The Review of Austrian Economics

Volume 4

The
Ludwig von Mises
Institute Library

Advancing the scholarship of freedom

Dedication

Volume Four of *The Review of Austrian Economics* is gratefully dedicated to the late Lawrence Fertig, friend and supporter of Professor Mises, and to the other generous donors of the Ludwig von Mises Institute, without whom none of its programs would be possible. In particular, for this publication, the Institute would like to thank:

O. P. Alford, III

Bernard Baltic
Ronald L. Blewitt
Robert W. Boucher
Burton S. Blumert
Jim Carden
Philip L. Carret
William B. Coberly, Jr.
Robert T. Dofflemyer
John L. Doyle
Robert W. Duggan
William A. Dunn
Arthur C. Fennekohl
Lawrence Fertig Estate
Daniel E. Foley
Mandel Foner
John Gira
Jane P. King
Hugh E. Ledbetter
Ken MacQueen
The Carpet Barn
Dorothea H. Marica
Robert G. Martinek
C. Mauter
Mauter & Co.
Alan McIlhenny
H. F. Meyer
The Meyer Co.
A. Minis, Jr.
Dr. Matthew T. Monroe
James M. Rodney
Sheldon Rose
Leland W. Schubert
AHS Foundation
Dr. Mark Skousen
Mr. & Mrs. Val L. Tennent
Dr. Adolph W. Vogel
Katheryn Votaw
Dallas R. Wolf
Tom Zignego
The Zignego Company

The Review of Austrian Economics

Volume 4

Edited by

Murray N. Rothbard
University of Nevada, Las Vegas

Co-edited by

Walter Block
Fraser Institute

Auburn University

Kluwer Academic Publishers
Boston/Dordrecht/London

The Review of Austrian Economics would like to thank the following referees for their help:

Roger Arnold
Charles W. Baird
Peter J. Boettke
Samuel Bostaph
William N. Butos
Roy E. Cordato
Richard M. Ebeling
Arthur A. Ekirch, Jr.
Emmanuel Foroglou
Roger W. Garrison
Fred R. Glahe
David Gordon
Bettina Bien Greaves
Ronald Hamowy
Jeffrey Herbener
Robert Higgs
Hans-Hermann Hoppe
Edward H. Kaplan
Israel M. Kirzner
Ludwig L. Lachmann
Laurence S. Moss
David Osterfeld
Sheldon Richman
James Sadowsky
Joseph T. Salerno
Larry J. Sechrest
George Selgin
Mark W. Sinnett
Gene Smiley
Barry Smith
Alex Tabarrok
Sven N. Thommesen
Richard H. Timberlake, Jr.
Jeffrey A. Tucker
Deborah Walker
Lawrence H. White
J. Stuart Wood
Leland B. Yeager

The Review of Austrian Economics

Murray N. Rothbard, Editor
University of Nevada, Las Vegas

Walter Block, Co-Editor
Fraser Institute

Steve H. Hanke, Associate Editor
The Johns Hopkins University

Judith F. Thommesen, Managing Editor

Editorial Board

Martin Anderson
Hoover Institution
Stanford University

Dominick T. Armentano
University of Hartford

Roger Arnold
University of Nevada
Las Vegas

Don Bellante
University of South Florida

James T. Bennett
George Mason University

Olufur Bjornsson
University of Iceland

Samuel Bostaph
University of Dallas

J. B. Bracewell-Milnes
Surrey, England

Yale Brozen
University of Chicago

Alfred G. Cuzan
University of West Florida

Thomas J. DiLorenzo
University of Tennessee
Chattanooga

Richard Ebeling
Hillsdale College

Robert B. Ekelund, Jr.
Auburn University

Joseph Fuhrig
Golden State University

Lowell Gallaway
Ohio University

Fred R. Glahe
University of Colorado

David Gordon
Ludwig von Mises Institute

F. A. Hayek
University of Freiberg
West Germany

Henry Hazlitt
Fairfield, Connecticut

Robert F. Hébert
Auburn University

Robert Higgs
Seattle University

Ole-Jacob Hoff
Tjøme, Norway

Randall G. Holcombe
Florida State University

Hans-Hermann Hoppe
University of Nevada
Las Vegas

Lord Harris of High Cross
Institute of Economic Affairs
London, England

Kurt Leube
California State
University, Hayward

Stephen O. Littlechild
University of Birmingham
England

Naomi Moldofsky
University of Melbourne
Australia

Thomas Gale Moore
Hoover Institution
Stanford University

John C. Moorhouse
Wake Forest University

David O'Mahony
University College
Cork, Ireland

David Osterfeld
St. Joseph's College

E. C. Pasour, Jr.
North Carolina State
University

William H. Peterson
Campbell University

W. Duncan Reekie
University of the
Witwatersrand
South Africa

Morgan O. Reynolds
Texas A&M University

Charles K. Rowley
George Mason University

Joseph T. Salerno
Pace University

Arthur Seldon
Institute of Economic Affairs
London, England

Sudha Shenoy
University of Newcastle
Australia

Mark Skousen
Rollins College

Gene Smiley
Marquette University

Jack Sommer
National Science Foundation

T. Alexander Smith
University of Tennessee

Thomas C. Taylor
Wake Forest University

Richard K. Vedder
Ohio University

Leland B. Yeager
Auburn University

Albert H. Zlabinger
Carl Menger Institute
Vienna, Austria

The Review of Austrian Economics has two broadly conceived objectives: (1) to promote the development and extension of Austrian economics and (2) to promote the analysis of contemporary issues in the mainstream of economics from an Austrian perspective.

Correspondence relating to submissions, articles, book reviews, business matters, back issues, etc., should be addressed to: J. Thommesen, Managing Editor, *Review of Austrian Economics*, 14755 Ventura Blvd., Suite 1906, Sherman Oaks, CA 91403.

Papers submitted for consideration should include: three copies of the manuscript, double spaced, and an abstract of no more than 250 words to assist the referees. There is no submission fee. Articles that are accepted will be requested on an IBM format diskette, when possible.

The opinions expressed in this volume by the authors in their respective articles are their own and *The Review of Austrian Economics* assumes no responsibility for these views.

Distributors

for the United States and Canada: Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, MA, 02061, USA

for all other countries: Kluwer Academic Publishers Group, Distribution Centre, P.O. Box 322, 3300 AH Dordrecht, The Netherlands

Library of Congress Cataloging-in-Publication Data

The Review of Austrian economics.—Vol. 4- —Washington, D.C.
: Ludwig von Mises Institute; Norwell, Mass.: Kluwer Academic Publishers,
[1990- v.: ill.; 24 cm.]
Annual.
ISSN 0889-3047 = The Review of Austrian economics.

1. Austrian school of economics—Periodicals. I. Ludwig Von Mises Institute.
HB98.R4 330.15'7—dc19 87-654025

Library of Congress [8704]

ISBN 0-7923-9064-4. — ISBN 0-945466-06-4 (pbk.)

Copyright © 1990 by The Ludwig von Mises Institute

No part of this book may be reproduced in any form by print, photoprint, microfilm, or any other means without written permission of the publisher, Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, MA, 02061.

Printed in the United States of America

The Review of Austrian Economics
Volume 4

Articles

Eugen Richter and Late German Manchester Liberalism: A Reevaluation 3

Ralph Raico

Ludwig von Mises as Social Rationalist 26

Joseph T. Salerno

Banking, Nation States and International Politics: A Sociological Reconstruction of the Present Economic Order 55

Hans-Hermann Hoppe

National Goods versus Public Goods: Defense, Disarmament, and Free Riders 88

Jeffrey Rogers Hummel

Karl Marx: Communist as Religious Eschatologist 123

Murray N. Rothbard

The Subjectivist Roots of James Buchanan's Economics 180

Thomas J. DiLorenzo

Notes and Comments

The DMVP-MVP Controversy: A Note 199

Walter Block

Misconceptions about Austrian Business Cycle Theory: A Comment 208

James Clark and James Keeler

Book Reviews

Gary B. Madison. *Understanding: A Phenomenological-Pragmatic Analysis* 215
Reviewed by *David Gordon*

Thomas Sowell. *A Conflict of Visions* 223
Reviewed by *David Gordon*

David Conway. *A Farewell to Marx* 234
Reviewed by *David Gordon*

Richard L. Lucier. *The International Political Economy of Coffee* 241
Reviewed by *E. C. Pasour, Jr.*

Walter Block and Llewellyn H. Rockwell, Jr., eds. *Man, Economy, and Liberty* 249
Reviewed by *Hans-Hermann Hoppe*

Articles

Eugen Richter and Late German Manchester Liberalism: A Reevaluation

Ralph Raico*

For several generations now there has existed an overarching interpretation of modern history conditioning and shaping the views held by nearly all educated people on the issue of socialism and the market economy. This interpretation goes roughly as follows: once there was a "class"—"the" bourgeoisie—that came into being with the colossal economic and social changes of early modern history, and strove for recognition and domination. Liberalism, which admittedly helped to achieve a limited degree of human liberation, was the ideological expression of the bourgeoisie's self-interested struggle.[1] Meanwhile, however, another, much larger class came into being, "the" working class, victims of the triumphant bourgeoisie. This class strove in its turn for recognition and domination, and, accordingly, developed its own ideology, socialism, which aimed, through revolution, at the transition to a higher, broader level of human liberation. The natural and inevitable conflict of interests of these two classes— basically, of the exploiters and the exploited— fills modern history, and has led in the end, in the welfare state of our own time, to a kind of accommodation and compromise. With this historical paradigm I think we are all quite familiar.

Recently, however, a different interpretation has begun to gain ground. The outstanding historian Ernst Nolte, of the Free University of Berlin, has expressed its central point:

*Ralph Raico is professor of history at the State University College at Buffalo, New York.

This paper is based on a lecture given at Professor Christian Watrin's Wirtschaftspolitisches Seminar at the University of Cologne, June, 1988. A German version appeared in the *Zeitschrift für Wirtschaftspolitik* 38, no. 1 (1989).

[1]See, for instance, Theo Schiller, *Liberalismus in Europa* (Baden-Baden: Nomos, 1979), p. 19: "Our starting-point is the universally accepted conclusion that the social interest-situation of the bourgeoisie was the foundation of classical liberalism."

The Review of Austrian Economics, Vol. 4, 1990, pp. 3-25
ISSN 0889-3047

> The real and modernising revolution is that of liberal capitalism or of economic freedom, which began 200 years ago in England and which was first completed in the USA. This revolution of individualism was challenged at an early date by the so-called revolutionary socialism, whose guideline was the archaic community, with its transparency of social conditions, as the most comprehensive counterrevolution, namely as the tendency for totalitarian collectivism.[2]

Although capitalism "radically chang[ed] the living conditions of all those affected in a relatively short time and improv[ed] them to an extraordinary degree, at least materially," "it did not understand how to awaken love."[3] The great capitalist revolution called forth a socialist movement, which "in a certain sense [was] thoroughly reactionary, indeed, radical-reactionary."[4]

The Place of Liberalism

This more recent conception suggests a new interpretation of liberalism. Liberalism is, in fact, the ideology of the capitalist revolution that prodigiously raised the living standards of the mass of people; a doctrine gradually elaborated over several centuries, which offered a new concept of social order, encompassing freedom in the only form suited to the modern world. Step by step, in practice and theory, the various sectors of human activity were withdrawn from the jurisdiction of coercive authority and given over to the voluntary action of self-regulating society. The first great victory was freedom in religious matters. The world-historical significance of religious liberty lies precisely in the fact that it demonstrated, in this first, great area of human existence, how society could be left to its own devices.

Practically all the peoples of western and central Europe (as well as the Americans) contributed to the working out of the liberal idea and the liberal movement. Not just the Dutch, French, Scots, English, and Swiss, but, for instance, in Spain, the Late Scholastics of the School of Salamanca and elsewhere,[5] and a number of Italians, especially at the beginning of political economy. In this evolution, the

[2]Ernst Nolte, "Between Myth and Revisionism: The Third Reich in the Perspective of the 1980s," in H. W. Koch, ed., *Aspects of the Third Reich* (London: Macmillan, 1985), p. 24. Nolte notes that the view he presents is that of Domenico Settembrini, of the University of Pisa.

[3]Ernst Nolte, *Marxism, Fascism, Cold War*, trans. Lawrence Krader (Altantic Highlands, N.J.: Humanities Press, 1982), p. 79.

[4]Ibid., p. viii. In fact, the similarities and historical connections between the conservative and socialist critiques of liberal capitalism are remarkable; see, for instance, ibid., pp. 23-30.

[5]Alejandro A. Chaufen, *Christians for Freedom: Late Scholastic Economics* (San Francisco: Ignatius Press, 1986).

Germans also played an often overlooked part.[6]

Particularly striking for foreigners who have concerned themselves with the problem of German liberalism has been the bitter hostility that it met with in its own time and at the hands of historians, and which is linked to the first, conventional interpretation of modern history described above. Paul Kennedy has quite accurately referred to "the sheer venom and blind hatred behind so many of the assaults in Germany upon *Manchestertum* [Manchesterism]."[7]

This hostility was directed especially against the man who was for two generations in Germany *the* representative of the liberal movement that embraced all civilized nations: Eugen Richter. Malice has now been replaced by neglect. Last year, in July, was the 150th anniversary of Richter's birth, and if any notice was taken of the occasion in the Federal Republic, aside from my own very modest contribution,[8] it has not come to my attention. That should not be surprising, however. Since both the conservatives and the socialists—the two camps that have by and large written the history of Germany—found Richter insufferable, he has usually been treated disparagingly or else disregarded. Thus, he remains virtually unknown to the great majority of even educated people. Given the older historical interpretation, this circumstance makes a certain sense; it by no means corresponds to the newer one. Thus, an attempt to evaluate Richter's significance for German liberalism and German history is perhaps called for.

Differences of Opinion on Richter

Eugen Richter[9] was the brilliant, if occasionally too masterful, leader of the Progressive Party (*Fortschrittspartei*) and later of the Liberals (*Freisinn*), the political expressions of German "Left Liberal-

[6]See Ralph Raico, "Der deutsche Liberalismus und die deutsche Freihandelsbewegung: Eine Rückschau," *Zeitschrift für Wirtschaftspolitik* 36, no. 3 (1987): 263-81.

[7]Paul M. Kennedy, *The Rise of the Anglo-German Antagonism, 1860-1914* (London: Allen and Unwin, 1980), p. 152.

[8]Ralph Raico, "Eugen Richter: Ein unerbittlicher Liberaler," *Orientierungen zur Wirtschafts- und Gesellschaftspolitik* 37 (September 1988): 77-80.

[9]The literature on Richter is very meager. See, above all, Felix Rachfahl, "Eugen Richter und der Linksliberalismus im Neuen Reich," *Zeitschrift für Politik* 5, nos. 2-3 (1912): 261-374. Also, Eugen Richter, *Jugenderinnerungen* (Berlin: Verlag "Fortschritt," 1893); idem., *Im alten Reichstag: Erinnerungen*, 2 vols. (Berlin: Verlag "Fortschritt," (1894-1896); Oskar Klein-Hattingen, *Geschichte des deutschen Liberalismus*, vol. 2: *Von 1871 bis zur Gegenwart* (Berlin-Schöneberg: Fortschritt-Buchverlag der "Hilfe," 1912); Leopold Ullstein, *Eugen Richter als Publizist und Herausgeber: Ein Beitrag zum Thema "Parteipresse"* (Leipzig: Reinicke, 1930); and Jesse Rohfleisch, *Eugen Richter: Opponent of Bismarck*, unpubl. diss., history, University of California, Berkeley, 1946. The

ism,"[10] or "determined" (*entschieden*) liberalism, through 30 years, in the Imperial German Reichstag and in the Prussian House of Representatives; he was, moreover, an untiring journalist and publisher.[11] Outside of a narrow group of friends and political associates, the attitudes and opinions on Richter, in his own time and afterwards, have been mostly very negative.[12] This is naturally the case on the authoritarian-conservative side: Crown Prince Wilhelm, later Kaiser Wilhelm II, even hatched a plan (never realized) to have Richter "beaten up" by six junior officers,[13] and Richter's old adversary, Prince Bismarck, confided to the old Kaiser, Wilhelm I, that it was among men like Richter that "the material for deputies to the [French Revolutionary] Convention" was to be found.[14] Hans Delbrück, whose portrayal of Richter influenced later writers, compared him to the Athenian demagogue Cleon and branded him the leader of a party whose highest passion was reserved for pieces of silver,[15] while for the Marxist Franz Mehring, Richter was merely "a servant and helper of Big Capital."[16] Richter's "rigidity," "dogmatism," and "carping doctrinairism" have been repeatedly attacked,[17] and a present-day

---

most recent work on Richter, Ina Suzanne Lorenz, *Eugen Richter: Der entschiedene Liberalismus in wilhelminischer Zeit 1871 bis 1906* (Husum: Matthiesen, 1980), is unfortunately noteworthy above all because of the author's inexhaustible distaste for her subject and her total lack of understanding for Manchester liberalism in Germany.

[10]"Left Liberalism" is a direct translation of *Linksliberalismus* and refers to the middle- to late-nineteenth century German political movement in opposition to the regime-oriented National Liberals; it has no connection with what is sometimes called "left-liberalism" in the present day.

[11]Kurt Koszyk and Karl H. Pruys, *Wörterbuch zur Publizistik* (Munich-Pullach/Berlin: Verlag Dokumentation, 1970), pp. 223-25.

[12]See also Ralph Raico, "Der deutsche Liberalismus," p. 275.

[15]According to the report of the Austro-Hungarian Crown Prince Rudolf; Brigette Hamann, *Rudolf: Kronprinz und Rebell* (Munich/Zurich: Piper, 1978), p. 333.

[14]Otto von Bismarck, *Werke in Auswahl*, vol. 8, pt. A, *Erinnerung und Gedanke*, ed. Rudolf Buchner, with Georg Engel (Stuttgart: W. Kohlhammer, 1975), p. 732.

[15]Hans Delbrück, *Vor und nach dem Weltkrieg. Politische und historische Aufsätze 1902-1925* (Berlin: Stollberg, 1926), pp. 136-48; Annelise Thimme, *Hans Delbrück als Kritiker der wilhelminischen Epoche* (Düsseldorf: Droste, 1955), pp. 31-32

[16]Franz Mehring, *Gesammelte Schriften*, Thomas Höhle, Hans Koch, and Josef Schleifstein, eds., vol. 14, *Politische Publizistik, 1891 bis 1914* ([East] Berlin: Dietz, 1964), p. 35. Why precisely of "*Big* Capital" is unclear.

[17]See, among innumerable other, Thomas Nipperdey, "Über einige Grundzüge der deutschen Parteigeschichte," in *Moderne deutsche Verfassungsgeschichte (1815-1918)*, Ernst-Wolfgang Böckenförde, ed., with Rainer Wahl (Cologne: Kiepenheuer and Witsch, 1972), p. 238, where the author writes of Richter's accentuation of the theoretical orientation of liberalism "to the very extreme of rigid dogmatism." Typical of many non-German historians is Kenneth D. Barkin, *The Controversy over German Industrialization, 1890-1902* (Chicago: University of Chicago Press, 1970),

German historian simply reflected the nearly unanimous view of his colleagues when he summarily characterized Richter as "the eternal nay-sayer."[18]

Yet even Bismarck was compelled to concede: "Richter was certainly the best speaker we had. Very well-informed and conscientious; with disobliging manners, but a man of character. Even now he does not turn with the wind. ..."[19] Another opponent, this time from the liberal camp, the first President of the Federal Republic, Theodor Heuss, admitted that Richter was "the most influential leader of 'determined' liberalism," and "certainly in detail work [sic] the most knowledgeable deputy in the German parliaments ..."[20] An observer closer in spirit to his subject expressed it more simply: Richter "was the liberal doctrine incarnate."[21]

Richter's Career

Eugen Richter was born on July 30, 1838, in Düsseldorf, the son of a regimental doctor. The atmosphere in the parental home was "oppositional," e.g., the family read the *Kölnische Zeitung* "eagerly"—evidentally, rather bold behavior for the time. Richter's "predominantly critical-rational disposition" developed from his early youth.[22] He studied political science with Dahlmann at Bonn and with Robert von Mohl at Heidelberg, where he also studied public finance with Karl Heinrich Rau, then the most celebrated expert in the field. While still a student he went to Berlin, where the proceedings of the Prussian House of Representatives interested him much more than his university lectures. He began attending the meetings of the *Kongress deutscher Volkswirte* (Congress of German Economists) and, through newspapers and journal articles, avidly took part in the growing

---

p. 239, who complains that Richter "had not shed the dogmatic liberal principle of non-intervention."

[18]Winfried Baumgart, *Deutschland im Zeitalter des Imperialismus, 1890-1914. Grundkräfte, Thesen, und Strukturen*, 5th ed. (Stuttgart: W. Kohlhammer, 1986), p. 135. Curiously, Baumgart passes this verdict in connection with Left Liberalism's turn towards support for the armaments policy of Wilhelm II, made possible by Richter's death.

[19]Rachfahl, "Eugen Richter und der Linksliberalismus im Neuen Reich," p. 371. Theodor Barth, one of Richter's many liberal opponents, declared: "Bismarck was no match for Richter dialectically, and the frequent eruptions of the Bismarckian temper against the implacable man of the opposition often sprang from the feeling that the omnipotent Chancellor would come up short in dialectical argumentation with Richter." In *Politische Porträts*, new ed. (Berlin: Schneider, 1923), p. 84.

[20]Theodor Heuss, *Friedrich Naumann: Der Mann, das Werk, die Zeit*, 2nd ed. (Stuttgart/Tübingen: Rainer Wunderlich, 1949), p. 180.

[21]Rachfahl, "Eugen Richter und der Linksliberalismus im Neuen Reich," p. 372.

[22]Ibid., pp. 262-63.

movement for economic liberalism in Germany; he was also active in the consumer cooperative movement.

By 1884 Richter headed a united Left Liberal party, the *Deutschfreisinnige Partei*, that boasted of more than 100 seats in the Reichstag. Liberalism's hour in Germany seemed to have come: the Kaiser, Wilhelm I, was very old, the Crown Prince, Friedrich, the most liberal of all the Hohenzollerns. It turned out otherwise, however, than might have been desirable for the Germans. Bismarck's political skill saw to it that the *Freisinnige Partei* was smashed in the next two elections, and when Friedrich finally ascended the throne, in 1888, he was already mortally ill. These vicissitudes could make no difference in Richter's political convictions, however. For another two decades he held fast to the same principles, which appeared increasingly obsolete and irrelevant. He was the last authentic liberal leader in the parliament of any great power.

Social Philosophy and the Two-Front Strategy

Regarding his early journalistic activity, it is noteworthy that, already as a young man, Richter emphasized not only the economic disadvantages of the antiquated mercantilist system, but at the same time the infringement of civil and political freedom bound up with that system. Thus, in an early brochure, *On the Freedom of the Tavern Trade*, he attacked the concessions-system, which invested the political authorities with wide-ranging licensing and regulatory authority for all trades and professions:

> As long as the police administration in our state unites in itself such legislative, judicial, and executive powers, Prussia does not yet deserve the name of a *Rechtsstaat*.[23]

The cornerstone of Richter's social philosophy was the connection between political and economic freedom, a conception that distinguished him, and Left Liberalism in general, from the mass of "National Liberals." Two decades later, Richter closed his great speech against Bismarck's protective tariff with the words:

> Economic freedom has no security without political freedom, and political freedom can find its security only in economic freedom.[24]

This tenet determined Richter's continuing political strategy. All his life, he conducted a "two-front war," against Bismarckian "pseudo-constitutionalism" and a recrudescent mercantilism on the one hand,

[23]Ibid., p. 266.
[24]Richter, *Im alten Reichstag*, vol. 2, p. 114.

and the rising socialist movement on the other.[25]

Richter and the other *entschieden* liberals have often been reproached for this policy. Critics maintain that the Left Liberals should have allied with the Social Democrats, in a common resistance to the militarist-authoritarian Second Reich, and Richter's famous "rigidity" and "dogmatism" are supposed to be largely responsible for the fact that such a united front never came into existence. Some historians even give the impression that liberal opposition to Social Democracy in Imperial Germany is only comprehensible as the product of "fear" of the "lower orders."[26]

But it can scarcely be surprising that Richter rejected such an alliance. He saw himself confronted with a socialist party that did not trouble to conceal its ultimate aim, abolition of the system of private property and the market economy, and that viewed "the class-struggle between bourgeoisie and proletariat as the 'pivot of all revolutionary socialism.'"[27] After 1875, the Social Democratic Party of Germany (SPD) was primarily a Marxist party, and, despite later revisionist tendencies, its acknowledged leaders, like Bebel, Liebknecht, and Kautsky, were confirmed orthodox Marxists. Of course, the SPD presented various democratic demands "to start with"; its ultimate goal remained, however, the social elimination of all "non-proletarians."

The Social Democratic standpoint confronting Richter may be illustrated by the example of Franz Mehring, a major theoretician and the biographer of Marx. In 1903, Mehring wrote, in the *Neue Zeit*, of the German "bourgeoisie" (and its defenders): "It had to be aware, and basically it was aware, that, without the help of the working-class, it could not defeat absolutism and feudalism. It had further to be aware, and basically it was also aware, that, in the moment of victory, its previous alliance-partner would face it as an adversary," at which point the bourgeoisie would presumably fall victim to the proletariat in the final, decisive conflict. Nonetheless, Mehring insisted that in this alleged state of affairs the bourgeoisie ought to draw the conclusion "that a pact

[25]August Bebel, leader of the German socialists, described an early encounter with Richter, "whose chilly, reserved nature struck me even then. Richter gave the impression that he viewed all of us with sovereign disdain." August Bebel, *Aus Meinem Leben* (1910; reprint, Frankfurt am Main: Europäische Verlaganstalt, n.d.), p. 92.

[26]See, e.g., Konstanze Wegner, *Theodor Barth und die Freisinnige Vereinigung. Studien zur Geschichte des Linksliberalismus im wilhelminischen Deutschland (1893-1910)* (Tübingen: J. C. B. Mohr [Paul Siebeck], 1968), p. 138.

[27]Ernst Engelberg, "Das Verhältnis zwischen kleinbürglicher Demokratie und Sozialdemokratie in den 80er Jahren des 19. Jahrhunderts," in Otto Pflange, ed., with Elisabeth Müller-Luckner, *Innenpolitische Probleme des Bismarck-Reiches* (Munich/Vienna: Oldenberg, 1983), p. 26. The East German historian adds: "This conception was accepted not only by the most influential leaders around August Bebel, but also by the mass of members and sympathizers ..."

with the working-class on tolerable [sic] conditions offers it the only possibility it has."[28] But for liberals like Richter, the Marxist scenario was by no means all that "tolerable." It is understandable, therefore, that Richter held that the "Social Democratic state of the future," because it was hypothetical, was for the time being less dangerous than the existing "military state," yet essentially "much worse."[29]

Even aside from the fact that "from 1869, meetings of the Progressive Party in Berlin were violently disrupted by the Social Democrats,"[30] how would an alliance with the Social Democrats have been at all ideologically conceivable? As liberals, men like Richter viewed socialism as a kind of counter-revolution, and believed that the achievement of the socialist goal would lead both to appalling poverty and to state absolutism. There was nothing in the socialist doctrine of the time that would suggest otherwise. Historians would do well to recognize that at least a part of the blame for the non-occurrence of a common front against militarism in Germany must be borne by the Social Democrats themselves.

Pictures of a Social Democratic Future

For their part, the socialists engaged in a relentlessly scathing critique of the liberal economic order. But, as Richter pointed out:

> The Social Democrats are very garrulous in criticizing the present social order, but they are careful not to clarify in detail the goal that is supposed to be achieved through the latter's destruction.[31]

This omission Richter attempted to make good in his *Pictures of a Social Democratic Future*.[32] In its time, this little book, with its ironic subtitle, "Freely drawn after Bebel," was a sensation. It was

[28]Franz Mehring, *Gesammelte Schriften*, vol. 14, p. 553.

[29]Quoted in Peter Gilg, *Die Erneuerung des demokratischen Denkens im wilhelminischen Deutschland. Eine ideengeschichtliche Studie zur Wende vom 19. zum 20. Jahrhundert* (Wiesbaden: Franz Steiner, 1965), pp. 135-36. Gilg adds, reasonably enough: "To this opposition [of Richter's] the theory of revolution of the Social Democratic program, which permitted collaboration solely as a means to winning autocratic rule, naturally contributed, as well as the successful competition of Social Democracy in the struggle for the urban voting masses." Ibid, p. 135.

[30]Richter, *Im alten Reichstag*, vol. 2, pp. 63 and 178. "This occurred," according to Richter, "with the permission of the Minister of the Interior." In Britain, the Chartists had earlier used similar strong-arm methods against meetings of the anti-corn law movement; see Wendy Hinde, *Richard Cobden. A Victorian Outside* (New Haven, Conn.: Yale University Press, 1987), p. 65.

[31]Richter, *Politisches ABC-Buch: Ein Lexikon parlamentarischer Zeit- und Streitfragen*, 9th ed. (Berlin: Fortschritt Verlag, 1898), p. 307.

[32]Richter, *Sozialdemokratische Zukunftsbilder: Frei nach Bebel* ([1891] Berlin: Verlagsanstalt Deutsche Presse, 1907). In 1922, in his *Socialism*, Ludwig von Mises undertook the same task, but on a totally different, strictly scientific level.

translated into a dozen languages, with more than a quarter-million copies printed in Germany alone. It must be conceded that in some respects Richter's narrative is dubious. It leans too heavily on the pathos of family problems under the new socialist regime; but that was to be expected, since it was directed at a wide, popular audience. Sometimes the work even verges on the ridiculous, especially in connection with the relations of social equality that will supposedly obtain under socialism, e.g., the new Reich Chancellor must shine his own boots and clean his own clothes, in Richter's account.

The explanation for this, however, is that Richter took the egalitarian promises of the socialists too literally, too *seriously*. He lacked any inkling of Marxism's tendency to bring to power a *new class* of higher-echelon state functionaries. Still, Richter was able to anticipate many of the characteristics later displayed by Marxist states. Emigration is prohibited in Marxist Germany, since "persons who owe their education and training to the State cannot be accorded the right to emigrate, so long as they are of an age when they are obliged to work."[33] Bribery and corruption are to be found everywhere,[34] and the products of the nationalized economy are unable to meet the standards of competition on the world market.[35] But above all, Richter emphasized the connection between economic and political freedom:

> what is the use of freedom of the press, if the government is in possession of all the printing presses, what does freedom of assembly avail, if all the meeting places belong to the government? ... in a society in which there is no more personal and economic freedom, even the freest form of the state cannot make political independence possible.[36]

When the worst imaginable happens and the socialist state proves incapable of provisioning the German Army as the Fatherland is invaded by France and Russia, a counter-revolution breaks out, restoring a free society.

Marxists and Conservatives: Mutual Aid

Richter often tried to present his two-sided campaign as part of one and the same war, by arguing that it was a question merely of two forms of state paternalism. Interestingly, this interpretation was supported from an unexpected quarter, although without Richter's normative charge. Accused of political offenses, the founder of German

[33]Ibid., p. 32.
[34]Ibid., pp. 42-43.
[35]Ibid., p. 48.
[36]Ibid., pp. 50 and 52.

socialism, Ferdinand Lassalle, addressed his judges as follows:

> As wide are the differences that divide you and me from one another, Sirs, against this dissolution of all morality [threatening from the liberal camp] we stand shoulder to shoulder! I defend *with* you, the primeval Vestal flame of all civilization, the State, against those modern barbarians [the laissez-faire liberals].[37]

Richter reiterated that the right-wing parties—the Conservatives and the Anti-Semites—aided socialism "especially [by] the agitation against mobile capital, against the exploitation it allegedly perpetrates, and, moreover, by the limitless promises handed out to all occupational classes of special state help and provision."[38] In turn, socialism helped the Conservatives and Anti-Semites through its revolutionary threats, intimidating the middle classes and driving them into the arms of a strong State power.[39]

State Socialism and *Sozialpolitik*

Richter fought the state-socialist program proposed by Bismarck, including the nationalization of the Prussian railroads and the establishment of state monopolies for tobacco and brandy, and, naturally, Bismarck's turn towards protectionism, towards rendering dearer the cost of necessities, by which the great Chancellor, landowner, and hater of the "Manchester money-bags" manifested his compassion for the poor. A "passionate opponent of cartels," Richter considered the planned tariff wall "the ideal nurturing ground for the formation of new cartels."[40] While Richter, together with other liberal leaders, such as Ludwig Bamberger, supported the introduction of the gold standard in the newly formed Empire, unlike them he opposed the centralization of the banking system through the creation of a *Reichsbank*; such a central bank, he felt, would tend to privilege "big

[37]Quoted in Werner Sombart, *Händler und Helden: Patriotische Besinnungen* (Munich/Leipzig: Duncker und Humblot, 1915), p. 77.

[38]Richter, *Politisches ABC-Buch*, p. 306. Bismarck's hatred of Richter and the Left Liberals on account of their economic liberalism was intense, e.g., his reference to "the Progressive Party and clique of Manchester politicians, the representative of the pitiless money-bags, have always been unfair to poor, they have always worked to the limit of their abilities, to prevent the state from helping them. Laissez-faire, the greatest possible self-government, no restraints, opportunity for the small business to be absorbed by Big Capital, for exploitation of the ignorant and inexperienced by the clever and crafty. The State is supposed to act only as police, especially for the exploiters." Willy Andreas and K. F. Reinking, *Bismarcks Gespräche: Von der Reichsgründung bis zur Entlassung* (Bremen: Carl Schünemann, 1965), p. 339.

[39]Richter, *Politisches ABC-Buch*, p. 322.

[40]Fritz Blaich, *Kartell- und Monopolpolitik im kaiserlichen Deutschland. Das Problem der Marktmacht im deutschen Reichstag zwischen 1870 und 1914* (Düsseldorf: Droste, 1973), pp. 230 and 259.

capital and big industry."[41]

Perhaps Richter's most famous attack in this field was directed against Bismarck's *Sozialpolitik*, with which the modern welfare state was born. Richter, together with Bamberger, was the chief speaker in opposition to the program, which began with the accident insurance bill of 1881, and over the years he persevered in his point of view when other liberal critics were converted to the new approach. One remark of his was, and is, deemed particularly notorious: "A special social question does not exist for us [the Progressives]. *The social question is the sum of all cultural questions*"[42]—by which he probably meant that, in the last analysis, the standard of living of working people can only be raised through higher productivity, a viewpoint perhaps not totally devoid of sense.

It is above all this opposition to *Sozialpolitik* with which Richter is reproached.[43] If one judges from the standpoint of world history as the tribunal of the world, Richter was certainly in the wrong. The welfare state is today in the process of conquering the whole globe; even the grandiose socialist idea is on the point of being reduced to a mere set of comprehensive welfare programs. Still, at least one of the reasons Richter advanced against the beginnings of the welfare state has a certain cogency.

> By hindering or restricting the development of independent funds, one pressed along the road of state-help and here awoke *growing claims on the State that, in the long run, no political system can satisfy*.[44]

[41]Richter, *Im alten Reichstag*, vol. 1, p. 112.

[42]Ibid., vol. 2, p. 86.

[43]See, among many others, Dieter Langewiesche, *Liberalismus in Deutschland* (Frankfurt am Main: Suhrkamp, 1988), pp. 195-96, where Left Liberal opposition on this question is ascribed in part to "Manchesterite blindness." Oskar Stillich, *Die politischen Parteien in Deutschland*. vol. 2, *Der Liberalismus* (Leipzig: Klinkhardt, 1911), p. 125, referred to "ice-cold laissez-faire in the area of the workers' question," and even maintained that: "Liberalism was indifferent and without feeling towards the interest of the broad masses." Erich Eyck, *Bismarck*, vol. 3 (Erlenbach-Zurich: Rentsch, 1944), p. 372, demonstrated a rare understanding for the Left Liberal position: "In spite of all that, that opposition was not without an internal justification. For it rests on the idea that the feeling of personal responsibility of the individual citizen for his own destiny is indispensable for the sound development of a people, and that the omnipotence of the state is, in the long run, incompatible with the freedom of the individual." Eyck, too, favored the Bismarckian policy, however, as do all present-day German historians I have consulted. But it should be obvious that even the question of the economic effects of the program is not as simple as is usually supposed, and cannot be resolved by pure assumption: Bismarck's *Sozialpolitik* was based, in the last analysis, on *deductions* (either direct or indirect) from the wages of labor. Cf. W. H. Hutt, *The Strike-Threat System: The Economic Effects of Collective Bargaining* (New Rochelle, N.Y.: Arlington House, 1973), pp. 206-15.

[44]Richter, *Politisches ABC-Buch*, p. 173; empahsis in original.

Richter's words give pause, when one considers the complex of problems gathered under the heading, "The Over-Straining of the Weimar Social State" (the "most progressive social state in the world" in its day), the collapse of the Weimar Republic, and the accompanying seizure of power of the National Socialists.[45] One might also reflect on a circumstance that today appears entirely possible: that, after so many fatal "contradictions" of capitalism have failed to materialize, in the end a genuine contradiction has emerged, one that may well destroy the system, namely the incompatibility of capitalism and the limitless state welfarism yielded by the functioning of a democratic order.

Civil Liberties and *Rechtsstaat*

While the majority of the Progressives supported the *Kulturkampf*—it was the celebrated liberal and friend of Richter's, Rudolf Virchow, who gave the crusade against the German Catholic Church the label, "struggle of cultures"—Richter generally opposed this fateful conflict, which contributed so much to hardening the Catholic Church's hostility to liberalism.[46] Although he did not challenge his own close political collaborators as much as he might have—he claimed the *Kulturkampf* "did not particularly excite" him[47]—his own position was basically that of authentic liberalism, of, for instance, the French Catholic liberals and the Jeffersonians: absolute separation of State and Church, including complete freedom for private education and a principled rejection of any state subsidizing of any religion.[48]

Particularly interesting in this connection is that, for Richter, "the private school was the last possible refuge."[49] In contrast to the majority of German (and of French and other) liberals of his time, Richter was not inclined to place obstacles in the way of the private school system in order to promote his own secular *Weltanschauung*. As he expressed it:

> Even if it were true that by using the free private system of instruction schools would come into being less agreeable to my point of view

[45]Cf. Jürgen von Kruedener, "Die Überforderung der Weimarer Republik als Sozialstaat," *Geschichte und Gesellschaft* 11, no. 3 (1985) *Kontroversen über die Wirtschaftspolitik in der Weimarer Republik*, Heinrich August Winkler, ed., pp. 358-76.

[46]Richter, *Im alten Reichstag*, vol. 1, pp. 54-55.

[47]Ibid., p. 78.

[48]Rohfleisch, *Eugen Richter: Opponent of Bismarck*, pp. 37-40, and Rachfahl, "Eugen Richter und der Linksliberalismus im Neuen Reich," p. 278.

[49]Urs Müller-Plantenberg, *Der Freisinn nach Bismarcks Sturz: Ein Versuch über die Schwierigkeiten des liberalen Bürgertums, im wilhelminischen Deutschland zu Macht und politischem Einfluss zu gelangen* (unpubl. diss.; Free University of Berlin, 1971), p. 201.

than the public schools, I would still not let myself be led astray, or desist, out of a fear of Catholics or a fear of socialists.[50]

Similarly, Richter took to the field against the emerging anti-Semitic movement,[51] with which Bismarck coquetted in another of his efforts to subvert the liberals. Richter branded the anti-Semites "unnational," referring to them as "this movement damaging to our national honor." In turn, the anti-Semites labelled the Left Liberals around Richter "Jew guard-troops,"[52] and attempted, as had the Social Democrats, to disrupt liberal meetings in Berlin through violence.[53] Until the end of Richter's career, the German-Jewish middle classes formed an important part of the liberal following, largely on account of the liberal principle of separation of Church and State.[54]

In general, Richter had learned very well from the great theoreticians of the *Rechtsstaat*, Dahlmann and Mohl. He fought a bill to criminalize the slander and mockery of state institutions, marriage, and private property.[55] In the case of the Social Democrats themselves, he opposed the notorious and futile Socialist Laws, with which Bismarck attempted to suppress the SPD.[56] (In this matter, however, Richter appears for once to have played, in the midst of Reichstag machinations, the politician rather than the principled liberal.[57]) Similarly in the case of measures for the suppression of the Poles in Germany's eastern territories. Ideas and competing cultural values, in Richter's view, were not to be combatted by force.[58]

Richter's familiarity with the financial affairs of Prussia and of Germany was unequaled.[59] From the beginning of his parliamentary

[50]Ibid.

[51]See Richter, *Im alten Reichstag*, vol. 2, pp. 176-83, 200-03, and the articles, "Anti-Semiten" and "Juden," in *ABC-Buch*, pp. 17-23 and 174-79; also Alfred D. Low, *Jews in the Eyes of the Germans: From the Enlightenment to Imperial Germany* (Philadelphia: Institute for the Study of Human Issues, 1979), pp. 392-94.

[52]Fritz Stern, *Gold and Iron: Bismarck, Bleichröder, and the Building of the German Empire* (New York: Viking/Penguin, 1987), p. 524.

[53]To protect their meetings against anti-Semitic assaults, the liberals had recourse to a sort of private police agency; Richter, *Im alten Reichstag*, vol. 2, p. 203.

[54]Low, *Jews in the Eyes of the Germans*, pp. 389-90.

[55] Richter, *Im alten Reichstag*, vol. 2, pp. 128-29.

[56]Ibid., pp. 81-84; Wolfgang Pack, *Das Parlamentarische Ringen um das Sozialistengesetz Bismarcks 1878-1890* (Düsseldorf: Droste, 1961), pp. 81-82.

[57]Ibid., pp. 153-60.

[58]Richter's lifelong fight for the *Rechtsstaat* and the predominance of parliament is so well known in the literature that Leonard Krieger's assertion, "Radical liberalism in him tended to be wholly absorbed in the dogma of economic freedom," *The German Idea of Freedom* (Boston: Beacon Press, 1957), p. 397, can probably only be explained by political *parti pris*.

[59]Rachfahl, "Eugen Richter und der Linksliberalismus im Neuen Reich," pp. 274-75.

service, his attention was focused most particularly on the military budget, and this old question, which had produced the great constitutional conflict of the 1860s and split German liberalism on several occasions, accompanied him throughout his whole political life. A proponent of low taxes, especially for the poorer classes,[60] Richter was concerned with moderating the enormous financial demands of the military; in this effort he did not shy away even from arguments with the venerable Count von Moltke. Above all, he was concerned that the authority of the people's representatives, the Reichstag, should prevail over the Army, that the citizen should not be submerged in the soldier. Thus, his insistence on the two-year, rather than three-year, military service, which led to a further split in the liberal party, in 1893.[61] His tireless probing into every single expenditure once caused Bismarck to cry out that in this fashion one would never come to the end of a budget.[62] Regarding his interrogation of a minister on a financial matter, Richter wrote, with proud underscoring: "*But I didn't let go.*"[63] In the field of the spending of public money, that could have been his motto. Max Weber, a National rather than a Left Liberal, nevertheless declared:

> Despite Eugen Richter's pronounced unpopularity within his own party, he enjoyed an unshakable power position, which rested on his unequalled knowledge of the budget. He was surely the last representative who could check over every penny spent, to the very last canteen, with the War Minister; at least, this is what, despite any annoyance they felt, has often been admitted to me by gentlemen of this department.[64]

In this continuing feature of Richter's activity it is possible to see the most significant example in the whole history of parliamentary liberalism of the standpoint expressed by Frédéric Bastiat, when he wrote of peace and freedom and their connection with the "icy numbers" of a "vulgar state budget":

> The connection is as close as possible. A war, a threat of war, a negotiation that could lead to war—none of these is capable of coming to pass except by virtue of a small clause inscribed in this great volume [the budget], the terror of taxpayers. ... Let us seek first of all frugality in government—peace and freedom we will have as a bonus.[65]

[60]See, e.g., Richter, *Im alten Reichstag*, vol. 1, pp. 103, 127; vol. 2, pp. 58, 68-69.

[61]Müller-Plantenberg, *Der Freisinn nach Bismarcks Sturz*.

[62]Rohfleisch, *Eugen Richter: Opponent of Bismarck*, p. 103.

[63]Richter, *Im alten Reichstag*, vol. 1, p. 68.

[64]Max Weber, *Gesammelte Politische Schriften*, ed. Johannes Winckelmann (Tübingen: J. C. B. Mohr [Paul Siebeck], 1958), p. 333. Weber's allusion to Richter's unpopularity refers to others in the liberal leadership, not to the ordinary liberal voters.

[65]Frédéric Bastiat, "Paix et liberté, ou le budget républicain," *Oeuvres complètes* 5 (Paris: Guillaumin, 1854), pp. 410-11. Even Lorenz, in her highly critical work on

War, Peace, and Imperialism

As for his position on war and peace, Richter by and large shared the views of the radical-liberals, or "Manchester men," of the nineteenth century, who were hostile to war and highly skeptical of the arguments for large military establishments and colonial adventures.[66] In Britain this was the position, for instance, of Richard Cobden and John Bright, and later of Herbert Spencer; in France, of Benjamin Constant, Jean-Baptiste Say, Frédéric Bastiat, and many others. The German liberals, too, placed a high value on peace (although their attitude was somewhat skewed by the problem of national unification). John Prince Smith and his followers were spokesmen for the ideal of "peace through free trade."[67]

Richter criticized increases in the strength of German military forces, "which [have] substantially contributed to a subsequent reciprocal increase in relation to France and Russia."[68] Admiral von Tirpitz's Naval Bills, from 1898 on, which, by setting Germany on a collision course with England, proved to be so fateful, were rejected and denounced by Richter.[69] For Wilhelm II's "*Weltpolitik*," he simply had no understanding. To the question, "What is '*Weltpolitik*'?" Richter replied: "Wanting to be present wherever something is going wrong."[70] Under his leadership, the *Freisinnige Volkspartei* continued to spurn it. The growing hostility between England and Germany nearly drove himto despair.[71]

Richter experienced the Age of Imperialism, which began for

Richter, *Eugen Richter: Der entschiedene Liberalismus in wilhelminischer Zeit 1871 bis 1906*, p. 235, suggests that, with all of Richter's haggling over military expenditures, at many points one can sense "the spirit of unconditional opposition, that, beyond the saving of money, wanted to spare the people militarism" as well.

[66]Cf. E. K. Bramsted and K. J. Melhuish, *Western Liberalism. A History in Documents from Locke to Croce* (London/New York: Longman, 1978), pp. 278-84. Richter always kept his distance from the organized German peace movement, however, although his cousin, Adolf Richter, and a close political collaborator, Max Hirsch, were among its leaders. Roger Chickering, *Imperial Germany and a World Without War. The Peace Movement and German Society, 1892-1914* (Princeton: Princeton University Press, 1975), pp. 252 and 254.

[67]Julius Paul Köhler, *Staat und Gesellschaft in der deutschen Theorie der auswärtigen Wirtschaftspolitik und des internationalen Handels von Schlettwein bis auf Fr. List und Prince-Smith* (Stuttgart: Kohlhammer, 1926), pp. 22-42.

[68]Richter, *Im alten Reichstag*, vol. 1, p. 93.

[69]Richter, *ABC-Buch*, "Die deutsche Flotte," pp. 416-90.

[70]Quoted by Müller-Plantenberg, *Der Freisinn nach Bismarcks Sturz*, p. 284. In the author's opinion, "no bourgeois politician fought against the military, naval, and colonial policy of Wilhelmine Germany as sharply, energetically, and consistently as Eugen Richter." Ibid.

[71]Paul Kennedy, *The Rise of the Anglo-German Antagonism, 1860-1914*, pp. 150-51.

Germany with Bismarck's initiatives in 1884-85 regarding Africa and the South Seas. Although Richter repudiated these early initiatives, his attitude eventually was somewhat ambivalent, and requires an examination.

Richter's initial position, which he expressed in June, 1884, was that "colonial policy is extraordinarily expensive," and

> the responsibility for the material development of the colony, as well as for its formation, [is] to be left to the activity and entrepreneurial spirit of our seafaring and trading fellow citizens; the procedure followed should be less of the form of annexation of overseas provinces to the German Reich, than of the form of the granting of charters, on the model of the English royal charters ... at the same time, to the parties interested in the colony should essentially be left its governing, and they should be accorded only the possibility of European jurisdiction and its protection that we could furnish without having standing garrisons there. For the rest, we hope that the tree will generally thrive through the activity of the gardeners who planted it, and if it does not, then the plant is an abortive one, and the damages affect less the Reich, since the costs we require are not significant, than the entrepreneurs, who were mistaken in their undertakings.[72]

Not "Dogmatism," but Pragmatism was Richter's Failing

A critic of Richter's, the afterwards-influential Weimar radical-democratic historian Eckart Kehr, maintained that Richter rejected the Naval Bills and *Weltpolitik* merely from "capitalist motives"—simply because they were not profitable.[73] The truth is that, as always, Richter supported his position with statistics and "pragmatic" reasons of all kinds. But even Kehr had to concede that, for Richter, there were also certain principles involved. As Kehr put it, Richter's standpoint was

> that the State should leave exports to the exporters, to industry, and to the merchants, and should not identify itself with the interests of the exporting class. ... If industry ... values the protection afforded by warships, let them go and shell out a part of the surplus profit they have captured in this way and build the cruisers for themselves.[74]

In other words, in this question Richter defended the same principle as on the questions of *Sozialpolitik* and the protective tariff: the State exists for the common good, and it ought not to be debased to

[72]Quoted in Hans Spellmayer, *Deutsche Kolonialpolitik im Reichstag* (Stuttgart: Kohlhammer, 1931), pp. 15-16.

