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Introduction

In this issue of the *Humane Studies Review* we continue some of the themes we developed in the previous issue, in particular that of government intervention. Following the great Austrian economist and classical liberal Ludwig von Mises, we argue that once the government begins intervening in the economy the inevitable failure of these interventions leads to demands for additional government measures to correct the original ones. The net result of gradually increasing the amount of intervention in the economy over many years is an economic system which Mises termed "interventionism." We will briefly describe what Mises meant by this term, how various forms of interventionism have been the norm of history, and how political control of the economy creates deep-seated social conflict and antagonism.

Richard Ebeling continues his series on Austrian Economics with a discussion of its unique methodology. It is a pity that students of economics do not give sufficient attention to methodological questions. If they did they would be aware of how insecure the basis of such orthodox economic thought is. They would also appreciate the fact that, although the Austrian approach has considerable similarities to other free market economic doctrines, it has a very different conception of the economic actor. This different conception leads to completely new and original areas of research.

The Institute for Humane Studies (IHS) works with scholars throughout the world. IHS programs include the Claude R. Lambe fellowships of up to $10,000, F. Leroy Hill fellowships for faculty of up to $4,000, Leonard P. Cassidy fellowships in Law and Philosophy of up to $2,500, an opinion-editorial program, and various seminar and research programs.

The Basic Tenets of Real Liberalism

by David M. Hart and Walter E. Grinder

Part IV: Interventionism, Social Conflict, and War.

Recommended Reading.

Ludwig von Mises, *The Clash of Group Interests and Other Essays* (New York: Center for Libertarian Studies, 1978).

Ludwig von Mises, "The Middle of the Road Leads to Socialism," in *Planning for Freedom* (South Holland, IL: Libertarian Press, 1962).

Ludwig von Mises, "War and the Economy," in *Nation State, and Economy* (New York University Press, 1983), trans. Leland B. Yeager.

Murray N. Rothbard, *Power and Market* (Kansas City: Sheed Andrews and McMeel, 1977).

In the previous issue of the *Humane Studies Review* we showed that the belief in the natural harmony of the free market has been part of the liberal tradition for centuries. Equally ancient is the idea that intervention by the state disrupts social peace and destroys individual wealth. One of the most sophisticated supporters of this idea of state disruption is the Austrian economist Ludwig von Mises. In a short but important essay found in *The Clash of Group Interests and Other Essays* (New York: Center for Libertarian Studies, 1978) Mises argues that social and economic groups relate harmoniously and peacefully only under a system of private property and the free market.

However, Mises goes further than many other liberals with his view that it is only government action that creates any group conflict which does exists. By creating a mechanism whereby those with access to state power and privilege can benefit at the expense of those not so privileged, the state also creates classes (or "caste" as Mises called them to avoid confusion with Marxist ideas of class). Mises's concept of the radical opposition between the state and economy is used by Murray Rothbard very effectively to show that in every area of economic life intervention by the state is disruptive, inefficient, and the cause of class conflict. See Murray N. Rothbard, *Power and Market* (Kansas City: Sheed Andrews and McMeel, 1977). We will return to the important question of class in a future issue, after our discussion of Mises's theory of interventionism.

Mises's key insight, which forms the basis of his theory of interventionism, is the following: once the state begins to disrupt the peaceful operations of the free market, a dynamic

"Mises's key insight . . . is: once the state begins to disrupt the peaceful operations of the free market, a dynamic process is set in motion which leads to further interventions . . ."

process is set in motion which leads to further interventions by the state. According to Mises, each intervention in the voluntary and harmonious interactions of market participants leads to unintended, deleterious economic and social consequences, which in turn demand further interventions to "correct" the new problem *ad infinitum*. Mises calls this process "interventionism" and his theory of interventionism is explored in the essay "The Middle of the Road Leads to Socialism," in *Planning for Freedom* (South Holland, IL: Libertarian Press, 1962).

Price Controls

An example which is commonly given to illustrate this process is price control. If the state attempts to artificially lower the price of a commodity, say grain, below the market price the interventionist dynamic is set in motion. First of all, producers have less incentive to supply the good because they cannot be adequately recompensed for their troubles. To the extent that production does continue, there is less profit to invest in expansion or improving yields. Secondly, consumers are presented with a lower-priced commodity and may attempt to increase their consumption of the good. The result of reduced supply and increased demand is enormous pressure for black markets, corruption of regulatory officials, and other measures to get around the restrictions. If the state wishes to maintain its policy of low grain prices (as many African and Latin American states do) it must either "eliminate" black marketeers and enforce price controls more stringently (as the Soviet government did in the early period of "war communism" when they literally eliminated private producers for selling on the black market), or it must force farmers to expand supply. Many states achieve the latter by taking over the production of food so they can ensure that production is not "diverted" or curtailed in response to prices. The final step in this process is the "collectivization" of agriculture.

