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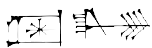
Omnipotent Government

The Rise of the Total State and Total War



LUDWIG VON MISES

Edited and with a Foreword by Bettina Bien Greaves



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FOREWORD TO THE LIBERTY FUND EDITION

Ludwig von Mises, eminent economist, was the leading spokesman for the Austrian School of economics throughout half of the twentieth century. Born in pre-World War I Austria-Hungary, he spent most of his working life in Vienna, teaching at the University of Vienna and advising the Austrian government on economic affairs. He came to the United States in 1940 as a refugee and, at age 59, began a new career writing, lecturing, and teaching in the English language. He was a visiting professor at the New York University Graduate School of Business Administration for twenty-four years. In the course of his long life he made major contributions to man's understanding of economic theory, money, free markets, business cycles, interventionism, socialism, and the role of government.

Published in 1944, during World War II, *Omnipotent Government* was Mises's first book written and published after he arrived in the United States. Several chapters in this book were written by Mises in German between 1938 and 1940, when he was living and teaching in Geneva, Switzerland, and were published later in German as *In Namen des Staates* (Stuttgart: Bonn Aktuell, 1978). However, Mises wrote *Omnipotent Government* for an American audience and greatly expanded the book beyond the early German-language manuscript.

The tone of this book reflects a serious Mises, the analytical scientific theoretician we know from his other works. Mises provides in economic terms an explanation of the international conflicts that caused both world wars. Free government at home and peaceful collaboration abroad are impossible when economies and ideas are restricted. Free trade and the freedom of ideas create the only possibility for true liberty. Ideas determine how men act, and history is composed of the actions of men. Furthermore, he holds that ideas cannot be changed by the force of weapons, bayonets, or wars. In the chapter entitled "Nazism

as a World Problem,” Mises calls on the Allies to “smash Nazism,” to “fight desperately until the Nazi power is completely broken” (p. 264). By calling on the Allies to “smash Nazism,” he meant that Nazi ideas must be stopped. The minds of the German people must be changed.

Readers of this book should keep in mind that Mises uses “liberal” and “progressive” to refer to liberalism in the classical sense—the philosophy of liberty, free markets, limited government, democracy, and parliamentarianism. And Mises refers throughout to the World War II coalition of Allies, who fought the Axis Powers (Germany, Italy, and Japan), as the “United Nations,” the term they chose for themselves in 1942.

Although written more than a half century ago, Mises’s main theme still stands. Ideas determine history. Etatism, i.e., government interference with the economy, leads to conflicts and wars. The last, best hope for peace is liberalism. And the only hope for liberalism depends on changing the minds of the people. “Etatism is the occupational disease of rulers, warriors, and civil servants. Governments become liberal only when forced to by the citizens” (p. 69).

Bettina Bien Greaves
February 2007

PREFACE

In dealing with the problems of social and economic policies, the social sciences consider only one question: whether the measures suggested are really suited to bringing about the effects sought by their authors, or whether they result in a state of affairs which—*from the viewpoint of their supporters*—is even more undesirable than the previous state which it was intended to alter. The economist does not substitute his own judgment about the desirability of ultimate ends for that of his fellow citizens. He merely asks whether the ends sought by nations, governments, political parties, and pressure groups can indeed be attained by the methods actually chosen for their realization.

It is, to be sure, a thankless task. Most people are intolerant of any criticism of their social and economic tenets. They do not understand that the objections raised refer only to unsuitable methods and do not dispute the ultimate ends of their efforts. They are not prepared to admit the possibility that they might attain their ends more easily by following the economists' advice than by disregarding it. They call an enemy of their nation, race, or group anyone who ventures to criticize their cherished policies.

This stubborn dogmatism is pernicious and one of the root causes of the present state of world affairs. An economist who asserts that minimum wage rates are not the appropriate means of raising the wage earners' standard of living is neither a "labor baiter" nor an enemy of the workers. On the contrary, in suggesting more suitable methods for the improvement of the wage earners' material well-being, he contributes as much as he can to a genuine promotion of their prosperity.