[73]Eckart Kehr, *Schlachtflottenbau und Parteipolitik, 1894-1901* (Berlin: Ebering, 1930), p. 293.

[74]Ibid., pp. 297-98.

an instrument of special interests. As naive as this attitude may be, it demonstrates that Richter manifested traits of what can be called the civic humanism or classical republicanism of the Stein-Hardenberg variety.[75]

The genuine failing in Richter's approach to imperialism is that he never systematically posed the question: "Profitable for *whom*?" It is true that Richter opposed Bismarck's colonial plans in the conviction that their core was "the burdening of the relatively unpropertied to the advantage of the relatively propertied."[76] Yet, in the next decade, when Germany occupied Kiaochow and undertook the construction of a railroad in Shantung, Richter showed himself much more amenable than before.[77] He declared:

> we [the *Freisinn*] view the acquisition of [Kiaochow] Bay otherwise and more favorably than all the previous flag-raisings in Africa and Australia [i.e., New Guinea]. The difference for us is that ... China is an old civilized country ... and that transformations that have been introduced into China, especially by the last Sino-Japanese War, could cause it to appear desirable to possess a base there for safeguarding our interests.[78]

Yet, Richter's last parliamentary speeches, in 1904, both in the Reichstag and in the Prussian House of Representatives, dealt with colonial questions in a sharply negative manner; again, he put himself forward as, above all, "the representative of the whole community, the representative of the taxpayers," and complained of "the neglect of urgent needs in domestic policy on account of the demands of a misconceived colonial policy."[79]

In explaining Richter's inconsistency in this area, the comment of Lothar Albertin is pertinent: Richter "remained, in regard to imperialism, without a theory [*theorielos*]."[80] He was never able to advance to the interpretation of imperialism of a Richard Cobden, according to which economic expansion supported by means of the state *always* redounds to the advantage of certain interests and to the disadvantage of the taxpayers and the majority. Thus, on this issue Richter belonged, in Wolfgang Mommsen's suggestive typology, to the

[75]A civic humanist, rather than liberal slant is evident also in Richter's advocacy of a "citizen-army," recruited by conscription.

[76]Hans-Ulrich Wehler, *Bismarck und der Imperialismus* (Cologne/Berlin: Kiepenheuer and Witsch, 1969), p. 444.

[77]Spellmayer, *Deutsche Kolonialpolitik im Reichstag*, pp. 81 and 89.

[78]Quoted in Ludwig Elm, "Freisinnige Volkspartei," in *Die bürgerlichen Parteien in Deutschland*, Dieter Fricke, et al., eds., vol. 2 ([East] Berlin: Das europäische Buch, 1970), p. 84.

[79]Rachfahl, "Eugen Richter und der Linksliberalismus im Neuen Reich," pp. 369-70.

[80]Lothar Albertin, "Das Friedensthema bei den Linksliberalen vor 1914: Die Schwäche Ihrer Argumente und Aktivitäten," in Karl Holl und Günther List, eds., *Liberalismus und*

"pragmatic" *entschieden* liberals, rather than to the "principled" radical-liberals.[81]

The Liberal Surrender

The final capitulation of German liberalism was inaugurated by the famous Friedrich Naumann,[82] today viewed in what pass for liberal circles in the Federal Republic as a kind of secular saint. Ambitious and endowed with enormous drive, Naumann was politically insightful as well. He recognized how the rules of the political game had changed:

> What fundamentally destroyed liberalism was the entry of the class-movement into modern politics, the entry of the agrarian and industrial-proletarian movement[s] ... The old liberalism was no representative of a class-movement, but a world-view that balanced all differences among classes and social orders ...[83]

In many respects, Naumann anticipated what is often considered the central insight of the School of Public Choice, when he described the development of modern democracy:

> The economic classes contemplated to what end they might make use of the new means of parliamentarianism ... gradually, they learned that politics is fundamentally a great business, a struggling and a haggling [*Markten*] for advantages, over whose lap collects the most rewards cast by the legislation-machine.[84]

Richter, too, understood this.[85] The difference, however, was that Naumann *endorsed* the new rules of the game and wished to see a revived liberal movement adopt them wholeheartedly.[86] Together with his close friend, Max Weber, Naumann tried to fashion a liberalism more "adapted" to the circumstances of the twentieth century, and to win liberal leaders like Theodor Barth to his strategy. In

---

Imperialistischer Staat. Der Imperialismus als Problem liberaler Parteien in Deutschland, 1890-1914 (Göttingen: Vandenhoeck and Ruprecht, 1975), pp. 92-93.

[81]Wolfgang Mommsen, "Wandlungen der liberalen Idee im Zeitalter des Imperialismus," in ibid., p. 122.

[82]See Peter Theiner, *Sozialer Liberalismus und deutsche Weltpolitik: Friedrich Naumann im Wilhelminischen Deutschland (1860-1919)*, (Baden-Baden: Nomos, 1983), and William O. Shanahan, "Liberalism and Foreign Affairs: Naumann and the Prewar German View," *The Review of Politics* 21, no. 1 (January 1959): 188-223.

[83]Friedrich Naumann, "Der Niedergang des Liberalismus," *Werke*, vol. 4 (Opladen: Westdeutscher Verlag, 1964), p. 218.

[84]Ibid., p. 220.

[85]See, for instance, his remarks regarding Bismarck's protectionist legislation ("the foyer of the Reichstag resembled a market-place."), cited in Raico, "Der deutsche Liberalismus," p. 279.

[86]Friedrich Naumann, "Klassenpolitik des Liberalismus," *Werke*, vol. 4, pp. 257-58.

contrast to the hopelessly prosaic Richter, Naumann knew how to shape a political vision and offer it to a new generation alienated from classical liberal ideas.[87] In his conception, liberalism had to make its peace with Social Democracy, by taking up the cause of *Sozialpolitik* and other "claims" of labor. At the same time, it had to snatch the national cause from the conservatives, by becoming the most zealous advocate of *Weltpolitik* and imperialism, and learning to appreciate the German drive to authority and prestige in the world (*Weltgeltung*). It must both "absorb state-socialist elements,"[88] and develop "an understanding for the power-struggle among the nations."[89] In short, liberalism must become "national-social." Naturally, Naumann was quite wild about the naval build-up. Already in 1900, he was convinced that war with England was a "certainty."[90]

For the sake of liberalism's future in Germany, Eugen Richter had to be "definitely fought."[91] Towards Richter, now the grand old man of Left Liberalism, Naumann had a kind of good-natured contempt. To one of his National Social audiences, he declared:

> Eugen Richter is unchangeable, and that is his greatness [Laughter]. But under this man, with his unique tenacity in work and will—which must be admired even by those who consider him a peculiar fossil—there are a whole series of people who say, in assemblies and in private: Of course we are for the fleet, but as long as Richter is alive—the man surely has his greatness [Laughter] ...[92]

Evolution or Dissolution of Liberalism?

Even from the ranks of the younger leaders of Richter's own party there was growing criticism of his position on the colonies and the

[87]Of Richter, Urs Müller-Plantenberg, *Der Freisinn nach Bismarcks Sturz*, p. 89, very correctly writes: "In his *ABC-Books* for liberal voters, Richter processed a plethora of statistics, dates, facts, and legislative paragraphs into rational arguments, which, absent a whole that behind it all might have come to light, could never have their full effect."

[88]Friedrich Naumann, "Liberalismus als Prinzip," *Werke*, vol. 4, p. 252.

[89]Friedrich Naumann, "Niedergang des Liberalismus," ibid., p. 224.

[90]Paul M. Kennedy, *The Rise of the Anglo-German Antagonism, 1860-1914*, p. 340. Typical of the historical treatment of the Richter-Naumann dichotomy, Winfried Baumgart, *Deutschland im Zeitalter des Imperialismus, 1890-1914*, p. 160, writes of "the mitigation of the earlier [liberal] dogmatism" in foreign as in domestic policy, that is "to be ascribed to the work of Friedrich Naumann." When all is said and done, however, one may well be of the opinion that even more important than whether a given foreign-policy position was or was not "dogmatic" is whether it promoted peace or war. One may also question whether the concept of "dogmatism" itself has much heuristic, in contrast to polemical, value.

[91]Friedrich Naumann, "Niedergang des Liberalismus," *Werke*, vol. 4, p. 234.

[92]Ibid., p. 232. Theodor Heuss follows his mentor Naumann, when he writes of Richter: "he saw the objective of the power-state only in the distortion of militarism," *Friedrich Naumann: Der Mann, das Werk, die Zeit*, p. 242.

naval build-up. In 1902, on the floor of the Reichstag one of Richter's own protégés, Richard Eickhoff, thanked the War Minister on behalf of his constituents for a new armaments contract, taking the opportunity to request still more contracts, and joking that, *l'appetit vient en mangeant*.[93] With Richter's death in 1906, the old liberal negativity and carping criticism in military matters—and the history of German Manchesterism—came to an end. German Left Liberalism had no further objections to the Imperial military budget. Eight years later would come that summer of 1914 and the fateful machinations of the German General Staff, in the meanwhile grown omnipotent.

A few years after Richter's death, the then well-known nationalist historian, Erich Marcks, spoke of the "supersession of the older liberalism." This liberalism had, to be sure, saturated and impregnated the whole life of the modern nations; its effects continued to be felt everywhere. It was indestructible. But, added the biographer and adulator of Bismarck:

> With its own most distinctive political principle it has now been eclipsed. The idea of increased state force, the idea of power, has displaced it. And it is this idea that everywhere fills the leading men mightily and decisively dominates them: we have met with this same drive, quite apart from Russia, where it never disappeared, in [Theodore] Roosevelt and [Joseph] Chamberlain, and recognize it in Bismarck and Kaiser Wilhelm II.[94]

German Liberalism as "English Trader-Spirit"

Ultimately, the hostility between England and Germany, which Richter had so bitterly fought, contributed greatly to the outbreak of the World War I—the *hostility*, it should be noted, not the *economic competition*, since England and America were also in that sense competitors (and, of course, also customers), a circumstance that did not result in contention. German hatred of England[95] found its apotheosis, and its *reductio ad absurdum*, in a work by the scholar who was then perhaps the most famous economic historian in the world: Werner Sombart, a leader of the interventionist *Verein für Sozialpolitik*. If one wishes to understand what the German anti-liberalism of the earlier twentieth century meant, one must consult this

[93]Roger Chickering, *Imperial Germany and a World Without War. The Peace Movement and German Society, 1892-1914*, p. 255.

[94]Erich Marcks, *Männer und Zeiten: Aufsätze und Reden zur neueren Geschichte*, 4th rev. ed. (Leipzig: Quelle und Meyer, 1916), p. 260.

[95]Concerning the perhaps even more fateful English hatred of Germany, see my contribution, "The Politics of Hunger: A Review," *The Review of Austrian Economics* 3 (1988): 253-59.

book. It is titled, *Traders and Heroes*,[96] and appeared in the war-year 1915. The underlying thesis is that there exist two spirits whose eternal strife comprises world history, the trader-spirit and the hero-spirit, and two peoples who today incarnate one or the other of these. Naturally, the English are the traders, the Germans the heroes. Sombart's work, to the extent that it is not a hymn of praise to war and death, is often amusing, e.g., when the author asserts: "The foundation of everything English is certainly the unfathomable spiritual limitedness of this people"[97]; or when he devotes a chapter to English science without mentioning Isaac Newton[98]; or when he maintains that the English since the time of Shakespeare have produced no cultural value.[99]

Much more serious and characteristic for the time is Sombart's seconding of Ferdinand Lassalle in dismissing the liberal ideal as merely that of "the nightwatchman state."[100] Many in the next two generations would echo Sombart's judgment on German liberalism, when he described its golden age and decline:

> But then there came another bleak time for Germany, when in the 1860s and 1870s the representatives of the so-called Manchester School quite shamelessly hawked imported English goods on the streets of Germany as German products. ... And it is well-known how today this "Manchester theory" has been contemptuously shoved aside by theoreticians and practicitioners in Germany as totally mistaken and useless.

The two sentences that conclude this passage, however, end in question marks:

> So that perhaps we may say that in the conception of the state, it is the German spirit that in Germany itself has achieved sole sway? Or does the English trader-spirit still haunt some heads?[101]

As regards Richter, it would be pointless to deny that a certain air of "trader-spirit," or, rather, of a middle-class mentality, always surrounded him. There is certainly some truth in Theodor Heuss's accusation of a "monumental petty-bourgeois quality."[102] Richter knew no foreign languages, and the few times he travelled abroad it was to vacation in Switzerland. He seems to have had little interest in the affairs of other countries, even in the fortunes of the liberal

[96]Werner Sombart, *Händler und Helden: Patriotische Besinnungen* (Munich/Leipzig: Duncker and Humblot, 1915).

[97]Ibid., p. 9.

[98]Ibid., pp. 17-34.

[99]Ibid., p. 48.

[100]Ibid., p. 25.

[101]Ibid., p. 75.

[102]Heuss, *Friedrich Naumann: Der Mann, das Werk, die Zeit*, p. 180.

movement there. Theodor Barth, spokesman for a Left Liberalism associated with the big banks and exporting merchant houses, jokingly replied to the question, what distinguished his own party from Richter's: if a man can tell Mosel from Rhine wine, he was a member of Barth's party, if not, then of Richter's.[103] But Richter's "petty-bourgeois quality" was something that his followers in the German middle-classes, in the liberal professions and small business, particularly in the great cities and above all in Berlin, felt, understood, and responded to.[104] A dwindling remnant as the years went by, they represented by and large a German version of William Graham Sumner's "Forgotten Man."[105] Six years after Sumner's classic description was published in the United States, the journalist Alexander Meyer wrote in Richter's *Freisinnige Zeitung* that the liberals were

> the party of the small man, who depends on himself and his own powers, who demands no gifts from the state, but only wants not to be hindered in improving his position to the best of his abilities and to strive to leave his children a better lot in life than came to him.[106]

A rare glimpse of such a German "forgotten man" is given in the moving portrayal by Bruno Walter of his father, a Berlin Jew,

> accountant in a larger silk firm, for which he worked, in gradually rising positions and with a growing income, for over fifty years. He was a quiet man, with a strict sense of duty and total dependability, and outside of his profession he knew only his family ... he voted liberal and venerated Rudolf von Virchow and Eugen Richter.[107]

Undeniably "petty-bourgeois" through and through, such men had no great love for *Weltpolitik* and invigorating wars, or for the overthrow of all existing social conditions in the name of a Marxist dream; and they stood by Richter to the end.[108]

"What Richter Can Still Mean for Us"

In 1931, the 25th anniversary of Richter's death, the social-liberal historian Erich Eyck posed the question whether Eugen Richter could

[103]Konstanze Wegner, *Theodor Barth und die Freisinnige Vereinigung. Studien zur Geschichte des Linksliberalismus im wilhelminischen Deutschland (1893-1910)*, p. 100.

[104]Ibid., pp. 99-101.

[105]William Graham Sumner, "On the Case of a Certain Man Who is Never Thought Of" and "The Case of the Forgotten Man Further Considered" (1884), in idem., *War and Other Essays*, Albert Galloway Keller, ed. (New Haven, Conn.: Yale University Press, 1911), p. 247-68.

[106]Quoted in Müller-Plantenberg, *Der Freisinn nach Bismarcks Sturz*, p. 146.

[107]Bruno Walter, *Thema und Variationen: Erinnerungen und Gedanken* (Stockholm: Bermann-Fischer, 1947), pp. 16 and 21.

[108]Cf. Franz Mehring's view, admittedly sardonic, "that [Richter] did not create the

"still mean something for us."[109] After all that the Germans have gone through since Richter's time, it is easier to ascertain where his significance lies. He was, as regards Germany, *the* great advocate of the liberal world-revolution that constitutes the meaning of modern history. Through four decades he fought, as politician and publicist, for what Werner Sombart spurned as the "English trader-spirit": for peace; a decent life for all classes through the market economy and free trade; pluralism and the peaceable, rather than violent, clash of world-views and cultural values; citizenly self-respect, instead of servility; and the independence of the individual. As against all conservative reproaches, he was always a proud patriot, and could never understand why it was the Germans, of all people, who should not enjoy individual rights.

Florin Afthalion has remarked, in the case of Frédéric Bastiat:

> How are we to explain that a man who fought for free trade a century before the majority of the industrialized nations made it their official doctrine, who condemned colonialism also a century before decolonization ... who, above all, proclaimed an era of economic progress and the enrichment of all classes of society, should be forgotten, while the majority of his intellectual adversaries, prophets of stagnation and of pauperization, who were wrong, still have freedom of the city?[110]

The case of Eugen Richter is similar, and perhaps even more egregious. Certainly, in his own time Richter "failed." But if this is proposed as the grounds for neglecting the most important of the political leaders of authentic liberalism in Germany, then the ready reply would be: which politician in modern German history before Adenauer and Erhard did *not* sooner or later fail? When all is said and done, Eugen Richter was a harbinger of the rule of law, free trade and the market economy, pluralism and peace, tendencies that, after the catastrophes promoted by the opposition camps, have brought in a rich harvest—that is to say, he was a harbinger of modernity. For what he was and what he represented—if one may say so: from the mere fact that this German "never trusted any government"[111]—the old Rhineland liberal deserves to be better treated by the historians and, by the Germans, not to be completely forgotten.

Freisinnige Partei in his own image, but that they chose him as their leader, because they saw in him their most fitting image." *Gesammelte Schriften*, Thomas Höhle, Hans Kock, and Josef Schleifstein, eds., vol. 15, *Politische Publizistik 1905 bis 1918* ([East] Berlin: Dietz, 1966), p. 165.

[109]Erich Eyck, "Eugen Richter," in *Auf Deutschlands Politischem Forum* (Erlenbach-Zurich: Rentsch, 1963), p. 47.

[110]Florin Afthalion, "Introduction," in Frédéric Bastiat, *Oeuvres économiques* (Paris: Presses Universitaires de France, 1983), p. 8.

[111]Müller-Plantenberg, *Der Freisinn nach Bismarcks Sturz*, p. 200.

Ludwig von Mises as Social Rationalist

Joseph T. Salerno*

For the most part Ludwig von Mises's writings on society and social evolution have been ignored by the participants in the current revivals of both Austrian economics and classical liberal political philosophy. When his social theory has been addressed, Mises appears to his critics (Barry 1987, p. 59) as "a child of the Enlightenment wrongly deposited in the twentieth century." But this assessment is inaccurate for two reasons. First, Mises severely criticizes the social meliorism of the Enlightenment liberals and demonstrates that their position is inconsistent with one that assigns the central position to human reason in social evolution. Second, in developing his own uniquely rationalist position, Mises has much to say about matters of central importance to modern Austrians, libertarians, and classical liberals who are either critics or adherents of the "spontaneous order" and/or social evolutionist positions staked out by Hayek.

I limit myself here to a systematic exposition of Mises's thinking about society and social evolution. I make no attempt to critically analyze Mises's thought or to explicitly compare it to that of other social thinkers. However, I do employ certain well-known positions of Hayek's work as a foil to facilitate the elaboration of Mises's arguments and to demonstrate their contemporary relevance.

In the following section I present Mises's view that all social interactions and relationships are thought out in advance and that, therefore, society originates and evolves as a product of reason and teleological striving, as a "man-made mode of acting" and a consciously devised "strategy." Section three sets forth Mises's argument that law, normative rules of conduct, and social institutions are at one and the same time the product of a long evolutionary process and the outcome of attempts by individual human beings to rationally and purposively adjust their behavior to the requirements of social cooperation under division of labor.

*Joseph T. Salerno is associate professor of economics at Pace University in New York City.

The Review of Austrian Economics, Vol. 4, 1990, pp. 26-54
ISSN 0880-3047

Section four highlights the importance which Mises attaches to economic calculation using market prices as the logical precondition of the existence of society. Far from being a "spontaneous" order, society is, for Mises, a "rational" order, because the very possibility of purposive action within the framework of social division of labor depends on the faculty of the human intellect to conceive cardinal numbers and manipulate them in arithmetic operations. Thus, as we shall see in section five, from Mises's viewpoint, *the* social function of the price system is not to facilitate "the use of knowledge in society" but to render possible "the use of calculation in society." And it is speculative future market prices as *appraised* by entrepreneurs and not the realized prices of history which serve this function. Mises argues further that the past prices experienced by entrepreneurs, praxeologically, can never embody the knowledge relevant to their necessarily future-oriented production plans in the real world of changing economic data. Indeed, I argue that this is the long neglected negative implication of Mises's regression theorem of the origin of money.

Section six addresses the question whether and to what extent Mises's position in the socialist calculation debate actually referred to problems of knowledge rather than of calculation. In fact, as we shall see, the answer to this question is quite clear. Particularly in his later discussions of the issue, Mises explicitly assumed, time and again, that the socialist planners had full knowledge, not only of the latest technology, but of what Hayek calls "the particular circumstances of time and place" relating to consumer value scales and resource availabilities. Even under these conditions of "perfect information," Mises emphatically contended that the problem of calculation, "the crucial and only problem of socialism," remains insoluble.

The Misesian approach to social evolution as the outcome of conscious ideological struggle is outlined in the concluding section. Here I present Mises's speculative hypothesis that continuing ignorance of the remoter consequences of catallactic activity by the masses leads to spreading social maladjustment and spontaneous social disintegration.

Reason and the Origin of Society

For Mises reason is man's "characteristic feature" (1966, p. 177). Human reason and human action are inseparably linked, because "Every action is always based on a definite idea about causal relations" (Mises 1966, p. 177). In addition reason and action are congeneric, a twin product of man's efforts to sustain himself and flourish in a universe of scarcity. Thus, beings inhabiting a "universe of

unlimited opportunities ... would never have developed reasoning and thinking. If ever such a world were to be given to the descendants of the human race, these blessed beings would see their power to think wither away and would cease to be human. For the primary task of reason is to cope consciously with the limitations imposed upon man by nature, is to fight scarcity. Acting and thinking man is a product of a universe of scarcity" (Mises 1966, pp. 235-36).

As the fruit of conscious thought and the instrument of action, Mises characterizes knowledge as having an "activistic basis." "[K]nowledge is a tool of action. Its function is to advise man how to proceed in his endeavors to remove uneasiness" (Mises 1987b, p. 35).

Mises (1966, p. 143) defines society as "concerted action" or "cooperation" among human beings that is "the outcome of conscious and purposeful behavior." As such, society is a consciously-devised "strategy," "a man-made mode of acting" in the war against scarcity (Mises 1966, p. 26).[1] Society is therefore a product of human reason and volition: "Reason has demonstrated that, for man, the most adequate means for improving his condition is social cooperation and division of labor. They are man's foremost tool in his struggle for survival" (Mises 1966, p. 176).

The provenance of social cooperation, in Mises's view, is to be found in two fundamental facts. The first is the "natural phenomenon" that human effort expended under the division of labor is more productive than the same quantum of effort devoted to isolated production (1985, pp. 38-39). The second fact is that, through a deliberate exercise of reason, individuals are able to grasp this first fact and *consciously* use it as a means to improve their welfare (1966, pp. 144-45). As Mises writes: "Human society is an intellectual and spiritual phenomenon. It is the outcome of a *purposeful utilization* [my emphasis] of a universal law determining cosmic becoming, viz., the higher productivity of the division of labor. As with every instance of action, the recognition of the laws of nature are put into the service of man's efforts to improve his conditions" (1966, p. 14).

In identifying the division of labor as "the essence of society" and "the fundamental social phenomenon," Mises establishes social evolution as an ontological process amenable to rational investigation (1969, p. 299; 1966, p. 157). Social evolution thus becomes "the development of the division of labor" and this permits us to "... trace the origin of everything concerned with society in the development of the division of labor" (Mises 1969, pp. 301, 303).

As "the great principle of cosmic becoming and evolution," and "the fundamental principle of all forms of life" (Mises 1985, p. 38;

[1]Mises employs this term to characterize the market economy in particular.

Mises 1969, p. 291),[2] the principle of the division of labor has application in both the social and biological worlds. This insight leads Mises in his earlier writings to compare human society to a biological organism, identifying the division of labor as the *tertium comparationis* of the metaphor (1969, pp. 289-92).[3]

What distinguishes cooperation among individuals within the "social organism," however, from the cellular interactions of animal and vegetable organisms is that, in the former only, reason and will are the originating and sustaining forces of the organic coalescence. Human society is thus spiritual and teleological. Writes Mises: "Society is the product of thought and will. It does not exist outside thought and will. Its being lies within man, not in the outer world. It is projected from within outwards" (1969, p. 291).

Eagerness for improved living standards in conjunction with the recognition of the higher productivity of social cooperation provides the specific motivation that induces an individual to renounce autarkic economic activity and willingly integrate himself into the social division of labor. Accordingly,

> Every step by which an individual substitutes concerted action for isolated action results in an immediate and recognizable improvement in his conditions. The advantages derived from peaceful cooperation and division of labor are universal. They immediately benefit every generation. ... When social cooperation is intensified by enlarging the field in which there is division of labor ... the incentive is the desire of all those concerned to improve their own conditions. In striving after his own—rightly understood—nterests the individual works toward an intensification of social cooperation and peaceful intercourse. Society is a product of human action, i.e., the human urge to remove uneasiness as far as possible [Mises 1966, p. 146].

The Torrens-Ricardo law of comparative cost, which identifies the causes of trade and specialization among nations, thus becomes for Mises a formal inference from the more general "law of association,"

[2]Elsewhere, Mises (1966, p. 145) refers to it as "one of the great basic principles of cosmic becoming and evolutionary change." It is this expression which Butler (1988, p. 336 n.119) cites as "among the most evident" of the "many examples of Mises's difficulty with English." This is not "an odd description of the division of labor," as Butler (1988, p. 336, n.119) suggests, but a felicitous and perfectly fitting description of its central importance in the ontological structures of the biological and social worlds.

[3]Mises (1966, pp. 143-76) completely drops the biological metaphor in his later discussion of society in *Human Action*, but then reinstates it in *Theory and History* (Mises 1985, pp. 252-53) while criticizing its various misinterpretations. In response to the charge of Butler (1988, p. 108) that Mises at one point "drifts into the organic fallacy," it should be said that Mises uses the metaphor with complete awareness and with the sole purpose of illustrating the point that the principle of the division of labor operates in the biological as well as the social realm.

which explains the universality and permanence of social cooperation on the individual level. In elucidating the incentives that induce individual human beings of varying productive capacities and without explicit agreement to willingly undertake those actions that engender the social division of labor and tend toward its progressive intensification, the law of association provides the key to understanding social evolution.

According to Mises:

> The law of association makes us comprehend the tendencies which resulted in the progressive intensification of human cooperation. ... The task with which science is faced in respect of the origins of society can only consist in the demonstration of those factors which can and must result in association and its progressive intensification. ... If and as far as labor under the division of labor is more productive than isolated labor, and if and as far as man is able to realize this fact, human action itself tends toward cooperation and association; man becomes a social being not in sacrificing his own concerns for the sake of a mythical Moloch, society, but in aiming at an improvement in his own welfare. Experience teaches that this condition—higher productivity achieved under the division of labor—is present because its cause—the inborn inequality of men and the inequality in the geographical distribution of the natural factors of production—is real. Thus we are in a position to comprehend the course of social evolution [1966, pp. 160-61].

The operation of the law of association gives rise to two related tendencies which are detectable in the historical development of society. The first is the progressive extension of the division of labor to encompass greater numbers of individuals and groups. The second is the progressive intensification of the division of labor, as the attainment of an ever increasing variety of individual goals is sought within the social nexus. These evolutionary tendencies are described by Mises in the following terms:

> Society develops subjectively and objectively; subjectively by enlarging its membership, objectively by enlarging the aims of its activities. Originally confined to the narrowest circles of people, to immediate neighbours, the division of labour gradually becomes more general until it eventually includes all mankind. This process, still far from complete and never at any point in history completed, is finite. When all men on earth form a unitary system of division of labor, it will have reached its goal. Side by side with this extension of the social bond goes a process of intensification. Social action embraces more and more aims; the area in which the individual provides for his own consumption becomes constantly narrower [1969, p. 324].

The latter tendency for division of labor to intensify effects "the highest possible concentration of the production of each specialty"

consistent with geographical factors, such as the distribution of natural resources and climatic conditions. In the absence of such geographical impediments, social evolution "would finally result in the emergence of one factory supplying the whole oecumene with some particular article" (Mises 1985, p. 23).

As the final and full fruition of social evolution driven by the cosmic ontological principle of division of labor, the "oecumene" embraces all of humanity cooperating in hyperspecialized production processes. At any point in history, the evolving oecumene is the "rational and intended" outcome of an intersubjective process, whose purpose is the amelioration of scarcity. It exists not as a thing unto itself but as a complex of social relations which emerges from a common orientation of individual human actions, i.e., to use the social division of labor as the means to attain individual goals. Because such relations thus emanate from the will, they must be daily affirmed and recreated in human thought and conduct.

The Rationalistic Basis of Rules of Conduct and Social Institutions

If society and social evolution are emanations of the human will, a "will-phenomenon" as Mises says, so are the ancillary social institutions, customs, and rules of conduct which facilitate the establishment and smooth functioning of the system of social relationships. Law, the moral code, marriage and the nuclear family, private property, specialized occupations and professions, linguistic developments, and the market economy itself are the outcome of conscious endeavors by human beings to adjust more effectively to the requirements of the fundamental social relation and thereby make more productive use of the principle of the division of labor in achieving their goals. While these institutions were not created out of whole cloth by a single mind, political fiat or "social contract," they are indeed the products of rational and intentional planning by human beings, whose thoughts and actions continually reaffirm and reshape them in the course of history (1969, p. 306).

Thus Mises argues that "Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns" (1966, p. 883). In order to reap the benefits of social cooperation, each individual must refrain from seeking ephemeral advantages through actions "detrimental to the smooth functioning of the social system" and, therefore, to his own rightly understood interests (Mises 1966, p. 148).

Law evolves as part of the system of "the rules of conduct indispensable for the preservation of society" (Mises 1966, p. 149). The development of these rules of conduct, like that of society itself, is an evolutionary *and* rational process. Mises emphatically rejects the naive rationalist explanation of society and of the legal order, which construes their origination and development as "a conscious process ... in which man is completely aware of his motives, of his aims and how to pursue them" (1969, p. 43). Nonetheless, Mises affirms that evolution of law is crucially dependent on the fact that the "position of social ends in the system of individual ends is perceived by the individual's reason, which enables him to recognize aright his own interests" (1969, p. 398). Where the naive rationalist asserts that law sprang into existence full-grown from a set of explicit presocietal contracts, Mises as social rationalist characterizes law as a "settlement, an end to strife" which emerges naturally from the process of social evolution and spreading awareness of the higher productivity of peaceful integration into the social division of labor (1969, p. 44). This explains, furthermore, why "The idea of Law is realized at first in the sphere in which the maintenance of peace is most urgently needed to assure economic continuity ... that is in the relations between individuals [i.e., the realm of private law]" (Mises 1969, p. 46).

As an instrument designed to increase mutual prosperity by facilitating social cooperation, the law has a teleological and rationalistic basis: "Like all other social institutions, the Law exists for social purposes" (Mises 1969, p. 77). As such, "Law and legality, the moral code and social institutions ... are of human origin, and the only yardstick that must be applied to them is that of expediency with regard to human welfare" (Mises 1966, p. 147).

However, the repression of the antisocial conduct of the intellectually defective, the weak-willed, or individuals who heavily discount the future consequences of their actions is not accomplished solely or even mainly by the coercive powers of the legal authorities. Broadly accepted morals and customs evolved as a first line of defense against behavior potentially destructive of social relationships. As Mises points out:

> Not every social norm requires that the most extreme coercive measures shall at once be put into force. In many things, morals and custom can wring from the individual a recognition of social aims without assistance from the sword of justice. Morals and custom go further than State law in so far as there may be a difference in extent between them, but no incompatibility of principle [1969, p. 399].

This is the meaning behind Mises's dictum that "Morality consists

in the regard for the necessary requirements of social existence that must be demanded of each individual member of society. A man living in isolation has no moral rules to follow" (Mises 1987b, p. 33).

Like law and normative rules of conduct, private property is, at the same time, an "outgrowth of an age old evolution" and "a human device" (Mises 1966, pp. 654, 683). It originated as a rational response to scarcity, when, encountering lowered productivity due to increased population density, people deliberately decided to abandon "predatory methods" of hunting and gathering and to permanently appropriate to themselves the most productive land factors (Mises 1966, pp. 656-57). Moreover, the historical development of private property was powerfully conditioned by ideology, which, as we shall see below, is the product of conscious human thought.

Monogamous marriage and the nuclear family are also social institutions that evolved as products of rational insight into the requirements of the division of labor. "As a social institution marriage is an adjustment of the individual to the social order by which a certain field of activity, with all its tasks and requirements, is assigned to him" (Mises 1969, p. 99). In this sense, it is the application of the principle of the division of labor to those extra-catallactic tasks that are immediately prerequisite to the enjoyment of consumption goods, whether acquired on the market or produced within the household, e.g., the bearing and raising of children. It is a chosen form of social cooperation in the face of the pervasiveness of scarcity in human life.

Marriage and family life are therefore not products of innate sexual drives or natural instincts. These institutions originated and continue to exist as an integral part of social life because ratiocination of individual human beings daily affirms their benefits. In Mises's words, "neither cohabitation, nor what precedes it and follows, generates social cooperation and societal modes of life. The animals too join together in mating, but they have not developed social relations. Family life is not merely a product of sexual intercourse. It is by no means natural and necessary that parents and children live together in the way in which they do in the family. The mating relation need not result in a family organization. The human family is an outcome of thinking and acting" (Mises 1969, p. 168).

Nor is the modern ideal of monogamous marriage a creation of ecclesiastical directives. Modern marriage is a product of the evolution of contract law and its deliberate extension into matters of family life. Monogamy historically wins out over polygamy as conflict over control and disposition of the property that a woman brings to a marriage, including the identification of her proper heirs, is resolved

through recourse to the idea of contract. This process is described by Mises in the following passage:

> Thus monogamy has been gradually enforced by the wife who brings her husband wealth and by her relatives—a direct manifestation of the way in which capitalist thought and calculation has penetrated the family. In order to protect legally the property of wives and their children a sharp line is drawn between legitimate and illegitimate connection and succession. The relation of husband and wife is acknowledged as a contract.
>
> As the idea of contract enters the Law of Marriage, it breaks the rule of the male, and makes the wife a partner with equal rights. From a one-sided relationship resting on force, marriage thus becomes a mutual agreement; the servant becomes the married wife entitled to demand from the man all that he is entitled to ask from her. ...
>
> This evolution of marriage has taken place by way of the law relating to the property of married persons. Woman's position in marriage was improved as the principle of violence was thrust back, and as the idea of contract advanced in other fields of the Law of Property it necessarily transformed the property relations between the married couple. The wife was freed from the power of her husband for the first time when she gained legal rights over the wealth that she brought into marriage and which she acquired during marriage. ...
>
> Thus marriage, as we know it, has come into existence entirely as a result of the contractual idea penetrating into this sphere of life. All our cherished ideals of marriage have grown out of this idea. That marriage unites one man and one woman, that it can be entered into only with the free will of both parties, that it imposes a duty of mutual fidelity, that a man's violations of the marriage vows are to be judged no differently from a woman's, that the rights of husband and wife are necessarily the same—these principles develop from the contractual attitude to the problem of marital life [1969, pp. 95-96].

In sum, family life in its modern form, as well as the morals and rules of conduct that sustain and make it possible, are the outcome of a historical process directed by reason and fueled by the eagerness of individual human beings to establish living arrangements compatible with the fullest possible satisfaction of their desires under the evolving division of labor. Thus, as Mises concludes, modern marriage "is the result of capitalist, and not ecclesiastical, development" (1969, p. 97).

Like the morals underlying marriage, all spiritual or intellectual phenomena, including religion and culture, are powerfully conditioned by the development of the social division of labor. As Mises points out, "all inner culture requires external means for its realization, and these external means can be attained only by economic effort. When the productivity of labor decays through the retrogression of social co-operation the decay of inner culture follows" (1969, p. 310).

Mises illustrates this historically by noting the decline of the Roman Empire, which "was only a result of the disintegration of ancient society which after reaching a high level of division of labor sank back into an almost moneyless economy" (1969, p. 309). The "disintegration" of the social division of labor delivered a devastating setback not only to human population, productivity, and prosperity, but also to scientific, technical, and artistic pursuits. In short, "The Classical culture died because Classical society retrogressed" (Mises 1969, p. 309).

Linguistic evolution is also intimately connected with changes occurring in the division of labor. Language is "a tool of thinking and acting" and, as such, "changes continually in conformity with changes occurring in the minds of those who use it" (Mises 1985, p. 232). When communication between members of a linguistically homogeneous group is impaired or altogether cut off, the consequence is a divergent evolution of the language among the isolated groups from that point onward. Thus Mises explains the emergence of local dialects as a "disintegration of linguistic unity" that results "When communication between the various parts of a nation's territory was infrequent on account of the paucity of the interlocal division of labor and the primitiveness of transportation facilities ..." (1985, p. 233).

Along with genetic endowment and natural environment, Mises identifies the social division of labor as an important factor operating to constrain the possibilities of the individual's "being and becoming" at any point in history (1969, pp. 314-15). The individual is born into a social environment characterized by pre-existing rules of conduct, linguistic conventions, legal and moral codes, customs, and social institutions whose *raison d'être* is to render possible human cooperation under the division of labor. In choosing to integrate himself into society, the individual must consciously adapt himself to the division of labor both physically and spiritually: physically, by forgoing the exercise and development of his abilities and skills in a whole range of tasks designed to serve directly his own wants and by pursuing a highly specialized profession or occupation oriented to satisfying the wants of other human beings; and spiritually, by adopting behavior in accordance with social norms and institutions.

Thus, according to Mises (1969, p. 304), "The most important effect of the division of labor is that it turns the independent individual into a dependent social being. Under the division of labor, social man changes. ... He adapts himself to new ways of life, permits some energies and organs to atrophy and develops others. He becomes one-sided."

Moreover, as Mises points out, the very concept of an isolated human being is a fiction, a useful mental construct for the elaboration of economic theory but impossible of realization in history (Mises

1966, pp. 243-44; Mises 1969, pp. 291-92). Homo sapiens is necessarily a creature of social cooperation under division of labor, because language, the prerequisite of conscious thought, cannot be developed by an isolated being. As Mises expresses it:

> The biological passing of a species of primates above the level of a mere animal existence and their transformation into primitive men implied the development of the first rudiments of social cooperation. Homo sapiens appeared on the stage of earthly events neither as a solitary food-seeker nor as a member of a gregarious flock, but as a being consciously cooperating with other beings of his own kind. Only in cooperation with his fellows could he develop language, the indispensable tool of thinking. We cannot even imagine a reasonable being living in perfect isolation and not cooperating at least with members of his family, clan, or tribe. Man as man is necessarily a social animal. Some sort of cooperation is an essential characteristic of his nature [1985, p. 252].

These considerations lead Mises to conclude that "The development of human reason and human society are one and the same process" (1969, p. 291). Elsewhere Mises affirms "the inner and necessary connection between evolution of the mind and evolution of society" (1969, p. 300). But if social cooperation is a necessary precondition of the origination of the human mind, the existence and evolution of the social division of labor beyond the rudimentary level depends on the ability of the human intellect to operate with cardinal numbers in order to calculate the outcome of social production processes. This is another sense in which, for Mises, society can be considered a rational phenomenon.

Economic Calculation, Market, and Society

Mises characterizes the market as "the foremost social body" (1966, p. 315). As such the market economy is "the product of a long evolutionary process" (Mises 1966, p. 265). This does not imply, however, that market relations are a nonteleological or undesigned outcome of tropistic and nonrational cultural selection processes. To the contrary, Mises argues that the market economy is the product of conscious reason and teleological striving, it is "the outcome of man's endeavors to adjust his action in the best possible way to the given conditions of his environment that he cannot alter" (1966, p. 265). In this spirit, Mises refers to the market economy both as "a man-made mode of acting under the division of labor" and as a "strategy" for achieving social and economic progress (1966, p. 265).

Moreover, the market originates and evolves through individual exchanges, which involve "intentional mutuality" and "conscious and purposeful cooperation" (Mises 1966, p. 194). As Mises writes, "The

recurrence of individual acts of exchange generates the market step by step with the evolution of the division of labor within a society based on private property" (1966, p. 327). It follows then that "The exchange relation is the fundamental social relation. Interpersonal exchange of goods and services weaves the bond which unites men into society. The societal formula is: *do ut des*" (Mises 1966, p. 194).

By virtue of the fact that it subsists in the network of exchanges continually recurring among purposeful human actors, the market and its configuration at any moment in time is to be explained by the human values and choices which give rise to these exchanges. In this sense, certainly, market society is a purposeful creation, an intended consequence of consciously chosen behavior. According to Mises:

> The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor. The forces determining the—continually changing—state of the market are the value judgments of these individuals and their actions as directed by these value judgments. ... The market is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society. ...
>
> ... [T]he only factors directing the market and the determination of prices are the purposive acts of men. There is no automatism; there are only men consciously and deliberately aiming at ends chosen. There are no mysterious mechanical forces; there is only the human will to remove uneasiness [1966, pp. 257-58, 315].

But while market phenomena are to be explained completely in terms of conscious human choices, the successive price structures which emerge in the course of the market process are genuinely "social" phenomena. They are social in the sense that, although every individual transactor contributes to their formation, they represent more than any particular individual's contribution. The result is that each individual when planning his market activities takes prices into account as if they were uninfluenced by his own actions. As Mises writes:

> The market phenomena are social phenomena. They are the resultant of each individual's active contribution. But they are different from each such contribution. They appear to the individual as something given which he himself cannot alter. ...
>
> ... [Prices] are social phenomena as they are brought about by the interplay of the valuations of all individuals participating in the operation of the market. Each individual, in buying or not buying and in selling or not selling, contributes his share to the formation of the market prices. But the larger the market is, the smaller is the weight of each individual's contribution. Thus the structure of market prices appears to the individual as a datum to which he must adjust his own conduct [1966, pp. 315, 331].

Mises emphasizes that it is not any particular price but the momentarily prevailing complex of interrelationships among prices that constitutes the social aspect of the market:

> It would be absurd to look upon a definite price as if it were an isolated object in itself. A price is expressive of the position which acting men attach to a thing under the present state of their efforts to remove uneasiness. It does not indicate a relationship to something unchanging, but merely the instantaneous position in a kaleidoscopically changing assemblage. In this collection of things considered valuable by the value judgments of acting men each particle's place is interrelated with those of all other particles. What is called a price is always a relationship within an integrated system which is the composite effect of human relations [1966, p. 392].

In determining the price structure, the market also determines, as part of the same social process, the allocation of labor and other resources among various lines of production and the "distribution" of income among the various individuals contributing to production. Writes Mises:

> The pricing process is a social process. It is consummated by an interaction of all members of society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual. These three events are not different matters. They are only different aspects of one indivisible phenomenon. ... In the market process they are accomplished *uno acto* [1966, p. 338].

It is thus that the market process gives rise to "not only the price structure but no less the social structure, the assignment of definite tasks to the various individuals" (Mises 1966, p. 311). It is the market and the market alone which permits the development and persistence of a meaningful and purposeful social order. Under the guidance of the market, each individual chooses purposefully to integrate himself with greatest advantage to himself and to his fellows into the social division of labor. In this way, the social system "is steered by the market. ... The market alone puts the whole social system in order and provides it with sense and meaning" (Mises 1966, p. 257).

In Misesian social theory, therefore, the hallmark and *sine qua non* of market society and of social being itself is not its "spontaneity" (whatever that may mean) but its purposefulness. When the social steering mechanism of the market is destroyed, as it is under socialist central planning, systematic and meaningful social cooperation

becomes impossible and is replaced by "a system of groping about in the dark. What is called conscious planning is precisely the elimination of *conscious purposive action* [emphasis is mine]" (Mises 1966, pp. 700-01).

While human cooperation in the division of labor is made possible by the social resultant of market exchange relationships, i.e., the price structure, the market itself is predicated upon an intellectual operation consciously originated and performed by the individual human mind. This operation is what Mises calls "economic calculation in monetary terms" or simply "monetary calculation." According to Mises monetary calculation is "the intellectual basis of the market economy" and "the guiding star of action under the social system of division of labor" (1966, pp. 229, 259). It is a "method of thinking" purposefully created by "acting man," which "made it possible to calculate his actions" (Mises 1966, p. 231).

Calculation is absolutely necessary for an actor to determine the most advantageous allocation of scarce resources in a world in which resources are neither purely nonspecific nor absolutely specific to a wide variety of possible production processes (Mises 1966, pp. 207-08). Under these conditions, therefore, monetary calculation:

> is the compass of the man embarking upon production. He calculates in order to distinguish the remunerative lines of production from the unprofitable ones. ... Every single step of entrepreneurial activities is subject to scrutiny by monetary calculation. The premeditation of planned action becomes commercial precalculation of expected costs and expected proceeds. The retrospective establishment of the outcome of past action becomes accounting of profit and loss [Mises 1966, p. 229].

Capital, "the fundamental concept of economic calculation," and the correlative concept of income enable the actor to mentally grasp the distinction between means and ends "with regard to the perpetually changing conditions of highly developed processing industries and the complicated structure of the social cooperation of hundreds of thousands of specialized jobs and performances" (Mises 1966, pp. 260-61). Capital accounting is thus the indispensable precondition of the expression of individual rationality and purpose within the context of the social division of labor, because, without recourse to this intellectual operation, men and women would be unable to evaluate the outcomes, whether consummated or expected, of their actions. According to Mises: "Monetary calculation reaches its full perfection in capital accounting. It establishes the money prices of the available means and confronts this total with the changes brought about by action and by the operation of other factors. This confrontation shows

what changes occurred in the state of the acting man's affairs and the magnitude of those changes; it makes success and failure, profit and loss ascertainable" (1966, p. 230).

Without the possibility of economic calculation, even a human actor in perfect isolation would find his range of purposeful activities or "autistic exchanges" restricted to less than the full range of production possibilities determined by the purely external elements of his environment (including his labor capacities). In characterizing the economies of the isolated individual and of the isolated socialist society as unrealizable "imaginary constructions," Mises declares: "Robinson Crusoe, who ... may have existed, and the general manager of a perfectly isolated socialist commonwealth that never existed would not have been in a position to plan and to act as people can only when taking recourse to economic calculation" (1966, p. 243).

Market and therefore society are impossible without calculable action. Mises is emphatic on this point: "The tasks set to acting within any system of the division of labor cannot be achieved without economic calculation. ... That [the market] is capable of such calculation was instrumental in its evolution and conditions its present-day operation. *The market economy is real because it can calculate* [emphasis mine]." Thus logic dictates that a treatment of the problem of economic calculation precede the systematic elaboration of a theory of the market economy. Catallactics, in turn, must precede the analysis of alternative economic systems, such as socialism, that provide no scope for calculable action. These latter systems of economic organization cannot even be conceptualized without recourse to the calculational modes of thought developed within the market economy. To quote Mises:

> The analysis of the problems of the market society, the only pattern of human action in which calculation can be applied in planning action, opens access to the analysis of all thinkable modes of action and of all economic problems with which historians and ethnographers are confronted. All noncapitalistic methods of economic management can be studied only under the hypothetical assumption that in them too cardinal numbers can be used in recording past action and planning future action. This is why economists place the study of the pure market economy in the center of their investigation [1966, pp. 266-67].