Kinds of Socialism

Mises clearly saw that interventions would continue until a comprehensive, authoritarian system of control was finally established. Depending upon the context in which he was working, Mises coined the following terms to describe the end-product of the process of interventionism. The most general term he used was "command economy" or *Zwangswirtschaft* which emphasized the coercive aspects of interventionism. Because interventionism has many features in common with fully-fledged socialism Mises also used the term "state socialism," thus stressing the primary role of the state in directing the economy. A third expression for the same phenomenon is "war socialism," not surprising given the fact that under cover of so-called war measures the state massively increased its power over the economy.

Mises observed the acceleration of interventionist measures personally during the catastrophe of the First World War and shortly afterwards wrote an important analysis of the phenomenon in "War and the Economy," in *Nation, State, and Economy* (New York University Press, 1983), trans. Leland B. Yeager. Mises observed that:

> **War socialism was only the continuation at an accelerated tempo of the state-socialist policy that had already been introduced long before the war. (p. 176)**

An interesting discussion of the attempt by Mises and others to come to terms with the problem of interventionism can be found in Gerold Ambrosius, *Zur Geschichte des Begriffs und der Theorie des Staatskapitalismus und des staatsmonopolistischen Kapitalismus* (Tübingen: J. C. B. Mohr, 1981). Some scholars, unaware of Mises's contribution, have attempted to explain the problem in other ways. The idea of "organized capitalism" is the topic of *Organisierter Kapitalismus*, ed. Heinrich A. Winkler (Göttingen: Vandenhoek und Ruprecht, 1974). The problem of this approach is that the question of who organizes capitalism is not properly examined. The private organization of business is, of course, necessary and does not disrupt the economy. Only the organization of business by and through the state is disruptive and unfair to those who are excluded or who have to pay for another's privileges. The value of Mises's analysis is that he understands the market and therefore never makes this fundamental mistake.

The growth of the interventionist state accelerated markedly during the first half of the twentieth century, the watershed being the massive interventions undertaken by all states during the First World War. It was during this period that the main forms of modern interventionism developed: the war economics of the American and Western European nations, the Fascist régimes of inter-war Germany and Italy, the semi-military economies of Latin America and inter-war China and Japan, the various attempts to establish communism, and the modern welfare states with which most of us are familiar.

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Mises's theory of interventionism can be used very effectively to explain the origin and operation of this phenomenon. It is important for classical liberals to develop Mises's theory further and to be able to use the theory to analyze in detail the ways in which interventionism has historically appeared. Although the interventionist tide now may be beginning to turn, the interventionist state continues to exist and it is vital to understand how it arose, how it functions, and how the inevitable crises it engenders can be used to bring about change. We only have space to discuss a few manifestations of the interventionist state in this essay, but we hope that the books and articles we suggest will lead the reader to pursue the topic further.

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The Command Economy

The *Zwangswirtschaft* has existed in a relatively pure form in the economic system established by the Bolsheviks in the Soviet Union. Roger Pethybridge and Paul Craig Roberts have convincingly shown how the catastrophic economic failures of Bolshevik Russia inevitably arose out of the experiments in war communism and the attempt to exterminate the market by force. It is interesting to note that the Bolsheviks used the example of the German war economy (war socialism in Mises's terminology) for their own economy. Since Marx had not described how the socialist economy would work and since the best model Lenin could come up with was the Post Office it is not surprising that the Bolsheviks turned to German militarism as an example of functioning state control of the economy. See Roger Pethybridge, *The Social Prelude to Stalinism* (London: Macmillan, 1977) and Paul Craig Roberts, "War Communism: A Re-examination," *Slavic Review*, June 1970, vol. 29, no. 2, pp. 238-61

A similar and perhaps even bloodier experiment in abolishing the market took place in Cambodia after 1975. On the extremes to which Pol Pot and the Khmer Rouge went in following their anti-market, interventionist logic, see François Ponchaud, *Cambodia Year Zero* (Harmondsworth: Penquin, 1978) and William Shawcross, *The Quality of Mercy: Cambodia, Holocaust, and Modern Conscience* (London: Andre Deutsch, 1984)

The extensive militarization of German industry and society which took place during the First World War is discussed in Ludwig von Mises, *Nation, State, and Economy: Contributions to the Politics and History of Our Time*, trans. Leland B. Yeager (New York University Press, 1983); Gerald D. Feldman, *Army, Industry, and Labor in Germany 1914–1918* (Princeton University Press, 1966); and Martin Kitchen, *The Silent Dictatorship: The Politics of the German High Command under Hindenburg and Ludendorff 1916-1918* (London: Croom Helm, 1976).