To point out the advantages which everybody derives from the working of capitalism is not tantamount to defending the vested interests

of the capitalists. An economist who forty or fifty years ago advocated the preservation of the system of private property and free enterprise did not fight for the selfish class interests of the *then* rich. He wanted a free hand left to those unknown among his penniless contemporaries who had the ingenuity to develop all those new industries which today render the life of the common man more pleasant. Many pioneers of these industrial changes, it is true, became rich. But they acquired their wealth by supplying the public with motor cars, airplanes, radio sets, refrigerators, moving and talking pictures, and a variety of less spectacular but no less useful innovations. These new products were certainly not an achievement of offices and bureaucrats. Not a single technical improvement can be credited to the Soviets. The best that the Russians have achieved was to copy some of the improvements of the capitalists whom they continue to disparage. Mankind has not reached the stage of ultimate technological perfection. There is ample room for further progress and for further improvement of the standards of living. The creative and inventive spirit subsists notwithstanding all assertions to the contrary. But it flourishes only where there is economic freedom.

Neither is an economist who demonstrates that a nation (let us call it Thule) hurts its own essential interests in its conduct of foreign-trade policies and in its dealing with domestic minority groups a foe of Thule and its people.

It is futile to call the critics of inappropriate policies names and to cast suspicion upon their motives. That might silence the voice of truth, but it cannot render inappropriate policies appropriate.

The advocates of totalitarian control call the attitudes of their opponents negativism. They pretend that while they themselves are demanding the improvement of unsatisfactory conditions, the others are intent upon letting the evils endure. This is to judge all social questions from the viewpoint of narrow-minded bureaucrats. Only to bureaucrats can the idea occur that establishing new offices, promulgating new decrees, and increasing the number of government employees alone can be described as positive and beneficial measures, whereas everything else is passivity and quietism.

The program of economic freedom is not negativistic. It aims positively at the establishment and preservation of the system of market

economy based on private ownership of the means of production and free enterprise. It aims at free competition and at the sovereignty of the consumers. As the logical outcome of these demands the true liberals are opposed to all endeavors to substitute government control for the operation of an unhampered market economy. *Laissez faire, laissez passer* does not mean: let the evils last. On the contrary, it means: do not interfere with the operation of the market because such interference must necessarily restrict output and make people poorer. It means furthermore: do not abolish or cripple the capitalist system which, in spite of all obstacles put in its way by governments and politicians, has raised the standard of living of the masses in an unprecedented way.

Liberty is not, as the German precursors of Nazism asserted, a negative ideal. Whether a concept is presented in an affirmative or in a negative form is merely a question of idiom. *Freedom from want* is tantamount to the expression *striving after a state of affairs under which people are better supplied with necessities*. *Freedom of speech* is tantamount to *a state of affairs under which everybody can say what he wants to say*.

At the bottom of all totalitarian doctrines lies the belief that the rulers are wiser and loftier than their subjects and that they therefore know better what benefits those ruled than they themselves. Werner Sombart, for many years a fanatical champion of Marxism and later a no less fanatical advocate of Nazism, was bold enough to assert frankly that the Führer gets his orders from God, the supreme Führer of the universe, and that Führertum is a permanent revelation.* Whoever admits this must, of course, stop questioning the expediency of government omnipotence.

Those disagreeing with this theocratical justification of dictatorship claim for themselves the right to discuss freely the problems involved. They do not write *state* with a capital S. They do not shrink from analyzing the metaphysical notions of Hegelianism and Marxism. They

* *Deutscher Sozialismus* (Charlottenburg, 1934), p. 213. American ed., *A New Social Philosophy*, translated and edited by K. F. Geiser (Princeton, 1937), p. 194.

reduce all this high-sounding oratory to the simple question: are the means suggested suitable to attain the ends sought? In answering this question, they hope to render a service to the great majority of their fellow men.

Ludwig von Mises
New York, January, 1944

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I am grateful to the Rockefeller Foundation and to the National Bureau of Economic Research for grants which enabled me to undertake this study. Mr. Henry Hazlitt has helped me greatly with his criticism and suggestions and by editing the whole manuscript. Mr. Arthur Goodman¹ has advised me in linguistic and stylistic problems. Mr. Eugene Davidson of Yale University Press has assisted me in many ways. The responsibility for all opinions expressed is, of course, exclusively my own.

1. [Arthur Goodman later changed his name and became well known as Arthur Goddard. See Foreword to *Human Action* (1949 and later editions).—Ed.]



OMNIPOTENT GOVERNMENT

Introduction

I

The essential point in the plans of the German National Socialist Workers' party is the conquest of *Lebensraum* for the Germans, i.e., a territory so large and rich in natural resources that they could live in economic self-sufficiency at a standard not lower than that of any other nation. It is obvious that this program, which challenges and threatens all other nations, cannot be realized except through the establishment of German world hegemony.