But, as Mises points out, economic calculation involves arithmetic computation and "computation requires a common denominator to which all items entered are to be referable" (1966, p. 214). It is for this reason that economic calculation can only be calculation in terms of money prices and that the development of economic calculation as

well as of the application of cardinal numbers in all areas of human life is logically and historically inseparable from the evolution of money and the market economy. As Mises writes:

> Thus money becomes the vehicle of economic calculation. ... only because money is the common medium of exchange, because most goods and services can be sold and bought on the market against money, and only as far as this is the case, can men use money prices in reckoning. The exchange ratios between money and the various goods and services as established on the market of the past and as expected to be established on the market of the future are the mental tools of economic planning. Where there are no money prices there are no such things as economic quantities. ... There is no means for man to find out what kind of action would best serve his endeavors to remove his uneasiness as far as possible ... [1966, pp. 208-09]

> ... [Monetary calculation] developed in the frame and was gradually perfected with the improvement of the market mechanism and with the expansion of the scope of things which are negotiated on markets against money. It was economic calculation that assigned to measurement, number, and reckoning the role they play in our quantitative and computing civilization. The measurements of physics and chemistry make sense for practical action only because there is economic calculation. It is monetary calculation that made arithmetic a tool for a better life. It provides the mode of using achievements of laboratory experiments for the most efficacious removal of uneasiness. ... Our civilization is inseparably linked with our methods of economic calculation. It would perish if we were to abandon this most precious intellectual tool of acting [1966, p 230].

Use of Calculation versus Use of Knowledge: The Social Function of Prices

In Mises's view, then, human society is a profoundly rational phenomenon, a product of the capacity of the human intellect to conceive cardinal numbers and manipulate them in arithmetic operations. To assert therefore that the primary function of the market's price system is to effectuate "the use of knowledge in society" is to seriously misconceive the nature of the social problem. *The* problem of society is first and foremost one of calculating the outcome of purposive action undertaken within the framework of the division of labor. As the only possible tool of calculable action, money prices do not merely permit people to utilize their individual "knowledge of particular circumstances of time and place" to enhance the efficiency with which goods are produced in society, prices render possible the very existence of social production processes. For Mises, therefore, the market provides for far more than a "division of knowledge," it produces "the intellectual division of labor that consists in the cooperation of all

entrepreneurs, landowners, and workers as producers and consumers in the formation of market prices. [W]ithout it, rationality, i.e., the possibility of economic calculation, is unthinkable" (1985b, p. 75).

In fact Mises presents a penetrating critique of the Walrasian view that, in the plans of producers, prices substitute for knowledge of the economic data or, rather, for entrepreneurial understanding and appraisement of future variations of these data. Mises's critique is grounded on the incontrovertible fact that "The prices of the market are historical facts expressive of a state of affairs that prevailed at a definite instant of irreversible historical time" (Mises 1966, p. 223). As such, realized prices can never serve as an unambiguous guide to production, which is always aimed at supplying a market of the more or less remote future involving a different configuration of the economic data. Indeed, if producers were certain that the data underlying future markets would never differ from those determining the present or immediately past state of the market, they could completely dispense with prices and calculation and simply perform the same productive activities over and over again. For, as Mises reminds us, "the main task of economic calculation is not to deal with the problems of unchanging or only slightly changing market situations and prices, but to deal with change" (1966, p. 212). Ironically, a world in which prices (of previously consummated exchanges) convey knowledge upon which to base future-oriented production decisions is a world in which the price system is, as Mises might say, "supererogatory and otiose."

In the real world of action and change, on the other hand, "Exchange ratios are subject to perpetual change because conditions which produce them are perpetually changing. The value that an individual attaches both to money and to various goods and services is the outcome of a moment's choice" (Mises 1966, p. 217). The result, according to Mises, is that "The planning businessman cannot help employing data concerning the unknown future; he deals with future prices and future costs of production" (1966, p. 224). Moreover, since past prices are not causally linked to the emergence of future prices, they cannot embody knowledge relevant to the drafting of present production plans. This is an irrefutable conclusion of praxeological analysis, the neglected negative implication of Mises's regression theorem.

Explains Mises:

> In drafting their plans entrepreneurs look first at the prices of the immediate past which are mistakenly called *present* prices. Of course, the entrepreneurs never make these prices enter into their calculations without paying regard to anticipated changes. The prices of the

> immediate past are for them only the starting point of deliberations leading to forecasts of future prices. The prices of the past do not influence the determination of future prices. It is, on the contrary, the anticipation of future prices of the products that determines the state of prices of the complementary factors of production. *The determination of prices has, as far as the mutual exchange ratios between various commodities are concerned, no direct causal relationship whatever with the prices of the past* [emphasis mine; 1966, p. 336].

In a qualifying footnote to this passage, Mises notes that, in the case of the exchange ratio between money and other economic goods, the emphasized statement does not apply. This is a reference to Mises's regression theorem, according to which the money unit's past purchasing power is a causal factor in the determination of its current purchasing power (1966, p. 336 fn. 2).

It is clear therefore that in Mises's view the information yielded by the price system does not obviate entrepreneurial forecasting and interpretative understanding of the constellation of data underlying the markets of the future. What role then does the knowledge of past prices play in today's decisions about the allocation of resources? According to Mises, past prices are useful to entrepreneurs in "appraising" the future prices that will emerge in the wake of forecast data changes. Or, put another way, yesterday's prices do not "economize knowledge" but save on the mental effort expended by the entrepreneur in striving to "understand" the effects of anticipated change on tomorrow's price structure, the elements of which serve as the cardinal numbers in today's economic calculations. Recourse to their experience of past prices eliminates the need for entrepreneurs to mentally reconstruct *ab initio* the price structure and the pattern of resource allocation every time there occurs an anticipated shift in the data requiring the calculation of new production decisions. Entrepreneurial appraisement is enormously simplified when it may proceed by estimating the effects of anticipated variations of the data on a preexisting price structure. As Mises writes:

> Numbers applied by acting man in economic calculation do not refer to quantities measured but to exchange ratios as they are expected—on the basis of understanding—to be realized on the markets of the future to which alone all acting is directed and which alone counts for acting man. ... As acting is always directed toward influencing a future state of affairs, economic calculation always deals with the future. As far as it takes past events into consideration, it does so only for the sake of an arrangement of future action. ...
>
> The prices of the past are for the entrepreneur, the shaper of future production, merely a mental tool. The entrepreneurs do not construct afresh every day a radically new structure of prices or allocate anew

> the factors of production to the various branches of industry. They merely transform what the past has transmitted in better adapting it to the altered conditions. How much of the previous conditions they preserve and how much they change depends on the extent to which the data have changed. ... In order to see his way in the unknown and uncertain future man has within his reach only two aids: experience of past events and his faculty of understanding. Knowledge about past prices is a part of this experience and at the same time the starting point of understanding the future [1966, pp. 210, 337].

As one component of experience, past prices are therefore an important, but by no means indispensable, auxiliary for entrepreneurial understanding of the future course of prices. However, since it is, in the final analysis, *future* prices which concern entrepreneurs, Mises concludes that economic calculation and rational allocation of resources could still take place even in the event of a complete obliteration of the memory of past prices:

> If the memory of all prices of the past were to fade away, the pricing process would become more troublesome, but not impossible as far as the mutual exchange ratios between various commodities are concerned. It would be harder for the entrepreneurs to adjust production to the demand of the public, but it could be done nonetheless. It would be necessary for them to assemble anew all the data they need as the basis of their operations. They would not avoid mistakes which they now evade on account of experience at their disposal. Price fluctuations would be more violent at the beginning, factors of production would be wasted, want-satisfaction would be impaired. But finally, having paid dearly, people would again have acquired the experience needed for a smooth working of the market process [1966, p. 337].

Let me summarize Mises's position on the social function of prices and the acquisition and use of knowledge in society. The price system is not—and praxeologically cannot be—a mechanism for economizing and communicating the knowledge relevant to production plans. The realized prices of history are an accessory of appraisement, the mental operation in which the faculty of understanding is used to assess the quantitative structure of price relationships which corresponds to an anticipated constellation of the economic data. Nor are anticipated future prices tools of knowledge; they are instruments of economic calculation. And economic calculation itself is not the means of acquiring knowledge, but the very prerequisite of rational action within the setting of the social division of labor. It provides individuals, whatever their endowment of knowledge, the indispensable tool for attaining a mental grasp and comparison of the means and ends of social action. As Mises says: "It is not the task of economic calculation to expand man's information about future conditions. Its task

is to adjust his actions as well as possible to his present opinion concerning want-satisfaction in the future" (1966, p. 214).

The Problem of Socialism: Calculation or Knowledge?

It is therefore clear that Mises's critique of the possibility of socialism is not about knowledge but about calculation. It proceeds ineluctably from his insight that, although cardinal numbers and their arithmetic properties are "eternal and immutable categories of the human mind," economic calculation is "only a category inherent in acting under special conditions" or what the German Historical School referred to as an "historical category" (Mises 1966, pp. 199, 201). Thus "The system of economic calculation in monetary terms is conditioned by certain social institutions. It can operate only in an institutional setting of the division of labor and private ownership of the means of production, in which goods and services of all orders are bought and sold against a generally used medium of exchange, i.e., money" (Mises 1966, p. 229). Should these preconditions of calculable action disappear in the further course of social evolution, due, for example, to the abolition of private ownership of the nonhuman means of production, rational social action will become impossible and social division of labor will literally disintegrate into its component parts, into primitive household economies.

Simply and starkly put, Mises's position is that "Human cooperation under the system of the social division of labor is possible only in the market economy. Socialism is not a realizable system of society's economic organization because it lacks any method of economic calculation. ... The choice is between capitalism and chaos" (Mises 1966, pp. 679-80). Elsewhere Mises declares "economic calculation" to be "the essential and unique problem of socialism" (1966, p. 703).

Nor did Mises ignore the so-called "knowledge problem" faced by central planners. In fact, in his later discussion of socialism in *Human Action*, he carefully and repeatedly distinguished between the problem of calculation and that of knowledge, by explicitly assuming that the economic planners possessed full knowledge of the relevant economic data (Mises 1966, pp. 689-715).

For example, Mises prefaces his chapter on the "Impossibility of Economic Calculation under Socialism" with the following list of assumptions: "We assume that the director has at his disposal all the technological knowledge of his age. Moreover, he has a complete inventory of all the material factors of production available and a roster enumerating all manpower employable. In these respects the crowd of experts and specialists which he assembles in his offices

provide him with perfect information and answer correctly all questions he may ask them. We assume that the director has made up his mind with regard to the valuation of ultimate ends. ... We may assume, for the sake of argument, that a mysterious power makes everyone agree with one another and with the director in the valuation of ultimate ends" (1966, p. 696).

The planner thus possesses "perfect information" about the general rules of technology and about the particular circumstances of time and place relating to each consumer's value scale and to the availability of each of the variety of factors. Now consider, as Mises does, the planner's decision to build a house under these conditions. Mises argues that the planner still faces the insoluble problem of which of the various known technical methods for realizing his project he should select. Each of the methods employ the given factors in different quantities, each absorbs a different period of production, and each yields a building with a different physical durability.

Mises elaborates the problem confronting the planner in this situation in the following terms:

> Which method should the director choose? He cannot reduce to a common denominator the items of various materials and various kinds of labor to be expended. Therefore he cannot compare them. He cannot attach either to the waiting time (period of production) or to the duration of serviceableness a definite numerical expression. In short, he cannot, in comparing costs to be expended and gains to be earned, resort to any arithmetical operation. The plans of his architects enumerate a vast multiplicity of items in kind; they refer to the physical and chemical qualities of various materials and to the physical productivity of various machines, tools, and procedures. But all their statements remain unrelated to each other. There is no means of establishing any connection between them. ... Eliminate economic calculation and you have no means of making a rational choice between the various alternatives [1966, pp. 698-99].

For Mises, therefore, "the crucial and only problem of socialism ... is a purely economic problem, and as such refers merely to means and not to ultimate ends" (1966, p. 697). In other words, it is the problem purely of Robbinsian maximizing, of deciding how *given* means are to be allocated in light of a *given* structure of ends.

In responding to the socialist criticism that capitalist calculation is fallible because it takes place under conditions of uncertainty, Mises leaves no doubt that inability to calculate and lack of knowledge are logically distinct problems and that the former is the rock upon which the socialist ship founders. Writes Mises:

> all human action points to the future and the future is always uncertain. The most carefully elaborated plans are frustrated if

> expectations concerning the future are dashed to the ground. However, this is a quite different problem. Today we calculate from the point of view of our present knowledge and of our present anticipation of future conditions. We do not deal with the problem of whether or not the director will be able to anticipate future conditions. What we have in mind is that the director cannot calculate from the point of view of his own present value judgments and his own present anticipation of future conditions, whatever they may be. If he invests today in the canning industry, it may happen that a change in consumers' tastes or in hygienic opinions concerning the wholesomeness of canned food will one day turn his investment into a malinvestment. But how can he find out *today* how to build and equip a cannery most economically [1966, pp. 699-700]?

It is because socialism lacks the means to calculate, therefore, that Mises emphatically denies that men "are free to adopt socialism without abandoning economy in the choice of means" or that "Socialism does not enjoin the renunciation of rationality in the employment of the factors of production" (1966, p. 702).

Mises approaches the knowledge versus calculation issue from still another angle. He assumes that human history has, in effect, come to an end and that all further changes in the economic data have ceased. He assumes in addition that the socialist central planner is miraculously endowed with perfect knowledge relating to the full data of this final equilibrium state. Even in this situation the planner confronts a problem requiring economic calculation. The planner must decide how to utilize most economically the means of production bequeathed by the past, e.g., the existing capital structure and acquired skills and location of the labor force, which are not yet adjusted to their equilibrium configurations. For, as Mises points out,

> as long as the equilibrium is not yet attained, the system is in a continuous movement which changes the data. The tendency toward the establishment of equilibrium, not interrupted by the emergence of any changes in the data coming from without, is in itself a succession of changes in the data. ... The knowledge of conditions which will prevail under equilibrium is useless for the director whose task it is to act today under present conditions. What he must learn is how to proceed in the most economical way with the means available today which are the inheritance of an age with different valuations, a different technological knowledge, and different information about problems of location. He must know which step is the next he must take. ... [Thus] even if ... we assume that a miraculous inspiration has enabled the director without economic calculation to solve all problems concerning the most advantageous arrangement of all production activities and that the precise image of the final goal he must aim at is present to his mind, there remain essential problems which cannot be dealt with without economic calculation [1966, pp. 712-13].

There is a significant implication of our interpretation of Mises's critique of socialism. Although the market economy has perfectly solved the problem of economic calculation—its very existence attests to the veracity of this conclusion—praxeologically, at least, it is on all fours with socialism with regard to the knowledge problem. For the imperfection of knowledge deriving from uncertainty of the future is a category of all human action, which cannot be overcome by recourse to the market price system, entrepreneurial alertness, the competitive discovery process, and so on. In any event, comparisons between centrally planned and market economies on the basis of their alternative mechanisms for discovering and disseminating knowledge have little more than heuristic value, precisely because, even assuming conditions of perfect knowledge, calculable, and therefore purposeful, action is logically impossible under central planning. On the other hand, a market economy in which relatively obtuse and mentally inert entrepreneurs appraise and plan on the basis of spotty and inaccurate knowledge of future conditions could still exist and operate because it would permit the calculations necessary for the Robbinsian economizing of scarce productive factors.

On this basis, we are led to reject the revisionist "discovery-process view" of the socialist calculation debate at least as it applies to Mises's contribution (Hayek's is another matter). This view has been recently enunciated by Israel Kirzner (1988) and Don Lavoie (1985) and basically concludes that the Austrian position in the debate "represented a critique of socialism only because and to the extent that markets under capitalism indeed constitute such a dynamic process of entrepreneurial discovery" (Kirzner 1988, p. 3). But this ignores Mises's key insight that the theory of monetary calculation and calculable action does not belong to the theory of catallactics. As a logical inference from categorial uncertainty, "It is part of the general theory of praxeology" (Mises 1966, p. 398, fn.1) and, as such, is a logical antecedent of catallactic theorems relating to the dynamic role of the entrepreneur-promoter in the functioning of the market process.

The Kirzner-Lavoie approach also errs in distinguishing the advantages of economic calculation from "the broader issue of the social advantages of the price system" (Kirzner 1988, p. 12). As we have documented in great detail above, however, Mises never made this distinction, even in his most mature view of the market process as presented in *Human Action*. In fact Mises conceived *the* social advantage of the price system to be that it made practicable human society itself by providing the cardinal numbers for computing the costs and benefits of purposive action undertaken within the social division of labor.

Finally, Mises, in sharp contrast to the discovery-process approach, denied that prices are directly relevant to the entrepreneurial discovery of information about future market conditions. On the one hand, according to the regression theorem, relative prices of the past are logically unrelated to relative prices which will emerge on future markets. On the other hand, future prices themselves must be appraised in light of the logically prior process of entrepreneurial discovery or, more accurately, "understanding" of yet to emerge market conditions.

Social Evolution as Ideological Struggle

Mises's recognition of the ability of human reason to grasp the benefits of social cooperation and to identify and implement its intellectual and institutional preconditions leads him to affirm that "human action itself tends toward cooperation and association" (Mises 1966, p. 160). The progressive extension and intensification of the division of labor and the concomitant flowering of society is only a tendency in social evolution, however, subject to reinforcement, retardation, or even reversal by ideology. As Mises notes, "There is no evidence that social evolution must move steadily upwards in a straight line. Social standstill and social retrogression are historical facts which we cannot ignore. World history is the graveyard of dead civilizations" (1969, pp. 309-10).

Ideology, as defined by Mises, is the "totality of our doctrines concerning individual conduct and social relations" (1966, p. 178). Since all social interactions and relationships involve conscious human behavior necessarily guided by specific ideas, human society itself, at any point in its history, is an ideological, which is to say rational, creation. Mises is emphatic on this point, declaring:

> Society is a product of human action. Human action is directed by ideologies. Thus society and any concrete order of social affairs are an outcome of ideologies. ...
>
> Any existing state of social affairs is the product of ideologies previously thought out. Within society new ideologies may emerge and supersede older ideologies and thus transform the social system. However, society is always the creation of ideologies temporally and logically anterior. Action is always directed by ideas; it realizes what previous thinking has designed [1966, pp. 187-88].

For Mises, then, the complex of human social relations is, in a fundamental sense, the product of rational design. Society is hardly a "spontaneous" or "undesigned" formation, because it is inevitable that each individual excogitate and compare before hand the prospective benefits and costs of his participation in exchange relations and

the social division of labor. Nevertheless, as is clear from his discussion of the market's price structure, Mises does not deny that there may be some unintended, and, at the same time, quite momentous consequences associated with deliberate yet decentralized choices to cooperate catallactically:

> Any given social order was thought out and designed before it could be realized. This temporal and logical precedence of the ideological factor does not imply the proposition that people draft a complete plan of the social system as the utopians do. What is and must be thought out in advance is not the concerting of individual actions into an integrated system of social organization, but the actions of individuals with regard to their fellow men and of already formed groups of individuals with regard to other groups. ... Before any act of barter takes place, the idea of mutual exchange of goods and services must be conceived. It is not necessary that the individuals concerned become aware of the fact that such mutuality results in the establishment of social bonds and in the emergence of a social system. The individual does not plan and execute actions intended to construct society. His conduct and the corresponding conduct of others generate social bodies [1966, p. 188].

As a social rationalist, however, Mises leaves no doubt that he considers such ignorance of the remoter consequences of catallactic activity not as a virtue to be hailed in the name of "spontaneity," but as a vice which may ultimately prove destructive of the social division of labor. The reason is that the failure of participants in the division of labor to correctly comprehend the links between their individual actions and social outcomes invites the adoption of ideologies based on erroneous accounts of the nature of society and of social progress. Such falsely-grounded ideologies, in turn, may lead to conduct inconsistent with the continued maintenance of social relations. For example, the struggle for neomercantilist privileges by special interest groups, based on the ideology of interventionism or the "mixed economy," constitutes, according to Mises,

> antisocial conduct which shakes the very foundations of social cooperation. ... It is the outcome of a narrow-mindedness which fails to conceive the operation of the market economy and *to anticipate the ultimate effects of one's own actions.*
>
> It is permissible to contend that the immense majority of our contemporaries are mentally and intellectually not adjusted to life in the market society although they themselves and their fathers have *unwittingly created this society by their actions.* But this maladjustment consists in nothing else than in the failure to recognize erroneous doctrines as such. [Emphases mine; 1966, p. 319].

Social maladjustment, which is inspired by fallacious ideology, carries in its wake the possibility of social disintegration and is more likely

to result the greater the degree to which the consequences of human actions are unintended, or, to use Mises's term, "unwitting." To the extent that social norms, policies, and institutions are "undesigned," are not completely and correctly thought out in advance and accounted for in a logically consistent ideology, to that extent does the continued existence of society become problematic. Following up on this insight, Mises advances a speculative theory of spontaneous social disintegration which links up unwitting consequences with ideological failure:

> The liberal conception of social life has created the economic system based on the division of labor. The most obvious expression of the exchange economy is the urban settlement, which is only possible in such an economy. In the towns the liberal doctrine has been developed into a closed system and it is here that it has found most supporters. But the more and the quicker wealth grew and the more numerous therefore were the immigrants from the country into the towns, the stronger became the attacks which Liberalism suffered from the principle of violence. Immigrants soon find their place in urban life, they soon adopt, externally, town manners and opinions, but for a long time they remain foreign to civic thought. One cannot make a social philosophy one's own as easily as a new costume. It must be earned—earned with the effort of thought. Thus we find, again and again in history, that epochs of strongly progressive growth of the liberal world of thought, when wealth increases with the development of the division of labor, alternate with epochs in which the principle of violence tries to gain supremacy—in which wealth decreases because the division of labor decays. The growth of the towns and of the town life was too rapid. It was more extensive than intensive. The new inhabitants of the towns had become citizens superficially, but not in ways of thought. ... On this rock all cultural epochs filled with the bourgeois spirit of Liberalism have gone to ruin. ... More menacing than barbarians storming the walls from without are the seeming citizens within—those who are citizens in gesture, but not in thought [1969, p. 49].

If social disintegration may occur "spontaneously," due to an ignorance of the remoter consequences of social action, social progress can only be assured by the widespread adoption of an ideology of social life which *consciously* and correctly accounts for these consequences. This ideology is liberalism. According to Mises:

> In Liberalism humanity becomes conscious of the powers which guide its development. The darkness which lay over history recedes. Man begins to understand social life and allows it to develop consciously. ...
>
> ... History is a struggle between two principles, the peaceful principle, which advances the development of trade, and the militarist-imperialist principle, which interprets human society not as a friendly division of labor but as the forcible repression of some of its members

> by others. The imperialistic principle continually regains the upper hand. The liberal principle cannot maintain itself against it until the inclination for peaceful labour inherent in the masses shall have struggled through to full recognition of its own importance as a principle of social evolution [1969, pp. 48, 302].

The insight that social progress is contingent on the formulation and acceptance of a correct ideology of social life prompts Mises to emphatically reject the social meliorism of older or Enlightenment liberals, which optimistically projected a continuous, uninterrupted improvement in social conditions into the future. To Mises, this—and not the attempt to *rationally design and construct* the institutional framework proper to man's nature as a cooperant in the social division of labor—constitutes the supreme abuse of reason (1966, pp. 864-65). A similar abuse was also committed by the social evolutionists of the nineteenth century—and, one might add, latter-day social evolutionists—who "smuggled into the theory of biological transformation the idea of progress" (Mises 1966, p. 192).

In contrast to the social meliorists and evolutionists, Mises, the social rationalist maintains that "Men are not infallible; they err very often. ... The good cause will not triumph on account of its reasonableness and expediency. Only if men are such that they will finally espouse policies reasonable and likely to attain the ultimate ends aimed at will civilization improve. ... Man is free in the sense that he must daily choose anew between policies that lead to success and those that lead to disaster, social disintegration, and barbarism" (1966, p. 193).

The rationalist view of social evolution, therefore, is not one of placid and automatic improvement insured by "unintended" consequences, "undesigned" institutions, "tacit" knowledge, and "natural selection" of rules of conduct. Social rationalism implies, instead, that human history is the outcome of a conflict between ideologies, which are consciously formulated and adopted by reasoning human beings. Whether an epoch is characterized by social progress, social retrogression, or even social disintegration depends upon which particular ideologies have become current and which individuals have attained ideological "might," defined by Mises as "the power to influence other people's choices and conduct" (1966, p. 188). Thus, according to Mises, "The power that calls into life and animates any social body is *always* ideological might, and the fact that makes an individual a member of any social compound is always his own conduct" (1966, p. 196).

The course of social evolution and the fortunes of humanity therefore are inextricably bound up with the fortunes of the ongoing ideological struggle. No social institution can or ever does evolve in

a wholly spontaneous or unreflective way, unsullied, as it were, by ideological influences.

A case in point is language, generally cited by social evolutionists as the archetype of a social institution that develops in a basically unconscious fashion. But, as Mises argues, men's conscious reflections on social relationships and their deliberate attempts to redesign them according to the ideologies such reflections give rise to, have a powerful impact on linguistic development. This is so because language, "the most important medium for social cooperation," is at bottom ideological: "[I]t is a tool of thinking as it is a tool of social action" (Mises 1969, p. 321; Mises 1966, p. 177). As such, the abstract terms contained in a living language are "the precipitate of a people's ideological controversies, of their ideas concerning issues of pure knowledge and religion, legal institutions, political organization, and economic activities. ... In learning their meaning the rising generation are initiated into the mental environment in which they have to live and to work. This meaning of the various words is in continual flux in response to changes in ideas and conditions" (Mises 1985, p. 232).

In addition, many momentous linguistic changes in history are directly attributable to ideological causes such as political and military events (Mises 1985, pp. 228-30). Gaelic is just one example of a language that first fell into oblivion and then was partially revived as a result of ideological factors (Mises 1944, p. 85; Mises 1985, pp. 229-30). Even in the case in which a particular language is entirely the outcome of peaceful evolution, it would still be the product of a conscious commitment to liberalism, which is the ideological framework necessary to secure the peaceful development of the social division of labor. For, as Mises (1969, pp. 302, 310-11) repeatedly argues, the "oecumenical society" itself, the product of the historical unfolding of social division of labor, is essentially an ideological creation, which has been "slowly forming itself during the last two hundred years under the influence of the gradual germination of the liberal idea. ... only when the modern liberal thought of the eighteenth century had supplied a philosophy of peace and social collaboration was the basis laid for the astonishing development of the economic civilization of that age."

Ultimately, then, the degree and the direction of social evolution is governed wholly by ideological considerations. In Mises's words "The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority" (Mises 1966, p. 864).

References

Barry, Norman P. *On Classical Liberalism and Libertarianism*. New York: St. Martin's Press, 1987.

Butler, Eamonn. *Ludwig von Mises: Fountainhead of the Modern Microeconomics Revolution*. Brookfield, Vt.: Gower Publishing, 1988.

Kirzner, Israel M. "The Economic Calculation Debate: Lessons for Austrians." *The Review of Austrian Economics* 2 (1988): 1-18.

Lavoie, Don. *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered*. New York: Cambridge University Press, 1985.

Mises, Ludwig von. *Omnipotent Government: The Rise of the Total State and Total War*. New Haven, Conn.: Yale University Press, 1944.

_____. *Human Action: A Treatise on Economics*. 3rd ed. Chicago: Henry Regnery, 1966.

_____. *Socialism: An Economic and Sociological Analysis*. Trans. J. Kahane. 2nd ed. London: Jonathan Cape Ltd., 1969.

_____. *Liberalism: A Socio-Economic Exposition*. Trans. Ralph Raico. 2nd ed. Kansas City, Kans.: Sheed Andrews and McMeel, 1978a.

_____. *The Ultimate Foundation of Economic Science: An Essay on Method*. 2nd ed. Kansas City, Kans.: Sheed Andrews and McMeel, 1978b.

_____. *Theory and History: An Interpretation of Social and Economic Evolution*. Auburn University, Ala.: The Ludwig von Mises Institute, 1985.

Banking, Nation States, and International Politics: A Sociological Reconstruction of the Present Economic Order

Hans-Hermann Hoppe*

Money and Banking

In order to explain the emergence of barter nothing more than the assumption of a narrowly defined self-interest is required. If and insofar as man prefers more choices and goods to fewer, he will choose barter and division of labor over self-sufficiency.

The emergence of money from barter follows from the same narrow self-interest. If and insofar as man is integrated in a barter economy and prefers a higher to a lower standard of living, he will choose to select and support a common media of exchange. In selecting a money he can overcome the fundamental restriction imposed on exchange by a barter economy, i.e., that of requiring the existence of a double coincidence of wants. With money his possibilities for exchange widen. Every good becomes exchangeable for every other, independent of double coincidences or imperfect divisibilities. And with this widened exchangeability the value of each and every good in his possession increases.

Since man is integrated in an exchange economy, self-interest compels him to look out for particularly marketable goods which have desirable money properties such as divisibility, durability, recognizability, portability and scarcity, and to demand such goods not for their own sake but for the sake of employing them as mediums of exchange. And it is in his self-interest to choose that commodity as his medium of exchange that is also used as such most commonly by

*Hans-Hermann Hoppe is associate professor of economics at the University of Nevada, Las Vegas.

This paper will appear in *Money and Nation State* a forthcoming Independent Institute book.

The Review of Austrian Economics, Vol. 4, 1990, pp. 55-87
ISSN 0889-3047

others. In fact, it is the function of money to facilitate exchange, to widen the range of exchange possibilities, and to thereby increase the value of one's goods (insofar as they are perceived as integrated in an exchange economy). Thus, the more widely a commodity is used as money, the better it will perform its monetary function. Driven by no more than narrow self-interest, man will always prefer a more general and, if possible, a universal medium of exchange to a less general or non-universal one. For the more common the money, the wider the market in which one is integrated, the more rational one's value and cost calculations (from the viewpoint of someone desiring economic integration and wealth maximization), and the greater the benefits that one can reap from division of labor.[1]

Empirically, of course, the commodity that was once chosen as the best-because-most-universal-money is gold. Without government coercion gold would again be selected for the foreseeable future as the commodity best performing the function of money. Self-interest would lead everyone to prefer gold—as a universally used medium of exchange—to any other money. To the extent that every individual perceives himself and his possessions as integrated into an exchange economy, he would prefer accounting in terms of gold rather than in terms of any other money, because gold's universal acceptance makes such accounting the most complete expression of one's opportunity costs, and hence serves as the best guide in one's attempts to maximize wealth. All other monies would be driven out of use quickly, because anything less than a strictly universal and international money such as gold—national or regional monies, that is—would contradict the very purpose of having money in the first place. Money has been invented by self-interested man in order to increase his wealth by integrating himself into an ever-widening and ultimately universal market. In the way of the pursuit of self-interest, national or regional monies would quickly be out-competed and supplanted by gold, because only gold makes economic integration complete and markets world-wide, thereby fulfilling the ultimate function of money as a common medium of exchange.[2]

The emergence of money, of increasingly better monies, and finally of one universal money, gold, sets productive energies free that previously remained frustrated and idle due to double-coincidence-

[1]On the free-market development of money, see Carl Menger, *Principles of Economics* (New York: New York University Press, 1976), pp. 257-85; "Geld" in Carl Menger, *Gesammelte Werke*, vol. 4 (Tübingen: Mohr, 1970).

[2]On the gold standard, see *The Gold Standard, An Austrian Perspective*, Llewellyn H. Rockwell, Jr., ed. (Lexington, Mass.: D. C. Heath, 1985); and Ron Paul and Lewis Lehrman, *The Case for Gold* (San Francisco: Cato Institute, 1983).

of-wants-restrictions in the process of exchanges (such as the existence of competing monies with freely fluctuating exchange rates). Under barter the market for a producer's output is restricted to instances of double want coincidences. With all prices expressed in terms of gold the producer's market is all-encompassing, and demand takes effect unrestricted by any absence of double coincidences on a world-wide scale. Accordingly, production increases—and increases more with gold than with any other money. With increased production the value of money in turn rises; and the higher purchasing power of money reduces one's reservation demand for it, lowers one's effective rate of time preference (the originary rate of interest), and leads to increased capital formation. An upward spiraling process of economic development is set in motion.

This development creates the basis for the emergence of banks as specialized money-handling institutions. On the one hand, banks come forward to meet the increasing demand for the safekeeping, transporting, and clearing of money. On the other hand, they fulfill the increasingly important function of facilitating exchanges between capitalists (savers) and entrepreneurs (investors), actually making an almost complete division of labor between these roles possible. As institutions of deposit and in particular as savings and credit institutions, banks quickly assume the rank of nerve centers of an economy. Increasingly the spatial and temporal allocation and coordination of economic resources and activities takes place through the mediation of banks; and in facilitating such coordination the emergence of banks implies still another stimulus for economic growth.[3]

While it is in everyone's economic interest that there be only one universal money and only one unit of account, and man in his pursuit of wealth maximization will not stop until this goal is reached, it is contrary to such interest that there be only one bank or one monopolistic banking system. Rather, self-interest commands that every bank use the same universal money—gold—and that there then be no competition between different monies, but that free competition between banks and banking systems, all of which use gold, must exist. Only so long as free entry into banking exists will there be cost efficiency in this as in any other business; yet only as long as this competition concerns services rendered in terms of one and the same money commodity will free banking actually be able to fulfill the very function of money and banking, i.e., of facilitating economic integration

[3]On banking and in particular the different functions of loan and deposit banking, see Murray N. Rothbard, *The Mystery of Banking* (New York: Richardson and Snyder, 1983).

rather than disintegration, of widening the market and expanding the division of labor rather than restricting them, of making value and cost accounting more rather than less rational, and hence of increasing rather than decreasing economic wealth. The notion of competition between monies is a *contradictio in adjecto*. Strictly speaking, a monetary system with rival monies of freely fluctuating exchange rates is still a system of (partial) barter, riddled with the problem of requiring double coincidences of wants in order for (some) exchanges to take place. The existence of such a system is dysfunctional of the very purpose of money.[4] Freely pursuing his own self-interest, man would immediately abandon it—and it would be a fundamental misconception regarding the essence of money to think of the free market not only in terms of competing banks but also in terms of competitive monies.[5] Competitive monies are not the outcome of free market actions but are invariably the result of coercion, of government imposed-obstacles placed in the path of rational economic conduct.

With free banking based on a universal gold standard emerging, the goal of achieving the most cost efficient solution to coordinating and facilitating interspatial and intertemporal exchanges within the framework of a universally integrated market is accomplished. Prices for the service of safekeeping, transporting and clearing money, as well as for advancing money in time-contracts would drop to their lowest possible levels under a regime of free entry. And since these prices would be expressed in terms of one universal money, they would truly reflect the minimum costs of providing market-*integrative* services.

Moreover, bank competition combined with the fact that money must emerge as a commodity—such as gold—which in addition to its value as money has a commodity value and thus cannot be produced without significant cost-expenditure, also provides the best possible safeguard against fraudulent banking.

As money depositing institutions, banks—much like other institutions depositing fungible commodities yet more so in the case of banks because of the special role of the commodity money—are tempted to issue "fake" warehouse receipts, i.e., notes of deposit not covered by real money, as soon as such banknotes have assumed the role of money substitutes and are treated by market participants as unquestionable equivalents of actually deposited real money. In this situation, by

[4]See Murray N. Rothbard, *The Case for a 100 Percent Gold Dollar* (Meriden, Conn.: Cobden Press, 1984), pp. 32-34.

[5]A highly prominent example for this misconception is Friedrich A. Hayek, *Denationalization of Money* (London: Institute of Economic Affairs, 1976); for a critique see Murray N. Rothbard, "Hayek's Denationalized Money," *Libertarian Forum* 15, nos. 5-6 (August 1981 and January 1982).

issuing fake or fiat banknotes that physically cannot be distinguished from genuine money substitutes, a bank can—fraudulently and at another's expense—increase its own wealth. It can directly purchase goods with such fake notes and thus enrich itself in the same way as any simple counterfeiter does. The bank's real wealth and the wealth of the early recipients of the money increases through these purchases, and at the same time and by the same action the wealth of those receiving the new money late or not at all decreases, due to the inflationary consequences of counterfeiting. Or a bank can use such fiat money to expand its credit and earn interest on it. Once again a fraudulent income and wealth redistribution in the bank's favor takes place.[6] Yet in addition, this time a boom-bust cycle is also set in motion: placed at a lowered interest rate, the newly granted credit causes increased investments and initially creates a boom that cannot be distinguished from an economic expansion; however, this boom must turn bust because the credit that stimulated it does not represent real savings but instead was created out of thin air. Hence, with the entire new and expanded investment structure under way, a lack of capital must arise that makes the successful completion of all investment projects systematically impossible and instead requires a contraction with a liquidation of previous malinvestments.[7]

Under the gold standard any bank or banking system (including a monopolistic one) would be constrained in its own inclination to succumb to such temptations by two requirements essential for successful counterfeiting. On the one hand, the banking public must not be suspicious of the trustworthiness of the bank—that is, its antifraud vigilance must be low—for otherwise a bank run would quickly reveal the committed fraud. And, on the other hand, the bank cannot inflate its notes at such a pace that the public loses confidence in the notes' purchasing power, reduces its reservation demand for them and flees instead towards "real" values, including real money, and thereby drives the counterfeiter into bankruptcy. Under a system of free banking, however, with no legal tender laws and gold as money, an additional constraint on potential bank fraud arises. For then

[6]On the counterfeiting process, see Rothbard, *The Mystery of Banking*, chap. 4; also Elgin Groseclose, *Money: The Human Conflict* (Norman: University of Oklahoma Press, 1934), pp. 178 and 273.

[7]On the Austrian business cycle theory, see Ludwig von Mises, *Theory of Money and Credit* (Irvington, N.Y.: Foundation for Economic Education, 1971); Mises, *Human Action*, chap. 20 (Chicago: Henry Regnery, 1966); Friedrich A. Hayek, *Monetary Theory and the Trade Cycle* (New York: Augustus M. Kelley, 1975); Hayek, *Prices and Production* (New York: Augustus M. Kelley, 1967); Richard v. Strigl, *Kapital und Produktion* (Wien: J. Springer Verlag, 1934); Murray N. Rothbard, *Man, Economy and State*, vol. 2, chap. 12 (Los Angeles: Nash, 1970), pp. 832-49.

every bank is faced with the existence of non-clients or clients of different banks. If in this situation additional counterfeit money is brought into circulation by a bank, it must invariably reckon with the fact that the money may end up in non-clients' hands who demand immediate redemption, which the bank then would be unable to grant without at least a painful credit contraction. In fact, such a corrective contraction could only be avoided if the additional fiat money were to go exclusively into the cash reserves of the bank's own clients and were used by them exclusively for transactions with other clients. Yet since a bank would have no way of knowing whether or not such a specific outcome could be achieved, or how to achieve it, the threat of a following credit contraction would act as an inescapable economic deterrent to any bank fraud.[8]

The State and the Monopolization of Money and Banking

The present economic order is characterized by national monies instead of one universal money; by fiat money instead of a commodity such as gold; by monopolistic central banking instead of free banking; and by permanent bank fraud, and steadily repeated income and wealth redistribution, permanent inflation and recurring business cycles as its economic counterparts, rather than 100 percent reserve banking with none of these consequences.

In complete contradiction, then, to man's self-interest of maximizing wealth through economic integration, different anti-economic interests prevailing over economic ones must be responsible for the emergence of the contemporary monetary order.

One can acquire and increase wealth either through homesteading, production and contractual exchange, or by expropriating and exploiting homesteaders, producers, or contractual exchangers. There are no other ways. Both methods are natural to mankind. Alongside an interest in producing and contracting there has always been an interest in non-productive and non-contractual property and

[8]What about cartels? Could not the competing banks form a cartel and agree on a joint venture in counterfeiting? Again, under free banking this is most unlikely, because a system of free banking is characterized by the complete absence of any economic incentive for cartelization. With no restrictions of entry in existence, any such bank cartel would have to be classified as voluntary and would suffer from the same problems as any voluntary cartel. Faced with the threat of non-cartelists and/or new entrants, and recognizing that like all cartel agreements, a banking cartel would favor the less efficient cartel members at the expense of the more efficient ones, there is simply no economic basis for successful action, and any attempt to cartelize would quickly break down as economically inefficient. Moreover, insofar as the counterfeit money would be employed to expand credit, banks acting in concert would set off a full scale boom-bust cycle. This, too, would deter cartelization. See on the theory of free banking, Mises, *Human Action*, pp. 434-48; Rothbard, *The Mystery of Banking*, chap. 8.

wealth acquisitions. And in the course of economic development, just as the former interest can lead to the formation of productive enterprises, firms and corporations, so can the latter lead to large-scale enterprises and bring about governments or states.[9]

The size and growth of a productive enterprise is constrained on one hand by voluntary consumer demand, and on the other by the competition of other producers that continuously forces each firm to operate with the lowest possible costs if it wishes to stay in business. For such an enterprise to grow in size, the most urgent consumer wants must be served in the most efficient ways. Nothing but voluntary consumer purchases support its size.

The constraints on the other type of institution—the state—are altogether different.[10] For one thing, it is obviously absurd to say that its emergence and growth is determined by demand in the same sense as an economic firm. One cannot say by any stretch of the imagination that the homesteaders, the producers and the contractual exchangers who must surrender (part of) their assets to a state have demanded such a service. Instead, they are coerced into accepting it, and this is

[9]Contrary to the claim of the public choice school, states and private firms are not doing essentially the same sort of business, but instead are engaged in categorically different types of operations. Both types of institutions are the outcome of different, antagonistic interests. The "political" interest in exploitation and expropriation underlying the formation of states obviously requires and presupposes the existence of wealth, and hence an "economic" interest of at least one person in producing such wealth in the first place (while the reverse is not true). But at the same time the more pronounced and successful political interests are the more destructive of economic interests this will be. The public choice school is perfectly correct in pointing out that everyone—a government employee no less than an employee of an economic firm—normally prefers a higher to a lower income and that this interest explains why government should be expected to have no less of a tendency to grow than any other enterprise. However, this discovery—that politicians and bureaucrats are no more altruistic or concerned about the "public good" than are people in other walks of life—is hardly new even if it has sometimes been overlooked. Yet what *is* in fact new with public choice—the inference drawn from this correct insight then, that all institutions should hence be regarded as an outgrowth of identical motivational forces and be treated analytically on a par with each other—is false. Regardless of a person's subjective beliefs, integrating one's actions into the institutional framework of either the state or a "normal" economic enterprise and pursuing one's wealth maximizing interests here or there will in fact produce categorically different outcomes. On a representative statement of the public choice school regarding the idea of the "state as a firm," and of "political exchange" as essentially the same as "economic exchange," see James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1965), p. 19; for a critique of this view and the fundamental difference between economic and political means, see Franz Oppenheimer, *The State* (New York: Vanguard Press, 1914), pp. 24-27; Murray N. Rothbard, *Power and Market* (Kansas City, Kans.: Sheed Andrews and McMeel, 1977), chap. 2.

[10]On the following theory of the state, see Murray N. Rothbard, *For a New Liberty* (New York: Macmillan, 1978); Rothbard, *The Ethics of Liberty* (Atlantic Highlands, N.J.: Humanities Press, 1982); Hans-Hermann Hoppe, *Eigentum, Anarchie und Staat* (Opladen: Westdeutscher Verlag, 1987); Hoppe, *Theory of Socialism and Capitalism* (Boston: Kluwer Academic Publishers, 1988); Anthony de Jasay, *The State* (Oxford: Basil Blackwell, 1985).

conclusive proof of the fact that the service is not at all in demand. On the other hand, the state is also not constrained in the same way by competition as is a productive firm. For unlike such a firm, the state must not keep its costs of operation at a minimum, but can operate at above-minimum costs, because it is able to shift its higher costs onto its competitors by taxing or regulating their behavior. Thus as a state emerges, then, it does so *in spite* of the fact that it is neither in demand nor efficient.

Instead of being constrained by cost and demand conditions, the growth of an exploiting firm is constrained by public opinion: non-productive and non-contractual property acquisitions require coercion, and coercion creates victims. It is conceivable that resistance can be lastingly broken by force in the case of one man (or a group of men) exploiting one or maybe two or three others (or a group of roughly the same size). It is inconceivable, however, to imagine that force alone can account for the breaking down of resistance in the actually familiar case of small minorities expropriating and exploiting populations ten, hundreds, or thousands of times their size. For this to happen a firm must have public support in addition to coercive force. A majority of the population must accept its operations as legitimate. This acceptance can range from active enthusiasm to passive resignation. But acceptance it must be in the sense that a majority must have given up the idea of actively or passively resisting any attempt to enforce non-productive and non-contractual property acquisitions. Instead of displaying outrage over such actions, of showing contempt for everyone who engages in them, and of doing nothing to help make them successful (not to mention actively trying to obstruct them), a majority must actively or passively support them. State-supportive public opinion must counterbalance the resistance of victimized property owners such that active resistance appears futile. And the goal of the state, then, and of every state employee who wants to contribute toward securing and improving his own position within the state, is and must be that of maximizing exploitatively acquired wealth and income by producing favorable public opinion and creating legitimacy.

There are two complementary measures available to the state trying to accomplish this. First, there is ideological propaganda. Much time and effort is spent persuading the public that things are not really as they appear: exploitation is really freedom; taxes are really voluntary; non-contractual relations are really "conceptually" contractual ones;[11]

[11]On the semantic confusion spread through the term "conceptual agreement" in particular by James Buchanan, see Hans-Hermann Hoppe, "The Fallacies of the Public Goods Theory and the Production of Security," *Journal of Libertarian Studies* 9, no. 1 (Winter 1989): 27-46.

no one is ruled by anyone but we all rule ourselves; without the state neither law nor security exists; and the poor would perish, etc.

Second, there is redistribution. Instead of being a mere parasitic consumer of goods that others have produced, the state redistributes some of its coercively appropriated wealth to people outside the state apparatus and thereby attempts to corrupt them into assuming state-supportive roles.

But not just any redistribution will do. Just as ideologies must serve a—statist—purpose, so must redistribution. Redistribution requires cost-expenditures and thus needs a justification. It is not undertaken by the state simply in order to do something nice for some people, as, for instance, when someone gives someone else a present. Nor is it done simply to gain as high an income as possible from exchanges, as when an ordinary economic business engages in trade. It is undertaken in order to secure the further existence and expansion of exploitation and expropriation. Redistribution must serve this strategic purpose. Its costs must be justified in terms of increased state income and wealth. The political entrepreneurs in charge of the state apparatus can err in this task, as can ordinary businessmen, because their decisions about which redistributive measures best serve this purpose have to be made in anticipation of their actual results. And if entrepreneurial errors occur, the state's income may actually fall rather than rise, possibly even jeopardizing its own existence. It is the very purpose of state politics and the function of political entrepreneurship to avoid such situations and to choose instead a policy that increases state income.

While neither the particular forms of redistributive policies nor their particular outcomes can be predicted, but change with changing circumstances, the nature of the state still requires that its redistributive policy must follow a certain order and display a certain structural regularity.[12]

As a firm engaged in the maximization of exploitatively appropriated wealth, the state's first and foremost area in which it applies redistributive measures is the production of security, i.e. of police, defense, and a judicial system. The state ultimately rests on coercion and thus cannot do without armed forces. Any competing armed forces—which would naturally emerge on the market in order to satisfy a genuine demand for security and protection services are a threat to its existence. They must be eliminated. To do this is to arrogate the job to itself and become the monopolistic supplier and

[12]See Hoppe, *Eigentum, Anarchie und Staat*, chap. 5.3; Hoppe, *Theory of Socialism and Capitalism*, chap. 8.

redistributor of protection services for a defined territory. Similarly, a competing judicial system would pose an immediate threat to a state's claim to legitimacy. And again, for the sake of its own existence the judicial system must also be monopolized and legal services included in redistributive schemes.

The state's nature as an institution engaged in organized aggression also explains the importance of the next field of redistributive activities: that of traffic and communication. There can be no regular exploitation without monopolistic control of rivers, coasts, seaways, streets, railroads, airports, mail and telecommunication systems. Thus, these areas, too, must become the object of redistribution.

Of similar importance is the field of education. Depending as it does on public opinion and its acceptance of the state's actions as legitimate, it is essential for a state that unfavorable ideological competition be eliminated as far as possible and statist ideologies spread. The state attempts to accomplish this by providing educational services on a redistributive basis.

Furthered by a system of state education, the next crucial area for redistribution is that of redistributing state power itself, i.e., the right assumed by the state to expropriate, exploit and redistribute non-productively appropriated assets. Instead of remaining an institution which restricts entry into itself and/or particular government positions, a state increasingly, and for obvious strategic reasons, adopts an organizational structure which in principle opens up every position to everyone and grants equal and universal rights of participation and competition in the determination of state policy. Everyone—not just a privileged "nobility"—receives a legal stake in the state in order to reduce the resistance to state power.[13]

With the monopolization of law and security production, traffic, communication and education, as well as the democratization of state rule itself, all features of the modern state have been identified but one: the state's monopolization of money and banking. For all but this one it has been explained—albeit briefly—how they can and must be understood as performing strategic functions: why and how they are not normal productive contributions determined by demand and supply forces or simply good deeds, but redistributive activities which serve the purpose of stabilizing and, if possible, increasing a state's exploitatively appropriated income and wealth.

