



LIBERALISM

The Classical Tradition

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LUDWIG VON MISES

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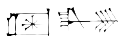
LUDWIG VON MISES

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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PREFACE, 1985

The term “liberalism,” from the Latin “liber” meaning “free,” referred originally to the philosophy of freedom. It still retained this meaning in Europe when this book was written (1927) so that readers who opened its covers expected an analysis of the freedom philosophy of classical liberalism. Unfortunately, however, in recent decades, “liberalism” has come to mean something very different. The word has been taken over, especially in the United States, by philosophical socialists and used by them to refer to their government intervention and “welfare state” programs. As one example among many possible ones, former U.S. Senator Joseph S. Clark, Jr., when he was mayor of Philadelphia, described the modern “liberal” position very frankly in these words:

To lay a ghost at the outset and to dismiss semantics, a liberal is here defined as one who believes in utilizing the full force of government for the advancement of social, political, and economic justice at the municipal, state, national, and international levels. . . . A liberal believes government is a proper tool to use in the development of a society which attempts to carry Christian principles of conduct into practical effect. (*Atlantic*, July 1953, p. 27)

This view of “liberalism” was so prevalent in 1962, when the English translation of this book appeared, that Mises believed then that to translate literally the original title, *Liberalismus*, would be too confusing. So he called the English version *The Free and Prosperous Commonwealth*. By the following year, however, Mises had decided that the advocates of freedom and free markets should not relinquish “liberalism” to the philosophical socialists. In the prefaces of both the second (1963) and third (1966) editions of his magnum opus, *Human Action*, Mises wrote that the advocates of the freedom philosophy should reclaim “the term ‘liberal’ . . . because there is simply no other term available to signify the

great political and intellectual movement” that ushered in modern civilization by fostering the free market economy, limited government and individual freedom. It is in this sense that “liberalism” is used throughout this book.

For the benefit of readers who are not familiar with the works of Ludwig von Mises (1881–1973), he was for decades the leading spokesman of the “Austrian” school of economics, so named because Mises as well as his two prominent predecessors — Carl Menger and Eugen von Böhm-Bawerk — were all Austrian born. The cornerstone of the “Austrian” school is the subjective value marginal utility theory. This theory traces all economic phenomena, simple and complex, to the actions of individuals, each undertaken as a result of personal subjective values. On the basis of this subjective value theory, Mises explained and analyzed methodology, value, action, prices, markets, money, monopoly, government intervention, economic booms and busts, etc., making especially significant contributions in the fields of money and economic calculation.

Mises earned his doctorate from the University of Vienna in 1906. His thesis, *The Theory of Money and Credit*, published in German in 1912 and in English in 1934, was the first of his many theoretical works in economics. During the interwar years, in addition to writing articles and books, such as the powerful treatise, *Socialism*, Mises worked full time at the Austrian Chamber of Commerce as economic adviser to the Austrian government and taught part time as a *Privatdozent* (lecturer) at the University of Vienna. He also conducted a private economics seminar for scholars, many of whom became influential worldwide. In 1926 he established the private Austrian Institute for Business Cycle Research which still survives.

After Hitler came to power in Germany, Mises anticipated trouble for Austria. So in 1934 he took a position in Switzerland with the Graduate Institute of International Studies. While there he wrote *National-oekonomie* (1940). Although there were few German readers in national socialist Europe for this monumental economic treatise, Mises’s explanations of sound economic principles have reached a much wider audience through the English-language version of *Nationaloekonomie*, completely rewritten by Mises for American readers under the title of *Human Action* (1st edition, 1949).

To escape Hitler-dominated Europe, Mises and his wife left Switzerland in 1940 and came to the United States. His reputation had been

well established in Europe, but he was little known in this country. Therefore, he had to begin practically all over again to attract students and readers. English-language books began to appear from his pen — *Omnipotent Government* and *Bureaucracy*, both in 1944. And then his masterful economic treatise, *Human Action*, in 1949. There soon followed *Planning for Freedom* (1952), *The Anti-Capitalistic Mentality* (1952), *Theory and History* (1957) and *The Ultimate Foundations of Economic Science* (1962), all important books in economic theory.

In 1947, Mises was instrumental in founding the international Mont Pèlerin Society. He lectured widely in the U.S. and Latin America and for 24 years he conducted his well-known graduate economics seminar at New York University. He also served as a consultant to the National Association of Manufacturers and as adviser to the Foundation for Economic Education.