The distinctive mark of Nazism is not socialism or totalitarianism or nationalism. In all nations today the "progressives" are eager to substitute socialism for capitalism. While fighting the German aggressors Great Britain and the United States are, step by step, adopting the German pattern of socialism. Public opinion in both countries is fully convinced that government all-round control of business is inevitable in time of war, and many eminent politicians and millions of voters are firmly resolved to keep socialism after the war as a permanent new social order. Neither are dictatorship and violent oppression of dissenters peculiar features of Nazism. They are the Soviet mode of government, and as such advocated all over the world by the numerous friends of present-day Russia. Nationalism—an outcome of government interference with business, as will be shown in this book—determines in our age the foreign policy of every nation. What characterizes the Nazis as such is their special kind of nationalism, the striving for *Lebensraum*.

This Nazi goal does not differ in principle from the aims of the earlier German nationalists, whose most radical group called themselves in the thirty years preceding the first World War *Alldeutsche* (Pan-Germans). It was this ambition which pushed the Kaiser's Germany



into the first World War and—twenty-five years later—kindled the second World War.

The Lebensraum program cannot be traced back to earlier German ideologies or to precedents in German history of the last five hundred years. Germany had its chauvinists as all other nations had. But chauvinism is not nationalism. Chauvinism is the overvaluation of one's own nation's achievements and qualities and the disparagement of other nations; in itself it does not result in any action. Nationalism, on the other hand, is a blueprint for political and military action and the attempt to realize these plans. German history, like the history of other nations, is the record of princes eager for conquest; but these emperors, kings, and dukes wanted to acquire wealth and power for themselves and for their kin, not Lebensraum for their nation. German aggressive nationalism is a phenomenon of the last sixty years. It developed out of modern economic conditions and economic policies.

Neither should nationalism be confused with the striving for popular government, national self-determination, and political autonomy. When the German nineteenth-century liberals aimed at a substitution of a democratic government of the whole German nation for the tyrannical rule of thirty-odd princes, they did not harbor any hostile designs against other nations. They wanted to get rid of despotism and to establish parliamentary government. They did not thirst for conquest and territorial expansion. They did not intend to incorporate into the German state of their dreams the Polish and Italian territories which their princes had conquered; on the contrary, they sympathized with the aspirations of the Polish and the Italian liberals to establish independent Polish and Italian democracies. They were eager to promote the welfare of the German nation, but they did not believe that oppression of foreign nations and inflicting harm on foreigners best served their own nation.

Neither is nationalism identical with patriotism. Patriotism is the zeal for one's own nation's welfare, flowering, and freedom. Nationalism is one of the various methods proposed for the attainment of these ends. But the liberals contend that the means recommended by nationalism are inappropriate, and that their application would not only not realize the ends sought but on the contrary must result in disaster for the nation. The liberals too are patriots, but their opinions with regard to the right ways toward national prosperity and greatness radically differ from those of the nationalists. They recommend free trade, international division of labor, good will, and peace among the nations,

not for the sake of foreigners but for the promotion of the happiness of their own nation.

It is the aim of nationalism to promote the well-being of the whole nation or of some groups of its citizens by inflicting harm on foreigners. The outstanding method of modern nationalism is discrimination against foreigners in the economic sphere. Foreign goods are excluded from the domestic market or admitted only after the payment of an import duty. Foreign labor is barred from competition in the domestic labor market. Foreign capital is liable to confiscation. This economic nationalism must result in war whenever those injured believe that they are strong enough to brush away by armed violent action the measures detrimental to their own welfare.

A nation's policy forms an integral whole. Foreign policy and domestic policy are closely linked together; they are but one system; they condition each other. Economic nationalism is the corollary of the present-day domestic policies of government interference with business and of national planning, as free trade was the complement of domestic economic freedom. There can be protectionism in a country with domestic free trade, but where there is no domestic free trade protectionism is indispensable. A national government's might is limited to the territory subject to its sovereignty. It does not have the power to interfere directly with conditions abroad. Where there is free trade, foreign competition would even in the short run frustrate the aims sought by the various measures of government intervention with domestic business. When the domestic market is not to some extent insulated from foreign markets, there can be no question of government control. The further a nation goes on the road toward public regulation and regimentation, the more it is pushed toward economic isolation. International division of labor becomes suspect because it hinders the full use of national sovereignty. The trend toward autarky is essentially a trend of domestic economic policies; it is the outcome of the endeavor to make the state paramount in economic matters.