The monopolization of money and banking is the ultimate pillar on which the modern state rests. In fact, it has probably become the most cherished instrument for increasing state income. For nowhere

[13]On democratization as a means of expanding state power, see Bertrand de Jouvenel, *On Power* (New York: Viking Press, 1949), pp. 9-10.

else can the state make the connection between redistribution-expenditure and exploitation-return more directly, quickly and securely than by monopolizing money and banking. And nowhere else are the state's schemes less clearly understood than here.

Preferring—like everyone—a higher to a lower income, yet—unlike others—being in the business of non-productive and non-contractual property acquisitions, the state's position regarding money and banking is obvious: its objectives are served best by a pure fiat money monopolistically controlled by the state. For only then are all barriers to counterfeiting removed (short of an entire breakdown of the monetary system through hyperinflation) and the state can increase its own income and wealth at another's expense practically without cost and without having to fear bankruptcy.[14]

However, there are obstacles in the way of attaining this enviable state of affairs. On the one hand, there is the inexorable fact that money can emerge only as a commodity. It is impossible to start out with fiat money.[15] On the other hand, there is the problem that while enrichment through counterfeiting is no doubt less conspicuous than doing so by means of taxation, it is nonetheless a measure that is bound to be noticed, certainly by the banks, particularly if it occurs on a regular basis. And so it is also impossible for the state to get away with institutionalized counterfeiting unless it can be combined with redistributive measures which are capable of bringing about another favorable change in public opinion.

This problem and the state's natural desire essentially determine the course of its actions.

As the result of free market processes, the state finds gold established as money and a system of free banking. Its goal is the destruction of this system and with it the removal of all obstacles to counterfeiting. Technically (ignoring for the moment all psychological difficulties involved in this), the sequence of steps that must be taken in order to accomplish this objective is then dictated. In a first step the minting of gold must be monopolized by the state. This serves the purpose of psychologically deinternationalizing gold by shifting the emphasis from gold as denominated in universal terms of weight to gold as denominated in terms of fiat labels. And it removes a first important obstacle toward counterfeiting because it gives the state

[14]On the state's inherent tendency toward achieving an unrestricted counterfeiting monopoly, see Rothbard, *The Mystery of Banking*; Murray N. Rothbard, *What Has Government Done to Our Money* (San Rafael, Calif.: Libertarian Publishers, 1985).

[15]On the impossibility of money originating as a fiat paper money, see the regression theorem: Mises, *Theory of Money and Credit*, pp. 97-123; Mises, *Human Action*, pp. 408-10; Rothbard, *Man, Economy and State*, vol. 1, pp. 231-37.

the very institutional means of enriching itself through a systematic process of currency debasement.

Second, the use of money substitutes instead of actual gold must be systematically encouraged and such a tendency backed up by the enactment of legal tender laws. The counterfeiting process thereby becomes much less costly. Instead of having to remint gold, only paper tickets must be printed.

However, the problem already discussed earlier remains, that as long as a system of free banking is in operation the counterfeit notes cannot be prevented from returning to the note issuer with the request for redemption, and that he then cannot—at least not without a contractive adjustment—fulfill his obligations. To overcome this obstacle, in the next step the state must monopolize the banking system or force the competing banks into a cartel under the tutelage of its own state-operated central bank. Once it is in command of a monopolized or cartelized banking system, the state can put the coordinated and joint counterfeiting process of the entire banking system into effect that avoids this risk.

In the next step gold must be nationalized, i.e., the state must require all banks to deposit their gold at the central bank and conduct their business exclusively with money substitutes instead of gold. This way gold disappears from the market as an actually used medium of exchange and instead everyday transactions become increasingly characterized by the use of central bank notes.

Finally, gold being already out of sight and in the state's sole possession, the state must cut the last tie to gold by reneging on its contractual obligations and declaring its notes irredeemable. Built on the ruins of gold, which as a commodity money standard initially made it possible that paper notes could actually acquire any purchasing power, a pure fiat money standard has been erected and can now be kept in operation, at long last handing the state the unlimited counterfeiting power that it had been vying for.

The goal of a complete counterfeiting autonomy likewise dictates the strategy that must be pursued on the psychological front. Obviously, in approaching its ultimate goal the state creates victims and thus it is also in need of favorable public opinion. Its rise to absolute counterfeiting power must be accompanied by redistributive measures that generate the support necessary to overcome all upcoming forces of resistance. It must look for allies.

Regarding the state's monopolization of law and order, traffic, communication and education, and the democratization of its organizational structure—while it is clear that they are all redistributive measures and as such imply favoring one person at the expense of

another—it is difficult if not impossible to identify the gainers and the losers with definite social classes: there can be gainers (or losers) across different classes; within one social class there can be gainers and losers; and the pattern of redistribution can shift over time. In all of these cases the link between the state's redistributive expenditures and their payoffs is only indirect; whether or not certain education expenditures, for instance, pay off in terms of increased state income will only become visible at a later date; and even then it will be difficult to attribute such an outcome to a definite cause. In the case of the monopolization of money and banking, on the other hand, who outside the apparatus of the state itself will be the benefactors of its redistributive policies and who the losers is clear at once; and sociologically the benefactors can easily be identified with a specific social class. In this case the connection between the state's handing out redistributive favors and its own enrichment is direct and close-circuited; and the attribution of causes obvious: the state is compelled to make banks and the social class of bankers its accomplices by allowing them to participate in its counterfeiting operations and so enrich themselves along with the state's own enrichment.

Bankers would be the first ones to become aware of the state's attempts at counterfeiting. Without special incentives to the contrary they would have no reason to support such actions and every reason to uncover and stop them as quickly as possible. And the state would not run into just any opposition here: bankers, because of their exalted position in economic life and in particular because of their far-reaching interconnectedness as a professional group resulting from the nature of their business as facilitators of interspatial and intertemporal exchanges, would be the most formidable opposition one might encounter. The incentive necessary to turn such potential enemies into natural allies is the state's offer to cut them in on its own fraudulent machinations. Familiar with the ideas of counterfeiting and its great potential for one's own enrichment, but knowing, too, that there is no chance of engaging in it without running the immediate risk of bankruptcy under free, competitive banking and a gold standard, bankers are faced with an almost irresistible temptation. Going along with the state's policy of monopolizing money and banking also means fulfilling one's own dreams of getting rich fast. Not only the state comes into its own once a pure fiat money standard is established. Provided that they are accorded the privilege by the state to counterfeit in addition to its own counterfeited notes under a monetary regime of less than 100 percent reserve banking, with the central bank functioning as a last resort counterfeiter, banks can only

too easily be persuaded to regard the establishment of such a monetary system as their ultimate goal and as a universal panacea.[16]

Economically, this coalition between the state—as the dominant partner—and the banking system—as its affiliate—leads to permanent inflation (constrained only by the imperative of not overdoing it and causing a breakdown of the entire monetary system), to credit expansion and steadily recurring boom-bust cycles, and to a smooth uninterrupted income and wealth redistribution in the state's and the banks' favor.

Still more important, however, are the sociological implications of this alliance: with its formation a ruling class whose interests are tied in closely with those of the state is established within civil society. Through its cooperation the state can now extend its coercive power to practically every area of society.

Before the establishment of the state-banking alliance, the sociological separation between state and society, i.e., between an exploitative ruling class and a class of exploited producers, is almost complete and clearly visible. Here is a civil society that produces all economic wealth; and there is the state and its representatives who draw parasitically on what others have produced. People are members either of civil society or the state and see their own interests connected with either the former or the latter. To be sure, there are then redistributive activities going on which favor parts of society at the expense of others and which help divert interests from the pursuit of economic integration to that of supporting exploitation. Yet social corruption is unsystematic at this stage. It is not corruption of social classes which are connected society-wide, but rather corruption of various disparate and dispersed individuals or groups. And these interests are only connected to those of the state rather tenuously through certain specific redistributive state activities, rather than through a direct "cash-connection."

With the formation of a state-banking alliance all this becomes different. A cash-connection between parts of civil society and the state exists—and nothing ties people more closely together than joint financial interests. Moreover, this connection is established between the state and what can be identified not only as a closely interconnected social class, but as one of the most widely influential and powerful ones. In fact, it is not just the banks who join interests with the state and its policy of exploitation. The banks' major clients, the business establishment and the leaders of industry become deeply integrated in the state's counterfeiting schemes, too. For it is they

[16]On the enthusiastic participation of the banking elite in the creation of the Federal Reserve System, see Rothbard, *Mystery of Banking*, chaps. 15 and 16.

who—apart from state and banks—are the earliest receivers of most of the regularly created counterfeit money. In receiving the counterfeit money before it gradually ripples through the economic system and thereby changes relative prices as well as increases the overall price level, and in receiving credit at fraudulently lowered interest rates, they, too, enrich themselves at the expense of all savers and all later recipients or non-recipients of this money.[17]

Moreover, this financial coalition between the industrial establishment, banks, and the state tends to be reinforced by each successive course of events. The credit expansion leads to increased investment and—since it is not covered by an increase in genuine savings—will inevitably result in a corrective contraction. In order to avoid losses or even bankruptcy the banks' clients will approach the banking system with an increased demand for liquidity (i.e., money). Naturally, to avoid losses the banks are eager to help their clients—and the more established the client the more eager. Unable to do this on their own, they turn to the state and its central bank. And the state, then, being offered another chance at its own enrichment, accepts and provides the banking system, and by extension the business establishment, with the needed liquidity by means of a new round of counterfeiting. The alliance is renewed, and the state has reaffirmed its dominant role by having saved the established banking and industrial elite from crumbling in the face of economic competition and allowing them instead to preserve the status quo or even further increase the wealth already concentrated in their hands. There is reason to be thankful and to reciprocate with invigorated public support for the state and its propaganda.

To be sure, this coalition between the state and the economic power elite by no means implies a complete identity of interests. The various established industrial enterprises may have different or even contrary interests; and the same is true for the banks. Similarly, the interests of banks and business clients may in many respects be different. Nor do interests of the industrial elite or the banks coincide completely with those of the state. For after all, banks as well as industrial enterprises are also in the "normal" business of making money through production and productive exchanges—whatever other sources of income acquisition may be available to them. And in this function their interests may well clash with the state's desire for

[17]On the formation of the state-banking-business coalition, see Gabriel Kolko, *The Triumph of Conservatism* (Chicago: Free Press, 1967); Kolko, *Railroads and Regulations* (Princeton: Princeton University Press, 1965); James Weinstein, *The Corporate Ideal in the Liberal State* (Boston: Beacon Press, 1968); Ronald Radosh and Murray N. Rothbard, eds., *A New History of Leviathan* (New York: Dutton, 1972).

taxes, for instance. Nonetheless, the establishment of a system of monopolized money and banking still creates one interest common to all of them: an interest in the preservation of the state apparatus and the institution of political (i.e., exploitative) means of income appropriation as such. Not only could the state and its central bank destroy any commercial bank and, indirectly, practically any industrial enterprise; this threat is more severe the more established a business is. The state could also help any and all of them get richer, and more so if they are already rich. Hence, the more there is to lose from opposition and to gain from compliance, the more intensive will be the attempts by the economic power elite to infiltrate the state apparatus and have the state leaders assume financial interests in the business world. Bankers and industrialists become politicians; and politicians take positions in banking and industry. A social system emerges and is increasingly characteristic of the modern world in which the state and a closely associated class of banking and business leaders exploit everyone else.[18,19]

[18]In the Marxist tradition this stage of social development is termed "monopoly capitalism," "finance capitalism" or "state monopoly capitalism." The descriptive part of Marxist analyses is generally valuable. In unearthing the close personal and financial links between state and business, they usually paint a much more realistic picture of the present economic order than do the mostly starry-eyed "bourgeois" economists. Analytically, however, they get almost everything wrong and turn the truth upside down.

The traditional, correct pre-Marxist view on exploitation was that of radical laissez-faire liberalism as espoused by, for instance, Charles Comte and Charles Dunoyer. According to them, antagonistic interests do not exist between capitalists, as owners of factors of production, and laborers, but between, on the one hand, the producers in society, i.e., homesteaders, producers and contractors, including businessmen *as well as* workers, and on the other hand, those who acquire wealth non-productively and/or non-contractually, i.e., the state and state-privileged groups, such as feudal landlords. This distinction was first confused by Saint-Simon, who had at some time been influenced by Comte and Dunoyer, and who classified market businessmen along with feudal lords and other state-privileged groups as exploiters. Marx took up this confusion from Saint-Simon and compounded it by making only capitalists exploiters and all workers exploited, justifying this view through a Ricardian labor theory of value and his theory of surplus value. Essentially, this view on exploitation has remained typical for Marxism to this day—despite Böhm-Bawerk's smashing refutation of Marx's exploitation theory and his explanation of the difference between factor prices and output prices through time preference (interest). To this day, whenever Marxist theorists talk about the exploitative character of monopoly capitalism, they see the root cause of this in the continued existence of the private ownership of the means of production. Even if they admit a certain degree of independence of the state apparatus from the class of monopoly capitalists (as in the version of "state monopoly capitalism"), for them it is not the state that makes capitalist exploitation possible; rather it is the fact that the state is an agency of capitalism, an organization that transforms the narrow-minded interests of individual capitalists into the interest of an ideal universal capitalist (the "ideelle Gesamtkapitalist"), which explains the existence of exploitation.

International Politics and International Monetary Order

Man's economic interests, i.e., his interests in improving his income and wealth by means of producing and exchanging, lead to the emergence of a universally used commodity money—gold—and a system of free banking.

Man's political interests, i.e., his interests in improving his income and wealth through exploitation—at the expense of producers and contractors—lead to the formation of states, the destruction of the gold standard, and the monopolization of money and banking.

Yet once a state is established as a monopolist of exploitation and counterfeiting new problems emerge. For even if its monopolistic

---

In fact, as explained, the truth is precisely the opposite: It is the state that by its very nature is an exploitative organization, and capitalists can engage in exploitation only insofar as they stop being capitalists and instead join forces with the state. Rather than speaking of state monopoly capitalism, then, it would be more appropriate to call the present system "state financed monopoly socialism," or "bourgeois socialism."

For representative Marxist studies, see Rudolf Hilferding, *Finance Capital* (London: Routledge and Kegan Paul, 1981); V. I. Lenin, *Imperialism: Last Stage of Capitalism* (Moscow: Foreign Languages Publishing House, 1947); Paul M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1942); P. A. Baran and Paul M. Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966); E. Mandel, *Marxist Economic Theory* (London: Merlin, 1962); Mandel, *Late Capitalism* (London: New Left Books, 1975); H. Meissner, ed. *Buergerliche Ökonomie ohne Perspektive* ([East] Berlin: Dietz, 1976). On the perversion of the classical liberal class analysis through Marxism, see Murray N. Rothbard, "Left and Right" in *Egalitarianism As a Revolt Against Nature and Other Essays* (Washington, D.C.: Libertarian Review Press, 1974); on the refutation of the Marxist theory of exploitation, see Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System*, Paul M. Sweezy, ed. (New York: Augustus M. Kelley, 1948).

[19]To recognize the far-reaching integration of state interests and those of the economic power elite, which is brought about by the monopolization of money and banking, is not to say that there cannot be conflicts arising within this coalition. As mentioned earlier, the state is also characterized, for instance, by the necessity of democratizing its constitution. And the democratic process could well bring egalitarian or populist sentiments to the surface which were opposed to the state's favorable treatment of banks and big business. However, it is precisely the financial nature of the state-business connection that makes such an occurrence unlikely. For not only would this pose an immediate threat to the economic power elite; it would also imply severe financial losses in state income, even if it did not threaten the stability of the state as such. Hence a powerful incentive exists for both sides to join forces in filtering any such sentiment out of the political process before it ever becomes widely heard and to ensure with all resources at their command that the range of political alternatives admitted to public discussion is so restricted as to systematically exclude any scrutinizing of their joint counterfeiting racket.

See on this also such—in spite of their characteristic leftist misconceptions—informative studies as C. W. Mills, *The Power Elite* (New York: 1965); W. Domhoff, *Who Rules America?* (New York: 1967); E. Schattschneider, *The Semi-Sovereign People* (New York: 1960); Bachrach and Baratz, *Power and Poverty* (New York: 1970); C. Offe, *Strukturprobleme des kapitalistischen Staates* (Frankfurt am Main: Suhrkamp, 1972).

position is secured within a given territory, competition between states operating in different territories still exists. It is this competition which imposes severe limits on any one government's exploitative powers. In one instance, it opens up the possibility that people will vote against a government with their feet and leave its territory if they perceive other territories as offering less exploitative living conditions. Or if other states are perceived as less oppressive, the likelihood increases of a state's subjects collaborating with such foreign competitors in their desire to "take over." Both of these possibilities pose a crucial problem for each state. For each literally lives off a population, and any population loss is thus a loss of potential state income. Similarly, any state's interest in another's internal affairs must be interpreted as a threat, in particular, if it is supported by the latter's own subjects, because in the business of exploitation one can only prosper as long as there is something that can be exploited and, obviously, any support given to another state would reduce what remains left over for itself.

In another instance, with several competing states each individual state's counterfeiting power becomes severely limited. In fact, on the international level a problem reemerges which is directly analogous to the obstacle to counterfeiting which was implied by a system of free banking, and which the states solved internally through the monopolization or cartelization of banking. The situation is characterized by different national paper monies with freely fluctuating exchange rates. If one state counterfeits more extensively than another, its currency is bound to depreciate in terms of the other, and for a state this means (whatever different things it may mean for its various subjects) that its income has declined in relation to that of another state. With this its power vis-à-vis that of another state is decreased. It becomes more vulnerable to a competing state's attacks (military or economic). Naturally, it is in no state's interest to see this happen, and thus one's counterfeiting desire must be restrained accordingly. Counterfeiting still continues permanently, of course, because it is in every state's own interest; but no state is truly autonomous in its decision about how much to inflate and instead must at all times pay close attention to the inflationary policies of its competitors and flexibly adjust its own actions to theirs.

In order to maximize its exploitatively acquired income, it is in a state's natural interest to overcome both of these external restrictions on internal power. Cartelization would seem a possible solution. However, it must fail as such because—due to the lack of a monopolistic enforcement agency—interstate cartels could only be voluntary and would hence appear less attractive to a state the more powerful

it already is and the less inflationary its counterfeiting policy. By joining any such cartel a state would harm itself to the advantage of less successful and more inflationary states. There is only one stable solution for the problem then: a state must aim to expand its territory, eliminate its competitors and, as its ultimate goal, establish itself as a world government. And parallel to this must be its attempts to make its paper currency used in wider territories and ultimately make it the world currency under the control of its own world central bank. Only if these goals are achieved will a state truly come into its own. There are many obstacles on this path, and these may prove so severe as to make it necessary to settle for less than such a perfect solution. However, as long as there is a state in existence, such an interest is operative and must be understood as such if one is to correctly interpret past developments as well as future tendencies (after all it took the states several centuries to reach their present internal counterfeiting powers).

The means for accomplishing the first of its two integrated goals is war. War and state are inextricably connected.[20] Not only is a state an exploitative firm and its leading representatives can thus have no principled objection to non-productive and non-contractual property acquisitions—otherwise they would not do what they do or the state would simply fall apart and dissolve. And it cannot be surprising then that they should also have no fundamental objection to a territorial expansion of exploitation by means of war. In fact, war is the logical prerequisite of a later cease-fire; and its own internal, institutionalized system of exploitation is nothing but a—legitimate—cease-fire, i.e., the result of previous conquests. In addition, as the representatives of the state they are also in command of the very means which make it increasingly likely that one's aggressive desires can actually be put into effect. In command of the instrument of taxation and, even better for this purpose, of absolute internal counterfeiting powers, the state can let others pay for its wars. And naturally, if one does not have to pay for one's risky ventures oneself but can force others to do so, or if one can simply create the needed funds out of thin air, one tends to be a greater risk-taker and more trigger happy than one would otherwise be.

While independent of demand and hence by nature a more aggressive institution than any normal business that would have to finance its wars with income gained exclusively through voluntary transactions

[20]On the intimate relationship between state and war, see the important study by E. Krippendorff, *Staat und Krieg* (Frankfurt am Main: Suhrkamp, 1985); also Charles Tilly, "War Making and State Making as Organized Crime," in P. Evans et al., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987).

and that would thus face immediate financial repercussions if only a single one of its clients reduced his purchases in response to his dissatisfaction with this business' war policy, the state is still not entirely free of all constraints in its pursuit of foreign aggression. Just as states emerge, although there is no demand for them, so wars occur without having been demanded. But as the emergence and the growth of states is constrained by public opinion, so also are the states' war endeavors. For obviously, in order to come out of an interstate war successfully, a state must be in command of sufficient—in relative terms—economic resources which alone make its actions sustainable. However, these resources can only be provided by a productive population. Thus, to secure the means necessary to win wars and to avoid being confronted with slackening productive outputs while at war, public opinion again turns out to be the decisive variable constraining a state's foreign policy. Only if popular support for the state's war exists can it be sustained and possibly won. The support from the banking and business establishment can be won easily, provided the foreign aggression promises a successful end and its cost can be established with a sufficient degree of accuracy. Not everyone of this class will be ready to join in, of course, because one may have vested interests in the to-be-conquered territory that will be damaged in the event of an interstate conflict; or one may wish that country *C* rather than *B* would be attacked; or one may even in principle be opposed to war. But generally, the expectation that along with one's own state's victory the business and banking elite would become established as a ruling class over a larger territory, with correspondingly expanded possibilities for financial exploitation, is a most powerful reason for the economic—in particular the banking—elite to pay close attention to the war option.

Yet their support is by no means sufficient. In wartime even more so than during peacetime a state is dependent on every single person's willingness to work and produce (there can no longer be any loafers during wartime). To ensure widespread enthusiasm, all states must help create and support nationalistic ideologies. They have to wrap themselves up as nation states and pose as the banner carriers and protectors of the superior values of one's own nation as distinct from those of others, in order to generate the public identification with one specific state. This necessary in order to then turn around and wipe out the independence of more and more distinct nations and separate ethnic, linguistic, and cultural groups.

However, something more substantial is required in order to keep the population working and producing the resources needed for a war: after all, the other states assumedly have the support of their business

elite; and they, too, have created a spirit of nationalism in their territories. Assuming further that the antagonistic states initially control populations of comparable size and territories with similar natural endowments, the decisive variable determining victory or defeat becomes the relative economic wealth of the societies involved; their relative degree of economic development and capital accumulation. Those states tend to be victorious in interstate warfare that can parasitically draw on superior economic wealth. Clearly though, in order to be in this position conditions relatively favorable to wealth and capital formation in their respective territories must previously have existed. States do not positively contribute to this. On the contrary, as institutions engaged in non-productive and non-contractual property acquisitions, their very existence is destructive of wealth and capital accumulation. However, they can make a negative contribution. Wealth and capital comes into existence only through homesteading, producing and contracting; and a relatively lower degree of exploitation of homesteaders, producers and contractors means a—relative—boost to capital formation which in the next round of exploitation can give the state the additional resources necessary to succeed militarily over its foreign competitors. Thus, what is also required in order to win wars is a relatively high degree of internal liberalism.

Paradoxical as it may first seem, the more liberal[21] a state is internally, the more likely it will engage in outward aggression. Internal liberalism makes a society richer; a richer society to extract from makes the state richer; and a richer state makes for more and more successful expansionist wars. And this tendency of richer states toward foreign intervention is still further strengthened, if they succeed in creating a "liberationist" nationalism among the public, i.e., the ideology that above all it is in the name and for the sake of the general public's own internal liberties and its own relatively higher standards of living that war must be waged or foreign expeditions undertaken.

In fact, something still more specific can be stated about internal liberalism as a requirement and means for successful imperialism. The need for a productive economy that a warring state must have also explains why it is that *ceteris paribus* those states tend to outstrip their competitors in the arena of international politics which have adjusted their internal redistributive policies so as to decrease the importance of economic regulations relative to that of taxation. Regulations through which states either compel or prohibit certain

[21]The term "liberal" is here and the in ollowing used in its traditional European sense and *not* in the present day U. S. sense as a synonym for "socialist" or "social-democratic!"

exchanges between two or more private persons as well as taxation imply a non-productive and/or non-contractual income expropriation and thus both damage homesteaders, producers, or contractors. However, while by no means less destructive of productive output than taxation, regulations have the peculiar characteristic of requiring the state's control over economic resources in order to become enforceable without simultaneously increasing the resources at its disposal. In practice, this is to say, they require the state's command over taxes, yet they produce no monetary income for the state (instead, they satisfy pure power lust, as when *A*, for no material gain of his own, prohibits *B* and *C* from engaging in mutually beneficial trade). On the other hand, taxation and a redistribution of tax revenue according to the principle "from Peter to Paul," increases the economic means at the government's disposal at least by its own "handling charge" for the act of redistribution. Since a policy of taxation, and taxation without regulation, yields a higher monetary return to the state (and with this more resources expendable on the war effort!) than a policy of regulation, and regulation with taxation, states must move in the direction of a comparatively deregulated economy and a comparatively pure tax-state in order to avoid international defeat.[22]

With the backdrop of these theoretical considerations about the nature of the state and international politics, much of history falls into place. Lasting over centuries, practically uninterrupted series of interstate wars vividly confirm what has been stated about the inherently aggressive nature of states. Similarly, history dramatically illustrates the tendency towards increased relative concentration of states as the outcome of such wars: states' aggressive expansionism has led to the closing of all frontiers, and a steady decline in the number of states along with an equally steady increase in the territorial size of those states that managed to survive. No world state has yet been brought about, but a tendency in this direction is undeniably present.

More specifically, history illuminates the central importance that internal liberalism has for imperial growth: first, the rise of the states of Western Europe to world prominence can be so explained. It is in Western Europe that, built on the older intellectual traditions of Greek and Stoic philosophy as well as Roman law, the ideology of natural rights and liberalism emerged.[23] It was here that—associated

[22]A highly characteristic example of this connection between a policy of internal deregulation and increased external aggressiveness is provided by the previous Reagan administration.

[23]On the following see also Hans-Hermann Hoppe, "The Economics and Sociology of Taxation," in *Taxation: An Austrian View*, Llewellyn H. Rockwell, Jr., ed. (Auburn, Ala.: The Ludwig von Mises Institute, forthcoming).

with names such as St. Thomas Aquinas, Luis de Molina, Francisco Suarez and the late sixteenth-century Spanish Scholastics, Hugo Grotius, Samuel Pufendorf and John Locke—it increasingly gained influence in public opinion; and where the various states' internal powers of exploitation were then correspondingly weakened. And their power was even further weakened by the fact that pre-modern Europe was characterized by a highly competitive, almost anarchic international system, with a multitude of rivaling small scale states and feudal principalities. It was in this situation that capitalism originated.[24] Because the states were weak, homesteaders, producers and contractors increasingly began to accumulate capital; previously unheard of economic growth rates were registered; for the first time a steadily increasing population could be sustained; and, in particular with the population growth leveling off, gradually but continuously the general standard of living began to rise, finally leading to what is called the Industrial Revolution. Drawing on this superior wealth of capitalist societies the weak, liberal states of Western Europe became the richest states on earth. And this superior wealth in their hands then led to an outburst of imperialist ventures which for the first time in history established the European states as genuine world powers, extending their hegemonic rule across all continents.

Similarly, England's outstanding role among the West European states can be explained. The most liberal country of all, the British government became the most successful imperialist.[25] And the relative decline of England (and Western Europe) and the rise of the United States to the world's foremost imperialist power fits the theoretical picture as well. With no feudal past to speak of and British imperialism defeated, liberalism was still more pronounced in the United States than anywhere in Europe. State power was at its weakest, hardly to be noticed in people's daily activities. Accordingly, economic growth was higher than in all other countries; standards of living went up; the population increased; and living standards and population size gradually surpassed those of all West European countries. At the same time, beginning in the late ninteenth century England and Western Europe suffered from reinvigorated internal statism brought about by the emergence of socialist ideologies. It was this superior economic wealth—produced by a little-exploited civil society—which allowed the internally weak United States government

[24]On the importance of "political anarchy" for the origin of capitalism, see J. Baechler, *The Origins of Capitalism* (New York: St. Martin's Press, 1976), chap. 7.

[25]On British imperialism, see L. E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire: The Political Economy of British Imperialism 1860-1912* (Cambridge: Cambridge University Press, 1986).

apparatus to slowly become the richest, most resourceful state, and turn these resources toward foreign aggression and in time establish itself as the dominant world power, with "home bases" all around the globe and direct or indirect military dominance and hegemonic control over a large part of the world (with the exception of the Soviet Union and China and their respective satellites).[26] The nineteenth century already displayed aggressive expansionism of the—liberal—United States government second to none. Since as early as 1801, when the United States Navy was sent on a punitive mission to the remote area around Tripoli, virtually no single year has passed without United States government intervention somewhere in the world.[27] Three major wars were waged: against England (1812); against Mexico (1846-48), in which Mexico lost half its territory; and against Spain (1898), which resulted in the United States' occupation of Cuba and the Philippines. Contrary to popular myth, the Civil War, too, was essentially an expansionist war waged by the relatively more liberal North against the Confederate states. However, the great breakthrough to world dominance did not occur until the twentieth century, when the United States entered World Wars I and II. Both wars dramatically proved the superiority of United States might over the European states. The United States determined the victors as well as the losers, and both wars ended with a victory of the more liberal United States government—resting on a less taxed and regulated economy—over all of the more socialist-authoritarian European states (including the Soviet Union) with their more heavily taxed and regulated economies. With the end of World War II the United States had reached hegemony over Europe and, as heir to the European states' foreign empires, over large territories all around the world. Since World War II the United States has continued and even intensified its unrivaled expansionism with smaller or larger military interventions in Greece, Iran, Korea, Guatemala, Indonesia, Lebanon, Laos, Cuba, the Congo, British Guiana, the Dominican Republic, Vietnam, Chile, Grenada, and Nicaragua.[28]

Finally, history also provides the most vivid illustration of the direct link between a state's internal powers of counterfeiting and its policy of external aggression, as well as the banking and business elite's conspiracy with the state in its expansionist desires. The watershed

[26]See on this and the following Krippendorff, *Staat und Krieg*, pp. 97-116.

[27]See the table in E. Krippendorff, *Die amerikanische Strategie* (Frankfurt am Main: Suhrkamp, 1970), pp. 43ff.

[28]On twentieth-century U. S. foreign policy, see Leonard P. Liggio, "American Foreign Policy and National Security Management" in Radosh and Rothbard, *A New History of Leviathan*; Rothbard, *For a New Liberty*, chap. 14.

mark in the process leading to the rise of the United States as the world's premier power is World War I. The United States government could not have entered and successfully won this initially inner-European war without the absolute counterfeiting power that was achieved in 1913 with the establishment of the Federal Reserve System. It would have lacked the resources to do so. With a central banking system in place, a smooth transition to a war economy could be made and it became possible for the United States to get involved more deeply in the war and enlarge it to one of history's most devastating wars. And just as the prior establishment of the Federal Reserve System had been enthusiastically supported by the banking establishment (in particular by the houses of Rockefeller, Morgan, and Kuhn, Loeb and Co.), so the United States policy of entering the war on the Allied side found its most ardent supporters among the economic elite (notably in the firm of J. P. Morgan and Co. as the fiscal agent of the Bank of England and monopoly underwriter of British and French bonds as well as a major arms producer, and represented within the Wilson administration by such powerful forces as William G. McAdoo, Secretary of the Treasury and Wilson's son-in-law; Colonel Edward M. House, Wilson's intimate foreign policy adviser; and Benjamin Strong, Governor of the Federal Reserve Bank of New York).[29]

There is only one important element still missing from a complete reconstruction of the present international order: money. It is in a state's natural interest to expand its territory militarily; and hence, one should expect a tendency toward a relative concentration of states. It is also in a state's interest to engage in "monetary imperialism," i.e., to extend its counterfeiting power over larger territories; thus, a tendency toward a one-world paper currency should be expected. Both interests and tendencies complement each other. On the one hand, any step in the direction of an international counterfeiting cartel is bound to fail if it is not complemented by the establishment of military dominance and hierarchy. External and internal economic pressures would tend to burst the cartel. With military superiority, however, an inflation cartel becomes possible. On the other hand, once military dominance has made such a cartel possible, the dominant state can actually expand its exploitative power over other territories without further war and conquest. In fact, the international cartelization of counterfeiting allows the dominant state to pursue through more sophisticated (i.e., less visible) means

[29]See on this Rothbard, *Mystery of Banking*, pp. 230-47; on the role of the Morgans in pushing the Wilson administration into war, in particular see Charles Tansill, *America Goes to War* (Boston: Little, Brown and Co., 1938), chaps. 2-4.

what war and conquest alone might not be able to achieve.

In the first step a dominant state (a state, that is, which could crush another militarily and is perceived as capable of doing so) will use its superior power to enforce a policy of internationally coordinated inflation. Its own central bank sets the pace in the counterfeiting process, and the central banks of dominated states are ordered to inflate along with the dominating state. In practical terms, the dominating state's paper currency is imposed as a reserve currency on foreign central banks, and they are pressured to use it as a basis for their own inflationary actions.

Constrained not by actual demand but only by public opinion, it is relatively easy for a dominant state to accomplish this goal. Direct territorial conquest and the direct implementation of its own currency in foreign territories can be prohibitive because of the state of national or foreign public opinion. Yet with the power to destroy any specific foreign government—even though it is not strong enough for a complete take-over—little is required in order for the dominant state to succeed in *monetary* imperialism.

Internally, it will most likely encounter no resistance whatsoever. The government itself will be satisfied with this solution. For once its own currency is employed as a reserve currency by foreign banks on which they then pyramid their various national paper monies, it becomes possible for it to engage in an almost costless expropriation of foreign property owners and income producers without having to fear contractive consequences. Similarly, its own banking and business elite is ready to accept such an arrangement, because they, too, can thereby safely participate in foreign exploitation. Banks in particular are enthusiastic. And the public is largely ignorant of what is happening, or considers the exploitation of foreigners minor as compared to internal problems.

Externally, matters are only slightly more complicated. The dominated state loses resources to the dominating one as a consequence of this monetary regime. But faced with the possibility of losing its internal control altogether, it naturally prefers acquiescing to a scheme which not only allows it to stay in power but to actually continue in its own fraudulent expropriations of its own population by inflating its currency on top of and in accordance with the dominating state's paper money creation. For essentially the same reason bank and business elites, as the first receivers of their respective states' counterfeit money, are willing to accept this solution. And the general public in the dominated territories, which through this arrangement is subject to a double layer of exploitation of foreign states and elites on top of a national state and elite, is again largely unaware of all this and fails to identify it as one

important cause of its own prolonged economic dependency and relative stagnation vis-à-vis the dominant nation.

This first step, however, does not provide a perfect solution. The international monetary system is characterized by a dominant paper currency and a multitude of national paper monies pyramiding on top of it, and by freely fluctuating exchange rates between such currencies. On the one hand, this is less than satisfactory for the dominant state, because under these circumstances ample room is left for the possibility of its own currency depreciating against others, and such a development would pose a threat to its own role as a dominant power. For exchange rates are not exclusively determined by the inflationary policies of various central banks. Ultimately, and *ceteris paribus*, they are determined by purchasing power parity.[30] And even if a dominated central bank willingly inflates along with the dominating central bank, other factors (such as a lower level of taxation and/or regulation, for instance) can still make its currency appreciate against that of the dominant state.

On the other hand, the existence of a multitude of currencies freely fluctuating against each other is, as explained earlier, dysfunctional of the very purpose of money. It is a system of partial barter. It creates informational chaos, makes rational economic calculation impossible, and accordingly leads to inefficiencies within the very system of production on which the dominant state parasitically rests.

Thus, in order to assure its dominant position and maximize its exploitatively appropriated income, in a second step a dominant state will invariably try to institute an international—and ultimately universal—currency monopolistically controlled and issued either directly by its own central bank or indirectly by an international or world bank dominated by its central bank.

There are some obstacles on the way to this goal. Once the first step has been completed successfully, none of them would seem insurmountable, however. Naturally, the dominated state would lose some discretionary power under this arrangement. But this would be compensated for by the fact that its own economy would function more efficiently, too, if calculational chaos in international trade were reduced. Further, the banking and business elite in both countries would be adamantly in favor of such a monetary regime and would use their close ties to their respective state and international connections to promote its adoption. For, after all, banks and industrial firms are also in the business of making money through production

[30]On the purchasing power parity theorem, see Mises, *Human Action*, pp. 452-58; Rothbard, *Man, Economy, and State*, pp. 715-22.

and exchanges. Freely fluctuating exchange rates are an artificial impediment in their pursuit of this economic interest. And they will be perceived as dysfunctional more intensively by larger businesses, because it is big business, in particular, for which foreign trade plays a more important role.

In fact, the most severe resistance to the adoption of an international currency is to be expected not from the states and the economic elites, but from the general public. Since an international currency implies giving up an accustomed one, it runs against the very nationalism that all states eagerly bred for so long. This would be a problem especially if the public in the dominated countries were asked to adopt the dominant state's currency directly—name and all—because the underlying imperialist nature of such a monetary system would then become dangerously apparent. Yet with some degree of diplomacy and patient propaganda, this problem seems solvable, too. A new currency must be created, with a new name, defined in terms of existing national monies in order not to arouse nationalistic or anti-imperialist sentiments; and this new currency must only be somewhat overvalued against the various national monies (which in turn are defined in terms of the new currency) in order to drive all national monies—in accordance with Gresham's law—out of circulation.[31] This must be accompanied by the states' and the economic elites' constant appeal to the general public's sound economic intuition that—regardless of all nationalistic feelings—freely fluctuating national monies are an anachronistic institution which cripples rational economic calculation, and that it is in everyone's best interest to have an internationally (and if possible universally) used money such as the international banking system under the leadership of the dominant state's central bank is willing to provide. Barring any drastic change in public opinion in the direction of a strengthened private property and sound money orientation and a correspondingly increased anti-state vigilance, nothing will prevent the dominant state from achieving this complete international counterfeiting autonomy. And with a world money and world bank in place, and controlled by the dominant state's central bank, a decisive step is taken toward reaching its ultimate goal of establishing itself as a full-scale world government, with world-wide control not only over counterfeiting, but also over taxation and legal regulation.

In light of this explanation of monetary imperialism and its function as a "natural" (from a statist viewpoint, that is) complement of military

[31]On Gresham's law see Mises, *Theory of Money and Credit*, pp. 75 and 77; Mises, *Human Action*, pp. 781-83; Rothbard, *Power and Market*, pp. 29-31.

expansionism, the remaining pieces from the history of international politics fall into place. Hand in hand with the rise of Great Britain to the rank of the foremost imperialist nation state went a sterling imperialism. Not entirely free at the time of all internal obstacles in the way of counterfeiting, British-dominated countries were compelled to keep their reserves in the form of sterling balances in London, where the Bank of England would redeem them in gold. This way, these countries would pyramid their national currencies on top of the pound, and Britain could inflate sterling notes on top of gold without having to fear an outflow of gold. With Britain's decline and the concurrent rise of the United States government to the position of the world's leading military power, sterling imperialism has gradually been replaced by a dollar imperialism. At the end of World War II, with United States domination extended over most of the globe, and essentially ratified in the Bretton Woods agreement, the dollar became the world reserve currency on top of which all other states have inflated their various national paper monies.[32] For a while, the U.S. officially still maintained the pretense of redeeming foreign central banks' dollars in gold, and this somewhat limited its own inflationary potential. However, it did not prevent steady dollar counterfeiting on top of gold from occurring. The position of the United States as a militarily dominant international power (formalized through a number of military pacts, most notably NATO) allowed it to compel foreign governments to exercise their right to ask for redemption only sparingly if at all, so that its own dollar inflation could take place without setting off contractive consequences. And when its counterfeiting policy had incited foreign governments to become all too daring in their attempts to obtain gold at bargain prices, it was the United States government's superior military might that finally allowed it to give up all pretense and declare its notes irredeemable. Since then the Federal Reserve System has acquired the position of an autonomous counterfeiter of last resort to the entire international banking system.[33]

The imperialist nature of this dollar standard takes effect in particular through such instruments as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the Bank for International Settlement (BIS).[34] Money

[32]On the dollar standard established with the Bretton Woods system, see Henry Hazlitt, *From Bretton Woods to World Inflation* (Chicago: Henry Regnery, 1984).

[33]Since 1971, at which time the gold standard was finally suspended, more money has been created than had previously been accumulated by all nations throughout history.

[34]On the imperialist nature of these institutions, see also Gabriel Kolko, *The Politics of War, the World and United States Foreign Policy 1943-1945* (New York: Random House, 1968), pp. 242-340.

and credit, created by the stroke of a pen, is passed from these United States-dominated institutions first to foreign governments which inflate their national currencies on top of it and in turn pass this money on to their own cartelized banking system which, adding a further dose of counterfeiting, then hand it on to the various states' favorite business establishments from whence it ripples to the economic periphery. Parallel to this flow of money goes a reversed process of income and wealth redistribution from the periphery onto national business and banking elites and the various nation states as well as from the dominated territories to the United States government and the United States banking and business establishment as the ultimate center of world finance.

From a sociological point of view, the consequences are particularly interesting if these two integrated processes are superimposed on pre-modern, feudal societies. Such countries, primarily in Africa, Asia, Central and South America, are typically characterized by a class of feudal landlords, or feudal landlords-turned-financial-or-industrial-magnates controlling the state apparatus and mostly residing in the capital-city-and-seat-of-government; and by a class of largely landless, dependent peasants dispersed over the countryside and sustaining the state, the feudal elite, and the capital city through the payment of land rents.[35] Dollar imperialism here means upholding feudal rule, supporting and participating in the exploitation of an impoverished peasantry and the countryside by a parasitic feudal caste and the capital city, and contributing in the latter's suppression of any liberationist land reform movement. In fact, the typical Third World cycle of ruthless government oppression, revolutionary movements, civil war, renewed suppression, and prolonged economic dependency and mass poverty is to a significant extent caused and maintained by the United States-dominated international monetary system.

Since 1971, in particular, increased efforts have been undertaken in the direction of the second step in the process of monetary expansionism. Not all of the roughly 160 freely fluctuating currencies actually pose a problem, because most of them are in no danger, for internal reasons, of appreciating against the dollar and thereby strengthening the respective states' power vis-à-vis that of the United States government, or they play such a minor role in international trade that the calculational chaos which is introduced by their existence is largely insignificant. However, because of the relative strength of their currencies and their important role in international

[35]See Paul A. Baran, *Political Economy of Growth* (New York: Monthly Review Press, 1957), chaps. 5-6.

trade, the major West European states as well as Japan are a problem. Hence it is to these states and currencies in particular that United States-led attempts to create a world currency that helps rationalize economic calculation and at the same time safeguard United States domination and further increase its own inflationary powers have been directed. The creation of Special Drawing Rights (SDR's), defined initially in terms of 16 and later five leading export nations, and issued by the IMF, was a move toward a one-world currency and a one-world bank under United States domination.[36] Another important push toward this goal was provided through the activities of the Trilateral Commission (TC), founded in 1973 as an off-shoot of David Rockefeller's Council on Foreign Relations. Composed of some 300 highly influential politicians, bankers, businessmen, as well as intellectuals and journalists from North America, Western Europe and Japan, the Trilateral Commission has made the establishment of a world paper currency and a world central bank its primary concern.[37] Fervently supported by the Trilateral Commission as an intermediate step toward this ultimate goal as well as by several other politician-banker-industrialist associations with a substantial overlap of membership with the Trilateral Commission and devoted to the same ends, such as the Action Committee for Europe, the Association for the Monetary Union of Europe, the Banking Federation of the European Community, the ECU Banking Association, the Basel Committee and the Wilton Park Group, great advances have been made in aligning the European monetary front. In 1979, the newly created European Currency Unit (ECU), issued under the aegis of the European Economic Community, first appeared. Defined as a weighted average of 10 European currencies, and assisted by organizations such as the European Monetary System, the European

[36]See Henry Hazlitt, *From Bretton Woods to World Inflation*.

[37]A sample of prominent U. S. members of the Trilateral Commission includes David M. Abshire, counselor to the President; Frank C. Carlucci, former national security advisor; J. C. Whitehead, Deputy Secretary of State; Alan Greenspan, Chairman of the Federal Reserve System; Winston Lord, Ambassador to China; George Bush, President; Paul A. Volcker, former Chairman of the Federal Reserve System; Alexander Haig, former Secretary of State; Jeanne Kirkpatrick, former Ambassador to the United Nations; David Stockman, former head of OMB; Caspar Weinberger, former Secretary of Defense; W. Michael Blumenthal, former Secretary of the Treasury; Zbigniew Brzezinski, former national security advisor; Harold Brown, former Secretary of Defense; James E. (Jimmy) Carter, former President; Richard N. Cooper, former Undersecretary of State for Economic and Monetary Affairs; Walter Mondale, former Vice-President; Anthony M. Solomon, former Undersecretary of the Treasury for Monetary Affairs; Cyrus Vance, former Secretary of State; Andrew Young, former Ambassador to the United Nations; Lane E. Kirkland, head of AFL-CIO; Flora Lewis, *New York Times*; Thomas Johnson, *Los Angeles Times*; George Will, ABC television and *Newsweek*.

Investment Bank, the Society for Worldwide Interbank Financial Telecommunications, and the European Monetary Cooperation Fund, the ECU has assumed a more and more important role. Since as an average it is less volatile than the various national currencies, multinational banks and corporations in particular have found it increasingly attractive to use the ECU as a unit of account and a medium of settlement: economic calculation is less haphazard with only three currencies—the ECU, the yen, and the dollar—than with a dozen. According to official intergovernmental agreements, by 1992 a European Central Bank—most likely as an off-shoot of the present European Monetary Cooperation Fund—is supposed to be established, and the ECU will become the all-European currency supplanting all national monies.[38]

With the European calculational chaos solved, then, and in particular with the European hard currency countries neutralized and weakened within a cartel that by its very nature favors more against less inflationary countries so as to protect and prolong United States

[38]See on this also Jeffrey A. Tucker, "The Contributions of Menger and Mises to the Foundations of Austrian Monetary Theory Together With One Modern Application" (Paper presented at the 13th annual conference of the Association for Private Enterprise Education, Cleveland, Ohio, 1988); and Ron Paul, "The Coming World Monetary Order" (A Special Report from the *Ron Paul Investment Letter*, 1988).

Prominent Europeans explicitly supporting the idea of a European Central Bank, the ECU, and finally a one-world currency include: G. Agnelli, Chairman of FIAT (TC); J. Deflassieux, Chairman of the BIS (TC); G. FitzGerald, former Prime Minister of Ireland (TC); L. Solana, President of Compania Telefonica Nacional de Espana (TC); G. Thorn, President of the European Community and former Prime Minister of Luxembourg (TC); N. Thygesen, Professor of Economics, Copenhagen University (TC); U. Agnelli, Vice-President FIAT; E. Balladour, Financial Minister of France; N. Brady, Vice-President FIAT; E. Balladour, Financial Minister of France; N. Brady, Dillon Read Investments; J. Callaghan, former Prime Minister of Britain; K. Carstens, former President of West Germany; P. Coffey, Professor of Economics, University of Amsterdam; E. Davignon, former European Commissioner; J. Delors, former President of the European Community; W. Dusenberg, president of BIS; L. Fabius, former Prime Minister of France; J. R. Fourtou, President of Rhone-Poulenc; R. d. La Jemere, former Governor of the Banque de France; V. Giscard d' Estaing, former President of France; Ch. Goodhart, Professor of Banking, London School of Economics; P. Guimbretiere, Director of the European Community's ECU project; W. Guth, President of the Deutsche Bank; E. Heath, former British Prime Minister; M. Kohnstamm, former President of European University Institute, Florence; N. Lawson, British Chancellor of the Exchequer; J. M. Leveque, President of Credit Lyonnais; L. Lucchini, President of Confindustria, Italy; F. Maude, British Minister for Corporate and Consumer Affairs; P. Mentre, Chairman of Credit National, France; H. L. Merkle, Chairman of Bosch Gmbh, West Germany; F. Mitterand, President of France; J. Monet, founder of the European Community; F. X. Ortoli, President of Total Oil and former Commissioner of the European Community; D. Rambure, Credit Lyonnais; H. Schmidt, former Chancellor of West Germany and Editor of *Die ZEIT*; P. Sheehy, Chairman of BAT Industries; J. Solvay, Chairman of Solvay, Belgium; H. J. Vogel, Chairman of the German Social Democratic Party; J. Zijlstra, former President of the Nederlandse Bank.

hegemony over Europe, little indeed would remain to be done. With essentially only three central banks and currencies and United States dominance over Europe and Japan, the most likely candidates to be chosen as a United States-dominated World Central Bank are the IMF or the BIS; and under its aegis then, initially defined as a basket of the dollar, the ECU, and the yen, the "phoenix" (or whatever else its name may be) will rise as a one-world paper currency—unless, that is, public opinion as the only constraint on government growth undergoes a substantial change and the public begins to understand the lessons explained in this paper: that economic rationality as well as justice and morality demand a worldwide gold standard and free, 100 percent reserve banking as well as free markets worldwide; and that world government, a world central bank and a world paper currency—contrary to the deceptive impression of representing universal values—actually means the universalization and intensification of exploitation, counterfeiting-fraud and economic destruction.[39]

[39]Jeffrey A. Tucker of the Ludwig von Mises Institute had an important influence on my understanding of the dynamics of the international monetary system—through frequent discussions as well as through granting me access to his own related research. Needless to say, all shortcomings are entirely my own.

