PLANNING FOR FREEDOM: LET THE MARKET SYSTEM WORK

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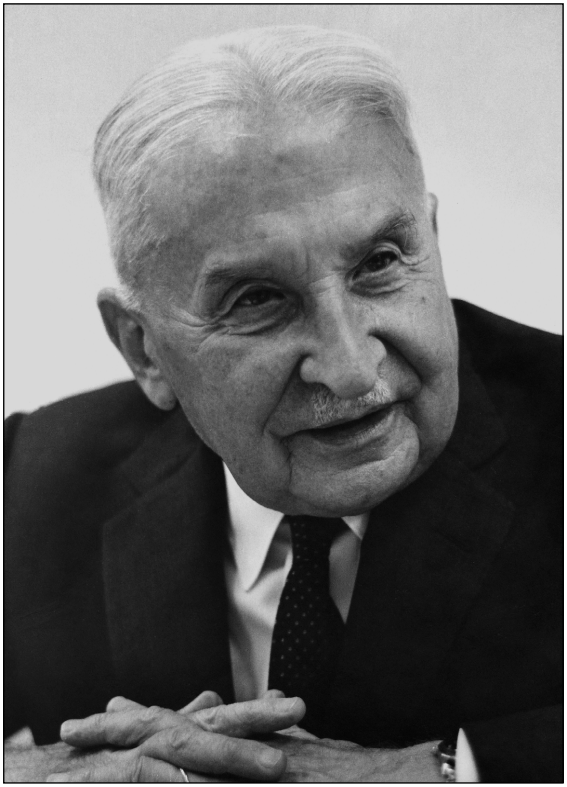

LUDWIG VON MISES

Planning for Freedom: Let the Market System Work

A Collection of Essays and Addresses

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.

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PART 4 Ideas

Foreword to the Liberty Fund Edition

In 1947, Ludwig von Mises received a letter from a complete stranger who had been reading Mises's book on money. One paragraph didn't make sense to him. He asked Mises for clarification. The letter writer was Fred C. Nymeyer, an Illinois businessman. In his reply, Mises complimented Nymeyer: His "thoroughness and critical acumen" in studying his book was "very flattering indeed for the author. You represent the unfortunately very rare type of discriminating readers for whom alone it is worthwhile to write books." [1] As a result of that exchange, Nymeyer and Mises soon met and became close friends.

Nymeyer believed the economic understanding he had gained from his study of Mises and the Austrian School of Economics had contributed to his success in business and he wanted to say thanks in some way. At Mises's suggestion, therefore, he published in 1951, as a monograph, "Profit and Loss," a paper Mises had given that year at the Beauvallon, France, meeting of the international free-enterprise Mont Pèlerin Society. Later when Nymeyer suggested putting out an anthology of several of Mises's papers, Mises asked that "Profit and Loss" be included. Thus, *Planning for Freedom* appeared in 1952 with "Profit and Loss" plus eleven other Mises essays and addresses undoubtedly selected by Mises himself.[2] A second edition of *Planning for Freedom*, enlarged by

1. When Mises checked the paragraph Nymeyer had questioned (p. 108 in the 1934 British translation), he discovered that the German original had indeed been misinterpreted. "Your criticism," he wrote Mr. Nymeyer, "is fully justified. . . . If a new edition of the English translation is made, I will alter the passage concerned so as to avoid confusion." A corrected translation of this paragraph has been made on pp. 129–130 of Liberty Fund's 2005 printing of their edition of *The Theory of Money and Credit*.

2. Mises suggested to Nymeyer later that the three-volume work *Kapital und Kapitalzins* by Mises's mentor and professor Eugen von Böhm–Bawerk should be translated into English in

the addition of a thirteenth essay, came out in 1962, followed by a third memorial edition (1974) and a fourth edition (1980), which reprinted four more Mises papers, bringing the total to seventeen. The later editions of this anthology, published after Mises's death in 1973, included also, as a tribute to Mises, various papers by other authors *about* him. As these additional materials have been covered in the burgeoning post–1980 Mises literature, they have been deleted here, making this edition of *Planning Freedom* a collection of Mises's writings exclusively. Further, the articles and papers in this edition have been rearranged by subject into four parts: "The Free Market Economy versus Government Planning," "Money, Inflation, and Government," "Mises: Critic of Inflationism and Socialism," and "Ideas."