The phenomenal growth of the interventionist state before and during the First World War is not confined to the continent of Europe. The American experience is well covered by James Gilbert, *Designing the Industrial State: The Intellectual Pursuit of Collectivism* (Chicago: Quadrangle Books, 1972); Gabriel Kolko, *The Triumph of Conservatism: A Re-Interpretation of American History, 1900–1916* (Chicago: Quadrangle Books, 1963); James Weinstein, *The Corporate Ideal in the Liberal State, 1900-1918* (Boston: Beacon Press, 1968); and Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877–1920* (Cambridge University Press, 1982).

American Socialism

On the militarization of the American economy, see Murray N. Rothbard, "War Collectivism in World War 1," in *A New History of Leviathan: Essays on the Rise of the American Corporate State*, ed. Ronald Radosh and Murray N. Rothbard (New York: E. P. Dutton, 1972); and Robert D. Cuff, *The War Industries Board: Business-Government Relations During World War One* (Baltimore: John Hopkins University Press, 1973). A more ambitious survey and synthesis of the problem of the militarization of the economy which has considerable relevance for the U.S. in this period is William H. McNeill, *The Pursuit of Power: Techology, Armed Force, and Society since A.D. 1000* (University of Chicago Press, 1982).

War Socialism

German fascism which developed during the 1930s and 1940s is another textbook example of a command economy. It is especially important for students of Austrian economics because Mises's experience of the Nazi takeover and his observation of the German economy led him to develop the theory of interventionism in the first place. In a similar fashion, the Bolshevik attempt to eliminate the market during the period of war communism led Mises to question the possiblity of rational economic calculation under socialism. A good place to begin unravelling the complexities of the German fascist economy is the excellent collection of essays in *Fascism: A Reader's Guide. Analyses, Interpretations, Bibliography* (Harmondsworth: Penquin, 1982), ed. Walter Laqueur, especially the article by Alan S. Milward, "Fascism and the Economy," pp. 409-53. Also recommended is Milward's *War, Economy and Society, 1939-1945* (University of California Press, 1979) for the general problem of the take-over of the economy by the state during the war.

The nature of the fascist economy raises some important questions about the general problem of interventionism. Some conservatives argue that Fascism is a unique occurance, having more to do with Hitler's personality than with government intervention in the German economy. Others argue that Fascism is just one kind of government intervention which was not unique to Germany in the 1930s and which therefore could be repeated in slightly different forms under the right circumstances. A contemporary but still useful interpretation of fascist interventionism which reveals the relationship between big business and the fascist state is given by Robert A. Brady, *The Rationalization Movement in German Industry: A Study in the Evolution of Economic Planning* (University of California Press, 1933); *The Spirit and Structure of German Fascism* (London: Victor Gollancz, 1937): and *Business as a System of Power* (New York: Columbia University Press, 1943).

For a more recent discussion of this question, see Arthur Schweitzer, ***Big Business in the Third Reich*** (Bloomington: Indiana University Press, 1964) and the debate between Henry A. Turner and Dirk Stegman: Stegman, "Zum Verhältnis von Großindustrie und Nationalsozialismus 1930-1933. Ein Beitrag zur Geschichte der sog. Machtergreifung," ***Archiv für Sozialgeschichte***, vol. 13, 1973, pp. 399-482; Turner, "Großunternehmertum und Nationalsozialismus 1930-1933, " ***Historische Zeitschrift***, vol. 221, no. 1, 1975, pp. 18-68; and

"Some conservatives argue that fascism is a unique occurance, having more to do with Hitler's personality. . .Others argue that (it) is just one kind of government intervention which was not unique to Germany and which therefore could be repeated . . . under the right circumstances."

Stegman, "Antiquierte Personalisierung oder sozialökonomische Faschismum-Analyse? Eine Antwort auf H. A. Turners Kritik an meinen Thesen zum Verhältnis von Nationalsozialismus und Großindustrie vor 1933," ***Archiv für Sozialgeschichte***, vol. 27, 1977, pp. 275-296.