Mises received many honors throughout the course of his lifetime — honorary doctorates from Grove City College (1957), New York University (1963), and the University of Freiburg (1964) in Germany. His accomplishments were recognized in 1956 by his alma mater, the University of Vienna, when his doctorate was memorialized on its 50th anniversary and “renewed,” a European tradition, and in 1962 by the Austrian government. He was also cited in 1969 as “Distinguished Fellow” by the American Economic Association.

Mises’s influence continues to spread among thoughtful persons. His most prominent student from his European days, Nobel Laureate F. A. Hayek, has written: “Mises’s influence now reaches beyond the personal sphere. . . . The torch which you [Mises] have lighted has become the guide of a new movement for freedom which is gathering strength every day.” And one of his leading students in the United States, Professor Israel Kirzner of New York University, has described his impact on modern students: “[T]o the ferment and sense of excitement now evident in the resurgence of interest in this Austrian perspective, Mises’s contributions have been crucial and decisive.”

Mises was always the careful and logical theoretician, but he was not only an ivory tower theoretician. Driven by the logic of his scientific reasoning to the conclusion that a liberal society with free markets is the only road to domestic and international peace and harmony, he felt compelled to apply the economic theories he expounded to government policy. In *Liberalism* Mises not only offers brief explanations of many important economic phenomena, but he also presents, more

explicitly than in any of his other books, his views on government and its very limited but essential role in preserving social cooperation under which the free market can function. Mises's views still appear fresh and modern and readers will find his analysis pertinent.

Mises's message, that ideas rule the world, runs as a constant refrain throughout all his books. But it comes through especially strong in *Liberalism*. "The ultimate outcome of the struggle" between liberalism and totalitarianism, he wrote in 1927, "will not be decided by arms, but by ideas. It is ideas that group men into fighting factions, that press the weapons into their hands, and that determine against whom and for whom the weapons shall be used. It is they alone, and not arms, that, in the last analysis, turn the scales."

In fact, the only hope of keeping the world from plunging still further into international chaos and conflict is to convince the people to abandon government intervention and adopt liberal policies.

Bettina Bien Greaves
The Foundation for Economic Education, Inc.
August, 1985

PREFACE TO THE ENGLISH-LANGUAGE EDITION

The social order created by the philosophy of the Enlightenment assigned supremacy to the common man. In his capacity as a consumer, the “regular fellow” was called upon to determine ultimately what should be produced, in what quantity and of what quality, by whom, how, and where; in his capacity as a voter, he was sovereign in directing his nation’s policies. In the precapitalistic society those had been paramount who had the strength to beat their weaker fellows into submission. The much decried “mechanism” of the free market leaves only one way open to the acquisition of wealth, viz., to succeed in serving the consumers in the best possible and cheapest way. To this “democracy” of the market corresponds, in the sphere of the conduct of affairs of state, the system of representative government. The greatness of the period between the Napoleonic Wars and the first World War consisted precisely in the fact that the social ideal after the realization of which the most eminent men were striving was free trade in a peaceful world of free nations. It was an age of unprecedented improvement in the standard of living for a rapidly increasing population. It was the age of liberalism.

Today the tenets of this nineteenth-century philosophy of liberalism are almost forgotten. In continental Europe it is remembered only by a few. In England the term “liberal” is mostly used to signify a program that only in details differs from the totalitarianism of the socialists.* In the United States “liberal” means today a set of ideas and political postulates that in every regard are the opposite of all that liberalism meant to the preceding generations. The American self-styled liberal aims at government omnipotence, is a resolute foe of free enterprise, and

* Yet one should mention the fact that a few eminent Englishmen continue to espouse the cause of genuine liberalism.

advocates all-round planning by the authorities, i.e., socialism. These “liberals” are anxious to emphasize that they disapprove of the Russian dictator’s policies not on account of their socialistic or communistic character but merely on account of their imperialistic tendencies. Every measure aiming at confiscating some of the assets of those who own more than the average or at restricting the rights of the owners of property is considered as liberal and progressive. Practically unlimited discretionary power is vested in government agencies the decisions of which are exempt from judicial review. The few upright citizens who dare to criticize this trend toward administrative despotism are branded as extremists, reactionaries, economic royalists, and Fascists. It is suggested that a free country ought not to tolerate political activities on the part of such “public enemies.”