Many changes have taken place in the world during the decades since these papers were written. The trend toward interventionism has been slowed in some countries, speeded up in others. Editor's notes have been introduced in this edition to explain some of these changes, as well as Mises's references to historical events.

Many of the papers in this collection were written as speeches. When addressing a one-time audience, Mises always chose his words carefully and precisely. He sought to make complex topics—inflation, price controls, capital investment, social security, unemployment, etc.—simple and easy for his listeners to understand.

For instance, on price controls, if the government imposes a ceiling on the price of milk because it considers its price too high and because it wants the poor to be able to give their children more milk, farmers whose costs are so high that they cannot stay in business and sell milk at the controlled price will stop producing milk and will produce butter, cheese, or meat instead. The result: less milk for poor children ("Middle-of-the-Road Policy Leads to Socialism," p. 43–44).

On market operations: "There is nothing automatic or mysterious in the operation of the market. The only forces determining the continually fluctuating state of the market are the value judgments of the various individuals and their actions as directed by these value judgments. . . . Supremacy of the market is tantamount to the supremacy of the consumers. By their buying and by their abstention from buying the

its entirety and final version. As a result Nymeyer financed its translation by Hans F. Sennholz, then a student at New York University working for a doctorate under Mises, and published it as *Capital and Interest* (Libertarian Press, 1959).

consumers determine not only the price structure, but no less what should be produced and in what quantity and quality and by whom. . . . They make poor men rich and rich men poor" ("Inflation and Price Control," p. 53–54).

When it comes to money, Mises rejected the imprecise definition of inflation as "higher prices." For him, "Nothing is inflationary except inflation, i.e., an increase in the quantity of money in circulation and credit subject to check (check-book money). And under present conditions nobody but the government can bring an inflation into being" ("Wages, Unemployment, and Inflation," p. 73).

"The inevitable result of inflationary policies is a drop in the monetary unit's purchasing power. . . . In an industrial society all deferred payments must be stipulated in terms of money. They shrink with the shrinking of the money's purchasing power. A policy of deficit spending [government spending in excess of income] saps the very foundation of all interpersonal relations and contracts. It frustrates all kinds of savings, social security benefits and pensions" ("Economic Aspects of the Pension Problem," p. 64–65).

The longest, and by far the most important, paper in this collection is "Profit and Loss." Mises was driven by the firm belief that the only way to save civilization and to promote peace and prosperity among nations was to change the ideas of the people. He fought to educate with the only weapons available to him—the spoken and written word. He did his best to explain free market principles, capitalism, and the workings of the market economy. Clarity of expression was extremely important. When a student asked a question in class, Mises quite often urged him to write down his ideas—in Mises's view, the discipline of writing, of having to be precise, might very well help him answer his own question. Mises, of course, practiced what he preached; the books and articles he wrote are legion. In his magnum opus, *Human Action* (1949), Mises had written as precisely and as clearly as he could about all aspects of economics. Yet after publishing *Human Action*, Mises thought he could improve his explanation of profit and loss, so he took advantage of an opportunity to present a paper before the Mont Pelerin Society to explain still more fully entrepreneurial profits and losses. In that analysis, reprinted here, he destroys the Marxian theme that profits deprive laborers of their full share of production, that profits come from exploiting consumers, that profits are compensation for risk taking, management, or time. Successful entrepreneurs, Mises points out, actually create new

wealth. They convert (transform, combine, refine, transport) raw materials and labor whose value is not fully recognized, or whose potential as factors of production may not even be recognized at all, into goods and services consumers want and are willing to pay more for than the costs incurred in their production. If the entrepreneurs' returns from consumers exceed their costs, they earn profits. And in the process, they alleviate economic maladjustments. There is nothing normal or guaranteed about profits. An entrepreneur whose ideas, decisions, and actions fail to serve consumers suffers loss.

In the opening essay of this collection, Mises points out the futility of trying to change the world by government planning. His constant themes are that ideas are important, that ideas can change, and that new ideas can change the world. Anyone aware of world events since these articles were written will recognize that new ideas since then have changed the world in many respects, although not always in the freedom direction. How then does Mises recommend planning for freedom? "There is no other planning for freedom and general welfare than to let the market system work."