While the European economics were becoming more and more interventionist during the inter-war period a similar process was taking place in America with FDR's New Deal. For a penetrating and disturbing analysis of the growth of a command economy under President Roosevelt, see *As We Go Marching* (New York: Free Life Editions, 1973) by the "Old Right" libertatian John T. Flynn. This book first appeared in 1944 and, like his contemporary Robert Brady, Flynn draws realistic and frightening parallels between the economic systems created by German and Italian fascism and the economic developments taking place in America during the 1930s. In particular Flynn analyzes the movement towards centralized decision-making and the way in which the state prevented private businesses from conducting their own affairs. Roosevelt explicitly modelled the interventionist New Deal measures on the experience of the First World War and even re-employed the same people. This aspect of the New Deal is discussed by William E. Leuchtenburg, "The New Deal and the Analogue of War," in *Change and Continuity in Twentieth Century America,* ed. John Braehen, Robert Brenner, and Everett Walters (New York: Harper and Row, 1966).

State Socialism

One of the most disturbing features to emerge from the Second World War was a group of industrial interests which benefited from the militarization of the economy. Instead of producing and selling for the market, these firms produced for and sold to the state. The resources to pay for military products were diverted away form individual consumers and the firms which peacefully and productively supplied them. Apart from being an enormous financial burden the Military-Industrial Complex (to use President Eisenhower's expression) was able to influence government policy and thereby entrench its privileges and perpetuate the distortion of the economy. Two recent treatments of the cosy alliance between the state and certain industrial interests are by Benjamin Franklin Cooling, *War, Business, and American Society: Historical Perspectives on the Military-Industrial Complex* (Port Washington, NY: Kennikat, 1977) and *War, Business, and World Military-Industrial Complexes* (Port Washington, NY: Kennkikat, 1981).

The interventionist state has gone further in Western Europe than in the United States. The legacy of war, fascism, large and well-organized socialist parties, and a tradition of statist intervention has meant that the freedom allowed business has been much less that found in America. The European problem must be seen in the light of the extraordinary events of the last hundred years. The important inter-war years are covered by Charles S. Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton University Press, 1981), especially the section "Corporative State in Corporatist Europe," pp. 545-78. The tradition of state intervention in France is discussed by Richard F. Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century* (Cambridge University Press, 1983).

The problems facing the victorious powers at the end of the Second World War were similar to those of the First. Politicians in both cases were keen not to allow the market to usurp their power and influence. The debate begun by Maier raises important questions. See Charles S. Maier, "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe," *American Historical Review,* April 1981, vol. 86, no. 2, pp. 327-52, and the comments by Schuker, Kindleberger, and Maier's reply, pp. 353-67.

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Since the Second World War, the state has been the focus of a constant battle between interest groups for political control. Political control or influence is vital for unions, public servants, farmers, and protected industries such as steel and aerospace to gain privileges or to protect their existing ones. On the way interest group politics has distorted the European economies, see *Organizing Interests in Western Europe; Pluralism, Corporatism, and the Transformation of Politics,* ed. Suzanne Berger (Cambridge University Press, 1983); Phillipe C. Schmitter, "Still the Century of Corporatism," *Review of Politics,* 1974, vol. 36, pp. 85-128; and *Planning, Politics, and Public Policy: The British, French, and Italian Experience,* ed. Jack Hayward and Michael Watson (Cambridge University Press, 1975).

Socialism

Unlike that in the U.S.A. where economic life has been largely independent of the state, industrial development in Europe has gone ahead with considerable state intervention and this legacy remains quite powerful to this day. The background to state control and interference is provided by Barry Supple, "The State and the Industrial Revolution, 1700-1914," in *Fontana Economic History of Europe,* ed. Carlo M. Cipolla (1973), vol. 3; and *The State and Economic Growth,* ed. Hugh G. J. Aitken (New York: Social Science Research Council, 1959). In the German case, the state has always assumed a privileged position in the economy as Gerold Ambrosius, *Der Staat als Unternehmer: offenliche Wirtschaft und Kapitalismus seit dem 19, Jahrhundert* (Göttingen: Vandenhoeck und Ruprecht, 1984) shows. The extent of modern intervention is clearly demonstrated in *Big Business and the State: Changing Relations in Western Europe,* ed. Raymond Vernon (London: Macmillan, 1974) and Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford University Press, 1969).

"Whereas Marx saw conflict in the very nature of exchange and wage-labor, Mises and other classical liberals see class and class conflict as the inevitable result of politicization of market relations. They reject the Marxist idea of exploitation utterly and replace it with their own unique interpretation based on individual property rights."