Within a world of free trade and democracy there are no incentives for war and conquest. In such a world it is of no concern whether a nation's sovereignty stretches over a larger or a smaller territory. Its citizens cannot derive any advantage from the annexation of a province. Thus territorial problems can be treated without bias and passion; it is not painful to be fair to other people's claims for self-determination. Free-trade Great Britain freely granted dominion status, i.e., virtual

autonomy and political independence, to the British settlements overseas, and ceded the Ionian Islands to Greece. Sweden did not venture military action to prevent the rupture of the bond linking Norway to Sweden; the royal house of Bernadotte lost its Norwegian crown, but for the individual citizen of Sweden it was immaterial whether or not his king was sovereign of Norway too. In the days of liberalism people could believe that plebiscites and the decisions of international tribunals would peacefully settle all disputes among nations. What was needed to safeguard peace was the overthrow of antiliberal governments. Some wars and revolutions were still considered unavoidable in order to eliminate the last tyrants and to destroy some still-existing trade walls. And if this goal were ever attained, no more causes for war would be left. Mankind would be in a position to devote all its efforts to the promotion of the general welfare.

But while the humanitarians indulged in depicting the blessings of this liberal utopia, they did not realize that new ideologies were on the way to supplant liberalism and to shape a new order arousing antagonisms for which no peaceful solution could be found. They did not see it because they viewed these new mentalities and policies as the continuation and fulfillment of the essential tenets of liberalism. Antiliberalism captured the popular mind disguised as true and genuine liberalism. Today those styling themselves liberals are supporting programs entirely opposed to the tenets and doctrines of the old liberalism. They disparage private ownership of the means of production and the market economy, and are enthusiastic friends of totalitarian methods of economic management. They are striving for government omnipotence, and hail every measure giving more power to officialdom and government agencies. They condemn as a reactionary and an economic royalist whoever does not share their predilection for regimentation.

These self-styled liberals and progressives are honestly convinced that they are true democrats. But their notion of democracy is just the opposite of that of the nineteenth century. They confuse democracy with socialism. They not only do not see that socialism and democracy are incompatible but they believe that socialism alone means real democracy. Entangled in this error, they consider the Soviet system a variety of popular government.

European governments and parliaments have been eager for more than sixty years to hamper the operation of the market, to interfere with business, and to cripple capitalism. They have blithely ignored

the warnings of economists. They have erected trade barriers, they have fostered credit expansion and an easy money policy, they have taken recourse to price control, to minimum wage rates, and to subsidies. They have transformed taxation into confiscation and expropriation; they have proclaimed heedless spending as the best method to increase wealth and welfare. But when the inevitable consequences of such policies, long before predicted by the economists, became more and more obvious, public opinion did not place the blame on these cherished policies; it indicted capitalism. In the eyes of the public not anticapitalistic policies but capitalism is the root cause of economic depression, of unemployment, of inflation and rising prices, of monopoly and of waste, of social unrest and of war.

The fateful error that frustrated all the endeavors to safeguard peace was precisely that people did not grasp the fact that only within a world of pure, perfect, and unhampered capitalism are there no incentives for aggression and conquest. President Wilson was guided by the idea that only autocratic governments are warlike, while democracies cannot derive any profit from conquest and therefore cling to peace. What President Wilson and the other founders of the League of Nations did not see was that this is valid only within a system of private ownership of the means of production, free enterprise, and unhampered market economy. Where there is no economic freedom, things are entirely different. In our world of etatism,* in which every nation is eager to insulate itself and to strive toward autarky, it is quite wrong to assert that no man can derive any gain from conquest. In this age of trade walls and migration barriers, of foreign exchange control and of expropriation of foreign capital, there are ample incentives for war and conquest. Nearly every citizen has a material interest in the nullification of measures by which foreign governments may injure him. Nearly every citizen is therefore eager to see his own country mighty and powerful, because he expects personal advantage from its military might. The enlargement of the territory subject to the sovereignty of its own government means at least relief from the evils which a foreign government has inflicted upon him.

We may for the moment abstain from dealing with the problem of whether democracy can survive under a system of government

* The term "etatism" (derived from the French *état*—state) seems to me preferable to the newly coined term "statism." It clearly expresses the fact that etatism did not originate in the Anglo-Saxon countries, and has only lately got hold of the Anglo-Saxon mind.