National Goods Versus Public Goods: Defense, Disarmament, and Free Riders

Jeffrey Rogers Hummel*

Of all the functions of the State, the one generally considered essential above all others is national defense. According to the popular ideal, national defense is a service provided by the State to its citizens. This service entails protection from aggressors outside the State's jurisdiction, usually foreign States. The most sophisticated theoretical justification for State provision of this service is the public-goods argument. Economists have called many things public goods and then endlessly debated whether the label really applies, but national defense has remained the quintessential public good. Although rarely discussed in detail, it is universally invoked as the classic representative of the public-goods category.[1]

As the public-goods argument has been refined by economists, two characteristics distinguish a pure public good from a private good.

*Jeffrey Rogers Hummel is publications director at the Independent Institute in San Francisco.

I wish to acknowledge the invaluable assistance of Williamson M. Evers, Joe Fuhrig, and Don Lavoie in working out the themes of this paper and leading me to crucial supporting references. Tyler Cowen, David Friedman, Marshall Fritz, M. L. Rantala, David Ramsay Steele, Richard H. Timberlake, Jr., David J. Theroux, and Lawrence H. White all gave helpful comments on drafts. They do not necessarily share my conclusions, however, and I alone am responsible for any remaining errors. A version of this paper was first delivered at the annual meeting of the Western Economic Association in San Francisco in July, 1986.

[1]By "the State" I mean government. I use the two terms interchangeably, unlike many political scientists, who use the term the "State" either for what I am calling the "nation," the government plus its subjects, or for some vague intermediate entity which is less than the entire nation but more than just the government. I capitalize the word "State" to distinguish it from constituent states within a federal system of government like that of the United States.

Examples of economists treating national defense as the quintessential public good are so abundant as to be almost not worth citing. Nevertheless, I shall mention a few. Paul A. Samuelson, in his once standard text, *Economics*, 10th ed., with Peter Temin (New York: McGraw-Hill, 1976), p. 159, refers to "national defense as an example *par*

The Review of Austrian Economics, Vol. 4, 1990, pp. 88-122
ISSN 0889-3047

The first is *non-rival consumption*. One customer's consumption of a marginal unit of the good or service does not preclude another's consumption of the same unit. For example, in an uncrowded theater, two patrons' enjoyment of the same movie is non-rival. The second characteristic is *non-excludability*. The good or service cannot be provided to an individual customer without simultaneously providing it to others. The owner of a dam, for example, cannot provide flood control separately to the individual farmers residing downstream.[2]

Although these two characteristics frequently come in conjunction with each other, they do not necessarily have to. The non-

---

excellence of public goods." James M. Buchanan and Marilyn R. Flowers, *The Public Finances: An Introductory Textbook*, 4th ed. (Homewood, Ill.: Richard D. Irwin, 1975), p. 27, state "[d]efense against external enemies seems to fall squarely within the collective goods category." John G. Head and Carl S. Shoup, "Public Goods, Private Goods, and Ambiguous Goods," *Economic Journal* 79 (September 1969): 567, speak of the "extreme [public-good] cases, such as that of national defense ..."

Among the few attempts of economists to look in any detail at national defense as a public good are Earl A. Thompson, "Taxation and National Defense," *Journal of Political Economy* 82 (July/August 1974): 755-82, and R. Harrison Wagner, "National Defense as a Collective Good" in Craig Liske, et al., William Loehr, and John McCamant, eds., *Comparative Public Policy: Issues, Theories, and Methods* (New York: John Wiley and Sons, 1975), pp. 199-221. Thompson's article is a formal attempt to find the most efficient tax structure for national defense, based on the assumption that the need is a function of wealth, and has little in common with my approach. The Wagner article is a utility function analysis of the demand for national defense, and I will have occasion to mention it below.

After national defense, the lighthouse was probably economists' favorite public good, that is, until Ronald H. Coase, "The Lighthouse in Economics," *Journal of Law and Economics* 17 (October 1974): 357-76, demonstrated that historically lighthouses had been privately provided. Despite his demonstration, economists have not completely abandoned this example.

[2]Paul A. Samuelson's two classic articles, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics* 36 (November 1954): 387-89, and "Diagrammatic Exposition of a Theory of Public Expenditure," ibid. 37 (November 1955): 350-56, are generally credited as being the first formal statements of modern public-goods theory. They, like all of Samuelson's articles that I shall cite, are reprinted in *The Collected Scientific Papers of Paul A. Samuelson*, vol. 2, Joseph E. Stiglitz, ed. (Cambridge, Mass.: M. I. T. Press, 1966) or vol. 3, Robert C. Merton, ed. (Cambridge, Mass.: M. I. T. Press, 1972).

Several economists, however, had anticipated Samuelson. Indeed, Adam Smith, in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776; reprint, New York: Random House, 1937), bk. 5, *passim.*, particularly pp. 653-56, 681, presents a brief and crude statement of public-goods theory, giving national defense as an example. The most notable contributions of a largely neglected public-goods tradition among Continental economists were finally collected, translated, and reprinted in Richard A. Musgrave and Alan T. Peacock, eds., *Classics in the Theory of Public Finance* (London: Macmillan, 1958). See particularly Knut Wicksell, "A New Principle of Just Taxation" (1896), pp. 72-118 and Erik Lindahl, "Just Taxation—A Positive Solution" (1919), pp. 168-76. An English presentation that pre-dated Samuelson's was by Howard R. Bowen, in "The Interpretation of Voting in the Allocation of Resources," *Quarterly Journal of Economics* 58 (November 1943): 27-48, and *Toward Social Economy* (New York: Rinehart, 1948).

excludability from the dam's flood-control services is accompanied by non-rival consumption of the services among the various farmers, but the owner of a nearly empty theater can still exclude additional patrons. Yet, according to the public-goods argument, either characteristic alone causes "market failure"—that is, an allocation of resources that is less than Pareto optimal. Thus, either can be sufficient to justify State intervention.

Much of the literature on public goods has conceded that, strictly speaking, very few actual goods or services exhibit either of these characteristics in their polar form. Instead, in the real world, we encounter a range of goods and services, for which the potential capacity and quality of non-rival consumption is increasing or for

---

Important further developments in public-goods theory include Paul A. Samuelson, "Aspects of Public Expenditure Theories," *Review of Economics and Statistics* 40 (November 1958): 332-38; Richard A. Musgrave, *The Theory of Public Finance: A Study in Public Economy* (New York: McGraw-Hill, 1959); and William J. Baumol, *Welfare Economics and the Theory of the State*, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1965).

Samuelson's initial presentation focused only upon non-rival consumption. The distinction between the two public-goods characteristics was not fully clarified until John G. Head, "Public Goods and Public Policy," *Public Finance* 17 (1962): 197-219, reprinted with other of the author's essays on the same subject in Head, *Public Goods and Public Welfare* (Durham, N.C.: Duke University Press, 1974), pp. 164-83. The first full text devoted to public goods was James M. Buchanan, *The Demand and Supply of Public Goods* (Chicago: Rand McNally, 1968), which contains extensive bibliographic references to the previous literature. For a more recent summary of the still sometimes confusing concepts surrounding public goods, see Duncan Snidal, "Public Goods, Property Rights, and Political Organizations," *International Studies Quarterly* 23 (December 1979): 532-66.

The public-goods literature is terminologically over-endowed. "Public goods" are also called "collective goods" (Samuelson) and "social goods" (Musgrave). "Non-rival consumption" is also called "joint consumption" (Musgrave), "joint demand" (Samuelson), "joint supply" (Head), "indivisibility" (Buchanan), and "non-exhaustiveness" (Brubaker). Except for the fairly rare "non-marketability," the variations for "non-excludability"—"non-exclusiveness" and "non-exclusivity"—at least maintain the same root, and although as I note below, "external economies" or "positive externalities" are related, they are still distinct enough to justify a separate term.

Harold Demsetz, "The Private Production of Public Goods," *Journal of Law and Economics* 13 (October 1970): 293-306, makes a distinction between the terms "public good" (a good or service exhibiting non-rival consumption) and "collective good" (a good or service exhibiting both non-rival consumption *and* non-excludability). Perhaps the high-point in obscure public-goods terminology is reached in Carl S. Shoup, *Public Finance* (Chicago: Aldine, 1969), pp. 66-74, which labels goods with non-rival consumption as "collective-consumption goods" and those with non-excludability as "group-consumption goods." You can imagine how the poor reader must fare with only the huge difference between "collective" and "group" to navigate him through Shoup's turgid explanation. Despite all that, Shoup's treatment is exemplary because he remains the only economist, to my knowledge, not to classify national defense as a public good. Anticipating some of my argument, he puts it in a separate category altogether: "preservation of the nation-state."

which the costs of exclusion are increasing.[3] Indeed, some economists have gone so far as to suggest that these characteristics are almost never physically inherent in any good or service, but are rather nearly always a consequence of choosing one out of many feasible methods for producing the good or service.[4]

While I believe that this argument has much merit, I am not going to challenge the validity, realism, or relevance of the public-goods concept. On the contrary, I think that the core service within national defense captures the essence of a public good more fully than economists

[3]Of the four possibilities that the two public-goods characteristics generate, economists have had the most difficult time identifying real-world examples of goods or services that are non-excludable but nevertheless rival in consumption. Some attempts include: use of a neighbors blossoms by the bees of competing bee-keepers; travel on crowded freeways; extraction of oil from underground oil fields; and theft of automobiles. All of these examples, however, with the possible exception of the blossoms, represent goods or services that could be easily made excludable with a better definition or protection of property rights.

Tyler Cowen, "Public Goods Definitions and Their Institutional Context: A Critique of Public Goods Theory," *Review of Social Economy* 43 (April 1985): 53-63, and Snidal, "Public Goods, Property Rights, and Political Organizations," argue that non-excludability logically implies non-rival consumption. Snidal, however, arrives at this conclusion partially through a definitional sleight of hand. He invents a new term, "noncontrol over exclusion," which he distinguishes from "nonexclusiveness." The new term retains, under a slightly different name, an exclusion characteristic that can vary independently of non-rival consumption, whereas the older term becomes synonymous by definition with a public good exhibiting both characteristics.

Many of the early criticisms of Samuelson's original public-goods articles zeroed in on the polarity of his concept. For instance, see Stephen Enke, "More on the Misuse of Mathematics in Economics: A Rejoinder," *Review of Economics and Statistics* 37 (May 1955): 131-33; Julius Margolis, "A Comment on the Pure Theory of Public Expenditure," ibid. 37 (November 1955): 347-49; and Gerhard Colm, "Comments on Samuelson's Theory of Public Finance," ibid. 38 (November 1956): 408-12. Samuelson, himself, admitted this feature in his second article, "Diagrammatic Exposition of a Theory of Public Expenditure."

The development of a more sophisticated approach can be traced through James M. Buchanan and M. Z. Kafoglis, "A Note on Public Good Supply," *American Economic Review* 53 (January 1963): 403-14; Harold Demsetz, "The Exchange and Enforcement of Property Rights," *Journal of Law and Economics* 7 (October 1964): 11-26; Jora R. Minasian, "Television Pricing and the Theory of Public Goods," ibid. 7 (October 1964): 71-80; R. N. McKean and Jora R. Minasian, "On Achieving Pareto Optimality—Regardless of Cost," *Western Economic Journal* 5 (December 1966): 14-23; Otto Davis and Andrew Winston, "On the Distinction Between Public and Private Goods," *American Economic Review* 57 (Mary 1967): 360-73; E. J. Mishan, "The Relationship Between Joint Products, Collective Goods, and External Effects," *Journal of Political Economy* 77 (May/June 1969): 329-48; and Head and Shoup, "Public Goods, Private Goods, and Ambiguous Goods."

[4]See Cowen, "Public Goods Definitions and Their Institutional Context"; Tom G. Palmer, "Infrastructure: Public or Private?" *Policy Report* 5 (May 1983): 1-5, 11; Murray N. Rothbard, "The Myth of Neutral Taxation," *Cato Journal* 1 (Fall 1981): 532-46; and Kenneth D. Goldin, "Equal Access vs. Selective Access: A Critique of Public Goods Theory," *Public Choice* 29 (Spring 1977): 53-71.

To some extent, this position was anticipated by Earl Brubaker, "Free Ride, Free

have ever appreciated. But this essential feature, rather than providing a solid justification for State provision of the service, offers one of the most powerful objections to such provision.

National defense as it is provided by the State certainly exhibits both public-good characteristics to a substantial extent. True, Americans in Alaska and Hawaii could very easily be excluded from the United States government's defense perimeter, and doing so might enhance the military value of at least United States conventional forces to Americans in the other 48 states. But in general, an additional ICBM in the United States arsenal, insofar as it truly protects one American, can simultaneously protect everyone else within the country without diminishing its protection. In that respect, consumption of national defense is non-rival. Moreover, a technique that defends just a single American from the Soviet State without necessarily defending his or her entire community and perhaps the entire nation is difficult to visualize. That makes national defense non-excludable as well.

I am going to focus, however, only upon non-excludability. If consumption of a service is non-rival, but businessmen and entrepreneurs can exclude those who do not pay for it, then they still have strong incentives to provide the service. The most serious "market failure" that is alleged to result is under-utilization of the service. Some people will be prevented from benefiting from the quantity of the service that has been produced, even though permitting them to do so costs nothing. Furthermore, even this imperfection will dissipate if the market permits discriminatory pricing.[5]

On the other hand, non-excludability creates opportunities for free riders, who will pay for the service only if doing so is absolutely necessary to receive it. From the perspective of economic self-interest, every potential customer has an incentive to try to be a free rider. If enough of them act on this incentive, the service will not be produced at all, or at least not in an optimal quantity.

Revelation, or Golden Rule," *Journal of Law and Economics* 18 (April 1975): 147-61. Brubaker argues that what he calls "pre-contract excludability" allows the market in many cases to overcome the free-rider problem. "Pre-contract excludability" involves contractually obligating recipients of the public good to pay on the condition that a specified number of other recipients pay. The entrepreneur does not produce the public good until the requisite number of recipients agree to the contract.

[5]I have slightly simplified the alleged "market failure" from non-rival consumption with excludability. The quantity of the public good could also be non-optimal, although economists have not yet determined in exactly which direction. To the extent that different competitors produce redundant quantities of the public good for those customers willing to pay the market price, there will be over-production in addition to under-utilization. To the extent that producers cannot capture the returns from those potential customers who would be willing to pay something less than the market price, there will be under-production.

Another way to think about non-excludability is as a positive externality in its purest form. Many goods and services generate additional benefits for people other than those who directly consume and pay for them. There is often no way for the producers of these goods to charge those who receive these external benefits. A non-excludable good or service is one where the positive externalities are not just an incidental by-product but rather constitute the major benefit of the good or service.[6]

Clearly, the justification for State provision of national defense does not stem from any major concern that protection services would be produced but under-utilized on the free market. Rather, it stems from the assumption that, unless taxation or some other coercive levy forces people to contribute, national defense would be inadequately funded and therefore under-produced. It is this widely held but rarely examined assumption that I wish to question.

These supposed problems have led some economists to identify non-rival consumption with excludability as a special case of decreasing cost or of economies of scale. See Samuelson, "Aspects of Public Expenditure Theory"; Head, "Public Goods and Public Policy"; and Davis and Winston, "On the Distinction Between Public and Private Goods." This occasionally leads to the policy suggestion of providing such public goods through legal monopolies rather than through State financing. However, Snidal, "Public Goods, Property Rights, and Political Organizations," strongly contests this identification by making a sharp distinction between the marginal cost of producing the good or service in the first place and the marginal cost of extending consumption to additional consumers. This distinction is also found in Buchanan's *Demand and Supply of Public Goods*, pp. 186-87.

The definitive demonstration of the ability of the market, with discriminatory pricing, to provide non-rival, excludable goods and services is Demsetz, "The Private Production of Public Goods." This possibility first became dimly appreciated when Carl S. Shoup, "Public Goods and Joint Production," *Rivista internazionale di scienze economiche e commerciali* 12 (1965): 254-64, and James M. Buchanan, "Joint Supply, Externality, and Optimality," *Economica* (November 1966): 404-15, noticed the analogy between non-rival consumption and the Marshallian concept of joint production, e.g., mutton and wool from a common unit of sheep. Paul A. Samuelson, "Contrast Between Welfare Conditions for Joint Supply and for Public Goods," *Review of Economics and Statistics* 51 (February 1969): 26-30, unpersuasively disputed the import of this analogy. Earl A. Thompson, "The Perfectly Competitive Production of Collective Goods," ibid. 50 (February 1968): 1-12, admitted that discriminatory pricing was possible on the market, but with a faulty model tried to show that the result was over-production of the public good.

John G. Head concludes that the major justification for government intervention, not just in the case of national defense, but in the case of all public goods, "will be found to derive fundamentally from the non-excludability elements rather than from generalized joint supply problems." See "Public Goods: The Polar Case," in Richard M. Bird and John G. Head, eds., *Modern Fiscal Issues: Essays in Honour of Carl S. Shoup* (Toronto: University of Toronto Press, 1972), p. 16.

[6]Samuelson, in a later article, "Pure Theory of Public Expenditure and Taxation," in J. Margolis and H. Guitton, eds., *Public Economics: An Analysis of Public Production and Consumption and their Relations to the Private Sectors* (London: Macmillan, 1969), pp. 98-123, advanced an astonishing revised definition of public goods: "A public good

I

Before I directly address the public-goods justification for State provision of national defense, we must clarify the meaning of the term "national defense." The public-goods justification rests upon a fundamental equivocation over exactly what service "national defense" entails.

When economists discuss national defense, the core service they usually have in mind, explicitly or implicitly, is protection of people's lives, property, and liberty from foreign aggressors. This also appears to be what people have in mind when they fear foreign conquest, particularly in the case of the American fear of Soviet conquest. People throughout the world apparently believe that their own government, no matter how disagreeable, defends them from foreign governments, which they think would be even more oppressive.

This defense of the people is not synonymous with another service that goes under the same "national defense" label: protection of the State itself and its territorial integrity. Logically, there is no necessary relationship between the two. The defense of the people and the defense of the State are conceptually distinct. Imagine a society without a State. Whereas it would no longer have a State to protect, the people might still need some protection from foreign States.[7]

Historically, the State often embarks on military adventures unrelated to the defense of its subjects. If this were not the case, people would require no protection from foreign States in the first place.

... is simply one with the property of involving a 'consumption externality,' in the sense of entering into two or more persons' preference functions simultaneously. ... What are we left with? Two poles and a continuum in between? No. With a knife-edge pole of the private-good case, and with *all* the rest of the world in the public-good domain ... [Emphasis his]."

Thus, Samuelson defined every single case of positive externalities in consumption as a public good. Snidal, "Public Goods, Property Rights, and Political Organizations," in contrast, articulates the position that I take, and most of the economists cited on public goods in the notes above are closer to me than to Samuelson. Head's collection, *Public Goods and the Public Welfare*, pp. 184-213, reprints a useful survey article on externalities, "Externality and Public Policy"; Buchanan's *Demand and Supply of Public Goods*, p. 75, offers a brief bibliographic essay on the subject; while Shoup *Public Finance*, pp. 96-98, and Mishan, "The Relationship Between Joint Products, Collective Goods, and External Effects," explicitly discuss the relationship between externalities and public goods.

[7]David Friedman, in his defense of anarcho-capitalism, *The Machinery of Freedom: Guide to Radical Capitalism* (New York: Harper and Row, 1973), pp. 188-89, makes this point, yet without quite identifying the distinction between the two forms of national defense. "One ... argument is the assertion that national defense is unnecessary in an anarchist society, since there is no nation to defend. Unfortunately, there will still be nations to defend against, unless we postpone the abolition of our government until anarchy is universal."

Many Americans still seriously doubt that the United States' bombing of North Vietnam and Cambodia had very much to do with protecting their liberty. One defense-budget analyst, Earl Ravenal, believes that nearly two-thirds of the United States government's military spending goes toward the defense of wealthy allied nations in Europe and Asia and has little value for the defense of Americans.[8]

The distinction between the two meanings of national defense does not only apply when the State engages in foreign conquest, aggression, or intervention. Even during unambiguously defensive wars, the State sacrifices the defense of its subjects to the defense of itself. Such universal war measures as conscription, heavy taxation, rigid economic regulation, and suppression of dissent aggress against the very citizens whom the State is presumably protecting. People believe the State defends their liberty; in fact, they end up surrendering their liberty to defend the State. This is the frequently overlooked cost of the State's protection captured so aptly in Randolph Bourne's famous observation: "War is the health of the State."[9]

Of course, people may be better off accepting the costs and risks of the State's protection in order to reduce the risks and costs of foreign conquest. I do not deny the possibility of an incidental relationship between the defense of the State and the defense of the people. But the next section will present theoretical reasons why this

---

[8]Earl C. Ravenal, *Defining Defense: The 1985 Military Budget* (Washington, D.C.: Cato Institute, 1984). Public-goods theorists do occasionally admit that not all of the State's military necessarily goes to defending the people, but they generally attach no theoretical significance to the admission. For instance, see Buchanan and Flowers, *The Public Finances*, pp. 27-28.

[9]Randolph Bourne's famous observation first appeared posthumously in an essay under the title "Unfinished Fragment on the State," in James Oppenheim, ed., *Untimely Papers* (New York: B. W. Huebsch, 1919), pp. 140-53. A later version of the essay that restored Bourne's original sequence, under the title "The State," was included in Carl Resek, ed., *War and the Intellectuals* (New York: Harper and Row, 1964), pp. 64-104.

A general substantiation (or refutation) of Bourne's observation has so far not attracted the professional energies of any historian, perhaps because they feel no need to belabor the obvious. There are lots of studies showing the growth of the State's power in particular countries during particular wars, but very few that even treat a single country during more than one war, or more than a single country during one war. A few exceptions that have come to my attention include: Clinton Rossiter, *Constitutional Dictatorship: Crisis Government in Modern Democracies* (Princeton: Princeton University Press, 1948), a comparison of the U.S., Britain, France, and Germany during the twentieth century that concludes that the U.S. has the least bad record; Arthur A.Ekirch, Jr., *The Civilian and the Military: A History of the American Antimilitarist Tradition* (New York: Oxford University Press, 1956), which is primarily interested in American antimilitarist movements, but in the process gives a sketchy account of war's impact upon the U.S. government's power; Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Emergence of the Mixed Economy* (New York: Oxford University Press, 1987), which also covers the U.S.—during the twentieth century—arguing that the mixed economy is primarily a product of war; and Charles Tilly, ed., *The Formation*

relationship is not as common nor as strong as generally supposed. Before doing that, I must fully expose the conceptual gulf between the two meanings of national defense.

Unfortunately, the pervasive doctrine of nationalism obscures this fundamental distinction. Nationalism treats nations as collective entities, applying principles drawn from the analysis of individual interaction to the international level. In a war between two nations, the nationalist model focuses on essentially two parties: nation *A* and nation *B*. As in fights between individuals, one of these two nations is the aggressor, whereas the other is the defender. As a result, the model axiomatically equates protecting the State with protecting its subjects.

The basic flaw in the nationalist model is its collectivist premise. Although the model informs many of the formal economic analyses of international relations, it represents a glaring example of the fallacy of composition. Nations consist of two related but distinct elements: the State and its subjects. Democracies are sometimes referred to as "governments of the people," but this is, at best, rhetorical sloppiness. The State and the people interact, whether under democracies or other forms of government, in important ways that we shall soon explore, but this obvious fact should not confuse us about the inherent difference between a police officer and an ordinary citizen.

Consequently, any conflict between two nations involves not just two parties, but at least four: the State governing nation *A*, the State governing nation *B*, the people with the (mis)fortune to live under State *A*, and the people with the (mis)fortune to live under State *B*. Whatever the merits of a dispute between State *A* and *B*, the dispute need not involve a significant portion of people *A* or people *B*.[10]

Abandoning this collectivist identification of the State with its subjects exposes *the* critical insight about the national-defense service. If one is truly concerned about defense of peoples' lives, property, and liberty, then the transfer of their capital city from one location to another is not intrinsically significant. The territory constituting the United States is in a very real sense already conquered—by the

---

of National States in Western Europe (Princeton: Princeton University Press, 1975), as well as Tilly, "War Making and State Making as Organized Crime," in Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), pp. 169-91, both of which cover the war-related origins of the European nation-States.

[10]I cite examples of economic models exhibiting the nationalistic fallacy of composition below. One of the very few written challenges to the nationalistic model is Murray N. Rothbard, "War, Peace and the State," in Rothbard, *Egalitarianism as a Revolt Against Nature: And Other Essays* (Washington, D.C.: Libertarian Review Press, 1974), pp. 70-80. I have profited greatly from this pathbreaking essay.

United States government. All that is significant is whether transferring the capital city brings the citizens a net loss or gain. The danger is not foreign conquest per se, but the amount of power the conquering State can successfully wield.

In the final analysis, protection from foreign States is not a discrete or unique service. It is a subset of a more general service: protection from *any* State. Whether we formally label an oppressive State "foreign" or "domestic" becomes a secondary consideration. Although States differ enormously in the amount of domestic power they exercise, they all share certain characteristics. These shared characteristics are more than definitional, and as I hope to show, fatally undermine the public-goods justification for State-provided defense.

Admittedly, the distinction between the two services that go under the name "national defense" has not so far been grounded entirely in an empirical examination of people's subjective preferences. How can we as economists or historians question the prevailing nationalism, when people do in fact put a high value on the preservation and glorification of their own State? If the service that people desire is protection of the State per se, the State is undoubtedly the best institution for the job.

I do not question the efficacy of the State in providing its own protection. However, my impression is that most people view the State as a production good, a means to other ends, rather than as a pure consumption good, something they value in and of itself. The State does not directly enter their utility functions; instead, people want their government to be powerful relative to other governments basically because they believe that this helps to protect them from foreign States.

If my impression is correct, nationalism becomes something other than a mere subjective preference. It becomes a positive social theory, as legitimately subject to criticism for its policy recommendations as socialism. There is no refuting the socialist who favors central planning for its own sake; but most socialists favor central planning because of positive (and in my opinion, mistaken) theories about its consequences.[11]

History tentatively reinforces the impression that nationalism rests upon a positive social theory. Prior to the French Revolution, European subjects did not identify strongly with their rulers. Wars

[11]See Don Lavoie, *National Economic Planning: What is Left?* (Cambridge, Mass.: Ballinger, 1985), and *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (New York: Cambridge University Press, 1985).

were major inconveniences to be avoided if possible while they were going on, but the masses were largely indifferent if the outcome was a change of rulers. Indeed, soldiers and civilians would often enter the service of foreign rulers without being aware that they were doing anything unusual. The spread of modern nationalism coincided with the spread of the novel idea that governments should in some manner benefit their subjects.[12]

In any case, an examination of people's subjective preferences would reveal which service or mix of services people desire when they demand national defense.[13] A definitive answer is hampered by national defense's tax funding, which prevents people from revealing their preferences directly and unambiguously. An examination of whether the State is a good institution for protecting people's lives, property, and liberty, assuming that is what they prefer, is equally legitimate. I am willing to accept the prospect that people may still worship the State, even after discovering that it gives them no real protection.

II

When Paul Samuelson first formalized public-goods theory, it was at a time when many economists unreflectively subscribed to what Harold Demsetz has called the nirvana approach to public theory. Demonstrating some "market failure" with respect to an abstract optimum was considered sufficient to justify State action. Economists assumed that the costless, all-knowing, and benevolent State could simply and easily correct any failure.

Since then, economists have become far more realistic. Public-goods theory has advanced to the point where it is now an exercise in

---

The approach in this article to the relationship between positive and normative economics is identical to the *wertfrei* approach of Ludwig von Mises, as expounded in *Theory and History: An Interpretation of Social and Economic Evolution* (New Haven, Conn.: Yale University Press, 1957), pp. 26-34, and *Human Action: A Treatise on Economics*, 3rd. rev. ed. (Chicago: Henry Regnery, 1966), pp. 881-85. See also Murray N. Rothbard, *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1970), pp. 189-96. A quite different formulation of basically the same approach is David Friedman, "Many, Few, One: Social Harmony and the Shrunken Choice Set," *American Economic Review* 70 (March 1980): 225-32.

[12]Historical generalizations of this sort are admittedly subject to many particular exceptions. Nonetheless, consult Hans Kohn, *The Idea of Nationalism: A Study in Its Origins and Backgrounds* (New York: Macmillan, 1944), pp. 16-17. For further details, see Andre Corvisier, *Armies and Societies in Europe, 1494-1789* (Bloomington: Indiana University Press, 1979); John Childs, *Armies and Warfare in Europe, 1648-1789* (New York: Holmes & Meier, 1982); and Geoffrey Best, *War and Society in Revolutionary Europe, 1770-1870* (New York: St. Martin's Press, 1982).

[13]For a purely formal approach to people's utility functions with regard to national defense, see Wagner, "National Defense as a Collective Good."

comparative institutions. Demonstrating "market failure" is no longer sufficient. One must compare the market with the State, not as one wishes the State would behave in some ideal realm, but as it must behave in the real world. To justify State action, one must show that the State has the capacity and the incentive to do a better job than the market can do. Can the State provide the public good without costs that exceed the benefits? And is there some incentive structure that would conceivably insure that it do so?[14]

Economists within the field of public choice have done some of the most important work on the comparative capabilities of the State—by applying public-goods insights to political action itself. They have come to the realization that the free-rider incentive does not only arise for market enterprises. As Mancur Olson has demonstrated, the free-rider incentive can arise for any group, especially political groups wanting to influence State policy. This imparts an inherent

[14]Demsetz makes the comparison between the "nirvana" and "comparative institutions" approaches in "Information and Efficiency: Another Viewpoint," *Journal of Law and Economics* 12 (April 1969): 1-3. Of the earliest assertions of the comparative-institutions approach, perhaps the most influential were Ronald Coase, "The Problem of Social Cost," ibid. 3 (October 1960): 1-44; James M. Buchanan, "Politics, Policy, and the Pigovian Margins," *Economica* 29 (February 1962): 17-28; and Ralph Turvey, "On the Divergences between Social Cost and Private Cost," ibid. 30 (August 1963): 309-13. I have already cited the first applications to public goods: Demsetz, "The Exchange and Enforcement of Property Rights"; Minasian, "Television Pricing and the Theory of Public Goods"; McKean and Minasian, "On Achieving Pareto Optimality—Regardless of Cost"; and David and Winston, "On the Distinction Between Public and Private Goods."

To be completely fair, Samuelson from his first article, "The Pure Theory of Public Expenditure," on did *technically* take a positive approach and never insisted that the public-goods "market failure" necessarily justified government intervention. But as Head, in "Public Goods: The Polar Case," reports: "It is clearly recognized by both Samuelson and Musgrave that political provision for public goods must pose difficult problems. There is, however, a clear implication that the market failure problem is such that the political mechanism could hardly prove inferior" (p. 7). Only in an intemperate reply to Minasian's "Television Pricing and the Theory of Public Goods," did Samuelson finally give some prominence to his admission that a public good did not always require State provision. See his "Public Goods and Subscription T.V.: Correction of the Record," *Journal of Law and Economics* 7 (October 1964): 81-83.

Of course, in order to determine whether the benefits of State provision of a public good outweigh the costs, one must be able to measure them. But all costs and benefits are ultimately subjective, and only fully revealed through the voluntary actions of individuals. Starting from this radical subjectivist stance, Karl T. Fielding, "Nonexcludability and Government Financing of Public Goods," *Journal of Libertarian Studies* 3 (Fall 1979): 293-38, and Barry P. Brownstein, "Pareto Optimality, External Benefits and Public Goods: A Subjectivist Approach," ibid. 4 (Winter 1980): 93-106, conclude that the State can never do better than the market in providing public goods, even if it wanted to. My argument manages to skirt this thorny theoretical issue by comparing the market and the State with respect to incentives, rather than with respect to costs and benefits. If the State has fewer real-world incentives to provide a public good than the market, the comparative costs and benefits become irrelevant.

public-goods character to all political decisions.[15]

Assume that one of us wishes to change some State policy that we personally find particularly onerous—for instance, repeal a tax. We are members of a fairly large group that will benefit if the tax is repealed. If enough of us contribute money, time, or other resources to bringing about the tax's repeal, we will succeed and all be better off. The money we save in taxes will more than reimburse us for our effort. Unfortunately, once the tax is repealed, even those who did not join our campaign will no longer have to pay it. We cannot exclude them from the benefits of the tax's repeal. They will be free riders on our political efforts.

Just as in the case of a non-excludable good in the market, every potential beneficiary of the tax repeal has an incentive, from the perspective of economic self-interest, to try to be a free rider. If enough of them act according to this incentive, the tax will never be repealed. We can call this result a "political failure," completely analogous to the "market failure" caused by non-excludability.

Of course, this example grossly oversimplifies the problem. Under a democratic State, people do not directly purchase changes in State policy; they vote for them. Or even more precisely, some of them can vote for representatives who then can vote on and bargain over State policy. If the tax repeal example was completely accurate, nearly every intentional benefit provided by the State would be a pure private good, similar to the current salaries of politicians and bureaucrats. With voting, political entrepreneurs and vote-maximizing firms (which are called political parties) have some incentive to provide us with our tax repeal, even if we do not politically organize, in order to entice us to vote for them.[16]

[15]The first public-choice work to begin to apply public-goods theory to political action was Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957), which examined political parties as vote-maximizing firms. James M. Buchanan and Gordon Tullock, in *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor: University of Michigan Press, 1962), took a hard-headed look at the drawbacks of majority rule, although they coupled it up with an ethereal foray into the mystical realm of social contract. One of the most seminal contributions to this tradition, the first edition of which appeared in 1965, was Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1971). It applied public-goods theory to groups in general. William A. Niskanen, Jr., *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971), introduced the notion of the bureaucracy as an independent special interest group. Further refinements upon how the democratic process benefits special interests include Gordon Tullock, *Toward a Mathematics of Politics* (Ann Arbor: University of Michigan Press, 1967), and Albert Breton, *The Economic Theory of Representative Government* (Chicago: Aldine, 1974).

[16]Richard E. Wagner, in a review of the first edition of Olson's *Logic of Collective Action*—"Pressure Groups and Political Entrepreneurs," *Papers on Non-Market Decision*

This incentive, however, is not very great. First of all, voting itself, unless compulsory, is a public good. An individual must expend time and other resources to vote, but he or she can avoid these expenditures by free riding on the voting of others. Only in the very remote case where the voter anticipates that a single vote will decide the election's outcome does this incentive to free ride disappear. Consequently, the political entrepreneur must have some reason to expect that we will vote at all. And if we do in fact vote, he must in addition have some reason to expect that the tax repeal, among all the other competing issues, will affect how we vote. Our forming a political organization to repeal the tax gives him reason to believe both these things.[17]

In short, unorganized groups have some influence upon the policies of a democratic State. But other things being equal, groups which organize and campaign for policies have a significant advantage. That is presumably why they organize and campaign. It strains credulity to suppose that all the people who pour vast sums of money into political lobbying are utterly mistaken in the belief that they thereby gain some leverage on policy. The common observation that special interests have inordinate influence upon a democratic State is without doubt empirically well founded.

Two variables affect the likelihood that a group will overcome the free-rider problem and successfully organize. These variables operate whether the group is trying to attain non-excludable benefits on the market or from the State. The first is the size of the group. The smaller the group, *ceteris paribus*, the more likely the members are to organize successfully. The larger the group, the more difficult it is to involve enough of them to secure the public good.

Making 1 (1966): 161-70—raises the political-entrepreneur thesis as an objection to Olson's conclusions. Norman Frohlich, Joe A. Oppenheimer, and Oran R. Young, *Political Leadership and Collective Goods* (Princeton: Princeton University Press, 1971), stress the role of the entrepreneur in creating political organizations. Olson responds briefly in the 2nd ed., pp. 174-75. Brian Barry, *Sociologists, Economists and Democracy* (Chicago: University of Chicago Press, 1978), pp. 37-40, and Russell Hardin, *Collective Action* (Baltimore, Md.: The Johns Hopkins University Press, 1982), pp. 35-37, go into the weakness of the political-entrepreneur thesis in greater detail.

[17]The fact that voting becomes less of a public good the closer the anticipated outcome of the election allows Yoram Barzel and Eugene Silberberg, "Is the Act of Voting Rational?" *Public Choice* 16 (Fall 1973): 51-58, to explain some of the variation in voter turnout. Nevertheless, voting remains the gaping hole in much of the public-choice literature. The fact that voting is a public good, and is not therefore "rational" according to public-choice assumptions, has been long realized. Yet, many public-choice theorists go on blithely spinning out elaborate models based on the untenable paradox that people always vote but in every other respect always behave "rationally." Downs, *An Economic Theory of Democracy*, recognizes the problem but does not resolve it. For an extended discussion of this paradox, see Barry, *Sociologists, Economists and Democracy*, pp. 13-19.

The second variable is the difference between the value of the public good to the members of the group and the cost to them. The greater this difference, *ceteris paribus*, the more likely they are to organize successfully. Indeed, if this difference is great enough, one single member might benefit enough to be willing to pay the entire cost and let all the other members of the group free ride. The smaller this difference, on the other hand, the more essential becomes the contribution of each potential member.[18]

In short, the democratic State makes it much easier to enact policies that funnel great benefits to small groups than to enact policies that shower small benefits on large groups. Because of this free-rider induced "political failure," the State has the same problem in providing non-excludable goods and services as the market—with one crucial difference. When a group successfully provides itself a public good through the market, the resources it expends pay directly for the good. In contrast, when a group successfully provides itself a public good through the State, the resources it expends only pay the overhead cost of influencing State policy. The State then finances the public good through taxation or some coercive substitute.

Moreover, the group that campaigned for the State-provided public good will *not* in all likelihood bear very much of the coerced cost of the good. Otherwise, they would have had no incentive to go through the State, because doing so then costs more in total than simply providing themselves the good voluntarily. Instead, the costs will be widely distributed among the poorly organized large group, who may not benefit at all from the public good.

This makes it possible for organized groups to get the State to provide bogus public goods, goods and services which in fact cost much more than the beneficiaries would be willing to pay even if exclusion were possible and they could not free ride. In this manner, the State generates externalities, and ones that are negative. Rather

[18]Olson's taxonomy of groups—privileged (small), intermediate, and latent (large)—in *The Logic of Collective Action* treats these two factors, group size and relative cost of the public good, simultaneously and thus slightly confuses the issue. Hardin, *Collective Action*, pp. 38-42, clarifies Olson's taxonomy, correctly pointing out that a privileged group (one in which a single member values the public good enough to pay its entire cost) could theoretically be quite large. One of the clearest expositions of these factors appears in David Friedman's neglected *The Machinery of Freedom*, pp. 185-88.

Admittedly, there is some ambiguity about which *ceteris* remain *paribus* when varying group size. Some scholars have consequently challenged the claim that larger groups have greater difficulty overcoming the free rider incentive. See for instance John Chamberlin, "Provision of Public Goods as a Function of Group Size," *American Political Science Review* 68 (June 1974): 707-16. Again, the best resolution of these questions is Hardin, *Collective Action*, pp. 42-49 and 125-37.

than overcoming the free-rider problem, the State benefits free loaders, who receive bogus public goods at the expense of the taxpayers. Provision of these goods and services moves the economy away from, not toward, Pareto optimality. When the bogusness of such public goods is obvious enough, economists call them transfers.[19]

What is the upshot of this "political failure" for national defense? In the case of defending the State itself, we are dealing quite clearly with a service that the State has enormous incentives to provide. If this is a non-excludable good or service at all, then it is a public good that benefits small groups very highly. But in the case of defending the people, we are talking about, in the words of David Friedman, "a

[19]The position that democratic political action, rather than producing genuine public goods, *primarily if not exclusively* produces bogus public goods that benefit special interests, goes back as far as Giovanni Montemartini's turn-of-the-century essay, "The Fundamental Principles of a Pure Theory of Public Finance," translated and reprinted in Musgrave and Peacock, *Classics in the Theory of Public Finance*, pp. 137-51. One of the most succinct and lucid modern restatements of the position is, again, Friedman, *The Machinery of Freedom*, pp. 213-15, who concludes that "bad law is often less of a public 'good' than good law." Brubaker, "Free Ride, Free Revelation, or Golden Rule," uses the term "forced riding" to describe what the State does in the name of providing public goods. A detailed presentation of the position is Joseph P. Kalt, "Public Goods and the Theory of Government," *Cato Journal* 1 (Fall 1981): 565-84.

Gordon Tullock has suggested the potential scope of this "political failure," apparently without fully intending or realizing it, in an intriguing examination of the perfectly corrupt State—a State where *all* changes in policy are directly purchased. His "Corruption and Anarchy," in Tullock, ed., *Further Explorations in the Theory of Anarchy* (Blacksburg, Va.: Center for the Study of Public Choice, 1974), pp. 65-70, concludes that a perfectly corrupt State would generate policies identical to those that would be generated without the State at all. In other words, public goods are no more likely to be produced with the perfectly corrupt State than without it.

Of course, the analysis does not always lead scholars to this extreme position. Tullock himself, in an early article that precociously pre-dated most of the public choice literature, "Some Problems of Majority Voting," *Journal of Political Economy* 67 (December 1959): 571-79, reached the more moderate conclusion, which he still apparently holds, that the democratic process merely generates a government budget that is too large. Indeed, Anthony Downs, "Why the Government Budget is Too Small in a Democracy," *World Politics* 12 (July 1960): 541-63, turns the analysis around. By focusing on all the genuine public goods that the democratic process has no incentive to produce, he reaches the bizarre conclusion that the democratic State will inevitably be too small.

Incidentally, the inherent public-goods nature of political action fatally undercuts the latest abstraction in public-goods theory: the demand-revealing process. As advanced by Edward H. Clarke, *Demand Revelation and the Provision of Public Goods* (Cambridge, Mass.: Ballinger, 1980), and Jerry Greene and J. J. Laffont, *Incentives in Public Decision-Making* (North Holland, The Netherlands: 1979), as well as in numerous journal articles, the demand-revealing process is a proposed voting scheme that links tax payments to votes in such a way as to give people an incentive (1) to vote in the first place and (2) to reveal their true demand-preferences for (or against) various public goods with their votes. Ignoring whether this scheme would work if implemented, we can clearly see that implementing it at all runs afoul of the public-goods obstacle. Without the demand-revealing process in effect already, voters have absolutely no incentive to vote for putting the process into effect.

public good ... with a very large public." The benefits, although potentially great, are dispersed very broadly.[20]

Thus, to the extent that the free-rider obstacle inhibits market protection of liberty, it raises an even more difficult obstacle to the State over undertaking that vital service. The State has strong incentives to provide national defense that protects itself and its prerogatives, but it has very weak incentives to provide national defense that protects its subjects' lives, property, and liberty. We can now theoretically understand the common historical divergence between defending the State and defending the people.

Furthermore, there is a perverse inverse relationship between the people's belief that the State defends them and the reality. To the extent that they accept this nationalistic conclusion, their political resistance against the domestic State's aggression, however weak because of the existing public-goods problem, decreases further. This is most noticeable during periods of actual warfare. The belief reduces the amount of protection they enjoy, at least against the domestic State.

Nationalism thus results in an ironic and circular paradox. It views the State as a protection agency, but this very view contributes to the State's literal role as a protection racket. Those who decline to pay for the State's protection become the State's victims. This in turn gives the State an incentive to find or create foreign enemies, even when none really exist. For without a foreign threat, the justification for the State's protection becomes far less persuasive.[21]

My remarks have thus far been confined to the democratic State. They apply, however, even more strikingly to the undemocratic State, insofar as there is any significant difference between the political dynamics of the two types. For reasons that I will explain in the next section, I actually believe that many economists have over-emphasized

[20]Friedman, *The Machinery of Freedom*, p. 189. Dwight R. Lee, "The Soviet Economy and the Arms Control Delusion," *Journal of Contemporary Studies* 8 (Winter/Spring 1985): 46, makes the same observation about the political production of national defense, but because he does not recognize the distinction between defending the State and defending the people, he arrives at a much different conclusion: viz., democratic States will under-produce military defense relative to undemocratic States.

[21]A similar point is made by Kenneth E. Boulding, "The World War Industry as an Economic Problem," in the collection he co-edited with Emile Benoit, *Disarmament and the Economy* (New York: Harper and Row, 1963), pp. 3-27. He refers to the world's competing military organizations as "milorgs" and insists that, in contrast to any other social enterprise (including police protection), military organizations generate their own demand. "The only justification for the existence of a milorg is the existence of another milorg in some other place. ... A police force is not justified by the existence of a police force in another town, that is, by another institution of the same kind" (p. 10).

the operative significance of formal voting. Both types of States are subject to the influence of groups that marshall resources in order to affect policy. Formal voting merely makes it possible for some changes to manifest themselves faster and less painfully.

But let us for a moment accept the simplistic model of the undemocratic State. Assume that the State's policies are determined primarily by the whim of a single despot. If he is a benevolent despot, then the defense of his subjects might be high on his agenda. If he is a despot who inhabits the real world, he will be exclusively interested in defending his State and its territorial integrity.

My argument still does not completely rule out the possibility that the State might actually defend its subjects. Whereas the difference between the political dynamics of democratic and undemocratic States is overdrawn, States do differ markedly in the amount of aggression they commit against their own subjects. If we automatically assume that a conquering State can wield as much or more power over foreign populations as it does over its domestic subjects, then a relatively less oppressive State will, in the process of defending itself, provide some protection for its subjects. But this is at best an unintended positive externality.

III

To this point, our conclusions have been somewhat pessimistic, justifying Earl Brubaker's observation that the free-rider assumption *makes* economics a dismal science.[22] Based on that assumption, neither the market nor the State has much incentive to provide any direct protection of peoples' lives, property, and liberty. To the extent that historical accident has resulted in marked differences in the power of various States over their own subjects, some such protection might be produced as an unintended externality of the State's effort to protect its own territorial integrity. But that very effort at self-protection will also have a significant countervailing negative impact on the degree to which the State aggresses against its own subjects.

Attributing a difference to historical accident, however, is simply another way of saying that the difference is unexplained. Not until we explain the marked differences in domestic power of the world's States will we fully comprehend the relationship between protecting the State and protecting the people.

One naive explanation common among economists is the public-goods theory of the State. This theory rests upon a sharp dichotomy between two types of States, usually democratic and undemocratic.

[22]Brubaker, "Free Ride, Free Revelation, or Golden Rule," p. 153.

Undemocratic States according to this theory are little better than criminal gangs, run by single despots or small groups of oligarchs for essentially their own personal ends. The subjects of these States suffer under their rulers but can do very little about their plight. Any effort on their part to change the situation, whether through violent revolution or other means, is a public good, caught in the free-rider trap.[23]

Democratic States, in contrast, are the result of social contracts. According to the public-goods theory of the State, people create democratic States to solve the free-rider problem. At some obscure time in the past, they drew up constitutional rules in which they agreed to be coerced in order to provide public goods for themselves. Over time, because the free-rider problem generates "political failure," democratic States have a tendency to fall under the influence of special interests. Perhaps better constitutional decision rules could alleviate this decay. Nonetheless, democratic States always retain vestiges of their public-goods origin. That is why they aggress against their own subjects far less than do undemocratic States.[24]

We do not have to turn to the readily accessible historical evidence to refute this naive theory about the origin of democratic States. The theory's proponents quite often do not literally believe it. Instead,

[23]For the argument that revolution is a public good, see Gordon Tullock, "The Paradox of Revolution," *Public Choice* 9 (Fall 1971): 89-99, which became with minor alterations one of the chapters of his book, *The Social Dilemma: The Economics of War and Revolution* (Blacksburg, Va.: University Publications, 1974). Tullock distinguishes between what he calls "exploitative" and "cooperative" governments, rather than democratic and undemocratic, but the two classifications are operationally almost identical.