Bettina Bien Greaves
September 2006

PART 1

The Free Market Economy versus Government Planning

There is no other planning for freedom and general welfare than to let the market system work.

—"Planning for Freedom"

The alternative is not plan or no plan. The question is: whose planning? Should each member of society plan for himself or should the paternal government alone plan for all?

—"Laissez Faire or Dictatorship"

1

Planning for Freedom

"Planning" and Interventionism

The term 'planning' is mostly used as a synonym for socialism, communism, and authoritarian and totalitarian economic management. Sometimes only the German pattern of socialism—*Zwangswirtschaft**—is called planning, while the term socialism proper is reserved for the Russian pattern of outright socialization and bureaucratic operation of all plants, shops, and farms. At any rate, planning in this sense means all-around planning by the government and enforcement of these plans by the police power. Planning in this sense means full government control of business. It is the antithesis of free enterprise, private initiative, private ownership of the means of production, market economy, and the price system. Planning and capitalism are utterly incompatible. Within a system of planning production is conducted according to the government's orders, not according to the plans of capitalists and entrepreneurs eager to profit by best filling the wants of the consumers.

But the term planning is also used in a second sense. Lord Keynes, Sir William Beveridge, Professor Hansen, and many other eminent men assert that they do not want to substitute totalitarian slavery for freedom. They declare that they are planning for a free society. They recommend a third system, which, as they say, is as far from socialism as it is from capitalism, which, as a third solution of the problem of society's economic organization, stands midway between the two other systems, and while retaining the advantages of both, avoids the disadvantages inherent in each.

Address delivered before the American Academy of Political and Social Science, Philadelphia, Pa., March 30, 1945.

* [Editor's note: "Zwang (German), compulsion; Wirtschaft (German), economy; hence, "compulsory economy."]

These self-styled progressives are certainly mistaken when they pretend that their proposals are new and unheard of. The idea of this third solution is very old indeed, and the French have long since baptized it with a pertinent name; they call it interventionism. Hardly anybody can doubt that history will link the idea of social security, more closely than with the American New Deal and with Sir William Beveridge, with the memory of Bismarck whom our fathers did not precisely describe as a liberal. All the essential ideas of present-day interventionist progressivism were neatly expounded by the supreme brain-trusters of imperial Germany, Professors Schmoller and Wagner, who at the same time urged their Kaiser to invade and to conquer the Americas. Far be it from me to condemn any idea only on account of its not being new. But as the progressives slander all their opponents as old-fashioned, orthodox, and reactionary, it is expedient to observe that it would be more appropriate to speak of the clash of two orthodoxies; the Bismarck orthodoxy versus the Jefferson orthodoxy.

Interventionism

Before entering into an investigation of the interventionist system of a mixed economy two points must be clarified:

First: If within a society based on private ownership of the means of production some of these means are owned and operated by the government or by municipalities, this still does not make for a mixed system which would combine socialism and private ownership. As long as only certain individual enterprises are publicly controlled, the characteristics of the market economy determining economic activity remain essentially unimpaired. The publicly owned enterprises, too, as buyers of raw materials, semi-finished goods, and labor and as sellers of goods and services must fit into the mechanism of the market economy. They are subject to the law of the market; they have to strive after profits or, at least, to avoid losses. When it is attempted to mitigate or to eliminate this dependence by covering the losses of such enterprises with subsidies out of public funds, the only result is a shifting of this dependence somewhere else. This is because the means for the subsidies have to be raised somewhere. They may be raised by collecting taxes. But the burden of such taxes has its effects on the public, not on the government collecting the tax. It is the market, and not the revenue department,

which decides upon whom the tax falls and how it affects production and consumption. The market and its inescapable law are supreme.

Second: There are two different patterns for the realization of socialism. The one pattern—we may call it the Marxian or Russian pattern—is purely bureaucratic. All economic enterprises are departments of the government just as the administration of the army and the navy or the postal system. Every single plant, shop, or farm, stands in the same relation to the superior central organization as does a post office to the office of the postmaster general. The whole nation forms one single labor army with compulsory service; the commander of this army is the chief of state.

