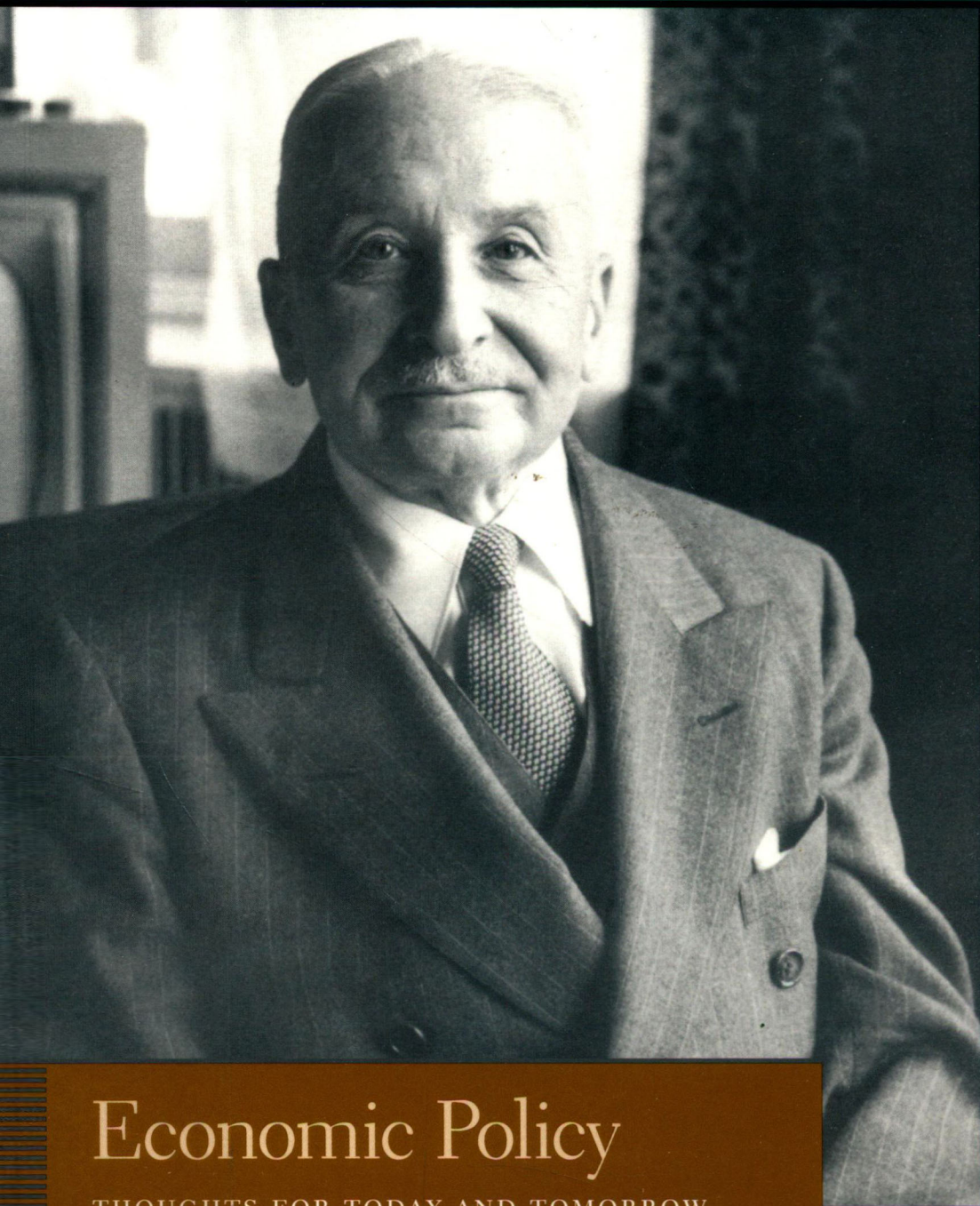


Ludwig von Mises



Economic Policy

THOUGHTS FOR TODAY AND TOMORROW

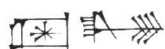
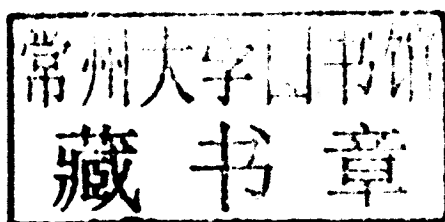
Economic Policy