[24]The public-goods theory of the democratic State is still stated best in Baumol, *Welfare Economics and the Theory of the State* : "The essence of democratic government may then be the voluntary acceptance of a central agency of intimidation designed for the attainment of the desires of the public" (p. 57). Baumol traces this view of the State back through John Stuart Mill, Adam Smith, and David Hume. This view also informs the constitutional speculations about better decision rules of Buchanan and Tullock in *The Calculus of Consent*. Buchanan is more pessimistic about the State in "Before Public Choice," from Gordon Tullock, ed., *Explorations in the Theory of Anarchy* (Blacksburg, Va.: Center for the Study of Public Choice, 1972), pp. 27-37, and in *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: University of Chicago Press, 1975), but he is still caught up in the milieu of the social contract. Even Olson, *The Logic of Collective Action*, pp. 98-110, who uses the free-rider problem to critique effectively the Marxist theory of the State, still appears uncritically to accept the public-goods theory of the State. One public-choice theorist who is shying away from social contract and moving toward a generalized exploitation theory of the State is J. Patrick Gunning, "Towards a Theory of the Evolution of Government," in Tullock, ed., *Explorations in the Theory of Anarchy*, pp. 19-26. Douglass C. North, *Structure and Change in Economic History* (New York: W. W. Norton, 1981), pp. 20-32, makes a less-than-convincing effort to reconcile the contract and exploitation theories of the State by claiming that a purely predatory State will still provide many important genuine public goods in order to maximize its revenue.

they view the theory as merely explaining the conceptual nature rather than the concrete origin of the democratic State. Either way, however, the theory has an inner contradiction. Creating a democratic State of this nature is a public good itself. A very large group must in some manner have produced it. Because of the free-rider problem, they have no more incentive to do that than to revolt against an undemocratic State or to provide themselves any other non-excludable benefit.[25]

A more realistic alternative to the public-goods theory of the State is what we can call the social-consensus theory of the State. All States are legitimized monopolies on coercion. The crucial word is "legitimized." This legitimization is what differentiates States from mere criminal gangs. Any society in which people refrain from regularly killing each other enjoys some kind of social consensus. No government rules through brute force alone, no matter how undemocratic. Enough of its subjects must accept it as necessary or desirable for its rule to be widely enforced and observed. But the very consensus which legitimizes the State also binds it.[26]

[25]Kalt, "Public Goods and the Theory of Government," pinpoints the contradiction in the public-goods theory of the State. The still devastating, classic, point-by-point refutation of the social contract, in its literal rather than metaphorical version, remains Lysander Spooner, *No Treason: The Constitution of No Authority* (1870; reprinted, Larkspur, Colo.: Pine Tree Press, 1966). See also Williamson M. Evers, "Social Contract," *Journal of Libertarian Studies* 1 (Summer 1977): 185-94, which traces the literal notion of a social contract all the way back to Socrates.

[26]Since the definition of the State (or government) is something political scientists cannot even agree upon, mine will obviously be controversial. By "legitimized" (a positive adjective), I of course do not mean "legitimate" (a normative adjective). Most economists should have no difficulty conceiving of the State as a monopolistic coercive institution, but non-economists might balk. Members of the general public appear to have a bifurcated definition of the State, depending on whether it is domestic or foreign. They view hostile foreign States as simply monopolies on coercion, just like criminal gangs, which is why they fear foreign conquest. They overlook the legimitization of these States. On the other hand, that is the only element they seem to recognize about the domestic State, overlooking or at least deemphasizing the coercive element. This dichotomy is only a cruder version of the distinction made by public-goods theory between democratic and undemocratic States. For an extended defense of the implications of this universal definition, see Murray Rothbard, "The Anatomy of the State," in *Egalitarianism as a Revolt Against Nature*, pp. 34-53. I should note that my definition neither necessarily implies nor necessarily contradicts the conquest theory of the State's *origin*, as expounded most notably in Franz Oppenheimer, *The State* (1914; reprinted, New York: Free Life Editions, 1975).

Although I put the term "legitimization" into my definition of the State, I am not making a purely tautological claim. Not all coercive institutions are called States, and I think the term "legitimization" captures the difference. But if someone should empirically demonstrate that the Soviet State, for instance, is not considered legitimate by a major number of its subjects, then I would modify my definition, rather than deny that the organization ruling over the Russians was a State.

The social consensus bears little resemblance to the mythical social contract of public-goods theory. Whereas the social contract is generally conceived of as an *intentional* political agreement, agreed upon explicitly at some specific moment, the social consensus is an *unintended* societal institution, like language, evolving implicitly over time. Sometimes, the evolution of the social consensus can be very violent. Often, particular individuals or even fairly large groups will strongly disagree with certain features of their society's consensus. But at all times, members of society are socialized into the consensus in ways that they only dimly grasp, if at all.[27]

Consider a classroom of average American citizens. Ask for a show of hands on the following question: How many would pay their taxes in full if no penalties resulted from non-payment? Very few would raise their hands; probably only some masochists, ardent statists, and individuals who were not entirely honest. This shows that taxation is involuntary. Then ask the group a second question: How many think taxes are necessary or just? This time, nearly every hand would go up, except those of a few radical libertarians. This shows that taxation is legitimized.[28]

Of course, one of the reasons Americans generally view taxation as legitimate is because they think it is necessary in order to provide public goods. All this proves, however, is that, although the public-goods theory of the State is utterly worthless as an objective description of the State's origin or nature, it is very valuable as an ideological rationalization for the State's legitimization. It performs a function analogous to that performed by the divine right of kings under monarchical States or by Marxist dogma under communist States.

For unlike the public-goods theory of the State, the social-consensus

[27]One of the earliest observations that a social consensus *always* legitimizes the State is Etienne de la Boetie, *The Politics of Obedience: The Discource of Voluntary Servitude* (1574; reprinted, New York: Free Life Editions, 1975). La Boetie first wrote this essay in sixteenth-century France, while living under a despotic monarch. In other words, the concept of legitimized State, rather than being unique to democratic States, arose at a time when there were no such States to study.

Many other writers have since accepted the social-consensus theory of the State. For instance, see David Hume, "Of the First Principles of Government," in *Essays, Moral, Political, and Literary* (1741-42; reprint, London: Oxford University Press,1963), pp. 29-34. Ludwig von Mises discusses the role of ideas in social consensus in *Human Action*, pp. 177-90. The description of the social consensus as an unintended institution that evolves implicitly rather than an intended construct that is agreed upon explicitly derives from Friedrich A. Hayek. The implications of social consensus for various kinds of political action are exhaustively explored in Gene Sharp, *The Politics of Nonviolent Action* (Boston: Porter Sargent, 1973), esp. pt. 1, "Power and Struggle," although Sharp has a tendency to confound *legitimization* with mere *compliance* to the State's rule.

[28]I am confident about the empirical results, having conducted the test many times.

theory applies universally to all States. It predicts that if you conducted the same survey about taxation upon a group of average Russians living within the Soviet Union, or a group of average Iranians living under the Ayatollah (and you could guarantee them complete immunity regardless of how they answered), you would get similar results. These foreign and "evil" undemocratic States are not exogenous and alien institutions imposed on their subjects by sheer terror. They are complex products of the culture, attitudes, preferences, and ideas, whether explicit or implicit, that prevail within their societies.[29]

The vast ideological and cultural differences among the peoples of the world are what explain the marked differences in the domestic power of their States. The consensual constraints upon States differ in content, but all States face them. The Soviet leaders fully realize this, which is why they devote so many resources to domestic and foreign propaganda. The shifting social consensus also explains the many changes in the form and the power of the State over time. Although professional economists tend to ignore the ideological and cultural components of social dynamics, professional historians give these factors the bulk of their attention.

In the not-so-distant past, the world was entirely in the grip of undemocratic States, which permitted their subjects very little liberty. Democratic States evolved historically from undemocratic States. States that now must tolerate a large degree of liberty emerged from States that did not have to do so. Public-goods theory is in the awkward position of theoretically denying that this could have happened. It raises an across-the-board theoretical obstacle to

[29]Although Americans like to think that the Russian people share the aspirations of the widely publicized Russian dissidents, most observers report that the Russians view their dissidents much the same way as Americans view their traitors. Moreover, rather than desire more liberty, there is a considerable segment of the Soviet population that thinks the Soviet State is too soft. Despite official disapproval, this growing Stalin cult longs for the good old days of effective Stalinist discipline. Victor Zaslavsky, *The Neo-Stalinist State* (New York: Oxford University Press, 1983), has actually conducted fairly reliable surveys among Soviet subjects, which indicate quite unambiguously that the Soviet State is legimitized. For a look at some of the conflicting ideological trends within the Soviet Union, see Alexander Yanov, *The Russian New Right: Right-Wing Ideologies in the Contemporary USSR* (Berkeley, Calif.: Institute for International Studies, 1978). Good single-volume histories that impart an appreciation for the domestic sources of the Soviet State are Robert V. Daniels, *Russia: The Roots of Confrontation* (Cambridge, Mass.: Harvard University Press, 1985), and Geoffrey Hosking, *The First Socialist Society: A History of the Soviet Union from Within* (Cambridge, Mass.: Harvard University Press, 1985). An introduction to the various interpretations of Soviet history by American scholars, written from a revisionist slant, is Stephen F. Cohen, *Rethinking the Soviet Experience: Politics and History since 1917* (New York: Oxford University Press, 1985).

every conceivable reduction in State power that benefits more than a small group of individuals.[30] The social-consensus theory, in contrast, attributes this slow progress, sometimes punctuated with violent revolutions and wars, to ideological changes within the social consensus.

Thus, history is littered with drastic changes in State power and policy that resulted from successful ideological surmounting of the free-rider obstacle. The Minutemen volunteers who fought at Concord Bridge could not even come close to charging all the beneficiaries of their action. They produced tremendous externalities from which Americans are still benefiting today. The abolitionist movement produced such a cascade of positive externalities that chattel slavery—a labor system that was one of the world's mainstays no less than two hundred years ago, and had been so for millennia—has been rooted out everywhere across the entire globe. I could multiply the examples endlessly.[31]

Indeed, the existence of any voluntary ethical behavior at all faces a free-rider obstacle. Society is much more prosperous if we all cease to steal and cheat, but the single individual is better off still if everyone else behaves ethically while he or she steals and cheats whenever able to get away with it. Thus, everyone has a powerful personal incentive to free ride on other people's ethical behavior. If we all succumbed to that incentive, society would be very unpleasant.

[30]This awkward position is clearest in Tullock's *Social Dilemma*. He concedes "that the earliest governments of which we have any positive knowledge were despotisms of one sort or another, and that despotisms have remained the dominant form of government of the human race ever since" (p. 25). But rather than notice that this creates considerable tension for his claim later in the book that revolutions bringing about social benefits are impossible, because of the free-rider obstacle, he instead makes the breathtaking assertion: "Revolution is the subject of an elaborate and voluminous literature and, if I am right, almost all of this literature is wrong" (p. 46). Actually, this statement represents a mellowing from the claim in his previous article, "The Paradox of Revolution." There he left out the qualifying word "almost" in front of "all of this literature."

[31]Revolutionary historians of the imperial school might deny that the stand at Concord Bridge generated any positive externalities, and they would point to the amount of freedom that the British people themselves came to enjoy. But these historians would just underestimate the externalities. The American Revolution not only brought net benefits for Americans, but by altering the nature of the British Empire, eventually brought benefits to the British as well. The premier work on the role of ideas in the American Revolution is Bernard Bailyn, *Ideological Origins of the American Revolution* (Cambridge, Mass.: Harvard University Press, 1967), while a work that explores the international repercussions of the revolution is Robert R. Palmer, *The Age of Democratic Revolution: A Political History of Europe and America, 1760-1899*, vol. 2 (Princeton: Princeton University Press, 1959-64). As for my other example, a magisterial survey of the international history of chattel slavery is David Brion Davis, *Slavery and Human Progress* (New York: Oxford University Press, 1984), while a narrower historical survey of the international abolitionist movement itself is his *The Problem of Slavery in Western Culture* (Ithaca, N.Y.: Cornell University Press, 1966).

We must avoid the mistaken impression that the State's police forces and courts are what prevents most stealing and cheating. To begin with, the initial creation of such a police and court system (at least under government auspices) is another public good. But far more important, the police and courts are only capable of handling the recalcitrant minority who refuse voluntarily to obey society's norms. A cursory glance at varying crime rates, over time and across locations, clearly indicates that the total stealing and cheating in society is far from solely a function of the resources devoted to the police and the courts. Certain neighborhoods are less safe, making an equal unit of police protection less effective, because they contain more aspiring ethical free riders. If all members of society or even a substantial fraction became ethical free riders, always stealing and cheating whenever they thought they could get away with it, the police and court system would collapse under the load.[32]

In short, every humanitarian crusade, every broad-based ideological movement, every widely practiced ethical system, religious and non-religious, is a defiant challenge hurled at the public-goods argument. The steady advance of the human race over the centuries becomes a succession of successful surmounting of the free-rider obstacle. Civilization itself would be totally impossible unless people had somehow solved the public-goods problem, *voluntarily*.[33]

[32]Among the economists that recognize the public-goods nature of ethical behavior are James M. Buchanan, in "Ethical Rules, Expected Values, and Large Numbers," *Ethics* 76 (October 1965): 1-13; Richard B. McKenzie, in "The Economic Dimensions of Ethical Behavior," *Ethics* 87 (April 1977): 208-21, and North, in *Structure and Change in Economic History*, pp. 11-12, 18-19, 45-46. Buchanan again touches upon this aspect of ethical behavior in "Before Public Choice," pp. 29-30, where he emphasizes that ethical behavior involves a total externality—because an individual gains no benefits from his own ethical behavior—and in *The Limits of Liberty*, pp. 123-29, where he looks upon an increase in ethical free riding as an erosion of a society's rule-abiding capital.

[33]Rothbard, "The Myth of Neutral Taxation," makes a similar observation: "Thus the free-rider argument proves far too much. After all, civilization itself is a process of all of us 'free-riding' on the achievements of others. We all free-ride, every day, on the achievements of Edison, Beethoven, or Vermeer" (p. 545).

For a contrasting and ingenious attempt to interpret history as the working out of public-goods theory, rather than as the contradiction of it, see Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, Conn.: Yale University Press, 1982). Although this effort is pioneering as far as it goes, it still depends at critical junctures upon historical accidents—wars, revolutions, and conquests—to sweep away the existing distributional coalitions. An even less satisfactory, although still very valuable efforts by economists to account for historical change without reference to people's ideological preferences but purely on the basis of material factors is Douglass C. North and Robert Paul Thomas, *The Rise of the Western World: A New Economic History* (New York: Cambridge University Press, 1973).

At least one of those two authors has begun to back away from this a-ideological stance, i.e., North, *Structure and Change in Economic History*. He states: "Casual

IV

Obviously, there is some flaw in public-goods theory. Howard Margolis points out that "no society we know could function" if all its members actually behaved as the free-rider assumption predicts they will. He calls this theoretical failure free-rider "overkill."[34]

Despite this flaw, public-goods theory explains a great deal, which is why it remains so popular among economists. It explains why so many eligible voters do not waste their time going to the polls. But it fails to explain why so many of them still do go. (I think an interesting empirical study would be to determine what percentage of economists, who accept public-goods theory, violate their theoretical assumptions about human behavior by voting.) It explains why the progress of civilization has been so painfully slow. But it fails to explain why we observe any progress at all.

Before working out the implications of this theoretical flaw for national defense, let me digress briefly and try to identify it. It must involve some weakness in the theory's assumption about human behavior. I make no pretensions, however, about being able fully to resolve the weakness. Because this very issue sits at the conjunction of public-goods theory and game theory, it has become one of the most fertile areas of inquiry within economics and political science over the last decade. All I do is modestly offer some tentative thoughts about the sources of the weakness.

Two possibilities suggest themselves. Either people do not consistently pursue the ends that the free-rider assumption predicts they will pursue, or they pursue those ends but using means inconsistent with the assumption. I will take up both of these possibilities in order:

1. *Do people consistently pursue their self-interest, as the free-rider assumption defines self-interest?* Public-goods theorists have offered, not one, but two motives that should cause a person to behave in accordance with the free-rider assumption. The obvious is narrow economic self-interest. This end does provide a sufficient reason to free ride, but visualizing someone choosing a different end is quite easy. Simple altruism is not the only alternative that will violate this

everyday observation confirms the ubiquitous existence of the free rider behavior. But casual observation also confirms the immense number of cases where large group action does occur and is a fundamental force for change—action which, however, is simply inexplicable in neoclassical terms. The economic historian who has constructed his model in neoclassical terms has built into it a fundamental contradiction since there is no way for the neoclassical model to account for a good deal of the change we observe in history" (pp. 10-11).

[34]Howard Margolis, *Selfishness, Altruism, and Rationality: A Theory of Social Choice* (Cambridge, Mass.: Cambridge University Press, 1982), p. 6.

narrow assumption. People may desire social improvements—liberty, justice, peace, etc.—not simply for their material benefits, but as ends in and of themselves, independently present within their utility functions. Patrick Henry may have been engaging in political hyperbole when he exclaimed "Give me liberty or give me death!", but he was still expressing a willingness to pay more for attaining liberty than its economic returns would cover. Perhaps this willingness should be called ideological altruism; no matter what we call it, it appears to be quite common in human history.[35]

Mancur Olson is the most prominent public-goods theorist to argue that a second motive beyond narrow economic self-interest justifies the free-rider assumption. And this second motive applies even to the individual with altruistic ends—*if* the group is large

[35]Several scholars, noting the empirical problem with the free-rider assumption, are moving in this direction. For instance, Robyn M. Dawes, "Social Dilemmas," *Annual Review of Psychology* 31 (1980): 169-93, suggests that altruism, conscience, and social norms are important individual ends. Barry, *Sociologists, Economists, and Democracy*, goes so far as to propose that a full understanding of human society requires two distinct approaches: the economic and sociological. He is building upon Mancur Olson, "Economics, Sociology, and the Best of All Possible Worlds," *Public Interest* 12 (Summer 1968): 96-118, who contrasts economics, the study of rational action, with sociology, the study of socialization. Higgs, *Crisis and Leviathan*, chap. 3, discusses ideology at great length as the factor which overcomes what he calls "Olson's Iron Law of Collective Inaction." Similarly, North gives chap. 5 of *Structure and Change in Economic History* the title "Ideology and the Free Rider Problem."

But the most impressive work along these lines is Margolis's *Selfishness, Altruism, and Rationality*, which is summarized in his journal article, "A New Model of Rational Choice," *Ethics* 91 (January 1981): 265-79. Margolis steps beyond merely noting the ideological and altruistic components in people's goals; he sets up a very intriguing formal model of human behavior that incorporates group-oriented goals and attempts to test it. His is the first serious attempt to determine when people will choose to free ride and when they will not. My only reservation is with his desire to use his model to resurrect the discredited notion of a bifurcated man: i.e., one whose selfish behavior predominates within the private realm, while his altruistic behavior predominates within the political realm. We observe a close to equal mixture of both motives within both realms.

Daniel Klein, "Private Turnpike Companies of Early America" (unpubl. ms., New York University) examines a historical instance in which what he calls "moral suasion" played a significant role in the provision of a good—roads—that is among the most frequently mentioned examples of a public good. Most of the investors in private turnpike companies in early America lost money, yet they continued to make this investment. Klein persuasively argues that it was not poor forecasting on their part that caused this behavior. They knowingly violated their narrow self-interest in order to provide the community with a public good.

I should note that I attach the adjective "narrow" to the term "self-interest" to indicate the usage that involves seeking particular, usually selfish, goals. This is to distinguish it from the broader usage of the term, which can encompass any goal, including altruism. Whether individuals do in fact pursue their narrow self-interest is a question subject to empirical verification or falsification, but individuals by definition always pursue their broad self-interest.

enough. He contends that only rationality in the pursuit of whatever end the individual chooses is strictly necessary. The individual will still choose to free ride, because for a public good requiring a large group his meager contribution will have no perceptible effect on attaining the end.[36]

I could object that an individual's contribution to a cause is often not contingent in any way upon the cause's overall success. Consequently, how much the individual thinks his action will affect the probability of success is often irrelevant. Some people refuse to litter, for instance, fully aware that their refusal will have no perceptible impact on the quantity of litter. Such individuals gain righteous satisfaction from doing what they believe is proper, regardless of its macro-impact. In addition to a sense of righteousness, ideological movements can offer their participants a sense of solidarity, of companionship in a cause, that keeps many loyal no matter how hopeless the cause.[37]

But this objection concedes far too much to Olson. As philosopher Richard Tuck has cogently pointed out, Olson's notion of "rationality" if consistently obeyed precludes some everyday activities. It does not just apply to an individual's contribution to the effort of a large group; it applies just as forcefully to the cumulative actions of a single person on a large individual project. Olson's "rationality" is simply a modern variant of the ancient philosophical paradox of the Sorites. In one version, the paradox argues that there can never be a heap of stones. One stone does not constitute a heap, nor does the addition of one stone to something that is not already a heap. Therefore, no matter how many stones are added, they will never constitute a heap. (Interestingly enough, in the other direction, this paradox argues that there can never be anything but a heap of stones.)

One more word will not make a perceptible difference in the length of this paper. Because one word makes no difference, I would not have started in the first place if I had adhered to Olson's "rationality." One more dollar will not make a perceptible difference in a person's life savings. One day's exercise will not make a perceptible difference in a person's health. If the fact that the individual's imperceptible contribution goes toward a group rather than an individual effort is what is decisive, then we are simply back again at the motive of narrow self-interest. No doubt, this type of "rationality" does influence some people not to undertake some actions under some circumstances.

[36]Olson, *The Logic of Collective Action*, pp. 64-65.

[37]Higgs, *Crisis and Leviathan*, chap. 3, heavily emphasizes the role of ideological solidarity.

But just how compelling people find it is demonstrated by the millions who vote in presidential elections, despite the near certainty that the outcome will never be decided by one person's vote.[38]

2. *Do people pursue their self-interest but in a manner inconsistent with the free-rider assumption?* Olson, again, has suggested one way that individuals might effectively organize despite the free-rider obstacle. Groups can link their efforts at achieving non-excludable benefits with excludable by-products. Such by-products include low group-rate insurance and professional journals. The incentive provided by these by-products helps counteract the incentive to be a free rider.[39]

The most intriguing aspect of the by-product theory is the easy method it offers for providing national defense without a State. The purchase of national defense could be linked to some excludable by-product that everyone wants, such as protection insurance or contract enforcement. Indeed, most of those advocating voluntary funding of national defense have hit upon some such related scheme.[40]

Unfortunately, this solution is too easy. If the excludable by-prod-

[38]Richard Tuck, "Is There a Free-Rider Problem, and if so, What is It?" in Ross Harrison, ed., *Rational Action* (Cambridge, Mass.: Cambridge University Press, 1979), pp. 147-56.

We can salvage Olsonian "rationality" under two strict conditions. When (1) a threshold level of resources is necessary before any of the public good becomes available whatsoever, *and* (2) people end up paying whatever resources they contribute, irrespective of whether they reach the threshold or not, it becomes rational not to contribute *if* a person predicts that the threshold will not be reached. In that special case, he or she would simply be throwing away resources for nothing. Notice that these two conditions apply more frequently to obtaining public goods through politics—which is often a win or lose, all or nothing, situation—than to obtaining public goods on the market. In particular, it applies to voting. Hardin, *Collective Action*, pp. 55-61, analyzes the first of these conditions, for which he employs the term "step goods."

About a decade ago, a popular book, Harry Browne's *How I Found Freedom in an Unfree World* (New York: Macmillan, 1973), attempted to convince people that among other things they should not try to change society through political action. Browne gave basically two arguments: (1) there are much better ways for people to attain directly the benefits they want (narrow self-interest), and (2) their participation in political action does not change society anyway (Olsonian "rationality"). His book was a best seller, but the fact that he had to write it at all indicates how infrequently these two motives fully govern people's actions.

[39]Olson, *The Logic of Collective Action*, pp. 132-68. Olson also refers to excludable "by-products" as "selective incentives." Gary Becker, "A Theory of Competition among Pressure Groups for Political Influence," *Quarterly Journal of Economics* 98 (August 1983): 372-80, basically depends on the by-product theory to overcome the free-rider incentive against political activity. Looked at another way, the by-product theory converts a full public good into a positive externality of a private good.

[40]Those advocating voluntary funding of national defense through the sale of excludable by-products include Ayn Rand, "Government Financing in a Free Society," in *The Virtue of Selfishness: A New Concept of Egoism* (New York: New American Library, 1964), pp. 157-63; Jarret B. Wollstein, *Society Without Coercion: A New Concept of Social Organization* (Silver Springs, Md.: Society for Individual Liberty, 1969), pp. 35-38; Morris

uct is really what people want, then a competitor who does not link it with the non-excludable good or service can sell it at a lower price. Only if the group has a legal monopoly on marketing its by-product can it really counteract the free-rider incentive. Every really successful example of groups relying upon by-products that Olson discusses involve some sort of legal monopoly. But the groups' initial attainment of this legal monopoly remains an unexplained surmounting of the public-goods problem.[41]

Far more promising than the by-product theory for explaining the empirical weakness of the free-rider assumption is some of the recent dynamic analysis being done in game theory. As many scholars have pointed out, the free-rider problem in public-goods theory is identical to the famous Prisoner's Dilemma in game theory.[42]

The Prisoner's Dilemma derives its name from an archetypal situation where two prisoners are being held for some crime. The prosecutor separately proposes the same deal to both prisoners, because he only has sufficient evidence to convict them of a minor crime with a light sentence. Each is told that if he confesses, but the other does not, he will get off free, while the other will suffer the full penalty, unless the other also confesses. If they both confess, they both will be convicted of the more serious crime, although they both will receive some small leniency for confessing. This deal gives each prisoner an incentive independently to confess, because by doing so he individually will be better off regardless of what the other does.

and Linda Tannehill, *The Market for Liberty* (Lansing, Mich.: Tannehill, 1970), pp. 126-35; and Tibor R. Machan, "Dissolving the Problem of Public Goods," in Machan, ed., *The Libertarian Reader* (Totowa, N.J.: Rowman and Littlefield, 1982), pp. 201-08. Rand and Machan would still have national defense provided by the State, but one that collected no taxes. Wollstein and the Tannehills—whose separate works were reprinted together under the combined title *Society without Government* (New York: Arno Press, 1972)—prefer private alternatives. For a telling critique of the by-product theory as applied to national defense, see Friedman, *The Machinery of Freedom*, pp. 192-93.

[41]Hardin, *Collective Action*, pp. 31-34, criticizes the by-product theory.

[42]The book which launched mathematical game theory was John von Neumann and Oskar Morgenstern, *The Theory of Games and Economic Behavior*, 3rd ed. (Princeton: Princeton University Press, 1953); the first edition appeared in 1944. According to Hardin, *Collective Action*, p. 24, the Prisoner's Dilemma itself was first discovered in 1950 by Merril Flood and Melvin Dresher. A. W. Tucker, a game theorist at Princeton University, later gave the Prisoner's Dilemma its name. For the personal reminiscences of one of the early researchers who worked on the Prisoner's Dilemma, coupled with a survey of the studies of the dilemma up to the mid-seventies, see Anatol Rapoport, "Prisoner's Dilemma—Recollections and Observations," in Rapoport, ed., *Game Theory as a Theory of Conflict Resolution* (Dordrecht, The Netherlands: D. Reidel, 1974), pp. 17-34. Interestingly enough, despite the commonality between the Prisoner's Dilemma and the public-goods problem, Samuelson in "Pure Theory of Public Expenditure and Taxation," dismissed all game theory because "except in trivial cases, [it] propounds paradoxes rather than solves problems."

Consequently, they both confess, despite the fact that they both collectively would have had much lighter sentences if they both refused to confess.

The public-goods problem is essentially a Prisoner's Dilemma with many prisoners. I cannot delve into the details here of the recent work, both theoretical and empirical, of such game theorists as Michael Taylor, Russell Hardin, and Robert Axelrod, but essentially they have explored the Prisoner's Dilemma within a dynamic rather than static setting. Their conclusion: whereas in a static single Prisoner's Dilemma, cooperation is never rational; in dynamic iterated Prisoner's Dilemmas, with two or more people, cooperation frequently becomes rational for even the most narrowly self-interested individual. What this exciting work implies is that in many real-world dynamic contexts, ideological altruism or some similar motive beyond narrow self-interest may not be necessary at all to counterbalance the free-rider incentive.[43]

V

I now arrive finally at my conclusions respecting national defense. We have seen that putting domestic limitations upon the power of the State is a public-goods problem, but nonetheless one that in many historical instances for whatever reason has been solved. We have also seen that national defense, in the sense of protecting the people from a foreign State, is a subset of the general problem of protecting them from any State, domestic or foreign. Consequently, the factors that already provide protection from the domestic State are the very factors which on the market would provide protection from foreign States. To put it concretely, the same social consensus that has voluntarily overcome the free-rider obstacle to protect the United States, one of the most free, if not the most free, nation in the world would voluntarily overcome the free-rider obstacle to protect American freedom from foreign States.

The policy implication of this analysis is, to say the least, very far-reaching. Rather than justifying State provided protection, the fact that national defense is a genuine public good offers a powerful

[43]R. Hardin, "Collective Action as an Agreeable *n*-Prisoners' Dilemma," *Behavioral Science* 16 (September 1971): 472-81; Michael Taylor, *Anarchy and Cooperation* (London: John Wiley & Sons, 1976); Hardin, *Collective Action*; and Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984). Axelrod confines himself to two person dynamic Prisoner's Dilemmas, while both Taylor and Hardin consider *n*-person iterated games. For a good review of the growing literature on *n*-person games, see Dawes, "Social Dilemmas." The conclusion of much of this work was anticipated by Brubaker, "Free Ride, Free Revelation, or Golden Rule," who tested for cooperation on public goods with pre-contract excludability.

argument for unilaterally disarming the State.[44] In current American political discourse, unilateral disarmament has become an emotion-laden term. Radical opponents of current United States military policy are often tainted with the term, although almost none of them actually dare to take that position. So let me be specific about what I mean by unilateral disarmament.[45]

By "disarmament," I mean disarmament of the State. Prior to this point, there has been no mention of private protection agencies as alternatives to the State for national defense. The notion of a private agency replacing the United States government's military establishment seems exotic at first glance. But once we appreciate the equivalence between protection from foreign States and protection from the do-

[44]Strictly speaking, my argument has applied to the provision of national defense with taxation or some other coercive measure. Thus, it challenges the use of such measures by private alternatives. Some might also speciously conclude that it allows for the provision of defense by a State that does not collect taxes. To fully explain why I believe the idea of a voluntary State is a contradiction in terms would involve us in the lengthy philosophical debate between anarchist and minarchist libertarians. Suffice to say, without the public-goods argument, those who still advocate State-provided protection must present a different argument for entrusting this service to the State. Until then, I will merely point out that entrusting national defense to a State that does not collect taxes, at least to support that service, would achieve the worst of both worlds. It would abandon the only apparent advantage of having the State provide this public good, the ability to coerce free riders, but would maintain all the other obvious disadvantages of State-provided protection.

[45]In Britain, unlike the U.S., significant segments of the peace movement do advocate unilateral disarmament, but even there, many of them view this as a realistic possibility only because of the existence of the U.S. military establishment. Within the U.S., the only individuals actually to endorse unilateral disarmament have been those who believe non-violent resistance is a practical alternative. They have recently begun to refer to themselves as the transarmament movement, because they wish to "transcend" reliance upon arms for defense. Their most prominent proponent is Gene Sharp. See his *Making Europe Unconquerable: The Potential of Civilian-based Deterrence and Defence* (Cambridge, Mass.: Ballinger, 1986), has been recently published. Others who have explored this option both here and abroad are Anders Bosserup and Mack Andrew, *War Without Weapons: Non-Violence in National Defense* (New York: Schocken Books, 1974); Dietrich Fischer, *Preventing War: A Policy for Britain* (Totowa, N.J.: Rowman and Allanheld, 1984); Stephen King-Hall, *Power Politics in the Nuclear Age* (London: Victor Gollancz, 1962); Adam Roberts, ed., *Civilian Resistance as a National Defense: Non-Violent Action Against Aggression* (Baltimore: Penguin Books, 1969); and Mulford Q. Sibley, ed., *The Quiet Battle: Writings on the Theory and Practice of Nonviolent Resistance* (Chicago: Quadrangle Books, 1963).

I believe this perspective has much to offer. It is more sensitive to the role of legitimization in the power of the State than any of the more conventional perspectives. Nevertheless, my policy proposal departs from this perspective in two very significant features: (1) it envisages military defense organized without a State, whereas non-violent resistance rules out military defense altogether; and (2) it rules out any kind of defense provided by the State, whereas most of the transarmament advocates favor *nationalized* non-violent resistance. They have no objection to the domestic State employing taxation and in some cases even conscription in order to implement non-violent resistance.

mestic State, we reach the startling realization that many private protection agencies exist right now. They are the same institutions currently protecting Americans from the United States government's attempted violations of life, property, and liberty—institutions from the American Civil Liberties Union, at one end of the political spectrum, to the National Rifle Association, at the other. Obviously, these existing private protection agencies might have to change their tactics when confronting a foreign State. Or new agencies might have to arise. But the private sector might very well have to respond similarly if the United States government itself were to undergo some radical transformation, say, from democratic to dictatorial. And in both these instances, non-military methods of protecting liberty might still remain more effective.

If members of the American Civil Liberties Union, the National Rifle Association, and numerous other similar organizations within our society behaved as the public-goods argument predicts, they would all pack up and go home.[46] The fact that they do not do so implies that, despite the free-rider problem, more efficient private military alternatives could take the State's place, if it were disarmed. Thus, a more apt term than "disarmament" for my recommended policy would be "denationalization of defense."

The word "unilateral" when applied to Cold War disarmament conveys the unfortunate impression that the user prefers a world in which the United States government is disarmed while other States, such as the Soviet Union, remain armed to the teeth. All that I mean by unilateral is that the disarming of one State need not be made conditional upon the disarming of another. I believe this for roughly the same reason that I believe that the elimination of one State's

[46]The continuing success of the National Rifle Association is frequently commented upon, but many observers jump to the misleading inference that the NRA is a lobby. For a recent instance, see Bob Secter and Karen Tumulty, "Victory Spotlights Power, Strategy of NRA Lobbyists," *Los Angeles Times*, 11 April 1986, pp. 1, 28. If they mean the term "lobby" broadly to include any group that attempts to influence public policy, then this inference is correct. But the narrower meaning of the term "lobby" restricts it to groups that attempt to influence public policy for *private pecuniary* benefit, such as when automobile manufacturers band together for import quotas. If the NRA represented mainly gun manufacturers, then it would be a lobby in this sense. But it clearly represents gun owners. Furthermore, these gun owners work assiduously to protect the right to gun ownership of the entire public. Like defense of the public generally, defense of the right to gun ownership is a public good with a very large public. Thus, according to public-goods theory, the NRA could never exist. It does no good to argue that many in the public do not care about their right to own guns. That only reinforces the free rider incentives *against* the NRA. Because now we are talking about not only a public good with a large public, but also a public good that most of the beneficiaries do not value highly. Yet, the efforts of the small number who do value this public good highly are enormously successful in its production.

trade and immigration barriers need not be made conditional upon the elimination of another's barriers. Thus, a more precise word than "unilateral" is "unconditional."[47]

Ideally, I hope for a world in which all States have been disarmed. Although many of the formal economic models of international relations are not very sanguine about this eventuality, this analysis points to two possible shortcomings in such models. First, they are generally built upon a static formulation of the Prisoner's Dilemma, whereas dynamic formulations are more realistic and more likely to predict cooperation. Second, they generally commit the nationalistic fallacy of composition, ignoring the interactions of the State with its own and foreign populations. Like the public-goods theory they emulate, these models are very good at explaining the cases where disarmament fails. They do not do so well at explaining the cases where disarmament succeeds—as for instance, along the United States–Canada border since 1871.[48]

It is beyond the scope of this paper to work exhaustively through all the international consequences of the positive relationship between the domestic power of the State and its subjects' perception of a foreign threat. In general, ideological dynamics create a symbiotic interdependence between hostile States. The dampening of plausible foreign threats should eventually lead to the kind of genuine mutual disarmament that the intuitive, less formal models of the arms race have always suggested. Although an unconditional denationalization of defense would involve the replacement of the State's military with

[47]I am indebted to George Smith, "Thoughts on Unilateral Disarmament (unpubl. ms., 1982), for clarifying some of these terminological questions.

[48]Britain and the U.S. demilitarized the Great Lakes in the Rush-Bagot Treaty of 1817. The process of disarming the entire border was not complete until 1871, however. Both Philip Noel-Baker, *The Arms Race: A Programme for World Disarmament* (London: Atlantic Books, 1958), and Boulding, "The World War Industry as an Economic Problem," appreciate the significance of this example.

Economic studies of international relations that share these weaknesses include Lee, "The Soviet Economy and the Arms Control Delusion" and Tullock, *The Social Dilemma*. Most of the economic work in these areas has focused upon alliances. See for instance Mancur Olson, Jr., and Richard Zeckhauser, "Collective Goods, Comparative Advantage, and Alliance Efficiency," in Roland N. McKean, ed., *Issues in Defense Economics* (New York: National Bureau of Economic Research, 1967), pp. 25-63.

Tullock is a most egregious example, because on top of other problems his model simplistically assumes that military protection always enjoys increasing returns to scale. He could profit greatly by incorporating some of the insights of Kenneth E. Boulding, *Conflict and Defense: A General Theory* (New York: Harper and Row, 1962), about the State's multi-dimensional force gradient, which degrades over distance, or of David Friedman, "A Theory of the Size and Shape of Nations," *Journal of Political Economy* 85 (February 1977): 59-77, about the limitations upon a nation's size arising from the State's desire to maximize tax revenues.

private alternatives, those alternatives by being divorced from the State would be divorced from the primary means of foreign conquest. Thus, the unconditional disarmament of one State should actually help hasten the day when all the world's States are disarmed.[49]

Of course, the denationalization of defense will not make a society invincible. Luxembourg without an armed State could hardly protect itself against the combined forces of a militarized Germany and a militarized France. But then neither could Luxembourg with a fully armed State. The more important comparative question is which institutions in our "imperfect" world would do the best possible job of protecting the lives, property, and liberty of the Luxemborgian people. I believe that the denationalization of defense would not only reduce the likelihood of foreign conquest but also would limit the oppressiveness of conquest when it cannot be prevented altogether.

Most readers will have noticed that I still have failed to address one major problem. Granting that the unconditional denationalization of defense would be beneficial, how is this policy ever to be implemented? The production of disarmament itself is a public good, confronting the same free-rider obstacle that confronts every non-excludable good and service. Should a majority come to endorse this policy, the narrow special interests who benefit from an armed State would still be willing to commit a lot of resources to keeping the State armed.

The solution to this final "political failure" has of course been implicit throughout the analysis. Like all significant gains in the history of civilization, the disarming of the State can only be accomplished by a massive ideological surge that surmounts the free-rider obstacle. But this seeming difficulty only enhances the policy's attractiveness. By the very act of disarming the domestic State, the people will have forged a tool for protecting themselves from foreign States.[50]

In conclusion, the public-goods argument fails to justify the State's protection. Indeed, it utterly fails to explain either the func-

[49]See Jeffrey Rogers Hummel, "Deterrence vs. Disarmament," *Caliber* 9 (October/November 1981): 8-10; "On Defense," *Free World Chronicle* 2 (January/February 1984): 18-23; and "A Practical Case for Denationalizing Defense," *The Pragmatist* 3 (April 1986): 1, 8-10, and (June 1986).

[50]As Boulding, "The World War Industry as an Economic Problem," notes: "It is a striking testimony to the power of the underlying drive toward the ultimate payoffs of disarmament that in spite of two world wars, the hypocrisy of governments, and the weighing of the bargaining organization so strongly against it, the movement toward disarmament refuses to die" (p. 25).

I might also note that unilateral but total disarmament of the State has the advantage of being, like the total abolition of slavery in the past, a Schelling point, to use the obscure jargon of game theorists, and a particularly prominent Schelling point

tions or origins of the democratic State at all. Because of the inherent public-goods nature of political action, the State in practice produces very few genuine public goods. The most important public goods in the progress of civilization have been ultimately produced outside the State, either directly, or indirectly through influencing State policy.

The democratic State cannot even take credit for the incidental protection its subjects receive as an externality from its protection of its own prerogatives. The ultimate source of that externality is greater liberty, which is not a gift generously bestowed by the democratic State. Liberty too is a public good, perhaps the most valuable of all. Like any other public good, it must be wrenched from the State through political action. This adds new depth to the cherished maxim: "The price of liberty is eternal vigilance." The State is not some convenient short-cut for either the production or protection of liberty. Liberty is only secure among a people willing voluntarily to shun the free-rider incentive and to protect it themselves.

---

at that. On the importance of Schelling points to social change see Friedman, "Many, Few, One." This feature alone gives my policy a far higher probability of ever being practically implemented than something like the demand-revealing process for voting of public-goods theorists. Even trained economists have some difficulty clearly articulating the workings and benefits of the latter.

Karl Marx: Communist as Religious Eschatologist

Murray N. Rothbard*

Marx as Millennial Communist

The key to the intricate and massive system of thought created by Karl Marx is at bottom a simple one: *Karl Marx was a communist.* A seemingly trite and banal statement set alongside Marxism's myriad of jargon-ridden concepts in philosophy, economics, and culture, yet Marx's devotion to communism was his crucial focus, far more central than the class struggle, the dialectic, the theory of surplus value, and all the rest. Communism was the great goal, the vision, the desideratum, the ultimate end that would make the sufferings of mankind throughout history worthwhile. History is the history of suffering, of class struggle, of the exploitation of man by man. In the same way as the return of the Messiah, in Christian theology, will put an end to history and establish a new heaven and a new earth, so the establishment of communism would put an end to human history. And just as for post-millennial Christians, man, led by God's prophets and saints, will establish a Kingdom of God on Earth (for *pre*-millennials, Jesus will have many human assistants in setting up such a kingdom), so, for Marx and other schools of communists, mankind, led by a vanguard of secular saints, will establish a secularized Kingdom of Heaven on earth.

In messianic religious movements, the millennium is invariably established by a mighty, violent upheaval, an Armageddon, a great apocalyptic war between good and evil. After this titanic conflict, a millennium, a new age, of peace and harmony, of the reign of justice, will be installed upon the earth.

Marx emphatically rejected those utopian socialists who sought to arrive at communism through a gradual and evolutionary process, through a steady advancement of the good. Instead, Marx harked back to the apocalyptics, the post-millennial coercive German and

*Murray N. Rothbard is S. J. Hall Distinguished Professor of Economics at the University of Nevada in Las Vegas and editor of the *Review of Austrian Economics*.

The Review of Austrian Economics, Vol. 4, 1990, pp. 123-79
ISSN 0889-3047

Dutch Anabaptists of the sixteenth century, to the millennial sects during the English Civil War, and to the various groups of pre-millennial Christians who foresaw a bloody Armageddon at the last days, before the millennium could be established. Indeed, since the apocalyptic post-mils refused to wait for a gradual goodness and sainthood to permeate mankind, they joined the pre-mils in believing that only a violent apocalyptic final struggle between good and evil, between saints and sinners, could usher in the millennium. Violent, worldwide revolution, in Marx's version, to be made by the oppressed proletariat, would be the inevitable instrument for the advent of his millennium, communism.

In fact, Marx, like the pre-mils (or "millenarians"), went further to hold that the reign of evil on earth would reach a peak just before the apocalypse ("the darkness before the dawn"). For Marx as for the millenarians, writes Ernest Tuveson,

> The evil of the world must proceed to its height before, in one great complete root-and-branch upheaval, it would be swept away ...
>
> Millenarian pessimism about the perfectibility of the existing world is crossed by a supreme optimism. History, the millenarian believes, so operates that, when evil has reached its height, the hopeless situation will be reversed. The original, the true harmonious state of society, in some kind of egalitarian order, will be re-established.[1]

In contrast to the various groups of utopian socialists, and in common with religious messianists, Karl Marx did not sketch the features of his future communism in any detail. It was not for Marx, for example, to spell out the number of people in his utopia, the shape and location of their houses, the pattern of their cities. In the first place, there is a quintessentially crackpotty air to utopias that are mapped by their creators in precise detail. But of equal importance, spelling out the details of one's ideal society removes the crucial element of awe and mystery from the allegedly inevitable world of the future.

But certain features are broadly alike in all visions of communism. Private property is eliminated, individualism goes by the board,

[1]Ernest L. Tuveson, "The Millenarian Structure of "The Communist Manifesto," in C. Patrides and J. Wittreich, eds., *The Apocalypse in English Renaissance Thought and Literature* (Ithaca, N.Y.: Cornell University Press, 1984), pp. 326-27. Tuveson speculates that Marx and Engels may have been influenced by the outburst of millenarianism in England during the 1840s. On this phenomenon, particularly the flareup in England and the U.S. of the Millerites, who predicted the end of the world on October 22, 1844, see the classic work on modern millenarianism, Ernest R. Sandeen, *The Roots of Fundamentalism: British and American Millenarianism, 1880-1930* (Chicago: University of Chicago Press, 1970). See Tuveson, "Millenarian Structure," p. 340 n. 5.

individuality is flattened, all property is owned and controlled communally, and the individual units of the new collective organism are in some way made "equal" to one another.

Marxists and scholars of Marxism have tended to overlook the centrality of communism to the entire Marxian system.[2] In the "official" Marxism of the 1930s and 1940s, communism was slighted in favor of an allegedly "scientific" stress on the labor theory of value, the class struggle, or the materialist interpretation of history, and the Soviet Union, even before Gorbachev, grappling with the practical problems of socialism, treated the goal of communism as more of an embarrassment than anything else.[3] Similarly, Stalinists such as Louis Althusser dismissed the pre-1848 Marx's stress on "humanism," philosophy, and "alienation," as unscientific and pre-Marxist. On the other hand, in the 1960s it became fashionable for new left Marxists such as Herbert Marcuse to dismiss the later "scientific economist" Marx as a rationalistic prelude to despotism and a betrayal of the earlier Marx's stress on humanism and human "freedom." In contrast, I hold with the growing consensus in Marxist studies[4] that, at least since 1844 and possibly earlier, there was only *one* Marx, that Marx the "humanist" established the goal that he would seek for the remainder of his life: the apocalyptic triumph of revolutionary communism. In this view, Marx's exploration later into the economics of capitalism was merely a quest for the mechanism, the "law of history," that allegedly makes such a triumph inevitable.

But in that case, it becomes vital to investigate the nature of this allegedly humanistic goal of communism, what the meaning of this the "freedom" might be, and whether or not the grisly record of Marxist-Leninist regimes in the twentieth century was implicit in the basic Marxian conception of freedom.

Marxism is a religious creed. This statement has been common among critics of Marx, and since Marxism is an explicit enemy of religion, such a seeming paradox would offend many Marxists,

[2]Thus, in the highly touted work of Thomas Sowell, *Marxism: The Philosophy and Economics* (London: Unwin Paperbacks, 1986), there is scarcely any consideration whatsoever paid to communism.

[3]The official Soviet textbook on Marxism treated its own proclaimed goal with brusque dismissal, insisting that all Soviets must work hard and not skip any "stages" on the long road to communism. "The CPSU [the Communist Party of the Soviet Union], being a party of scientific communism, advances and solves the problem of communist construction as the material and spiritual prerequisites for them to become ready and mature, being guided by the fact that necessary stages of development must not be skipped over ..." *Fundamentals of Marxism-Leninism*, 2nd rev. ed. (Moscow: Foreign Languages Publishing House, 1963), p. 662. Also see ibid., pp. 645-46, 666-67, and 674-75.

[4]Thus, see the illuminating work of Robert C. Tucker, *Philosophy and Myth in Karl Marx* (1970, New York: Cambridge University Press, 1961).

since it clearly challenged the allegedly hard-headed scientific materialism on which Marxism rested. In the present day, oddly enough, an age of liberation theology and other flirtations between Marxism and the Church, Marxists themselves are often quick to make this same proclamation. Certainly, one obvious way in which Marxism functions as a "religion" is the lengths to which Marxists will go to preserve their system against obvious errors or fallacies. Thus, when Marxian predictions fail, even though they are allegedly derived from scientific laws of history, Marxists go to great lengths to *change* the terms of the original prediction. A notorious example is Marx's law of the impoverishment of the working class under capitalism. When it became all too clear that the standard of living of the workers under industrial capitalism was rising instead of falling, Marxists fell back on the view that what Marx "really" meant by impoverishment was not immiseration but *relative* deprivation. One of the problems with this fallback defense is that impoverishment is supposed to be the motor of the proletarian revolution, and it is difficult to envision the workers resorting to bloody revolution because they only enjoy one yacht apiece while capitalists enjoy five or six. Another notorious example was the response of many Marxists to Böhm-Bawerk's conclusive demonstration that the labor theory of value could not account for the pricing of goods under capitalism. Again, the fallback response was that what Marx "*really* meant"[5] was not to explain market pricing at all, but merely to assert that labor hours embed some sort of mystically inherent "values" into goods that are, however, irrelevant to the workings of the capitalist market. If this were true, then it is difficult to see why Marx labored for a great part of his life in an unsuccessful attempt to complete *Capital* and to solve the value-price problem.