The second pattern—we may call it the German or *Zwangswirtschaft* system—differs from the first one in that it, seemingly and nominally, maintains private ownership of the means of production, entrepreneurship, and market exchange. So-called entrepreneurs do the buying and selling, pay the workers, contract debts, and pay interest and amortization. But they are no longer entrepreneurs. In Nazi Germany they were called shop managers or *Betriebsführer.* The government tells these seeming entrepreneurs what and how to produce, at what prices and from whom to buy, at what prices and to whom to sell. The government decrees at what wages laborers should work and to whom and under what terms the capitalists should entrust their funds. Market exchange is but a sham. As all prices, wages, and interest rates are fixed by the authority, they are prices, wages, and interest rates in appearance only; in fact they are merely quantitative terms in the authoritarian orders determining each citizen's income, consumption, and standard of living. The authority, not the consumers, directs production. The central board of production management is supreme; all citizens are nothing but civil servants. This is socialism, with the outward appearance of capitalism. Some labels of the capitalistic market economy are retained, but they signify here something entirely different from what they mean in the market economy.

It is necessary to point out this fact to prevent a confusion of socialism and interventionism. The system of hampered market economy or interventionism differs from socialism by the very fact that it is still market economy. The authority seeks to influence the market by the intervention of its coercive power, but it does not want to eliminate the market altogether. It desires that production and consumption should

develop along lines different from those prescribed by the unhindered market, and it wants to achieve its aim by injecting into the working of the market orders, commands, and prohibitions for whose enforcement the police power and its apparatus of coercion and compulsion stand ready. But these are isolated interventions; their authors assert that they do not plan to combine these measures into a completely integrated system which regulates all prices, wages, and interest rates, and which thus places full control of production and consumption in the hands of the authorities.

How to Raise Wages

The fundamental principle of those truly liberal economists who are nowadays generally abused as orthodox, reactionaries, and economic royalists is this: There are no means by which the general standard of living can be raised other than by accelerating the increase of capital as compared with population. All that good government can do to improve the material well-being of the masses is to establish and to preserve an institutional setting in which there are no obstacles to the progressive accumulation of new capital and its utilization for the improvement of technical methods of production. The only means to increase a nation's welfare is to increase and to improve the output of products. The only means to raise wage rates permanently for all those eager to earn wages is to raise the productivity of labor by increasing the per-head quota of capital invested and improving the methods of production. Hence, the liberals conclude that the economic policy best fitted to serve the interests of all strata of a nation is free trade both in domestic business and in international relations.

The interventionists, on the contrary, believe that government has the power to improve the masses' standard of living partly at the expense of the capitalists and entrepreneurs, partly at no expense at all. They recommend the restriction of profits and the equalization of incomes and fortunes by confiscatory taxation, the lowering of the rate of interest by an easy money policy and credit expansion, and the raising of the workers' standard of living by the enforcement of minimum wage rates. They advocate lavish government spending. They are, curiously enough, at the same time in favor of low prices for consumers' goods and of high prices for agricultural products.

The liberal economists, that is, those disparaged as orthodox, do not

deny that some of these measures can, in the short run, improve the lot of some groups of the population. But, they say, in the long run they must produce effects which, from the point of view of the government and the supporters of its policies, are less desirable than the previous state of affairs they wanted to alter. These measures are, therefore, when judged from the point of view of their own advocates, contrary to purpose.

Depression, the Aftermath of Credit Expansion

It is true, many people believe that economic policy should not bother at all about long-run consequences. They quote a dictum of Lord Keynes: "In the long run we are all dead." I do not question the truth of this statement; I even consider it as the only correct declaration of the neo-British Cambridge school. But the conclusions drawn from this truism are entirely fallacious. The exact diagnosis of the economic evils of our age is: we have outlived the short-run and are suffering from the long-run consequences of policies which did not take them into consideration. The interventionists have silenced the warning voices of the economists. But things developed precisely as these much abused orthodox scholars had predicted. Depression is the aftermath of credit expansion; mass unemployment prolonged year after year is the inextricable effect of attempts to keep wage rates above the level which the unhampered market would have fixed. All those evils which the progressives interpret as evidence of the failure of capitalism are the necessary outcome of allegedly social interference with the market. It is true that many authors who advocated these measures and many statesmen and politicians who executed them were impelled by good intentions and wanted to make people more prosperous. But the means chosen for the attainment of the ends aimed at were inappropriate. However good intentions may be, they can never render unsuitable means any more suitable.