Surprisingly enough, these ideas are in this country viewed as specifically American, as the continuation of the principles and the philosophy of the Pilgrim Fathers, the signers of the Declaration of Independence, and the authors of the Constitution and the Federalist papers. Only few people realize that these allegedly progressive policies originated in Europe and that their most brilliant nineteenth-century exponent was Bismarck, whose policies no American would qualify as progressive and liberal. Bismarck’s *Sozialpolitik* was inaugurated in 1881, more than fifty years before its replica, F. D. Roosevelt’s New Deal. Following in the wake of the German Reich, the then most successful power, all European industrial nations more or less adopted the system that pretended to benefit the masses at the expense of a minority of “rugged individualists.” The generation that reached voting age after the end of the first World War took statism for granted and had only contempt for the “bourgeois prejudice,” liberty.

When, thirty-five years ago, I tried to give a summary of the ideas and principles of that social philosophy that was once known under the name of liberalism, I did not indulge in the vain hope that my account would prevent the impending catastrophes to which the policies adopted by the European nations were manifestly leading. All I wanted to achieve was to offer to the small minority of thoughtful people an opportunity to learn something about the aims of classical liberalism and its achievements and thus to pave the way for a resurrection of the spirit of freedom *after* the coming debacle.

On October 28, 1951, Professor J. P. Hamilius of Luxembourg ordered a copy of *Liberalismus* from the publishing firm of Gustav Fischer in

Jena (Russian Zone of Germany). The publishing firm answered, on November 14, 1951, that no copies of the book were available and added: “Die Vorräte dieser Schrift mussten auf Anordnung behördlicher Stellen restlos makuliert werden.” (By order of the authorities all the copies of this book had to be destroyed.) The letter did not say whether the “authorities” referred to were those of Nazi Germany or those of the “democratic” republic of East Germany.

In the years that elapsed since the publication of *Liberalismus* I have written much more about the problems involved. I have dealt with many issues with which I could not deal in a book the size of which had to be limited in order not to deter the general reader. On the other hand, I referred in it to some matters that have little importance for the present. There are, moreover, in this book various problems of policy treated in a way which can be understood and correctly appreciated only if one takes into account the political and economic situation at the time in which it was written.

I have not changed anything in the original text of the book and did not influence in any way the translation made by Dr. Ralph Raico and the editing done by Mr. Arthur Goddard. I am very grateful to these two scholars for the pains they took in making the book available to the English-reading public.

Ludwig von Mises
New York, April, 1962

Introduction

1 Liberalism

The philosophers, sociologists, and economists of the eighteenth and the early part of the nineteenth century formulated a political program that served as a guide to social policy first in England and the United States, then on the European continent, and finally in the other parts of the inhabited world as well. Nowhere was this program ever completely carried out. Even in England, which has been called the homeland of liberalism and the model liberal country, the proponents of liberal policies never succeeded in winning all their demands. In the rest of the world only parts of the liberal program were adopted, while others, no less important, were either rejected from the very first or discarded after a short time. Only with some exaggeration can one say that the world once lived through a liberal era. Liberalism was never permitted to come to full fruition.

Nevertheless, brief and all too limited as the supremacy of liberal ideas was, it sufficed to change the face of the earth. A magnificent economic development took place. The release of man's productive powers multiplied the means of subsistence many times over. On the eve of the World War (which was itself the result of a long and bitter struggle against the liberal spirit and which ushered in a period of still more bitter attacks on liberal principles), the world was incomparably more densely populated than it had ever been, and each inhabitant could live incomparably better than had been possible in earlier centuries. The prosperity that liberalism had created reduced considerably infant mortality, which had been the pitiless scourge of earlier ages, and, as a result of the improvement in living conditions, lengthened the average span of life.

Nor did this prosperity flow only to a select class of privileged persons. On the eve of the World War the worker in the industrial nations

of Europe, in the United States, and in the overseas dominions of England lived better and more graciously than the nobleman of not too long before. Not only could he eat and drink according to his desire; he could give his children a better education; he could, if he wished, take part in the intellectual and cultural life of his nation; and, if he possessed enough talent and energy, he could, without difficulty, raise his social position. It was precisely in the countries that had gone the farthest in adopting the liberal program that the top of the social pyramid was composed, in the main, not of those who had, from their very birth, enjoyed a privileged position by virtue of the wealth or high rank of their parents, but of those who, under favorable conditions, had worked their way up from straitened circumstances by their own power. The barriers that had in earlier ages separated lords and serfs had fallen. Now there were only citizens with equal rights. No one was handicapped or persecuted on account of his nationality, his opinions, or his faith. Domestic political and religious persecutions had ceased, and international wars began to become less frequent. Optimists were already hailing the dawn of the age of eternal peace.