Thoughts for Today and Tomorrow



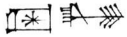
LUDWIG VON MISES

Edited and with an Introduction by Bettina Bien Greaves



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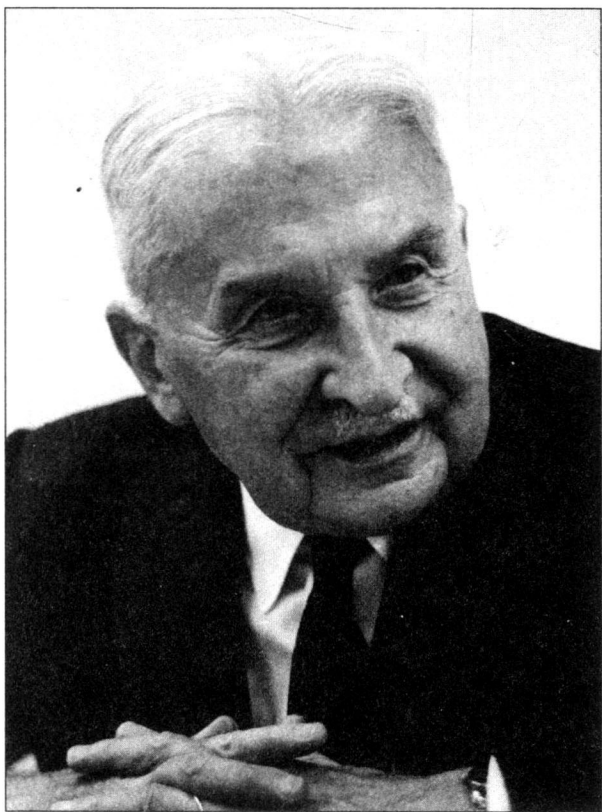
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LUDWIG VON MISES

INTRODUCTION

The ideal economic policy, both for today and tomorrow, is very simple. Government should protect and defend against domestic and foreign aggression the lives and property of the persons under its jurisdiction, settle disputes that arise, and leave the people otherwise free to pursue their various goals and ends in life. This is a radical idea in our interventionist age. Governments today are often asked to regulate and control production, to raise the prices of some goods and services and to lower the prices of others, to fix wages, to help some businesses get started and to keep others from failing, to encourage or hamper imports and exports, to care for the sick and the elderly, to support the profligate, and so on, and on, and on.

Ideally government should be a sort of caretaker, not of the people themselves, but of the conditions which will allow individuals, producers, traders, workers, entrepreneurs, savers, and consumers to pursue their own goals in peace. If government does that, and no more, the people will be able to provide for themselves much better than the government possibly could. This in essence is the message of Professor Ludwig von Mises in this small volume.

Professor Mises (1881–1973) was one of the twentieth century's foremost economists. He was the author of profound theoretical books such as *Human Action*, *Socialism*, *Theory and History*, and a dozen other works. However, in these lectures, delivered in Argentina in 1959, he spoke in nontechnical terms suitable for his audience of business professionals, professors, teachers, and students. He illustrates theory with homespun examples. He explains simple truths of history in terms of economic principles. He describes how capitalism destroyed the hierarchical order of European feudalism, and discusses the political consequences of various kinds of government. He analyzes the failures of socialism and the welfare state and shows what consumers and work-

ers can accomplish when they are free under capitalism to determine their own destinies.