Perhaps the most appropriate commentary on the frantic defenders of Marx's value theory is that of the ever witty and delightful Alexander Gray, who also touches on another aspect of Marx as religious prophet:

> To witness Böhm-Bawerk or Mr. [H. W. B.] Joseph carving up Marx is but a pedestrian pleasure; for these are but pedestrian writers, who are so pedestrian as to clutch at the plain meaning of words, not realising that what Marx really meant has no necessary connection with what Marx undeniably said. To witness Marx surrounded by his friends is, however, a joy of an entirely different order. For it is fairly clear that none of them really knows what Marx really meant; they

[5]*What Marx Really Meant* was the title of a sympathetic work on Marxism by G. D. H. Cole (London, 1934).

> are even in considerable doubt as to what he was talking about; there are hints that Marx himself did not know what he was doing. In particular, there is no one to tell us what Marx thought he meant by "value." *Capital* is, in one sense, a three-volume treatise, expounding a theory of value and its manifold applications. Yet Marx never condescends to say what he means by "value," which accordingly is what anyone cares to make it as he follows the unfolding scroll from 1867 to 1894. ... Are we concerned with *Wissenschaft*, slogans, myths, or incantations? Marx, it has been said, was a prophet ... and perhaps this suggestion provides the best approach. One does not apply to Jeremiah or Ezekiel the tests to which less inspired men are subjected. Perhaps the mistake the world and most of the critics have made is just that they have not sufficiently regarded Marx as a prophet—a man above logic, uttering cryptic and incomprehensible words, which every man may interpret as he chooses.[6]

Reabsorption Theology

But the nature of Marxism-as-religion cuts deeper than the follies and evasions of Marxists[7] or the cryptic and often unintelligible nature of Marxian writings. For it is the contention of this article that the crucial goal—communism—is an atheized version of a certain type of religious eschatology; that the alleged inevitable process of getting there—the dialectic—is an atheistic form of the same religious laws of history; and that the supposedly central problem of capitalism as perceived by "humanist" Marxists, the problem of "alienation," is an atheistic version of the selfsame religion's metaphysical grievance at the entire created universe.

As far as I know, there is no commonly-agreed upon name to designate this fatefully influential religion. One name is "process theology," but I shall rather call it "reabsorption theology," for the word "reabsorption" highlights the allegedly inevitable end-point of human history as well as its supposed starting point in a pre-creation union with God.

As Leszek Kolakowski points out in his monumental work on Marxism, reabsorption theology begins with the third-century Greek philosopher Plotinus, and moves from Plotinus to some of the Christian Platonists, where it takes its place as a Christian heresy. That heresy tends to bubble up repeatedly from beneath

[6]Alexander Gray, *The Socialist Tradition* (London: Longmans Green, 1946), pp. 321-22.

[7]Another example of what may be termed "religious" behavior by Marxists is the insistence of thinkers who have clearly abandoned almost all the essential tenets of Marxism on calling themselves by the magical name "Marxist." A recent case in point is the British "analytical Marxists," such as John Roemer and Jon Elster. For a critique of this school by an orthodox Marxist, see Michael A. Lebowitz, "Is 'Analytical Marxism' Marxism?" *Science and Society* 52 (Summer 1988): 191-214.

the surface in the works of such Christian mystics as the nineteenth-century philosopher John Scotus Erigena and the fourteenth-century Meister Johannes Eckhart.[8]

The nature and profound implications of reabsorption theology may best be grasped by contrasting this heresy to Christian orthodoxy. We begin at the beginning—with *creatology*, the science or discipline of the first days. Why did God create the universe? The orthodox Christian answer is that God created the universe out of a benevolent and overflowing love for his creatures. Creation was therefore good and wondrous; the fly in the ointment was introduced by man's disobedience to God's laws, for which sin he was cast out of Eden. Out of this Fall he can be redeemed by the Incarnation of God-in-human flesh and the sacrifice of Jesus on the Cross. Note that the Fall was a moral one, and that Creation itself remains metaphysically good. Note, too, that in orthodox Christianity, each human individual, made in the image of God, is of supreme importance, and each individual's salvation becomes of critical concern.

Reabsorption theology, however, originates in a very different creatology. One of its crucial tenets is that, *before* Creation, man—obviously the collective-species man and not each individual—existed in happy union, in some sort of mighty cosmic blob, united with God and even with Nature. In the Christian view, God, unlike man, is perfect, and therefore does not, like man, perform actions in order to improve his lot. But for the reabsorptionists, God acts analogously with humans: God acts out of what Mises called "felt uneasiness," out of dissatisfaction with his current lot. God, in other words, creates the universe out of loneliness, dissatisfaction, or, generally, in order to develop his undeveloped faculties. God creates the universe out of felt need.

In the reabsorptionist view, Creation, instead of being wondrous and good, is essentially and metaphysically evil. For it generates diversity, individuality, and separateness, and thereby cuts off man from his beloved cosmic union with God. Man is now permanently "alienated" from God, the fundamental alienation; and also from other men, and from nature. It is this cosmic metaphysical separateness that lies at the heart of the Marxian concept of "alienation," and *not*, as we might now think, personal griping about not controlling the operation of one's factory, or about lack of access to wealth or political power. Alienation is a cosmic condition and not a psychological complaint. For the reabsorptionists, the crucial problems of the world come not from moral failure but from the essential nature of creation itself.

[8]Leszek Kolakowski, *Main Currents of Marxism: Its Origins, Growth and Dissolution*, vol. 1 (Oxford: Oxford University Press, 1981), pp. 9-39.

Buddhism and various pantheistic religions, as well as many mystics, offer one partial way out for this cosmic alienation. To such pantheists, God-Man-and-Nature are and continue to be one, and individual men can recapture that desired unity by various forms of training until Nirvana (nothingness) has been achieved and the individual ego has been—at least temporarily—obliterated.[9]

But the Way Out offered by the reabsorptionists is different. First, it is a way offered only to man-as-species and not to any particular individuals; and second, the way is a religiously determined and inevitable Law of History. For there is one good aspect of creation, for the reabsorptionists: that God and man each get to fulfill their faculties and expand their respective potentials through history. In fact, history is a process by which these potentials are fulfilled, in which God and man both perfect themselves. Then, finally, and here we come to *eschatology*, the science of the Last Days, there will eventually be a mighty reunion, a reabsorption, in which man and God are at last not only reunited, but reunited on a higher, on a perfected level. The two cosmic blobs—God and man (and presumably Nature too)—now meet and merge on a more exalted level. The painful state of creation is now over, alienation is at last ended, and man returns Home to be on a higher, post-creation level. History, and the world, have come to an end.

A crucial feature of reabsorption is that all this "perfecting" and "reuniting" obviously takes place only on a species-collectivist level. The individual man is nothing, a mere cell in the great collective organism man; only in that way can we say that "man" progresses or fulfills "himself" over the centuries, suffers alienation from "his" pre-creation state, and finally "returns" to unity with God on a higher level. The relation to the Marxian goal of communism is already becoming clear; the "alienation" eliminated by the inevitable communist end of history is that of the collective species man, each man being finally united with other men and with Nature (which, for

[9]The great orthodox Christian apologist G. K. Chesterton brilliantly illuminated the difference between Christian individualism and pantheistic collectivism in the following critique of the Buddhist Mrs. Annie Besant, one of the founders of the Fabian Society:

> According to Mrs. Besant the universal Church is simply the universal Self. It is the doctrine that we are really all one person; that there are no real walls of individuality between man and man. ... She does not tell us to love our neighbor; she tells us to be our neighbors. ... The intellectual abyss between Buddhism and Christianity is that, for the Buddhist or the theosophist, personality is the fall of man, for the Christian it is the purpose of God, the whole point of His cosmic idea.

G. K. Chesterton, *Orthodoxy* (New York, 1927), pp. 244-45. Quoted in Thomas Molnar, *Utopia: the Perennial Heresy* (New York: Sheed and Ward, 1967), p. 123.

Marx, was "created" by the collective species man, who thereby replaces God as the creator).

I shall deal later with communism as the goal of history. Here we focus on the *process* by which all these events must take place, and necessarily take place. First, there is the pre-creation cosmic blob. Out of this blob there then arises a very different state of affairs: a created Universe, with God, individual men, and nature each existing. Here are the origins of the magical Hegelian-Marxian "dialectic": one state of affairs somehow *gives rise to* a contrasting state. In the German language, Hegel, the master of the concept of the dialectic, used the crucial term *aufhebung*, a "lifting up," which is ambiguous enough to encompass this sudden shift into a very different state, this lifting up which is at one and the same time a preserving, a transcending, and creating a stark contrast to, the original condition. The standard English translation for this process in Hegel and Marx is "negating," but such translation makes the theory even more absurd than it really is—probably "transcending" would be a better term.[10] Thus, as usual, the dialectic consists of three stages. Stage One is the original state of the pre-creation cosmic blob, with man and God in happy and harmonious unity, but each rather undeveloped. Then, the magic dialectic does its work, Stage Two occurs, and God creates man and the universe. But then, finally, when the development of man and God is completed, Stage Two creates its own *aufhebung*, its transcendence into its opposite or negation: in short, Stage Three, the reunion of God and man in an "ecstasy of union," and the end of history.

The dialectical process by which one state of affairs gives rise to a very different state, if not its opposite, is, for the reabsorptionists, a mystical though inevitable development. There was no need for them to explain the mechanism. Indeed, particularly influential for Hegel and later reabsorptionist thinkers was one of the later Christian mystics in this tradition: the early seventeenth century German cobbler Jakob Boehme. Pantheizing the dialectic, Boehme declared that it was not God's will but some primal force, that launched the

[10]Alexander Gray has a lot of fun with the concept of "negation" in the Hegelian and Marxian dialectic. He writes that the examples of the "negation of the negation" in Engels's *Anti-Dühring* "may be sound Hegelianism, but otherwise they appear rather silly. A seed of barley falls into the ground and germinates: negation of the seed. In the autumn it produces more grains of barley: negation of the negation. A butterfly comes from an egg: negation of the egg. After many transformations, the butterfly mates and dies: negation of the negation. ... Hegel is surely something more than this." Gray adds a comment that Marx's admiring summary of Hegelianism in his *Poverty and Philosophy* is "not without entertainment value": "yes becomes no, no becomes yes, yes becomes at the same time yes and no, no becomes at the same time no and yes, the contraries balance, neutralize, and paralyze each other." (My own translation from Gray's original French quote, which he found "especially" entertaining.) Gray, *Socialist Tradition*, p. 300 n. 1 and n. 2.

cosmic dialectic of creation and history. How, Boehme asked, did the world of pre-creation transcend itself into creation? Before creation, he answered, there was a primal source, an eternal unity, an undifferentiated, indistinct, literal Nothing [*Ungrund*]. Oddly enough, this Nothing possessed within itself an inner striving, a *nisus*, a drive for self-realization. That drive, Boehme asserted, gave rise to its opposite, the Will, the interaction of which with *nisus* transformed the Nothing into the Something of the created universe.[11]

Heavily influenced by Jakob Boehme was the mystical English communist, Gerrard Winstanley, founder of the Digger sect during the English Civil War. Son of a textile merchant who had failed in the cloth business and then had sunk to the status of agricultural laborer, Winstanley, in early 1649, had a mystical vision of the ideal communist world of the future. Originally, according to this vision, a version of God had created the universe; but the spirit of "selfishness," the Devil itself, had entered into man and brought about private property and a market economy. The curse of the self, opined Winstanley, was "the beginner of particular interest," or private property, with men buying and selling and saying "This is mine." The end of original communism and its breakup into private property meant that universal liberty was gone, and creation brought "under the curse of bondage, sorrow, and tears." In England, Winstanley absurdly held, property had been communist until the Norman Conquest of 1066, which created the institution of private property.[12]

But soon, declared Winstanley, universal "love" would eliminate private property, and would thus restore the earth to "a common property as it was in the beginning ... making the earth one storehouse, and every man and woman to live ... as members of one household." This communism and absolute equality of possessions would thus bring to the world the millennium, "a new heaven, and a new earth."[13]

At first, Winstanley believed that little or no coercion would be necessary for establishing and maintaining his communist society.

[11]See M. H. Abrams, *Natural Supernaturalism: Tradition and Revolution in Romantic Literature* (New York: Norton, 1971), p. 161.

[12]Most of the Protestants held the very different, and far more correct, view that the Norman Conquest had imposed a state-created feudal-type landed estates on an England which had been much closer to being an idyll of genuine private property.

Engels and other historians and anthropologists saw the original Early Communism, or Golden Age, in primitive pre-market tribal societies. Modern anthropological research, however, has demonstrated that most primitive and tribal societies were based on private property, money, and market economies. Thus, see Bruce Benson, "Enforcement of Private Property Rights in Primitive Societies: Law Without Government," *Journal of Libertarian Studies* 9 (Winter 1989): 1-26.

[13]In M. H. Abrams, *Natural Supernaturalism*, p. 517n.

Soon, however, he realized, in the completed draft of his utopia, that all wage labor and all commerce would have to be prohibited on the penalty of death. Winstanley was quite willing to go this far with his program. Everyone was to contribute to, and take from, the common storehouse, and the death penalty was to be levied on all use of money, or on any buying or selling. The "sin" of idleness would of course be combatted by forced labor for the benefit of the communist community. This all-encompassing stress on the executioner makes particularly grisly the declaration of Winstanley that "all punishments that are to be inflicted ... are only such as to make the offender ... to live in the community of the righteous law of love one with another." Education in "love" was to be insured by free and compulsory schooling conducted by the state, mainly in useful crafts rather than in liberal arts, as well as by "ministers" elected by the public to preach secular sermons upholding the new system.[14]

Hegel as Pantheist Reabsorptionist

Everyone knows that Marx was essentially a Hegelian in philosophy, but the precise scope of Hegel's influence on Marx is less well-understood. Hegel's dubious accomplishment was to completely pantheize reabsorption theology. It is little realized that Hegel was only one, although the most elaborate and hypertrophic, of a host of writers who constituted the highly influential Romantic movement in Germany and England at the end of the eighteenth, and during the first half of the nineteenth, centuries.[15] Hegel was a theology student at the University of Tübingen, and many of his fellow Romantics, friends and colleagues, such as Schelling, Schiller, Holderlin, and Fichte, began as theology students, many of them at Tübingen.[16]

The Romantic twist to the reabsorption story was to proclaim that God is in reality Man. Man, or rather the Man-God, created the universe. But Man's imperfection, his flaw, lay in his failure to realize that he *is* God. The Man-God begins his life in history unconscious of the vital fact that he is God. He is alienated, cut off, from the crucial knowledge that he and God are one, that he created, and continues to empower, the universe. History, then, is the inevitable process by which the Man-God develops his faculties, fulfills his potential, and advances his knowledge, *until* that blissful day when Man acquires

[14]Christopher Hill, *The World Turned Upside Down: Radical Ideas During the English Revolution* (London: Penguin Books, 1975), p. 136. Also see F. D. Dow, *Radicalism in the English Revolution, 1640-1660* (Oxford: Basil Blackwell, 1985), pp. 74-80.

[15]See the superb work by the leading literary critic of Romanticism, Abrams, *Natural Supernaturalism*.

[16]Hegel was nominally a Lutheran, but Lutheranism in Germany at that time was evidently latitudinarian enough to encompass pantheism.

Absolute Knowledge, that is, the full knowledge and realization that he is God. At that point, the Man-God finally reaches his potential, becomes an infinite being without bounds, and thereby puts an end to history. The dialectic of history occurs, again, in three fundamental stages: the Pre-Creation stage; the post-Creation stage of development with alienation; and the final reabsorption into the state of infinity and absolute self-knowledge, which culminates, and puts an end to, the historical process.

Why, then, did Hegel's Man-God (also termed by Hegel the "world-self" or "world-spirit" [*Weltgeist*]) create the universe? Not out of benevolence, but out of a felt need to become conscious of itself as a world-self. This process of growing consciousness is achieved through the creative activity by which the world-self externalizes itself. First, this externalization occurs by the Man-God creating nature, and next, by a continuing self-externalization through human history. By building civilization, Man increases the knowledge of his own divinity; in that way, through history Man gradually puts an end to his own "self-alienation," which for Hegel was *ipso facto* the alienation of Man from God. Crucial to Hegelian doctrine is that Man is alienated, and he perceives the world as hostile, *because* it is not himself. All these conflicts are finally resolved when Man realizes at long last that the world really *is* himself.

But why is Hegel's Man so odd and neurotic that he regards everything that is not himself as alien and hostile? The answer is central to the Hegelian mystique. It is because Hegel, or Hegel's Man, cannot stand the idea of himself not being God, and therefore not being of infinite space and without boundary or limit. Seeing any other being or any other object exist, would imply that he himself is not infinite or divine. In short, Hegel's philosophy constitutes solipsistic megalomania on a grand and cosmic scale. Professor Robert C. Tucker describes the situation with characteristic acuity:

> For Hegel alienation is finitude, and finitude in turn is bondage. The experience of self estrangement in the presence of an apparent objective world is an experience of enslavement, ... Spirit, when confronted with an object or "other," is *ipso facto* aware of itself as merely finite being ... as extending only so far and no farther. The object is, therefore, a "limit" (*Grenze*). And a limit, since it contradicts spirit's notion of itself as absolute being, i.e. being-without-limit, is necessarily apprehended as a "barrier" or "fetter" (*Schranke*). ... In its confrontation with an apparent object, spirit feels imprisoned in limitation. It experiences what Hegel calls the "sorrow of finitude."
>
> ... In Hegel's quite unique conception of it, freedom means the consciousness of self as unbounded; it is the absence of a limiting object or non-self ...

> Accordingly, the growth of spirit's self-knowledge in history is alternatively describable as a progress of the consciousness of freedom.[17]

Hegel's dialectic of history did not simply have three stages; history moved forward in a series of stages, each one of which was moved forward dramatically by a process of *aufhebung*. It is evident that the Man who creates the world, advances his "self"-knowledge, and who finally "returns" "Home" in an ecstasy of self-knowledge is not puny individual Man, but Man as collective-species. But, for Hegel, each stage of advance is propelled by great individuals, "world-historical" men, who embody the attributes of the Absolute more than others, and act as significant agents of the next *aufhebung*, the lifting up of the Man-God's or "world-soul's" next great advance into "self-knowledge."

Thus, at a time when most patriotic Prussians were reacting violently against Napoleon's imperial conquests, and mobilizing their forces against him, Hegel wrote to a friend in ecstasy about having seen Napoleon, "the Emperor—this world-soul" riding down the street; for Napoleon, even if unconsciously, was pursuing the world-historical mission of bringing a strong Prussian State into being.[18] It is interesting that Hegel got his idea of the "cunning of Reason," of great individuals acting as unconscious agents of the world-soul through history by perusing the works of the Rev. Adam Ferguson, whose phrase about events being "the product of human action but not of human design," has been so influential in the thought of F. A. Hayek and his disciples.[19] In the economic realm, as well, Hegel learned of the alleged misery of alienation in separation—that is specialization and the division-of-labor, from Ferguson himself through Friedrich Schiller and from Ferguson's good friend, Adam Smith, in his *Wealth of Nations*.[20]

[17]Robert C. Tucker, *Philosophy and Myth*, pp. 53-54.

[18]See Raymond Plant, *Hegel* (Bloomington: Indiana University Press, 1973), p. 120.

[19]Ferguson, furthermore, used his phrase in a fashion very similar to that of Hegel, and was originally far from the Hayekian analysis of the free market. Ferguson, as a young Calvinist minister, enlisted in the suppression of the Jacobite rebellion of 1745 in Scotland. After the rebellion was at last put down, Ferguson preached a sermon in which he tried to solve the great puzzle: why did God permit the Catholics to pursue their evil goals and almost triumph? His answer: that the Catholics, even though consciously pursuing evil ends, served as the unconscious agents of God's good purpose: i.e., rousing the Presbyterian Church of Scotland out of its alleged apathy. Hence, a prototype of the "cunning of Reason" in history, except for theist rather than pantheist goals. See Richard B. Sher, *Church and University in the Scottish Enlightenment* (Princeton: Princeton University Press, 1985), pp. 40-44.

[20]As Paul Craig Roberts has rightly emphasized, "alienation" in Marx is not simply the capitalist wage-relation, but, more deeply, specialization, the division of labor, and the money economy itself. But as we see, alienation is even more rootedly the cosmic condition of man's state until the reabsorption of collective man-and-nature under communism. See Paul Craig Roberts, *Alienation and the Soviet Economy* (Albuquerque:

It is easy to see how the reabsorptionist-Hegelian doctrine of unity-good, separation-bad, helped form the Marxian goal of communism, the end-state of history in which the individual is totally absorbed into the collective, thus attaining the state of true collective-man "freedom." But there are also more particular influences. Thus, the Marxian idea of early or primitive communism, happy and integrated though undeveloped, and then burst apart by rapacious, alienating if developing capitalism, was prefigured by Hegel's historical outlook. Following his friend and mentor the Romantic writer Friedrich Schiller, Hegel, in an article written in 1795, lauded the alleged homogeneity, harmony, and unity of ancient Greece, supposedly free of the alienating division of labor. The consequent *aufhebung*, though leading to the growth of commerce, living standards, and individualism, also destroyed the wonderful unity of Greece and radically fragmented man. To Hegel, the next inevitable stage of history would reintegrate man and the State.

The State was critical for Hegel. Again foreshadowing Marx, it is now particularly important for man—the collective organism—to surmount unconscious blind fate, and "consciously" to take control of his "fate" by means of the State.

Hegel was quite insistent that, in order for the State to fulfill its vital function, it must be guided by a comprehensive philosophy, and indeed by a Great Philosopher, to give its mighty rule the necessary coherence. Otherwise, as Professor Plant explains, "such a state, devoid of philosophical comprehension, would appear as a merely arbitrary and oppressive imposition of the freedom of individuals." But, on the contrary, if armed with Hegelian philosophy and with Hegel himself as its great leader, "this alien aspect of the progressive modern state would disappear and would be seen not as an imposition but a development of self-consciousness."[21]

Armed, then, with such a philosophy and such a philosopher, the modern, especially the modern Prussian, State could take its divinely-appointed stand at the apex of human history and civilization, as God on earth. Thus: "The modern State, ... when comprehended philosophically, could therefore be seen as the highest articulation of Spirit, or God in the contemporary world." The State, then, is "a supreme manifestation of the activity of God in the world"; "The State is the Divine Idea as it exists on earth"; "The State is the march of God through the world"; "The State is the actually existing, realized

---

University of New Mexico, 1971); and Roberts and Matthew A. Stephenson, *Marx's Theory of Exchange, Alienation and Crisis*, 2nd ed. (New York: Praeger, 1983).

[21]Plant, *Hegel*, p. 96.

moral life"; the "State is the reality of the kingdom of heaven." And finally: "The State is God's Will."[22]

For Hegel, of all the various forms of State, monarchy—as in contemporary Prussia—is best, since it permits all its subjects to be "free" (in the Hegelian sense) by submerging their being into the divine substance, which is the authoritarian, monarchial State. The people are only "free" as insignificant particles of this divine substance. As Tucker writes:

> Hegel's conception of freedom is totalitarian in a literal sense of the word. The world-self must experience itself as the totality of being, or in Hegel's own words must elevate itself to a "self-comprehending totality," in order to achieve the consciousness of freedom.[23]

Every determinist creed thoughtfully provides an escape hatch for the determinist himself, so that he can rise above the determining factors, expound his philosophy and convince his fellowmen. Hegel was no exception, but his was unquestionably the most grandiose of all escape-hatches. For of all the world-historical figures, those embodiments of the Man-God, who are called on to bring on the next stage of the dialectic, who can be greater, more in tune with the divinity, than the Great Philosopher himself who has brought us the knowledge of this entire process, and thereby was able to himself complete man's final comprehension of the Absolute and of man's all-encompassing divinity? And isn't the great creator of the crucial philosophy about man and the universe in a deep sense greater than the philosophy itself? And therefore, if the species man is God, isn't he, the great Hegel, in a profound sense God of Gods?[24] Finally, as

[22]See Plant, *Hegel*, pp. 122, 123, and 181. Also see Karl R. Popper, *The Open Society and its Enemies*, vol. 2 (New York: Harper Torchbooks, 1963), p. 31.

[23]Tucker, *Philosophy and Myth*, pp. 54-55. E. F. Carritt points out that, for Hegel, "freedom" is "desiring above all things to serve the success and glory of their State. In desiring this they are desiring that the will of God should be done." If an individual thinks he should do something which is *not* for the success and glory of the State, then, for Hegel, "he should be 'forced to be free.'" How does a person *know* what action will redound to the glory of the State? To Hegel, the answer was easy. Whatever the State rulers demand, since "the very fact of their being rulers is the surest sign of God's will that they should be." Impeccable logic indeed! See E. F. Carritt, "Reply" (1940), reprinted in W. Kauffmann, ed., *Hegel's Political Philosophy* (New York: Atherton Press, 1970), pp. 38-39.

[24]Tucker offers an amusing comment on the reaction of the eminent Hegelian W. T. Stace, who had written that "we must not jump to the preposterous conclusion that, according to Hegel's philosophy, I, this particular human spirit, am the Absolute, nor that the Absolute is any particular spirit, nor that it is humanity in general. Such conclusions would be little short of shocking." Tucker adds that this "argument from propriety" does not answer the question "why we must assume that Hegel could not be 'shocking.'" Or, we might add, preposterous, or megalomaniacal. Tucker, *Philosophy*, pp. 46 n. and 47 n.

luck and the dialectic would have it, Hegel was just in time to take his place as the Great Philosopher, in the greatest, the noblest, and most developed authoritarian State in the history of the world: the existing Prussian monarchy of King Friedrich Wilhelm III. If the King would only accept his world-historical mission, Hegel, arm-in-arm with the King, would then usher in the final culminating self-knowledge of the Absolute Man-God. Together, Hegel, aided by the King, would bring an end to human history.

For his part, King Friedrich Wilhelm III was all too ready to play his divinely appointed role. When the reactionary powers took over Prussia in 1815, they needed an official philosopher to call on Prussian subjects to worship the State, and thereby to combat the French Revolutionary ideals of individualism, liberty, reason, and natural rights. Hegel was brought to the great new University of Berlin in 1818, to become the official philosopher of that academic monument to the authoritarian Prussian State.

While highly influential in Prussia and the Protestant sectors of Germany, Hegelianism was also akin to, and influential upon, the Romantic writers in England. Virtually all of Wordsworth's poetic output was designed to set forth what he called a "high Romantic argument" designed to transcend and counteract Milton's "heroic" or "great" argument expounding the orthodox Christian eschatology, that man, as individual men, will either return to Paradise or be consigned to Hell upon the Second Advent of Jesus Christ. To this "argument," Wordsworth counterposed his own pantheist vision of the upward spiral of history in which Man, as species, inevitably returns home from his cosmic alienation. Also dedicated to the Wordsworthian vision were Coleridge, Shelley and Keats. It is instructive that all of these men were Christian heretics, converts from explicitly Christian theology: Wordsworth had been trained to be an Anglican priest; Coleridge had been a lay preacher, and was steeped in neo-Platonism and the mystical works of Jakob Boehme; and Shelley had been absorbed in the study of the Bible.

Finally, the tempestuous conservative statist British writer, Thomas Carlyle, paid tribute to Hegel's mentor Friedrich Schiller by writing a biography of Schiller in 1825. From then on, Carlyle's influential writings were to be steeped in the Hegelian vision. Unity is good, diversity and separateness is evil and diseased; science as well as individualism constitutes division and dismemberment. Selfhood, Carlyle ranted, is alienation from nature, from others, and from oneself. But one day, Carlyle prophesied, the breakthrough, the world's spiritual rebirth, will arrive, led by world-historical figures

("great men"), through which man will return home to a friendly world by means of the utter "annihilation of self" (*Selbst-todtung*).[25] Finally, in *Past and Present* (1843), Carlyle applied his profoundly anti-individualist vision to economic affairs. He denounced egoism, material greed, and laissez-faire, which, by fostering man's severance from others, had led to a world "which has become a lifeless other, and in severance also from other human beings within a social order in which 'cash payment is ... the sole nexus of man with man.'" In opposition to this evil "cash nexus" lay the familial relation with nature and fellow-men, the relation of "love." The stage was set for Karl Marx.[26]

Communism as the Kingdom of God on Earth: From Joachim to Müntzer

So far we have dealt with reabsorption theology as a crucial forerunner of Marx's religious eschatological communism. But there is another important strand sometimes woven in with the first, fused into his eschatological vision: messianic millennialism, or chiliasm, the establishing of a communist Kingdom of God on Earth.

Throughout its history, Christianity has had to confront the question of the millennium: the thousand-year reign of God on earth. Particularly in such murky parts of the Bible as the book of *Daniel* and the book of *Revelation*, there are suggestions of such a millennial Kingdom of God on Earth before the final Day of Judgment and the end of human history. The orthodox Christian line was set by the great Saint Augustine in the early fifth century, and has been accepted ever since by the mainstream Christian churches: Roman Catholic, Lutheran, and arguably by Calvin and at least by the Dutch wing of the Calvinist church. That orthodox line holds that the millennial Kingdom of God on Earth [KGE] is strictly a metaphor for the Christian Church, which reigns on earth only in the spiritual sense. The material realization of the Kingdom of God will only arrive upon the Day of Judgment, and is therefore to be confined to heaven alone. Orthodox Christians have always warned that taking the KGE literally, what the late orthodox Christian theorist Erich Voegelin called "immanentizing the eschaton"—bringing the eschaton down to earth—is bound to create grave social problems. For one thing, most versions of how the KGE will come into being are apocalyptic. The KGE is to be preceded by a mighty Armageddon, a titanic war of good against evil, in which the good will finally, though inevitably, triumph.

[25]On the influence of Schiller's views on organicism and alienation upon Hegel, Marx and later sociology, see Leon Bramson, *The Political Context of Sociology* (Princeton: Princeton University Press, 1961), p. 30 n.

[26]See Abrams, *Natural Supernaturalism*, p. 311.

One reason for the apocalypse is a fundamental problem faced by all KGE theorists. The KGE, by definition, will consist of a society of saints, of perfect people. But if this is true, what has become of the host of human sinners, of whom alas there are legion? In order to establish the KGE there must first be some sort of mighty apocalyptic purge of the sinners to clear the ground for the society of saints. "Pre-millennial" and "post-millennial" variants of apocalyptics accomplish this task in different ways. The pre-mils, who believe that Jesus's Second Advent will precede the KGE, and that Jesus will run the Kingdom with the cadre of saints at his right hand, achieve the purge by a divinely determined Armageddon between God's forces and the forces of the Beast and the Anti-Christ. The post-mils, who believe that man must establish the KGE as a precondition of Jesus's Second Coming, have to take matters more directly in their own hands and accomplish the great purge on their own.

Thus, one disturbing aspect of the KGE is the preparatory purgation of the host of human sinners. A second problem is what the KGE is going to look like. As we might imagine, KGE theorists have been extremely cloudy about the nature of their perfect society, but one troublesome feature is that, to the extent that we know its operations at all, the KGE is almost always depicted as a communist society, lacking work, private property, or the division of labor. In short, something like the Marxian communist utopia, except run by a cadre, not of the vanguard of the proletariat, but of theocratic saints.

Any communist system faces the problem of production: who would have the incentive to produce for the communal storehouse, and how would this work and its products be allocated? The first, and most highly influential, communist Christian heretic was the late twelfth-century Calabrian abbot and hermit, Joachim of Fiore. Joachim, who almost managed to convert three popes to his heresy, adopted the thesis that there are destined to be in history, not just two Ages (pre and post-Christian) as orthodox Christians believe, but a Third Age a-borning, of which he was the prophet. The pre-Christian ara was the age of the Father, of the Old Testament; the Christian era the age of the Son, the New Testament. And now arrives the third apocalyptic age of the Holy Spirit, to be ushered in during the next half-century, an age of pure love and freedom, in which history was to come to an end. The Church, the Bible, and the State would be swept away, and man would live in a free communist community without work or property.

Joachim dispensed with the problem of production and allocation under communism very neatly and effectively, more so than any

communist successor. In the Third Age, he declared, man's material bodies will disappear, and man will be pure spirit, free to spend all of his days in mystical ecstasy chanting praises to God for a thousand years until the Day of Judgment. Without physical bodies, there is of course precious little need for production.[27] For Joachim, the path to this kingdom of pure spirit would be blazed by a new order of highly spiritual monks, from whom would come 12 patriarchs headed by a supreme teacher, who would convert the Jews to Christianity as foretold in the book of *Revelation*. For a blazing three and a half years a secular king, the Antichrist, would crush and destroy the corrupt Christian Church, after which the Antichrist would be overthrown by the new monastic order, who would promptly establish the millennial age of the Spirit. It is no wonder that a rigorist wing of the Franciscan order, which was to emerge during the first half of the thirteenth century, and be dedicated to material poverty, should see themselves as the coming Joachimite cadre.

At the same period, the Amaurians, led by a group of theology students of Amalric at the University of Paris, carried on the Joachimite doctrine of the three Ages, and added an interesting twist: each age, they declared, has enjoyed its own Incarnation. In the age of the Old Testament, the divine Incarnation settled in Abraham and perhaps some other patriarchs; for the New Testament age, the Incarnation was of course Jesus; and now, for the dawning Age of the Holy Spirit, the Incarnation would emerge among the various human beings themselves. As might be expected, the Amaurian cadre proclaimed themselves to be living gods, the Incarnation of the Holy Spirit. Not that they would always remain a divine elite, among men; on the contrary, they were destined to be the vanguard, leading mankind to its universal Incarnation.

During the following century, a congeries of groups throughout northern Europe known as the Brethren of the Free Spirit added another important ingredient to this brew: the mystical dialectic of the "reabsorption into God." But the brethren added their own elitist twist: while the reabsorption of all men must await the end of history, and the mass of the "crude in spirit" must meanwhile meet their individual deaths, there was a glorious minority, the "subtle in spirit," who could and did become reabsorbed and therefore living gods during their lifetime. This minority, of course, was the cadre of the Brethren themselves, who, by virtue of years of training, self-torture,

[27]As the historian Norman Cohn put it, the Joachimite new "world would be one vast monastery, in which all men would be contemplative monks rapt in mystical ecstasy and united in singing the praises of God." Norman Cohn, *The Pursuit of the Millennium*, rev. ed. (New York: Oxford University Press, 1970), pp. 108-09.

and visions had become perfect gods, more perfect and more godlike than even Christ himself. Furthermore, once this stage of mystical union was reached, it was to be permanent and eternal. These new gods, in fact, often proclaimed themselves greater than God himself.

Being living gods on earth brought a lot of good things in its wake. In the first place, it led directly to an extreme form of the antinomian heresy; that is, if people are gods, then it is impossible for them to sin. Whatever they did is necessarily moral and perfect. This means that any act ordinarily considered to be sin, from adultery to murder, becomes perfectly legitimate when performed by the living gods. Indeed, the Free Spirits, like other antinomians, were tempted to demonstrate and flaunt their freedom from sin by performing all manner of sins imaginable.

But there was also a catch. Among the Free Spirit cultists, only a minority of leading adepts were "living gods"; for the rank-and-file cultists, striving to become gods, there was one sin and one alone which they must not commit: disobedience to their master. Each disciple was bound by an oath of absolute obedience to a particular living god. Take, for example, Nicholas of Basle, a leading Free Spirit whose cult stretched most of the length of the Rhine. Claiming to be the new Christ, Nicholas held that everyone's sole path to salvation consisted of making an act of absolute and total submission to Nicholas himself. In return for this total fealty, Nicholas granted his followers freedom from all sin.

As for the rest of mankind outside the cults, they were simply unredeemed and unregenerate beings who existed only to be used and exploited by the Elect. This gospel of total rule went hand in hand with the social doctrine of many of the fourteenth century cults of the Free Spirit: a communistic assault on the institution of private property. In a sense, however, this philosophic communism was merely a thinly camouflaged cover for the Free Spirits' self-proclaimed right to commit theft at will. The Free Spirit adept, in short, regarded all property of the non-Elect as rightfully his own. As the Bishop of Strasbourg summed up this creed in 1317: "They believe that all things are common, whence they conclude that theft is lawful for them." Or as the Free Spirit adept from Erfurt, Johann Hartmann, put it: "The truly free man is king and lord of all creatures. All things belong to him, and he has the right to use whatever pleases him. If anyone tries to prevent him, the free man may kill him and take his goods."[28] As one of the favorite sayings of the Brethren of the Free Spirit phrased it: "Whatever the eye sees and covets, let the hand grasp it."

The following century, the fifteenth, brought the first attempt to initiate the KGE, the first brief experiment in totalitarian theocratic communism. This attempt originated in the left, or extreme, wing, of

[28]Cohn, *Pursuit of the Millennium*, p. 182.

the Taborites, which in turn constituted the radical wing of the revolutionary Hussite movement in Czech Bohemia of the early fifteenth century. The Hussite movement, led by Jan Hus, was a pre-Protestant revolutionary formation that blended struggles of religion (Hussite vs. Catholic), nationality (popular Czech vs. upper-class and upper-clergy German), and class (artisans cartelized in urban guilds trying to take political power from patricians). Building on the previous communist KGE movements, and especially on the Brethren of the Free Spirit, the ultra-Taborites added, with considerable enthusiasm, one extra ingredient: the duty to exterminate. For the Last Days are coming, and the Elect must go forth and stamp out sin by exterminating all sinners, which means, at the very least, all non-ultra-Taborites. For all sinners are enemies of Christ, and "accursed be the man who withholds his sword from shedding the blood of the enemies of Christ. Every believer must wash his hands in that blood." This destruction was of course not to stop at intellectual eradication. When sacking churches and monasteries, the Taborites took particular delight in destroying libraries and burning books. For "all belongings must be taken away from God's enemies and burned or otherwise destroyed." Besides, the Elect have no need of books. When the Kingdom of God on Earth arrived, there would no longer be "need for anyone to teach another. There would be no need for books or scriptures, and all worldly wisdom will perish." And all people too, one suspects.

The ultra-Taborites also wove in the reabsorption theme: a return to the alleged early condition of Czech communism: a society lacking the sin of private property. In order to return to this classless society, determined the Taborites, the cities, those notorious centers of luxury and avarice, must be exterminated. And once the communist KGE had been established in Bohemia, the Elect must forge out from that base and impose such communism on the rest of the world.

The Taborites also added another ingredient to make their communist ideal consistent. In addition to the communism of property, women would also be communized. The Taborite preachers taught that "Everything will be common, including wives; there will be free sons and daughters of God and there will be no marriage as union of two—husband and wife."

The Hussite revolution broke out in 1419, and in that same year, the Taborites gathered at the town of Usti, in northern Bohemia near the German border. They renamed Usti "Tabor," i.e., the Mount of Olives where Jesus had foretold his Second Coming, was ascended to heaven, and where he was expected to reappear. The radical Taborites engaged in a communist experiment at Tabor, owning everything in

common, and dedicated to the proposition that "whoever owns private property commits a mortal sin." True to their doctrines, all women were owned in common, and if husband and wife were ever seen together, they were beaten to death or otherwise executed. Characteristically, the Taborites were so caught up in their unlimited right to consume from the common store that they felt themselves exempt from the need to work. The common store soon disappeared, and then what? Then, of course, the radical Taborites claimed that their need entitled them to claim the property of the non-elect, and they proceeded to rob others at will. As a synod of the moderate Taborites complained: "many communities never think of earning their own living by the work of their hands but are only willing to live on other people's property and to undertake unjust campaigns for the sake of robbing." Moreover, the Taborite peasantry who had rejoiced in the abolition of feudal dues paid to the Catholic patricians, found the radical regime reimposing the same feudal dues and bonds only six months later.

Discredited among their moderate allies and among their peasantry, the radical communist regime at Usti/Tabor soon collapsed. But their torch was quickly picked up by a sect known as the Bohemian Adamites. Like the Free Spirits of the previous century, the Adamites held themselves to be living gods, superior to Christ, since Christ had died while they still lived (impeccable logic, if a bit short-sighted). For the Adamites, led by a peasant leader they dubbed "Adam-Moses," all goods were owned strictly in common, and marriage was considered a heinous sin. In short, promiscuity was compulsory, since the chaste were unworthy to enter the messianic Kingdom. Any man could choose any woman at will, and that will would have to be obeyed. On the other hand, promiscuity was at one and the same time compulsory and severely restricted; since sex could only take place with the permission of the leader Adam-Moses. The Adamites added a special twist: they went around naked most of the time, imitating the original state of Adam and Eve.

Like the other radical Taborites, the Adamites regarded it as their sacred mission to exterminate all the unbelievers in the world, wielding the sword, in one of their favorite images, until blood floods the world up to the height of a horse's bridle. The Adamites were God's scythe, sent to cut down and eradicate the unrighteous.

Pursued by the Hussite military commander, Jan Zizka, the Adamites took refuge on an island in the river Nezarka, from which they went forth in commando raids to try their best, despite their relatively small number, to fulfill their twin pledge of compulsory communism and extermination of the non-elect. At night, they raided the mainland—in forays they called a "Holy War"—to rob everything they could lay

their hands on and to exterminate their victims. True to their creed, they murdered every man, woman, and child they could find.

Finally, in October 1421, Zizka sent a force of 400 hundred trained soldiers to beseige the Adamite island, soon overwhelming the commune and massacring every last Adamite. One more hellish Kingdom of God on Earth had been put to the sword.

The moderate Taborite army was, in turn, crushed by the Hussites at the Battle of Lipan in 1434, and from then on, Taborism declined and went underground. But Taborite and millennialist ideas continued to pop up, not only among the Czechs, but also in Bavaria and in other German lands bordering Bohemia.

Sometimes Martin Luther must have felt that he had loosed the whirlwind, even opened the Gates of Hell. Shortly after Luther launched the Reformation, Anabaptist sects appeared and spread throughout Germany. Anabaptists believed that they were the Elect, and that the sign of that election was an emotional, mystical conversion experience, the process of being "born again," or baptized in the Holy Spirit. For groups of the Anabaptist elect finding themselves within a corrupt and sinful society, there were two routes to take. One, the voluntary Anabaptists, such as the Amish or Mennonites, became virtual anarchists, striving to separate themselves as much as possible from a sinful State and society. The other wing, the theocratic Anabaptists, sought to seize power in the State and to shape up society by extreme coercion. As Monsignor Knox has pointed out, this ultra-theocratic approach must be distinguished from the sort of theocracy (what has recently been called *theonomy*—the rule of God's Law) imposed by Calvin in Geneva or by the Calvinistic Puritans in the seventeenth century North America. Luther and Calvin, in Knox's terminology, did not pretend to be "prophets" enjoying continuing personal divine revelation; they were only "pundits," scholarly experts in interpreting the Bible, and in applying Biblical law to man.[29] But the coercive Anabaptists were led by men claiming mystical illumination and revelation and deserving therefore of absolute power.

The wave of theocratic Anabaptism that swept over Germany and Holland with hurricane force may be called the "Müntzer-Münster era," since it was launched by Thomas Müntzer in 1520, and ended in a holocaust at the city of Münster 15 years later. A learned young theologian and graduate of the Universities of Leipzig and Frankfurt, Müntzer was selected by Luther to become a Lutheran pastor in the city of Zwickau. Zwickau, however, was near the Bohemian border, and there Müntzer was converted by the weaver and adept Niklas

[29]Ronald A. Knox, *Enthusiasm: A Chapter in the History of Religion* (1950; New York: Oxford University Press, 1961), pp. 132-34.

Storch, who had lived in Bohemia, to the old Taborite creed. In particular: continuing personal divine revelation to the prophet of the cult, and the necessity for the elect to seize power and impose a society of theocratic communism by brutal force of arms. In addition, there was to be communism of women: marriage was to be prohibited, and each man was to be able to have any woman at will.

Thomas Müntzer now claimed to be the divinely chosen prophet, destined to wage a war of blood and extermination by the elect against the sinners. Müntzer claimed that the "living Christ" had permanently entered his own soul; endowed thereby with perfect insight into the divine will, he asserted himself to be uniquely qualified to fulfill the divine mission. He even spoke of himself as "becoming God." Having graduated from the world of learning, Müntzer was now ready for the world of action.

Müntzer wandered around central Germany for several years, gaining adepts and inspiring uprisings that were quickly suppressed. Gaining a ministerial post in the small Thuringian town of Allstedt, Müntzer gained a wide popular following by preaching in the vernacular, attracting a large number of uneducated miners, whom he formed into a revolutionary organization called "The League of the Elect." A turning point in Müntzer's career came in 1524, when Duke John, brother of the Elector of Saxony and a Lutheran, came to town and asked Müntzer to preach him a sermon. Seizing his opportunity, Müntzer laid it on the line: the Saxon princes must take their stand as either servants of God or of the Devil. If they would do the former, they must "lay on with the sword" to "exterminate" all the "godless" and "evil-doers," especially including priests, monks, and godless rulers. If the Saxon princes failed in this task, Müntzer warned, "the sword shall be taken from them. ... If they [the princes] resist, let them be slaughtered without mercy. ..." Such extermination, performed by the princes and guided by Müntzer, would usher in a thousand-year-rule by the Elect.

Duke John's reaction to this fiery ultimatum was surprisingly blasé, but, warned repeatedly by Luther that Müntzer was becoming dangerous, the Duke finally ordered Müntzer to refrain from any provocative preaching until his case was decided by the Elector.

This reaction by the Saxon princes, however mild, was enough to set Thomas Müntzer onto his final revolutionary road. The princes had proved themselves untrustworthy: it was now up to the mass of the poor to make the revolution. The poor, the Elect, would establish a rule of compulsory egalitarian communism, where all things would be owned in common by all, where everyone would be equal in all things and each person would receive according to his need. But not yet. For even the poor must first be broken of worldly desires and frivolous enjoyments,

and they must recognize the leadership of a new "servant of God" who "must stand forth in the spirit of Elijah ... and set things in motion." It was not difficult to guess who that Leader was supposed to be.

Seeing Allstedt as inhospitable, Müntzer moved to the Thuringian city of Muhlhausen, where he found a friendly home in a land in political turmoil. Under Müntzer's inspiration, a revolutionary group took over Muhlhausen in February 1525, and Müntzer and his allies proceeded to impose a communist regime upon that city.

The monasteries of Muhlhausen were seized, and all property was declared to be in common; as a consequence, as a contemporary observer noted, the regime "so affected the folk that no one wanted to work." As under the Taborites, the regime of communism and love soon became, in practice, a systemic excuse for theft:

> when anyone needed food or clothing he went to a rich man and demanded it of him in Christ's name, for Christ had commanded that all should share with the needy. And what was not given freely was taken by force. Many acted thus. ... Thomas [Müntzer] instituted this brigandage and multiplied it every day.[30]

At that point, the great Peasants' War erupted throughout Germany, a rebellion by the peasantry in favor of their local autonomy, and opposing the new centralizing, high tax rule of the German princes. In the process of crushing the feebly armed peasantry, the princes came to Muhlhausen on May 15, and offered amnesty to the peasants if they would hand over Müntzer and his immediate followers. The peasants were tempted, but Müntzer, holding aloft his naked sword, gave his last flaming speech, declaring that God had personally promised him victory; that he would catch all the enemy cannonballs in the sleeves of his cloak; and that God would protect them all. At a climactic moment in Müntzer's speech, a rainbow appeared in the heavens. Since Müntzer had adopted the rainbow as the symbol of his movement, the credulous peasantry naturally interpreted this event as a veritable Sign from heaven. Unfortunately, the Sign failed to work, and the princes' army crushed the peasantry, killing 5,000 while losing only half a dozen men. Müntzer himself fled and hid, but was captured soon after, tortured into confession, and duly executed.

Communism as the Kingdom of God on Earth: The Takeover of Münster

Thomas Müntzer and his Sign may have gotten short shrift, and his body be a-mouldrin' in the grave, but his soul kept marching on. His cause was soon picked up by a Müntzer disciple, the bookbinder Hans

[30]Quoted in Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper and Row, 1980), p. 57.

Hut. Hut claimed to be a prophet sent by God to announce that Christ would return to earth at Whitsuntide, 1528, and would give the power to enforce justice to Hut and to his following of rebaptized saints. The saints would then "take up double-edged swords" and wreak God's vengeance upon priests, pastors, kings, and nobles. Hut and his men would then "establish the rule of Hans Hut on earth," with Muhlhausen, as one might expect, as the world's capital. Christ, aided by Hut and company, would then establish a millennium of communism and free love. Hut was captured in 1527 (unfortunately before Jesus had a chance to return), imprisoned at Augsburg, and killed allegedly trying to escape. For a year or two, Huttian followers popped up throughout southern Germany, threatening to set up a communist Kingdom of God by force of arms. In 1530, however, they were smashed and suppressed by the alarmed authorities. Müntzerian-type Anabaptism would now move to northwestern Germany.

