories.

The inevitable sequence of events which followed upon the application of interventionist measures fully proved the correctness of the economists' predictions. The predicted political effects, social unrest, dictatorship, and war, also did not fail to appear.

This essay is not intended to discuss specifically the American New Deal. It deals with interventionism in general, and its conclusions are valid for all instances of interventionism irrespective of the country concerned. There was a considerable amount of interventionism in America long before 1933. The New Deal is merely the present-day, specifically American brand of a policy which began everywhere—including

1. Throughout this essay, the term interventionism is used in the sense ascribed to it by many generations of economists. It covers the domestic policy of governmental interference with business. It is not to be confused with the political term "interventionism" referring to international policy, as contrasted with "isolationism" in the current American controversy about the War.

America—several decades ago. To the economist there is nothing new in the New Deal. It differs from the policy of Kaiser Wilhelm II and from the policy of the Weimar Republic only to the extent necessitated by the particular conditions of present-day America. And it places the American people today in the same dilemma in which the German people found themselves ten years ago.

This essay is economic in character and, therefore, is not concerned with the legal and constitutional aspects of the problem. Laws and constitutions as such are of secondary importance only. They are to serve the people, not to rule the people. They are to be formulated and interpreted in such a way as to make possible an economic development beneficial to the welfare of all groups of the nation. If they fail to reach this aim, the laws and their interpretation ought to be changed.

There is certainly no lack of literature on this subject; almost every day new contributions appear. But almost all of these studies are concerned exclusively with particular groups of measures and their short-run effects. This method of analysis is woefully inadequate. It merely shows the immediate consequences of individual interventions without considering their indirect and long-run effects. It takes into account only the alleged benefits and disregards the costs and detriments.

In this way, of course, a comprehensive appraisal of the social and economic consequences of interventionism can never be reached. That certain individuals or small groups of individuals may sometimes be temporarily privileged or benefited by certain interventionist measures cannot be denied. The question is, however, what further effects are caused, particularly if the attempt is made to accord in the same way privileges to large sections of the population or even to the whole nation. It is therefore essential to study the totality of interventionist policy, not only its short-run but also its long-run effects.

It would be a thorough misinterpretation of my statements to consider them as a criticism of the statesmen and politicians in power. My criticism is not aimed at men, but at a doctrine. No matter what the constitution of the country, governments always have to pursue that policy which is deemed right and beneficial by popular opinion. Were they to attempt to stand up against the prevailing doctrines they would very soon lose their positions to men willing to conform to the demands of the man in the street. Dictators too can only seize and maintain power if they are backed by the approval of the masses. The