When government protects the rights of individuals to do as they wish, so long as they do not infringe on the equal freedom of others to do the same, they will do what comes naturally—work, cooperate, and trade with one another. They will then have the incentive to save, accumulate capital, innovate, experiment, take advantage of opportunities, and produce. Under these conditions, capitalism will develop. The remarkable economic improvements of the eighteenth and nineteenth centuries and Germany's post-World War II "economic miracle" were due, as Professor Mises explains, to capitalism:

[I]n economic policies, there are no miracles. You have read in many newspapers and speeches, about the so-called German economic miracle—the recovery of Germany after its defeat and destruction in the Second World War. But this was no miracle. It was the application of the *principles of the free market economy*, of the methods of capitalism, even though they were not applied completely in all respects. Every country can experience the same "miracle" of economic recovery, although I must insist that economic recovery does *not* come from a miracle; it comes from the adoption of—and is the result of—sound economic policies. (p. 11)

So we see that the best economic policy is to limit government to creating the conditions which permit individuals to pursue their own goals and live at peace with their neighbors. Government's obligation is simply to protect life and property and to allow people to enjoy the freedom and opportunity to cooperate and trade with one another. In this way government creates the economic environment that permits capitalism to flourish:

The development of capitalism consists in everyone's having the right to serve the customer better and/or more cheaply. And this method, this principle, has, within a comparatively short time, transformed the whole world. It has made possible an unprecedented increase in world population. (p. 4)

When government assumes authority and power to do more than this, and abuses that authority and power, as it has many times throughout history—notably in Germany under Hitler, in the U.S.S.R. under Stalin, and in Argentina under Perón—it hampers the capitalistic system and becomes destructive of human freedom.

Dictator Juan Perón, elected president in 1946, was in exile when Mises visited Argentina in 1959, having been forced out of the country in 1955. His wife, the popular Eva, had died earlier, in 1952. Although Perón was out of the country, he had many supporters and was still a force to be reckoned with. He returned to Argentina in 1973, was again elected president and, with his new wife Isabelita as vice president, ruled until he died ten months later. His widow, Isabelita, then took over until her administration, charged with corruption, was finally ousted in 1976. Argentina has had a series of presidents since then and has made some strides toward improving her economic situation. Life and property have been accorded greater respect, some nationalized industries have been sold to private buyers, and the inflation has been slowed.

The present work is a felicitous introduction to Mises's ideas. They are, of course, elaborated more fully in *Human Action* and his other scholarly works. Newcomers to his ideas would do well, however, to start with some of his simpler books such as *Bureaucracy*, or *The Anti-capitalistic Mentality*. With this background, readers will find it easier to grasp the principles of the free market and the economic theories of the Austrian school that Mises presents in his major works.

Bettina Bien Greaves
February 1995

Addendum

Unfortunately, the trend toward free markets noted in 1995 has not continued. Frequent changes of government and presidents have brought increased inflation and more economic interventionism to Argentina.

To make this work even more accessible to the reader, subheadings have been added to this Liberty Fund edition.

Bettina Bien Greaves
October 2006

FOREWORD

The present book fully reflects the author's fundamental position for which he was—and still is—admired by followers and reviled by opponents. . . . While each of the six lectures can stand alone as an independent essay, the harmony of the series gives an aesthetic pleasure similar to that derived from looking at the architecture of a well-designed edifice.

—Fritz Machlup
Princeton, 1979

Late in 1958, when my husband was invited by Dr. Alberto Benegas-Lynch to come to Argentina and deliver a series of lectures, I was asked to accompany him. This book contains, in written word, what my husband said to hundreds of Argentinian students in those lectures.

We arrived in Argentina several years after Perón had been forced to leave the country. He had governed destructively and completely destroyed Argentina's economic foundations. His successors were not much better. The nation was ready for new ideas, and my husband was equally ready to provide them.

His lectures were delivered in English, in the enormous lecture hall of the University of Buenos Aires. In two neighboring rooms his words were simultaneously translated into Spanish for students who listened with earphones. Ludwig von Mises spoke without any restraint about capitalism, socialism, interventionism, communism, fascism, economic policy, and the dangers of dictatorship. These young people, who listened to my husband, did not know much about freedom of the market or individual freedom. As I wrote about this occasion in *My Years with Ludwig von Mises*, "If anyone in those times would have dared to attack communism and fascism as my husband did, the police would have come in and taken hold of him immediately, and the assembly would have been broken up."

The audience reacted as if a window had been opened and fresh air allowed to breeze through the rooms. He spoke without any notes. As

always, his thoughts were guided by just a few words, written on a scrap of paper. He knew exactly what he wanted to say, and by using comparatively simple terms, he succeeded in communicating his ideas to an audience not familiar with his work, so that they could understand exactly what he was saying.