It must be emphasized that we are discussing means and measures, not ends. The matter at issue is not whether the policies advocated by the self-styled progressives are to be recommended or condemned from any arbitrary preconceived point of view. The essential problem is whether such policies can really attain the ends aimed at.

It is beside the mark to confuse the debate by referring to accidental and irrelevant matters. It is useless to divert attention from the main

problem by vilifying capitalists and entrepreneurs and by glorifying the virtues of the common man. Precisely because the common man is worthy of all consideration, it is necessary to avoid policies detrimental to his welfare.

The market economy is an integrated system of intertwined factors that mutually condition and determine one another. The social apparatus of coercion and compulsion, i.e., the state, certainly has the might to interfere with the market. The government or agencies in which the government, either by legal privilege or by indulgence, has vested the power to apply violent pressure with impunity are in a position to decree that certain market phenomena are illegal. But such measures do not bring about the results which the interfering power wants to attain. They not only render conditions more unsatisfactory for the interfering authority. They disintegrate the market system altogether, they paralyze its operation, they bring about chaos.

If one considers the working of the market system as unsatisfactory, one must try to substitute another system for it. This is what the socialists aim at. But socialism is not the subject matter of this meeting's discussion. I was invited to deal with interventionism, i.e., with various measures designed to improve the operation of the market system, not to abolish it altogether. And what I contend is that such measures must needs bring about results which from the point of view of their supporters are more undesirable than the previous state of affairs they wanted to alter.

Karl Marx on Labor

Karl Marx did not believe that government or trade union interference with the market can attain the beneficial ends expected. Marx and his consistent followers condemned all such measures in their frank language as reformist nonsense, capitalist fraud, and petty-bourgeois idiocy. They called the supporters of such measures reactionaries. Clemenceau was right when he said: "One is always a reactionary in somebody's opinion."

Karl Marx declared that under capitalism all material goods and likewise labor are commodities, and that socialism will abolish the commodity character both of material goods and of labor. The notion "commodity character" is peculiar to the Marxian doctrine; it was not used before. Its meaning is that goods and labor are negotiated on mar-

kets, are sold and bought on the basis of their value. According to Marx the commodity character of labor is implied in the very existence of the wages system. It can disappear only at the "higher stage" of communism as a consequence of the disappearance of the wages system and of payment of wage rates. Marx would have ridiculed the endeavors to abolish the commodity character of labor by an international treaty and the establishment of an International Labor Office and by national legislation and the allocation of money to various national bureaus. I mention these things only in order to show that the progressives are utterly mistaken in referring to Marx and the doctrine of the commodity character of labor in their fight against the economists whom they call reactionary.

Wage Rates and Unemployment

What these old orthodox economists said was this: A permanent rise in wage rates for all people eager to earn wages is only possible as far as the per-head quota of capital invested and concomitantly the productivity of labor increases. It does not benefit the people if minimum wage rates are fixed at a level above that which the unhampered market would have fixed. It does not matter whether this tampering with wage rates is done by government decree or by labor union pressure and compulsion. In either case, the outcome is pernicious to the welfare of a great section of the population.

On an unhampered labor market wage rates are fixed, by the interplay of demand and supply, at a level at which all those eager to work can finally find jobs. On a free labor market unemployment is temporary only and never affects more than a small fraction of the people. There prevails a continuous tendency for unemployment to disappear. But if wage rates are raised by the interference of government or unions above this level, things change. As long as only one part of labor is unionized, the wage rise enforced by the unions does not lead to unemployment, but to an increased supply of labor in those branches of business where there are no efficient unions or no unions at all. The workers who lost their jobs as a consequence of union policy enter the market of the free branches and cause wages to drop in these branches. The corollary of the rise in wages for organized workers is a drop in wages for unorganized workers. But if fixing of wage rates above the potential market level becomes general, workers losing their jobs cannot