But events have turned out otherwise. In the nineteenth century strong and violent opponents of liberalism sprang up who succeeded in wiping out a great part of what had been gained by the liberals. The world today wants to hear no more of liberalism. Outside England the term "liberalism" is frankly proscribed. In England, there are, to be sure, still "liberals," but most of them are so in name only. In fact, they are rather moderate socialists. Everywhere today political power is in the hands of the antiliberal parties. The program of antiliberalism unleashed the forces that gave rise to the great World War and, by virtue of import and export quotas, tariffs, migration barriers, and similar measures, has brought the nations of the world to the point of mutual isolation. Within each nation it has led to socialist experiments whose result has been a reduction in the productivity of labor and a concomitant increase in want and misery. Whoever does not deliberately close his eyes to the facts must recognize everywhere the signs of an approaching catastrophe in world economy. Antiliberalism is heading toward a general collapse of civilization.

If one wants to know what liberalism is and what it aims at, one cannot simply turn to history for the information and inquire what the liberal politicians stood for and what they accomplished. For liberalism nowhere succeeded in carrying out its program as it had intended.

Nor can the programs and actions of those parties that today call themselves liberal provide us with any enlightenment concerning the nature of true liberalism. It has already been mentioned that even in England what is understood as liberalism today bears a much greater resemblance to Toryism and socialism than to the old program of the freetraders. If there are liberals who find it compatible with their liberalism to endorse the nationalization of railroads, of mines, and of other enterprises, and even to support protective tariffs, one can easily see that nowadays nothing is left of liberalism but the name.

Nor does it any longer suffice today to form one's idea of liberalism from a study of the writings of its great founders. Liberalism is not a completed doctrine or a fixed dogma. On the contrary, it is the application of the teachings of science to the social life of man. And just as economics, sociology, and philosophy have not stood still since the days of David Hume, Adam Smith, David Ricardo, Jeremy Bentham, and Wilhelm Humboldt, so the doctrine of liberalism is different today from what it was in their day, even though its fundamental principles have remained unchanged. For many years now no one has undertaken to present a concise statement of the essential meaning of that doctrine. This may serve to justify our present attempt at providing just such a work.

2 Material Welfare

Liberalism is a doctrine directed entirely towards the conduct of men in this world. In the last analysis, it has nothing else in view than the advancement of their outward, material welfare and does not concern itself directly with their inner, spiritual and metaphysical needs. It does not promise men happiness and contentment, but only the most abundant possible satisfaction of all those desires that can be satisfied by the things of the outer world.

Liberalism has often been reproached for this purely external and materialistic attitude toward what is earthly and transitory. The life of man, it is said, does not consist in eating and drinking. There are higher and more important needs than food and drink, shelter and clothing. Even the greatest earthly riches cannot give man happiness; they leave his inner self, his soul, unsatisfied and empty. The most serious error of liberalism has been that it has had nothing to offer man's deeper and nobler aspirations.

But the critics who speak in this vein show only that they have a very imperfect and materialistic conception of these higher and nobler needs. Social policy, with the means that are at its disposal, can make men rich or poor, but it can never succeed in making them happy or in satisfying their inmost yearnings. Here all external expedients fail. All that social policy can do is to remove the outer causes of pain and suffering; it can further a system that feeds the hungry, clothes the naked, and houses the homeless. Happiness and contentment do not depend on food, clothing, and shelter, but, above all, on what a man cherishes within himself. It is not from a disdain of spiritual goods that liberalism concerns itself exclusively with man's material well-being, but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation. It seeks to produce only outer well-being because it knows that inner, spiritual riches cannot come to man from without, but only from within his own heart. It does not aim at creating anything but the outward preconditions for the development of the inner life. And there can be no doubt that the relatively prosperous individual of the twentieth century can more readily satisfy his spiritual needs than, say, the individual of the tenth century, who was given no respite from anxiety over the problem of eking out barely enough for survival or from the dangers that threatened him from his enemies.