The lectures were taped, and the tapes were later transcribed by a Spanish-speaking secretary whose typed manuscript I found among my husband's posthumous papers. On reading the transcript, I remembered vividly the singular enthusiasm with which those Argentinians had responded to my husband's words. And it seemed to me, as a non-economist, that these lectures, delivered to a lay audience in South America, were much easier to understand than many of Ludwig von Mises's more theoretical writings. I felt they contained so much valuable material, so many thoughts important for today and the future, that they should be made available to the public.

Since my husband had never revised the transcripts of his lectures for book publication, that task remained for me. I have been very careful to keep intact the meaning of every sentence, to change nothing of the content and to preserve all the expressions my husband often used which are so familiar to his readers. My only contribution has been to pull the sentences together and take out some of the little words one uses when talking informally. If my attempt to convert these lectures into a book has succeeded, it is only due to the fact that, with every sentence, I heard my husband's voice, I heard him talk. He was alive to me, alive in how clearly he demonstrated the evil and danger of too much government; how comprehensibly and lucidly he described the differences between dictatorship and interventionism; with how much wit he talked about important historic personalities; with how few remarks he succeeded in making bygone times come alive.

I want to use this opportunity to thank my good friend George Koether for assisting me with this task. His editorial experience and his understanding of my husband's theories were a great help to this book.

I hope these lectures will be read not only by scholars but also by my husband's many admirers among non-economists. And I earnestly hope that this book will be made available to younger audiences, especially high school and college students around the world.

Margit von Mises
New York
June 1979



ECONOMIC POLICY

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Capitalism

Descriptive terms which people use are often quite misleading. In talking about modern captains of industry and leaders of big business, for instance, they call a man a “chocolate king” or a “cotton king” or an “automobile king.” Their use of such terminology implies that they see practically no difference between the modern heads of industry and those feudal kings, dukes, or lords of earlier days. But the difference is in fact very great, for a chocolate king does not rule at all, he *serves*. He does not reign over conquered territory, independent of the market, independent of his customers. The chocolate king—or the steel king or the automobile king or any other king of modern industry—depends on the industry he operates and on the customers he serves. This “king” must stay in the good graces of his subjects, the consumers; he loses his “kingdom” as soon as he is no longer in a position to give his customers better service and provide it at lower cost than others with whom he must compete.

Two hundred years ago, before the advent of capitalism, a man’s social status was fixed from the beginning to the end of his life; he inherited it from his ancestors, and it never changed. If he was born poor, he always remained poor, and if he was born rich—a lord or a duke—he kept his dukedom and the property that went with it for the rest of his life.

As for manufacturing, the primitive processing industries of those days existed almost exclusively for the benefit of the wealthy. Most of the people (ninety percent or more of the European population) worked the land and did not come in contact with the city-oriented processing industries. This rigid system of feudal society prevailed in the most developed areas of Europe for many hundreds of years.

The Beginning of Capitalism

However, as the rural population expanded, there developed a surplus of people on the land. For this surplus of population without inherited land or estates, there was not enough to do, nor was it possible for them to work in the processing industries; the kings of the cities denied them access. The numbers of these “outcasts” continued to grow, and still no one knew what to do with them. They were, in the full sense of the word, “proletarians,” outcasts whom the government could only put into the workhouse or the poorhouse. In some sections of Europe, especially in the Netherlands and in England, they became so numerous that, by the eighteenth century, they were a real menace to the preservation of the prevailing social system.

Today, in discussing similar conditions in places like India or other developing countries, we must not forget that, in eighteenth-century England, conditions were much worse. At that time, England had a population of six or seven million people, but of those six or seven million people, more than one million, probably two million, were simply poor outcasts for whom the existing social system made no provision. What to do with these outcasts was one of the great problems of eighteenth-century England.

Another great problem was the lack of raw materials. The British, very seriously, had to ask themselves this question: what are we going to do in the future, when our forests will no longer give us the wood we need for our industries and for heating our houses? For the ruling classes it was a desperate situation. The statesmen did not know what to do, and the ruling gentry were absolutely without any ideas on how to improve conditions.