Armed with Mises's theory of interventionism and some knowledge of twentieth century American and European command economies, one is in a position to come to grips with the thorny problem of class. Mises clearly understood that there was an element of truth in the Marxist claim that modern societies were conflict-ridden. The apparent paradox of a classical liberal theory of class analysis is resolved if we return to Mises's argument in *The Clash of Group Interests and Other Essays.* Here Mises distinguishes between the Marxian and the liberal idea of exploitation. Whereas Marx saw conflict in the very nature of exchange and wage-labor, Mises and other classical liberals see class and class conflict as the inevitable result of the politicization of market relations. They reject the Marxist idea of exploitation utterly and replace it with their own unique interpretation based on individual property rights. Thus there is a *liberal* theory of class conflict, the theory and history of which we will discuss in the next issue.

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Crosscurrents

Austrian Textbook

The basic principles of Austrian economics are carefully explained in a new textbook for undergraduates by Alexander H. Shand, *The Capitalist Alternative: An Introduction to Neo-Austrian Economics* (New York University Press, 1984).

Constant

Benjamin Constant had a profound influence on the development of European liberalism. His contribution is assessed by Stephen Holmes, *Benjamin Constant and the Making of Modern Liberalism* (Yale University Press, 1984). Holme's major weakness is that he generally ignores Constant's contribution to economic liberalism by concentrating excessively on the political aspects of Constant's thought.

> "Modern society is exposed to two diametrically opposed dangers: overpoliticization and overprivatization. Too much and too little civic spirit are equally destructive of both freedom and social order. The power of Constant's analysis of the revolutionary age derives largely from his capacity to combine these two antithetical ideas, ideas that are usually viewed as hostile alternatives."
>
> **Stephen Holmes**

> "The liberty of ancient times was whatever assured citizens the largest share in exercising social power. The liberty of modern times is whatever guarantees the independence of citizens from the government."
>
> **Benjamin Constant**

Dissecting the Establishment

Frederic Cople Jaher, *The Urban Establishment: Upper Strata in Boston, New York, Charleston, Chicago, and Los Angeles*, (Urbana: University of Illinois, Press, 1982) has collected an enormous amount of information about the economic and social élites of five urban centers. Unfortunately Jaher does not distinguish clearly between those of the élite who have amassed wealth and prestige by purely market activities and those who have restored to the power of the state. It is left to the reader to do this.

Cooperation

The series of articles on the "Basic Tenets of Real Liberalism" has attempted to demonstrate the economic reasons why individuals cooperate by voluntarily forming economic associations and social groups. Support for the naturalness of cooperation as opposed to the inevitability of conflict (as Marxists and others accuse the free market of creating) comes from another quarter-game theory. The political and economic consequences of Robert Axelrod's *The Evolution of Cooperation* (New York: Basic Books, 1984) may be profound.

> "The nature of property and the justice of various claims to it by individuals is and has been the source of considerable debate among political philosophers."

Property Theories

The nature of property and the justice of various claims to it by individuals is and has been the source of considerable debate among political philosophers. The British philosopher Alan Ryan takes the theme of property and shows what thinkers as diverse as Rousseau, Hegel, Mill, and Marx have meant by it. Alan Ryan, *Property and Political Theory* (Oxford: Basil Blackwell, 1984).

Jefferson and the New American State

Following the ratification of the new American Constitution was a struggle over the role of the American state. Traditionally the struggle has been seen as being between agrarian-free market Jeffersonian Democrats and industrial neo-mercantilist Federalists. Joyce Appleby, *Capitalism and a New Social Order: The Republican Vision of the 1790s* (New York University Press, 1984) discusses the recent literature and concludes that Jefferson was less hostile to industrial development than many have thought and that his victory over the neo-mercantilist Federalists was a major (libertarian) turning point in American history.

Human Rights

The debate amongst utilitarians and natural rights' philosophers continues to produce stimulating material. The latest contribution is a collection edited by Ellen Frankel Paul, Fred D. Miller, Jr., and Jeffrey Paul called *Human Rights* (Oxford: Basil Blackwell, 1984).

Discussing Revolution

The French Revolution provoked enormous controversy among contemporaries. Support for or against tended to split along party lines. Conservatives were horrified at any challenge to the status quo, radicals were pleased to see the corrupt Old Order go under, and liberals supported the end of feudal restrictions on economic activity but opposed the erection of a new powerful state under the Jacobins. A good selection of extracts from the main British participants can be found in *Burke, Paine, and the Revolution Controversy*, ed. Marilyn Butler (Cambridge University Press, 1984.)

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