To be sure, to those who, like the followers of many Asiatic and medieval Christian sects, accept the doctrine of complete asceticism and who take as the ideal of human life the poverty and freedom from want of the birds of the forest and the fish of the sea, we can make no reply when they reproach liberalism for its materialistic attitude. We can only ask them to let us go our way undisturbed, just as we do not hinder them from getting to heaven in their own fashion. Let them shut themselves up in their cells, away from men and the world, in peace.

The overwhelming majority of our contemporaries cannot understand the ascetic ideal. But once one rejects the principle of the ascetic conduct of life, one cannot reproach liberalism for aiming at outer well-being.

3 Rationalism

Liberalism is usually reproached, besides, for being rationalistic. It wants to regulate everything reasonably and thus fails to recognize that in human affairs great latitude is, and, indeed, must be,

given to feelings and to the irrational generally—i.e., to what is unreasonable.

Now liberalism is by no means unaware of the fact that men sometimes act unreasonably. If men always acted reasonably, it would be superfluous to exhort them to be guided by reason. Liberalism does not say that men always act intelligently, but rather that they ought, in their own rightly understood interest, always to act intelligently. And the essence of liberalism is just this, that it wants to have conceded to reason in the sphere of social policy the acceptance that is conceded to it without dispute in all other spheres of human action.

If, having been recommended a reasonable—i.e., hygienic—mode of life by his doctor, someone were to reply: “I know that your advice is reasonable; my feelings, however, forbid me to follow it. I *want* to do what is harmful for my health even though it may be unreasonable,” hardly anybody would regard his conduct as commendable. No matter what we undertake to do in life, in order to reach the goal that we have set for ourselves we endeavor to do it reasonably. The person who wants to cross a railroad track will not choose the very moment when a train is passing over the crossing. The person who wants to sew on a button will avoid pricking his finger with the needle. In every sphere of his practical activity man has developed a technique or a technology that indicates how one is to proceed if one does not want to behave in an unreasonable way. It is generally acknowledged that it is desirable for a man to acquire the techniques which he can make use of in life, and a person who enters a field whose techniques he has not mastered is derided as a bungler.

Only in the sphere of social policy, it is thought, should it be otherwise. Here, not reason, but feelings and impulses should decide. The question: How must things be arranged in order to provide good illumination during the hours of darkness? is generally discussed only with reasonable arguments. As soon, however, as the point in the discussion is reached when it is to be decided whether the lighting plant should be managed by private individuals or by the municipality, then reason is no longer considered valid. Here sentiment, world view—in short, unreason—should determine the result. We ask in vain: Why?

The organization of human society according to the pattern most suitable for the attainment of the ends in view is a quite prosaic and matter-of-fact question, not unlike, say, the construction of a railroad or the production of cloth or furniture. National and governmental affairs are, it is true, more important than all other practical questions of

human conduct, since the social order furnishes the foundation for everything else, and it is possible for each individual to prosper in the pursuit of his ends only in a society propitious for their attainment. But however lofty may be the sphere in which political and social questions are placed, they still refer to matters that are subject to human control and must consequently be judged according to the canons of human reason. In such matters, no less than in all our other mundane affairs, mysticism is only an evil. Our powers of comprehension are very limited. We cannot hope ever to discover the ultimate and most profound secrets of the universe. But the fact that we can never fathom the meaning and purpose of our existence does not hinder us from taking precautions to avoid contagious diseases or from making use of the appropriate means to feed and clothe ourselves, nor should it deter us from organizing society in such a way that the earthly goals for which we strive can be most effectually attained. Even the state and the legal system, the government and its administration are not too lofty, too good, too grand, for us to bring them within the range of rational deliberation. Problems of social policy are problems of social technology, and their solution must be sought in the same ways and by the same means that are at our disposal in the solution of other technical problems: by rational reflection and by examination of the given conditions. All that man is and all that raises him above the animals he owes to his reason. Why should he forgo the use of reason just in the sphere of social policy and trust to vague and obscure feelings and impulses?

4 The Aim of Liberalism

There is a widespread opinion that liberalism is distinguished from other political movements by the fact that it places the interests of a part of society — the propertied classes, the capitalists, the entrepreneurs — above the interests of the other classes. This assertion is completely mistaken. Liberalism has always had in view the good of the whole, not that of any special group. It was this that the English utilitarians meant to express — although, it is true, not very aptly — in their famous formula, “the greatest happiness of the greatest number.” Historically, liberalism was the first political movement that aimed at promoting the welfare of all, not that of special groups. Liberalism is distinguished from socialism, which likewise professes to strive for the good of all, not