Out of this serious social situation emerged the beginnings of modern capitalism. There were some persons among those outcasts, among those poor people, who tried to organize others to set up small shops which could produce something. This was an innovation. These innovators did not produce expensive goods suitable only for the upper classes; they produced cheaper products for everyone’s needs. And this was the origin of capitalism as it operates today. It was *the beginning of mass production*, the fundamental principle of capitalistic industry. Whereas the old processing industries serving the rich people in the cities had existed almost exclusively for the demands of the upper classes, the new capitalist industries began to produce things that

could be purchased by the general population. It was mass production to satisfy the needs of the masses.

This is the fundamental principle of capitalism as it exists today in all of those countries in which there is a highly developed system of mass production: Big business, the target of the most fanatic attacks by the so-called leftists, produces almost exclusively to satisfy the wants of the masses. Enterprises producing luxury goods solely for the well-to-do can never attain the magnitude of big businesses. And today, it is the people who work in large factories who are the main consumers of the products made in those factories. This is the fundamental difference between the capitalistic principles of production and the feudalistic principles of the preceding ages.

Businesses Serve Customers

When people assume, or claim, that there is a difference between the producers and the consumers of the products of big businesses, they are badly mistaken. In American department stores you hear the slogan, "the customer is always right." And this customer is the same man who produces in the factory those things which are sold in the department stores. The people who think that the power of big business is enormous are mistaken also, since big business depends entirely on the patronage of those who buy its products: the biggest enterprise loses its power and its influence when it loses its customers.

Fifty or sixty years ago it was said in almost all capitalist countries that the railroad companies were too big and too powerful; they had a monopoly; it was impossible to compete with them. It was alleged that, in the field of transportation, capitalism had already reached a stage at which it had destroyed itself, for it had eliminated competition. What people overlooked was the fact that the power of the railroads depended on their ability to serve people better than any other method of transportation. Of course it would have been ridiculous to compete with one of these big railroad companies by building another railroad parallel to the old line, since the old line was sufficient to serve existing needs. But very soon there came other competitors. Freedom of competition does not mean that you can succeed simply by imitating or copying precisely what someone else has done. Freedom of the press does not mean that you have the right to copy what another man has written and thus to acquire the success which this other man has duly

merited on account of his achievements. It means that you have the right to write something different. Freedom of competition concerning railroads, for example, means that you are free to invent something, to do something, which will challenge the railroads and place them in a very precarious competitive situation.

In the United States the competition to the railroads—in the form of buses, automobiles, trucks, and airplanes—has caused the railroads to suffer and to be almost completely defeated, as far as passenger transportation is concerned.

The development of capitalism consists in everyone's having the right to serve the customer better and/or more cheaply. And this method, this principle, has, within a comparatively short time, transformed the whole world. It has made possible an unprecedented increase in world population.

In eighteenth-century England, the land could support only six million people at a very low standard of living. Today more than fifty million people enjoy a much higher standard of living than even the rich enjoyed during the eighteenth century. And today's standard of living in England would probably be still higher, had not a great deal of the energy of the British been wasted in what were, from various points of view, avoidable political and military "adventures."

These are the facts about capitalism. Thus, if an Englishman—or, for that matter, any other man in any country of the world—says today to his friends that he is opposed to capitalism, there is a wonderful way to answer him: "You know that the population of this planet is now ten times greater than it was in the ages preceding capitalism; you know that all men today enjoy a higher standard of living than your ancestors did before the age of capitalism. But how do you know that you are the one out of ten who would have lived in the absence of capitalism? The mere fact that you are living today is proof that capitalism has succeeded, whether or not you consider your own life very valuable."

In spite of all its benefits, capitalism has been furiously attacked and criticized. It is necessary that we understand the origin of this antipathy. It is a fact that the hatred of capitalism originated *not* with the masses, *not* among the workers themselves, but among the landed aristocracy—the gentry, the nobility, of England and the European continent. They blamed capitalism for something that was not very pleasant for them: at the beginning of the nineteenth century, the higher wages paid by industry to its workers forced the landed gentry to pay equally higher