Northwestern Germany was dotted by a number of small ecclesiastical states, each run by a prince-bishop, bishops who were secular aristocratic lords not ordained as priests. The ruling clergy of the state exempted themselves from taxation, while imposing heavy taxes on the rest of the populace. Generally, the capital cities of each state were run by an oligarchy of guilds who cartelized their crafts, and who battled the state clergy for a degree of autonomy.

The largest of these ecclesiastical states in northwest Germany was the bishopric of Münster; its capital city of Münster, a town of some 10,000 people, was run by the town guilds. During and after the Peasants' War, the guilds and clergy battled back and forth, until, in 1532, the guilds, supported by the people, were able to take over the town, soon forcing the Catholic bishop to recognize Münster officially as a Lutheran city.

Münster was not destined to remain Lutheran for long, however. From all over the northwest, hordes of Anabaptist crazies flooded into the city of Münster, seeking the onset of the New Jerusalem. Anabaptism escalated when the eloquent and popular young minister Bernt Rothmann, a highly educated son of a town blacksmith, converted to Anabaptism. Originally a Catholic priest, Rothmann had become a friend of Luther and a head of the Lutheran church in Münster. But now he lent his eloquent preaching to the cause of communism as it had supposedly existed in the primitive Christian Church, with everything being held in common, with no mine or thine, and each man receiving according to his "need." Rothmann's widespread reputation attracted thousands more into Münster, largely the poor, the rootless, and those hopelessly in debt.

The leader of the horde of Münster Anabaptists, however, was

destined to be not Rothmann but a Dutch baker from Haarlem, Jan Matthys. In early 1534, Matthys sent out missionaries or "apostles" to rebaptize everyone they could into the Matthys movement, and his apostles were greeted in Münster with enormous enthusiasm. Even Rothmann was rebaptized once again, followed by many former nuns and a large part of the population. The leader of the Matthys movement soon arrived, a young Dutchman of 25 named Jan Bockelson (Jan of Leyden). Bockelson quickly married the daughter of the wealthy cloth merchant, Bernt Knipperdollinck, the leader of the Münster guilds, and the two men, leading the town in apocalyptic frenzy, led a successful uprising to dominate the town. The two leaders sent messengers outside the town urging all followers to come to Münster. The rest of the world, they proclaimed, would be destroyed in a month or two; only Münster would be saved, to become the New Jerusalem. Thousands poured in from as far away as Frisia in the northern Netherlands. As a result, the Anabaptists were able to impose absolute rule on the city, with the incoming Matthys, aided by Bockelson, becoming the virtual dictators of Münster. At last, Anabaptism had seized a real-life city; the greatest communist experiment in history to that date could now begin.

The first cherished program of this new communist theocracy was, of course, to purge the New Jerusalem of the unclean and the ungodly, as a prelude to their ultimate extermination throughout the world. Matthys, therefore, called for the execution of all remaining Catholics and Lutherans, but Knipperdollink, slightly more politically astute, warned Matthys that such immediate slaughter might bring down the wrath of the rest of the world. Matthys therefore did the next best thing, and on February 27 the Catholics and Lutherans were driven out of the city, in the midst of a horrendous snowstorm. Prefiguring the actions of communist Cambodia in the 1970s, all non-Anabaptists, including old people, invalids, babies, and pregnant women, were driven into the snowstorm, and all were forced to leave behind all their money, property, food, and clothing. The remaining Lutherans and Catholics were compulsorily rebaptized, all those refusing being put to death. The mass expulsion of non-Anabaptists was enough for the bishop, who began a long military siege of Münster the next day.

With every person in the city drafted for siege work, Jan Matthys launched his totalitarian communist social revolution. The first step was to confiscate the property of the expellees. All their worldly goods were placed in central depots, and the poor were encouraged to take "according to their needs," the "needs" to be interpreted by seven appointed "deacons" chosen by Matthys. When a blacksmith protested at these measures imposed, particularly gallingly, by a group of Dutch

foreigners, Matthys arrested the courageous smithy. Summoning the entire population of the town to be witness, Matthys personally stabbed, shot, and killed the "godless" blacksmith, and then threw into prison several leading citizens who protested his treatment. The crowd was warned to profit by this public execution, and they obediently sang a hymn in honor of the killing.

A crucial part of the Anabaptist reign of terror was their decision, again prefiguring that of the Khmer Rouge regime in Cambodia, to abolish all private ownership of money. With no money to purchase any good, the population became slavishly dependent on handouts or rations from the power elite. Accordingly, Matthys, Rothmann and the rest launched a propaganda campaign that it was un-Christian to own money privately; and that all money should be held "in common," which in practice meant that all money whatsoever must be handed over to Matthys and his ruling clique. Several Anabaptists who kept or hid their money were arrested and terrorized into crawling to Matthys on their knees, begging forgiveness, which Matthys graciously granted them.

After two months of unremitting propaganda, combined with threats and terror against those who disobeyed, the private ownership of money was effectively abolished in Münster. The government seized all the money and used it to buy goods or hire workers from the outside world. Wages were doled out in kind by the only employer: the theocratic Anabaptist State.

Food was confiscated from private homes, and rationed according to the will of government deacons. Also, to accommodate the host of immigrants, all private homes were effectively communized, with everyone permitted to quarter themselves everywhere; it was now illegal to close, let alone lock, one's doors. Compulsory communal dining-halls were established, where people ate together to the readings from the Old Testament.

The compulsory communism and reign of terror was carried out in the name of community and Christian "love." This communization was considered the first giant steps toward egalitarian communism, where, as Rothmann put it, "all things were to be in common, there was to be no private property and nobody was to do any more work, but simply trust in God." Somehow, the workless part never seemed to arrive.

A pamphlet sent by the Matthys regime to other Anabaptist communities hailed their new order of Christian love through terror:

> For not only have we put all our belongings into a common pool under the care of deacons, and live from it according to our need; we praise God through Christ with one heart and mind and are eager to help one another with every kind of service.

> And accordingly, everything which has served the purposes of self-seeking and private property, such as buying and selling, working for money, taking interest and practicing usury ... or eating and drinking the sweat of the poor ... and indeed everything which offends us against love—all such things are abolished amongst us by the power of love and community.

At the end of March 1534, however, Matthys's swollen *hubris* brought him down. Convinced at Easter time that God had ordered him and a few of the faithful to lift the Bishop's siege and liberate the town, Matthys and a few others rushed out of the gates at the besieging army, and were literally hacked to pieces in response.

The death of Matthys left Münster in the hands of young Bockelson. And if Matthys had chastised the people of Münster with whips, Bockelson would chastise them with scorpions. Bockelson wasted little time in mourning his mentor. He preached to the faithful: "God will give you another Prophet who will be more powerful." How could this young enthusiast top his master? Early in May, Bockelson caught the attention of the town by running naked through the streets in a frenzy, falling then into a silent three-day ecstasy. When he rose on the third day, he announced to the entire populace a new dispensation that God had revealed to him. With God at his elbow, Bockelson abolished the old town offices of Council and burgermaster, and installed a new ruling council of 12 Elders headed by himself. The Elders were given total authority over the life and death, the property and spirit, of every inhabitant of Münster. The old guilds were abolished, and a strict system of forced labor was imposed. All artisans not drafted into the military were now public employees, working for the community for no monetary reward.

Totalitarianism in Münster was now complete. Death was now the punishment for virtually every independent act. Capital punishment was decreed for the high crimes of: murder, theft, lying, avarice, and quarrelling. Death was also decreed for every conceivable kind of insubordination: the young against the parents, wives against their husbands, and, of course, anyone at all against the chosen representative of God on earth, the government of Münster. Bernt Knipperdollinck was appointed high executioner to enforce the decrees.

The only aspect of life previously left untouched was sex, and this deficiency was now made up. The only sexual relation now permitted by the Bockelson regime was marriage between two Anabaptists. Sex in any other form, including marriage with one of the "godless," was a capital crime. But soon Bockelson went beyond this rather old-fashioned credo, and decided to enforce compulsory polygamy in Münster. Since many of the expellees had left their wives and daughters

behind, Münster now had three times as many marriageable women as men, so that polygamy had become technologically feasible. Bockelson convinced the other rather startled preachers by citing polygamy among the patriarchs of Israel, reinforcing this method of persuasion by threatening any dissenters with death.

Compulsory polygamy was a bit a much for many of the Münsterites, who launched a rebellion in protest. The rebellion, however, was quickly crushed and most of the rebels put to death. And so, by August 1554, polygamy had been coercively established in Münster. As one might expect, young Bockelson took an instant liking to the new regime, and before long he had amassed a harem of 15 wives, including Divara, the beautiful young widow of Jan Matthys. The rest of the male population also began to take enthusiastically to the new decree. Many of the women reacted differently, however, and so the Elders passed a law ordering compulsory marriage for every woman under (and presumably also over) a certain age, which usually meant becoming a compulsory third or fourth wife.

Since marriage among the godless was not only invalid but also illegal, the wives of the expellees became fair game, and they were forced to "marry" good Anabaptists. Refusal of the women to comply with the new law was punishable, of course, with death, and a number of women were actually executed as a result. Those "old" wives who resented the new competitors in their households were also cracked down on, and their quarrelling was made a capital crime; many women were thereupon executed for quarrelling.

Bockelsonian despotism could only reach so far, however, and general resistance forced the regime to relent and permit divorce. In an aboutface, not only divorce was now permitted, but all marriage was now outlawed totally, and divorce made very easy. As a result, Münster now became a regime of what amounted to compulsory free love. Thus, within the space of a few months, a rigid puritanism had been transmuted into a system of compulsory promiscuity.

Bockelson proved to be an excellent organizer of a besieged city. Compulsory labor was strictly enforced, and he was also able to induce many of the Bishop's poorly paid mercenaries to quit by offering them regular pay—with *money*, of course, that had been confiscated from the citizens of Münster. When the Bishop fired pamphlets into the town offering a general amnesty in return for surrender, Bockelson made reading such pamphlets a crime punishable by death. As a result, the Bishop's armies were in disarray by the end of August, and the siege was temporarily lifted.

Jan Bockelson took the opportunity to triumphantly carry his "egalitarian" communist revolution one crucial step further: he had

himself proclaimed King and Messiah of the Last Days.

Bockelson realized that proclaiming *himself* King might have appeared tacky and unconvincing, even to the Bockelsonian faithful. And so he arranged for one Dusentschur, a goldsmith from a nearby town and self-proclaimed prophet, to do the job for him. At the beginning of September, Dusentschur announced to one and all a new revelation: that Jan Bockelson was to be the King of the whole world, the heir of King David, destined to keep that throne until God himself came to reclaim His Kingdom. Unsurprisingly, Bockelson confirmed that he himself had had the very same revelation. After a moment's coyness, Bockelson accepted the Sword of Justice and anointment as King of the World from Dusentschur, and Bockelson announced to the crowd that God had now given him "power over all the nations of the earth," and that anyone who might dare to resist God's will "shall without delay be put to death with the sword." The Anabaptist preachers of Münster dutifully explained to their bemused flock that Bockelson was indeed the Messiah as foretold in the Old Testament, and therefore the rightful ruler, both temporal and spiritual, of the entire world.

It often happens with self-proclaimed "egalitarians" that a special escape hatch from the drab uniformity of life is created—for themselves. And so it was with King Bockelson. It was important to emphasize in every way the importance of the Messiah's Advent. And so Bockelson wore the finest robes, metals and jewelry; he appointed courtiers and gentlemen-at-arms, who also appeared in splendid finery. King Bockelson's chief wife, Divara, was proclaimed Queen of the World, and she too was dressed in great finery and enjoyed a suite of courtiers and followers. The new luxurious court included two hundred people housed in fine requisitioned mansions. King Bockelson would hold court on a throne draped with a cloth of gold in the public square, wearing a crown and carrying a sceptre. Also garbed in finery were Bockelson's loyal aides, including Knipperdollinck as chief minister, and Rothmann as royal orator.

If communism is the perfect society, *somebody* must be able to enjoy its fruits; and who better than the Messiah and his courtiers? Though private property in money was abolished, the confiscated gold and silver was now minted into ornamental coins in honor of the new King. All horses were confiscated for the King's armed squadron. Names in revolutionary Münster were also transformed; all the streets were renamed; Sundays and feast days were abolished; and all new-born children were named personally by the King in accordance with a special pattern.

In order that the King and his nobles might live in high luxury,

the subject population were now robbed of everything above the bare minimum; clothing and bedding were severely rationed, and all "surplus" turned over to King Bockelson on pain of death.

It is not surprising that the deluded masses of Münster began to grumble at being forced to live in abject poverty while King Bockelson and his courtiers lived in great luxury on the proceeds of their confiscated belongings. Bockelson responded by beaming propaganda to justify the new system. The justification was this: it was all right for Bockelson to live in pomp and luxury because he was already "dead" to the world and the flesh. Since he was dead to the world, in a deep sense his luxury didn't count. In the style of every guru who has ever lived in luxury among his poor credulous followers, he explained that for him material objects had no value. More importantly perhaps, Bockelson assured his subjects that he and his court were only the advance guard of the new order; soon, *they* too would be living in the same millennial luxury. Under their new order the people of Münster would soon forge outward, armed with God's will, and conquer the entire world, exterminating the unrighteous, after which Jesus would return and they will live in luxury and perfection. Equal communism with great luxury for all would then be achieved.

Greater dissent meant, of course, escalated terror, and King Bockelson's reign of "love" and death intensified its course of intimidation and slaughter. As soon as he proclaimed the monarchy, the prophet Dusentschur announced a new divine revelation: that all who persisted in disagreeing with or disobeying King Bockelson shall be put to death, and their very memory extirpated forever. Many of the victims executed were women, who were killed for denying their husbands marital rights, insulting a preacher, or daring to practice polgyny—which was considered to be a solely male privilege.

The Bishop was beginning to resume his siege, but Bockelson was able to use much of the expropriated gold and silver to send apostles and pamphlets out to surrounding areas, attempting to rouse the masses to Anabaptist revolution. The propaganda had considerable effect, leading to mass uprisings throughout Holland and northwestern Germany during January 1535. A thousand armed Anabaptists gathered under the leadership of someone who called himself Christ, Son of God; and serious Anabaptist uprisings took place in West Frisia, in the town of Minden, and even the great city of Amsterdam, where the rebels managed to capture the town hall. All these uprisings were eventually suppressed, with the help of betrayal of the names of the rebels and the location of their munition dumps.

By this time, the princes of northwestern Europe had had enough; and all the states of the Holy Roman Empire agreed to supply troops

to crush the hellish regime at Münster. By late January, Münster was totally and successfully blockaded and cut off from the outside world. Food shortages appeared immediately, and the crisis was met by the Bockelson regime with characteristic vigor: all remaining food was confiscated, and all horses killed, for the benefit of feeding the king, his royal court, and his armed guards. At all times throughout the siege the king and his court managed to eat and drink well, while famine and devastation swept through the town of Münster, and the masses ate literally anything, even inedible, they could lay their hands on.

King Bockelson maintained his rule by beaming continual propaganda and promises to the starving masses. God would definitely save them by Easter, or else Bockelson would have himself burnt in the public square. When Easter came and went, and no salvation had appeared, Bockelson craftily explained that he had meant only "spiritual" salvation, which had indeed occurred. He then promised that God would change the cobblestones to bread, and this of course did not happen either. Finally, Bockelson, long fascinated by the theater, ordered his starving subjects to engage in three days of dancing and athletics. Dramatic performances were held, as well as a Black Mass.

The poor starving people of Münster were now doomed totally. The Bishop kept firing leaflets into the town promising a general amnesty if they would only depose King Bockelson and his court and hand them over to the princely forces. To guard against this threat, Bockelson stepped up his reign of terror still further. In early May, Bockelson divided the town into 12 sections, and placed a "Duke" over each section with an armed force of 24 men. The Dukes were foreigners like himself, and as Dutch immigrants would be more likely to be loyal to King Bockelson. Each Duke was strictly forbidden to leave his own section, and they, in turn, prohibited any meetings of even a few people. No one was allowed to leave town, and anyone caught attempting or plotting to leave, helping anyone else to leave, or criticizing the King, was instantly beheaded—mainly by King Bockelson himself. By mid-June such deeds were occurring daily, with the body often quartered in sections and nailed up as a warning to the Münster masses.

Bockelson would undoubtedly have let the entire population of the city starve to death rather than surrender; but two escapees betrayed weak spots in the town's defenses and on the night of June 24, 1535, the nightmare New Jerusalem of communism and "love" at last came to a bloody end. The last several hundred Anabaptist fighters surrendered under an amnesty and were promptly massacred, and Queen Divara was beheaded. As for King Bockelson, he was led about on a

chain, and, the following January, he and Knipperdollinck were publicly tortured to death, and their bodies suspended in cages from a church-tower.

The old establishment of Münster was duly restored and the city became Catholic once more. The stars were again in their courses, and the events of 1534-35 understandably led to an abiding distrust of mysticism and enthusiast movements throughout Protestant Europe.

It is instructive to understand the attitude of all Marxist historians toward Münster and the other millennialist movements of the early sixteenth century. The Marxists have always understandably lauded these movements and regimes, (a) for being communist, and (b) for being revolutionary movements from below. Marxists have invariably hailed these movements as forerunners of their own.

Ideas are notoriously difficult to kill, and Anabaptist communism was one such idea. One of Müntzer's collaborators, Henry Niclaes, who had been born in Münster, survived to found Familism, a pantheistic creed claiming that Man *is* God, and calling for the establishment of the Kingdom of God on Earth as the only place that it would ever exist. A key to that kingdom would be a system in which all property would be held in common, and all men would attain the perfection of Christ. Familist ideas were carried to England by a Dutch joiner, Christopher Vittels, a disciple of Niclaes, and familism spread in England during the late sixteenth century. A center of familism in early seventeenth century England was the Grindletonians, in Grindleton, Yorkshire, led, in the decade after 1615, by the curate, the Rev. Roger Brearly. Part of the attraction of familism was its antinomianism, the view that a truly godly person—such as themselves—could never, by definition, commit a sin, and antinomian behavior usually flaunted what most people considered sins in order to demonstrate to one and all their godly and sin-free status.

During the English Civil War, of the 1640s and 1650s, many radical religious groups bubbled to the surface, including Gerrard Winstanley and the pantheist communist Diggers noted above. Featuring extreme antinomianism combined with pantheism and communism including communism of women, were the half-crazed Ranters, who urged everyone to sin so as to demonstrate their purity.

The Reappearance of Communism in the French Revolution

In times of trouble, war, and social upheaval, millennial and messianic sects have always appeared and burgeoned. After the English Civil War subsided, millennialist and communist creeds vanished, only to appear again in force at the time of the French Revolution. The difference was that now, for the first time, secular rather than

religious communist movements appeared. But the new secular communist prophets faced a grave problem: What was their agency for social change? The agency acclaimed by the religious millennialists had always been God and his Providential Messiah or vanguard prophets and destined, apocalyptic tribulations. But what could be the agency for a secular millennium and how could secular prophets drum up the necessary confidence in their foreordained triumph?

The first secularized communists appeared as two isolated individuals in mid-eighteenth century France. One was the aristocrat Gabriel Bonnot de Mably, elder brother of the laissez-faire liberal philosopher Etienne Bonnot de Condillac. Mably's major focus was to insist that all men are "perfectly" equal and uniform, one and the same everywhere. As in the case of many other communists after him, Mably found himself forced to confront one of the greatest problems of communism: if all property is owned in common and every person is equal, then there can be little or no incentive to work. For only the common store will benefit from anyone's work and not the individual himself. Mably in particular had to face this problem, since he also maintained that man's natural and original state was communism, and that private property arose to spoil everything precisely out of the indolence of some who wished to live at the expense of others. As Alexander Gray points out, "the indolence that ruined primitive communism would probably once again ruin communism, if reestablished."

Mably's two proposed solutions to this crucial problem were scarcely adequate. One, was to urge everyone to tighten their belts, to want less, to be content with Spartan austerity. The other was to come up with what Che Guevara and Mao Tse-tung would later call "moral incentives": to substitute for crass monetary rewards the recognition of one's merits by one's brothers—in the form of ribbons, medals, etc. In his devastatingly witty and perceptive critique, Alexander Gray writes that:

> The idea that the world may find its driving force in a Birthday Honours List (giving to the King, if necessary, 365 birthdays a year) occurs with pathetic frequency in the more Utopian forms of socialist literature ...
>
> But obviously, if any were wise or depraved enough to say that they preferred indolence to a ribbon (and there would be many such) they would have to be allowed to continue to lead idle lives, sponging on their neighbours; perhaps some who had at last attained the ribbon might burst into a blaze of *faineantise* (laziness) in order that they might without distraction savour the pleasure which accompanies consideration.

Gray goes on to point out that the more "distinctions" are handed out as incentives, the less they will truly distinguish, and the less influence

they will therefore exert. Furthermore, Mably "does not say how or by whom his distinctions are to be conferred." Gray goes on:

> it is assumed, and always is assumed, that there will be a universal and unquestioning belief that the fountain of honour has sprayed its refreshing waters on all the most deserving and on none but the most deserving. This naively innocent faith does not exist in the world we know, nor is it likely to exist in any earthly paradise that many may imagine.

Gray concludes that in a communist society in the real world, many people who *don't* receive honors may and probably will be disgruntled and resentful at the supposed injustice: "A general or a civil servant, kept waiting unduly in the queue for the Bath, may find his youthful ardour replaced by the sourness of hope deferred, and zeal may flag."[31]

Thus, in his two preferred solutions, Gabriel de Mably was resting his hope on a miraculous transformation of human nature, much as the Marxists would later look for the advent of the New Socialist Man, willing to bend his desires and incentives to the requirements of, and the baubles conferred by, the collective. But for all his devotion to communism, Mably was at the bottom a realist, and so he held out no hope for communist triumph. Man is too steeped in the sin of selfishness and private property for a victory to occur. Clearly, Mably had scarcely begun to solve the secularist problem of social change or to inspire the birth and flowering of a revolutionary communist movement.

If Mably's pessimism was scarcely suitable for inspiring a movement, the same was not true of the other influential secular communist of mid-eighteenth century France, the unknown writer Morelly. Though personally little known, Morelly's *La Code de la Nature*, published in 1755, was highly influential, going into five more editions by 1773. Morelly had no doubts about the workability of communism; for him there was no problem of laziness or negative incentive, and therefore no need for the creation of a New Socialist Man. To Morelly, man is everywhere good, altruistic, and dedicated to work; only *institutions* are degrading and corrupt, specifically the institution of private property. Abolish that, and man's natural goodness would easily triumph. (Query: where did these corrupt human institutions come from, if not from man?)

Similarly, for Morelly, as for Marx and Lenin after him, the administration of the communist utopia would be absurdly easy as well. Assigning to every person his task in life, and deciding what material goods and services would fulfill his needs, would apparently

[31] Gray, *The Socialist Tradition*, pp. 90-91.

be a trivial problem for a Ministry of Labor or of Consumption. For Morelly, all this is merely a matter of trivial enumeration, listing things and persons.

And yet, somehow things are not going to be *that* easy in the Morelly utopia. While Mably the pessimist was apparently willing to leave society to the voluntary actions of individuals, the optimist Morelly was cheerfully prepared to employ brutally coercive methods to keep all of his "naturally good" citizens in line. Morelly worked out an intricate design for his proposed ideal government and society, all allegedly based on the evident dictates of natural law, and most of which were supposed to be changeless and eternal.

In particular, there was to be no private property, except for daily needs; every person was to be maintained and employed by the collective. Every man is to be forced to work, to contribute to the communal storehouse, according to his talents, and then will be assigned goods from these stores according to his presumed needs. Marriages are to be compulsory, and children are to be brought up communally, and absolutely identically in food, clothing, and training. Philosophic and religious doctrines are to be absolutely prescribed; no differences are to be tolerated; and children are not to be corrupted by any "fable, story, or ridiculous fictions." All trade or barter is to be forbidden by "inviolable law." All buildings are to be the same, and grouped in equal blocks; all clothing is to be made out of the same fabric (a proposal prophetic of Mao's China). Occupations are to be limited and strictly assigned by the state.

Finally, the imposed laws are to be held sacred and inviolable, and anyone attempting to change them is to be isolated and incarcerated for life.

It should be clear that these utopias are debased, secularized versions of the visions of the Christian millennialists. Not only is there no ordained agency of social change to achieve this end-state, but they lack the glitter of messianic rule or glorification of God to disguise the fact that these utopias are static states, in which, as Gray puts it, "Nothing ever happens; no one ever disagrees with any one; the government, whatever its form may be, is always so wisely guided that there may be room for gratitude but never for criticism. ... Nothing happens, nothing can happen in any of them." Gray concludes that even though, according to the utopian writers, "we are assured that never was there such a happy population," that "in fact no Utopia has ever been described in which any sane man would on any conditions consent to live, if he could possibly escape ..."[32]

[32] Gray, *Socialist Tradition*, pp. 62-63.

We must not think, however, that Christian communist millennialism had disappeared. On the contrary, heretical Christian messianism was also revived in the stormy times of the middle and late eighteenth century. Thus, the Swabian Pietist Johann Christoph Otinger, in the mid-eighteenth century, prophesied a coming theocratic world-kingdom of saints, living communally, without rank or property, as members of a millennial Christian commonwealth. Particularly influential among later German Pietists was the French mystic and theosophist Louis Claude de Saint-Martin, who in his influential *Des Erreurs et la Verite* (1773) portrayed an "inner church of the elect" allegedly existing since the dawn of history, which soon would take power in the coming age. This "Martinist" theme was developed by the Rosicrucian movement, concentrated in Bavaria. Originally alchemist mystics during the seventeenth and eighteenth centuries, the Bavarian Rosicrucians began to stress the coming to world power by the church of the elect during the dawning millennial age. The most influential Bavarian Rosicrucian author, Carl von Eckartshausen, expounded on this theme in two widely read works, *Information on Magic* (1788-92) and *On Perfectibility* (1797). In the latter work, he developed the idea that the inner church of the elect had existed backward in time to Abraham and then to go forward to a world government ruled by these keepers of the divine light. The third and final Age of History, the Age of the Holy Spirit, was now at hand. The illuminated elect destined to rule the new communal world order were, fairly obviously, the Rosicrucian Order, since major evidence for the dawn of the Third Age being imminent was the rapid spread of Martinism and Rosicrucianism itself.

And these movements were indeed spreading during the 1780s and 1790s. The Prussian King Frederick William II and a large portion of his court were converted to Rosicrucianism in the late 1780s, as was the Russian Czar Paul I a decade later, based on his reading of Saint-Martin and Eckartshausen, both of whom Paul considered to be transmitters of divine revelation. Saint-Martin was also influential through his leadership of the Scottish Rite Masonry in Lyons, and was the major figure in what might be called the apocalyptic-Christian wing of the Masonic movement.[33]

The leading communist movement during the French Revolution, however, was secularized. The ideas of Mably and Morelly could not hope to be embodied in reality in the absence of a concrete ideological *movement*, and the task of applying these ideas in movement form

[33]See the revealing article by Paul Gottfried, "Utopianism of the Right: Maistre and Schlegel," *Modern Age* 24 (Spring 1980): 150-60.

was seized by a young journalist and commissioner of land deeds in Picardy, Francois Noel ("Caius Gracchus") Babeuf, who came to Paris at the age of 26 in 1790, and imbibed the heady revolutionary atmosphere in that city. By 1793, Babeuf was committed to egalitarianism and communism; two years later, he founded the secret Conspiracy of the Equals, a conspiratorial revolutionary organization dedicated to the achievement of communism. The Conspiracy was organized around his new journal, *The Tribune of the People*. The *Tribune*, in a prefigurement of Lenin's *Iskra* a century later, was used to set a coherent line for his cadre as well as for his public followers. Babeuf's *Tribune* "was the first journal in history to be the legal arm of an extralegal revolutionary conspiracy."[34]

The ultimate ideal of Babeuf and his conspiracy was absolute equality. Nature, they claimed, calls for perfect equality; all inequality is injustice; therefore community of property is to be established. As the Conspiracy proclaimed emphatically in its *Manifesto of Equals*—written by one of Babeuf's top aides, Sylvain Marechal—"We demand real equality, or Death; that is what we must have." "For its sake," the *Manifesto* went on, "we are ready for anything; we are willing to sweep everything away. Let all the arts vanish, if necessary, as long as genuine equality remains for us."

In the ideal communist society sought by the Conspiracy, private property would be abolished, and all property would be communal, and stored in communal storehouses. From these storehouses, goods would be distributed "equitably" by the superiors—oddly enough, there would apparently be a cadre of "superiors" in this "equal" world! There was to be universal compulsory labor, "serving the fatherland ... by useful labor." Teachers or scientists "must submit certifications of loyalty" to the superiors. The *Manifesto* acknowledged that there would be an enormous expansion of government officials and bureaucrats in the communist world, inevitable where "the fatherland takes control of an individual from his birth till his death." There would be severe punishments consisting of forced labor against "persons of either sex who set society a bad example by absence of civic-mindedness, by idleness, a luxurious way of life, licentiousness." These punishments, described, as one historian notes "lovingly and in great detail"[35] consisted of deportation to prison islands. Freedom of speech and the press are treated as one might expect. The press would not be allowed

[34]James H. Billington, *Fire in the Minds of Men: Origins of the Revolutionary Faith* (New York: Basic Books, 1980), p. 73.

[35]For this phrase and other translated quotes from the *Manifesto*, see Shafarevich, *The Socialist Phenomenon*, pp. 121-24. Also see Gray, *Socialist Tradition*, p. 107.

to "endanger the justice of equality" or to subject the Republic "to interminable and fatal discussions." Moreover, "No one will be allowed to utter views that are in direct contradiction to the sacred principles of equality and the sovereignty of the people." In point of fact, a work would only be allowed to appear in print "if the guardians of the will of the nation consider that its publication may benefit the Republic."

All meals would be eaten in public in every commune, and there would, of course, be compulsory attendance imposed on all community members. Furthermore, everyone could only obtain "his daily ration" in the district in which he lives; the only exception would be "when he is traveling with the permission of the administration." All private entertainment would be "strictly forbidden," lest "imagination, released from the supervision of a strict judge, should engender abominable vices contrary to the commonweal." And, as for religion, "all so-called revelation ought to be banned by law."

Important as an influence on later Marxism-Leninism was not only the communist goal, but also Babeuf's strategic theory and practice in the concrete organization of revolutionary activity. The unequal, the Babouvists proclaimed, must be despoiled, the poor must rise up and sack the rich. Above all, the French Revolution must be "completed" and redone; there must be total upheaval (*bouleversement total*), a total destruction of existing institutions so that a new and perfect world can be built from the rubble. As Babeuf called out, at the conclusion of his own *Plebeian Manifesto*: "May everything return to chaos, and out of chaos may there emerge a new and regenerated world."[36] Indeed, the *Plebian Manifesto*, published slightly earlier than the *Manifesto of Equals* in November 1795, was the first in a line of revolutionary manifestos that would reach a climax in Marx's *Communist Manifesto* a half-century later.

The two Manifestos, the *Plebeian* and the *Equals*, revealed an important difference between Babeuf and Marechal which might have caused a split had not the Equals been crushed soon afterward by police repression. For in his *Plebeian Manifesto*, Babeuf had begun to move toward Christian messianism, not only paying tribute to Moses and Joshua, but also particularly to Jesus Christ as his, Babeuf's, "co-athlete." In prison, furthermore, Babeuf had written *A New History of the Life of Jesus Christ*. Most of the Equals, however, were militant atheists, spearheaded by Marechal, who liked to refer to himself with the grandiose acronym l'HSD, *l'homme sans Dieu* [the

[36]Billington, *Fire in the Minds*, p. 75. Also see Gray, *Socialist Tradition*, p. 105n. As Gray comments, "what is desired is the annihilation of all things, trusting that out of the dust of destruction a fair city may arise. And buoyed by such a hope, how blithely would Babeuf bide the stour." Ibid., p. 105.

Man without God].

In addition to the idea of a conspiratorial revolution, Babeuf, fascinated by military matters, began to develop the idea of people's guerilla warfare: of the revolution being formed in separate "phalanxes" by people whose permanent occupation would be making revolution—whom Lenin would later call "professional revolutionaries." He also toyed with the idea of military phalanxes securing a geographical base, and then working outward from there.

A secret, conspiratorial inner circle, a phalanx of professional revolutionaries—inevitably this meant that Babeuf's strategic perspective for his revolution embodied some fascinating paradoxes. For in the name of a goal of harmony and perfect equality, the revolutionaries were to be led by a hierarchy commanding total obedience; the inner cadre would work its will over the mass. An absolute leader, heading an all-powerful cadre, would, at the proper moment, give the signal to usher in a society of perfect equality. Revolution would be made to end all further revolutions; an all-powerful hierarchy would be necessary, allegedly to put an end to hierarchy forever.

But of course, there was no real paradox here because Babeuf and his cadre harbored no real intention to eliminate hierarchy. The paeans to "equality" were a flimsy camouflage for the real objective—a permanently entrenched and absolute dictatorship.

After suffering police repression at the end of February, 1796, the Conspiracy of the Equals went further underground, and, a month later, constituted themselves as the Secret Directory of Public Safety. The seven secret directors, meeting every evening, reached collective and anonymous decisions, and then each member of this central committee radiated activity outward to 12 "instructors," each of whom mobilized a broader insurrectionary group in one of the 12 districts of Paris. In this way, the Conspiracy managed to mobilize 17,000 Parisians, but the group was betrayed by the eagerness of the secret directorate to recruit within the army. An informer led to the arrest of Babeuf on May 10, followed by the destruction of the Conspiracy of the Equals. Babeuf was executed the following year.

Police repression, however, almost always leaves pockets of dissidents to rise again, and the new carrier of the torch of revolutionary communism became a Babouvist arrested with the leader but who managed to avoid execution. Filippo Guiseppe Maria Lodovico Buonarroti was the oldest son of an aristocratic but impoverished Florentine family, and a direct descendant of the great Michelangelo. Studying law at the University of Pisa in the early 1780s, Buonarroti was converted by disciples of Morelly on the Pisa faculty. As a radical journalist and editor, Buonarroti then participated in battles for the

French Revolution against Italian troops. In the spring of 1794, he was put in charge of the French occupation in the Italian town of Oneglia, where he announced to the people that all men must be equal, and that any distinction whatever among men is a violation of natural law. Back in Paris, Buonarroti successfully defended himself in a trial against his use of terror in Oneglia, and finally plunged into Babeuf's Conspiracy of Equals. His friendship with Napoleon allowed him to escape execution, and eventually to be shipped from a prison camp to exile in Geneva.

For the rest of his life, Buonarroti became what his modern biographer calls "The First Professional Revolutionist," trying to set up revolutions and conspiratorial organizations throughout Europe. Before the execution of Babeuf and others, Buonarroti had pledged his comrades to write their full story, and he fulfilled that pledge when, at the age of 67, he published in Belgium *The Conspiracy for Equality of Babeuf* (1828). Babeuf and his comrades had been long forgotten, and this massive work now told the first and most thoroughgoing narrative of the Babouvist saga. The book proved to be an inspiration to revolutionary and communist groupings, and sold extremely well, the English translation of 1836 selling 50,000 copies in a short space of time. For the last decade of his life, the previously obscure Buonarroti was lionized throughout the European ultra-left.

Brooding over previous revolutionary failures, Buonarroti counselled the need for iron elite rule immediately after the coming to power of the revolutionary forces. In short, the power of the revolution must be immediately given over to a "strong, constant, enlightened immovable will," which will "direct all the force of the nation against internal and external enemies," and very gradually prepare the people for their sovereignty. The point, for Buonarroti, was that "the people are incapable either of regeneration by themselves or of designating the people who should direct the regeneration."

The Burgeoning of Communism in the 1830s and 1840s

The 1830s and 1840s saw the burgeoning of messianic and chiliastic communist and socialist groups throughout Europe: notably in France, Belgium, Germany and England. Owenites, Cabetists, Fourieriets, Saint Simonians, and many others sprouted and interacted, and we need not examine them or their nuanced variations in detail. While the Welshman Robert Owen was the first to use the word "socialist" in print in 1827, and also toyed with "communionist," the word "communist" finally caught on as the most popular label for the new system. It was first used in popular printed work in Etienne

Cabet's utopian novel, *Voyage in Icaria* (1839),[37] and from there the word spread like wildfire across Europe, spurred by the recent development of a regular steamboat mail service and the first telegraphy. When Marx and Engels, in the famous opening sentence of their *Communist Manifesto* of 1848, wrote that "A spectre is haunting Europe—the spectre of Communism," this was a bit of hyperbolic rhetoric, but still was not far off the mark. As Billington writes, the talismanic word "communism" "spread throughout the continent with a speed altogether unprecedented in the history of such verbal epidemics."[38]

Amid this welter of individuals and groups, some interesting ones stand out. The earliest German exile group of revolutionaries was the League of the Outlaws, founded in Paris by Theodore Schuster, under the inspiration of the writings of Buonarroti. Schuster's pamphlet, *Confession of Faith of an Outlaw* (1834) was perhaps the first projection of the coming revolution as a creation of the outlaws and marginal outcasts of society, those outside the circuit of production whom Marx would understandably dismiss brusquely as the "*lumpenproletariat*." The *lumpen* were later emphasized in the 1840s by the leading anarcho-communist, the Russian Mikhail Bakunin, foreshadowing various strains of the New Left during the late 1960s and early 1970s.

The Outlaws was the first international organization of communist revolutionaries, comprised of about 100 members in Paris and almost 80 in Frankfurt am Main. The League of Outlaws, however, disintegrated about 1838, many members, including Schuster himself, going off into nationalist agitation. But the League was succeeded quickly by a larger group of German exiles, the League of the Just, also headquartered in Paris. The German communist groups always tended to be more Christian than the other nationalities. Thus, Karl Schapper, leader of the Paris headquarters section of the League of the Just, addressed his followers as "Brothers in Christ," and hailed the coming social revolution as "the great resurrection day of the people." Intensifying the religious tone of the League of the Just was the prominent German communist, the tailor Wilhelm Weitling.

[37]Cabet had been a distinguished French lawyer and attorney-general of Corsica, but was ousted for radical attitudes toward the French government. After founding a journal, Cabet fled into exile in London during the 1830s and initially became an Owenite. Despite Cabet's nationality, the book was originally written and published in English and a French translation was published the following year. A peaceful communist rather than a revolutionary, Cabet tried to establish utopian communes in various failed projects in the United States, from 1848 until his death 8 years later.

[38]Billington, *Fire in the Minds*, p. 243.

In the manifesto that he wrote for the League of the Just, *Humanity as it is and as it ought to be* (1838), which though secret was widely disseminated and discussed, Weitling proclaimed himself a "social Luther," and denounced money as the source of all corruption and exploitation. All private property and all money was to be abolished and the value of all products to be calculated in "labor-hours"—the labor theory of value taken all too seriously. For work in public utilities and heavy industry, Weitling proposed to mobilize a centralized "industrial army," fueled by the conscription of every man and woman between the ages of 15 and 18.

Expelled from France after revolutionary troubles in 1839, the League of the Just moved to London, where it also established a broader front group, the Educational Society for German Workingmen in 1840. The three top leaders of the Society, Karl Schapper, Bruno Bauer, and Joseph Moll, managed to raise their total to over 1000 members by 1847, including 250 members in other countries in Europe and Latin America.

A fascinating contrast is presented by two young communists, both leaders of the movement during the 1840s, and both of whom have been almost totally forgotten by later generations—even by most historians. Each represented a different side of the communist perspective, two different strands of the movement.

One was the English Christian visionary and fantast, John Goodwyn Barmby. At the age of 20, Barmby, then an Owenite, arrived in Paris in 1840 with a proposal to set up an International Association of Socialists throughout the world. A provisional committee was actually formed, headed by the French Owenite Jules Gay, but nothing came of the scheme. The plan did, however, prefigure the First International. More importantly, in Paris Barmby discovered the word "communist," and adopted and spread it with enormous fervor. To Barmby, "communist" and "communitarian" were interchangeable terms, and he helped organize throughout France what he reported to the English Owenites were "social banquet(s) of the Communist or Communitarian school." Back in England, Barmby's fervor was undiminished. He founded a Communist Propaganda Society, soon to be called the Universal Communitarian Society, and established a journal, *The Promethean or Communitarian Apostle*, soon renamed *The Communist Chronicle*. Communism, to Barmby, was both the "societarian science" and the final religion of humanity. His *Credo*, propounded in the first issue of *The Promethean*, avowed that "the divine is communism, that the demonic is individualism." After that flying start, Barmby wrote communist hymns and prayers, and called for the building of Communitariums, all directed by a supreme

Communarchy headed by an elected Communarch and Communarchess. Barmby repeatedly proclaimed "the religion of Communism," and made sure to begin things right by naming himself "Pontifarch of the Communist Church."

The subtitle of *The Communist Chronicle* revealed its neo-christian messianism: "The Apostle of the Communist Church and the Communitive Life: Communion with God, Communion of the Saints, Communion of Suffrages, Communion of Works and Communion of Goods." The struggle for communism, declared Barmby, was apocalyptic, bound to end with the mystical reunion of Satan into God: "In the holy Communist Church, the devil will be converted into God. ... And in this conversion of Satan doth God call peoples. ... in that communion of suffrages, of works, and of goods both spiritual and material ... for these latter days."[39] The arrival in London of Wilhelm Weitling in 1844 led him and Barmby to collaborate on promoting Christian communism, but by the end of 1847, they had lost out and the communist movement was shifting decisively toward atheism.

The crucial turn came in June 1847, when the two most atheistical of communist groups—the League of the Just in London, and the small, fifteen-man Communist Correspondence Committee of Brussels, headed by Karl Marx, merged to form the Communist League. At its second congress in December, ideological struggles within the League were resolved when Marx was asked to write the statement for the new party, to become the famed *Communist Manifesto*.

Cabet and Weitling, throwing in the towel, each left permanently for the United States in 1848, to try to establish communism there. Both attempts foundered ignominiously amid America's expanding and highly individualistic society. Cabet's Icarians settled in Texas and then Nauvoo, Illinois, then split and split again, until Cabet, ejected by his former followers in Nauvoo, left for St. Louis and died, spurned by nearly everyone, in 1856. As for Weitling, he gave up more rapidly. In New York, he became a follower of Josiah Warren's individualistic though left-Ricardian labor-money scheme, and in 1854 he deviated further to become a bureaucrat with the U.S. Immigration Service, spending most of his remaining 17 years trying to promote his various inventions. Apparently, Weitling, willy-nilly, had at last "voted with his feet" to join the capitalist order.

Meanwhile, Goodwyn Barmby sequestered himself in one after another of the Channel Islands to try to found a utopian community, and denounced a former follower for setting up a more practical *Communist Journal* as "an infringement of his copyright" on the word "communism." Gradually, however, Barmby abandoned his universalism

[39]Billington, *Fire in the Minds*, p. 257.

and began to call himself a "National Communist." Finally, in 1848, he went to France, became a Unitarian minister and friend of Mazzini's and abandoned communism for revolutionary nationalism.

On the other hand, a leading young French communist, Theodore Dezamy, represented a competing strain of militant atheism and a tough, cadre approach. In his early youth the personal secretary of Cabet, Dezamy led the sudden communist boom launched in 1839 and 1840. By the following year, Dezamy became perhaps the founder of the Marxist-Leninist tradition of ideologically and politically excommunicating all deviationists from the correct line. In fact, in 1842, Dezamy, a highly prolific pamphleteer, turned bitterly on his old mentor Cabet, and denounced him, in his *Slanders and Politics of Mr. Cabet*, for chronic vacillation. In *Slanders*, Dezamy, for the first time, argued that ideological as well as political discipline is requisite for the communist movement.

More importantly, Dezamy wanted to purge French communism of the influence of the quasi-religious poetic and moralistic communist code propounded by Cabet in his *Voyage in Icaria* and especially in his *Communist Credo* of 1841. Dezamy therefore countered with his *Code of the Community* the following year. Dezamy attempted to be severely "scientific" and claimed that communist revolution was both rational and inevitable. It is no wonder that Dezamy was greatly admired by Marx.

Furthermore, pacific or gradual measures were to be rejected. Dezamy insisted that a communist revolution must confiscate all private property and all money immediately. Half measures will satisfy no one, he claimed, and, furthermore, as Billington paraphrases it, "Swift and total change would be less bloody than a slow process, since communism releases the natural goodness of man."[40] It was from Dezamy, too, that Marx adopted the absurdly simplistic view that the operation of communism was merely a clerical task of bookkeeping and registration of people and resources.[41]

Not only would revolutionary communism be immediate and total; it would also be global and universal. In the future communist world, there will be one global "congress of humanity," one single language, and a single labor service called "industrial athletes," who will perform work in the form of communal youth festivals. Moreover, the new "universal country" would abolish not only "narrow" nationalism, but also such divisive loyalties as the family. In stark practical

[40]Billington, *Fire in the Minds*, p. 251.

[41]See the standard biography of Marx by David McLellan, *Karl Marx: His Life and Thought* (New York: Harper and Row, 1973), p. 118.

contrast to his own career as ideological excommunicator, Dezamy proclaimed that under communism conflict would be logically impossible: "there can be no splits among Communists; our struggles among ourselves can only be struggles of harmony, or reasoning," since "communitarian principles" constitute "the solution to all problems."

Amidst this militant atheism there was, however, a kind of religious fervor and even faith. For Dezamy spoke of "this sublime devotion which constitutes socialism," and he urged proletarians to reenter "the egalitarian church, *outside of which there can be no salvation.*"

Dezamy's arrest and trial in 1844 inspired German communists in Paris such as Arnold Ruge, Moses Hess, and Karl Marx, and Hess began to work on a German translation of Dezamy's Code, under the encouragement of Marx, who proclaimed the Code "scientific, socialist, materialist, and real humanist."[42]

Karl Marx: Apocalyptic Reabsorptionist Communist

Karl Marx was born in Trier, a venerable city in Rhineland Prussia, in 1818, son of a distinguished jurist, and grandson of a rabbi. Indeed, both of Marx's parents were descended from rabbis. Marx's father Heinrich was a liberal rationalist who felt no great qualms about his forced conversion to official Lutheranism in 1816. What is little known is that, in his early years, the baptized Karl was a dedicated Christian.[43] In his graduation essays from Trier *gymnasium* in 1835, the very young Marx prefigured his later development. His essay on an assigned topic, "On the Union of the Faithful with Christ" was orthodox evangelical Christian, but it also contained hints of the fundamental "alienation" theme that he would later find in Hegel. Marx's discussion of the "necessity for union" with Christ stressed that this union would put an end to the tragedy of God's alleged rejection of man. In a companion essay on "Reflections of A Young Man on the Choice of a Profession," Marx expressed a worry about his own "demon of ambition," of the great temptation he felt to "inveigh against the Deity and curse mankind."

Going first to the University of Bonn and then off to the prestigious new University of Berlin to study law, Marx soon converted to militant atheism, shifted his major to philosophy, and joined a

[42]See J. L. Talmon, *Political Messianism: The Romantic Phase* (New York: Praeger, 1960), p. 157.

[43]Friedreich Engels was the son of a leading industrialist and cotton manufacturer, who was also a staunch Pietist from the Barmen area of the Rhineland in Germany. Barmen was one of the major centers of Pietism in Germany, and Engels received a strict Pietist upbringing. An atheist and then a Hegelian by 1839, Engels wound up at the University of Berlin and the Young Hegelians by 1841, and moved in the same circles as Marx, becoming fast friends in 1844.

Doktorklub of Young (or Left) Hegelianism, of which he soon became a leader and general secretary.

The shift to atheism quickly gave Marx's demon of ambition full rein. Particularly revelatory of Marx's adult as well as youthful character are volumes of poems, most of them lost until a few were recovered in recent years.[44] Historians, when they discuss these poems, tend to dismiss them as inchoate Romantic yearnings, but they are too congruent with the adult Marx's social and revolutionary doctrines to be casually dismissed. Surely, here seems to be a case where a unified (early plus late) Marx is vividly revealed. Thus, in his poem "Feelings," dedicated to his childhood sweetheart and later wife Jenny von Westphalen, Marx expressed both his megalomania and his enormous thirst for destruction:

Heaven I would comprehend
I would draw the world to me;
Loving, hating, I intend
That my star shine brilliantly ...

and

... Worlds I would destroy forever,
Since I can create no world;
Since my call they notice never ...

Here, of course, is a classic expression of Satan's supposed reason for hating, and rebelling against, God.

In another poem Marx writes of his triumph after he shall have destroyed God's created world:

Then I will be able to walk triumphantly,
Like a god, through the ruins of their kingdom.
Every word of mine is fire and action.
My breast is equal to that of the Creator.

And in his poem "Invocation of One in Despair," Marx writes:

I shall build my throne high overhead,
Cold, tremendous shall its summit be.
For its bulwark—superstitious dread.
For its marshal—blackest agony.[45]

The Satan theme is most explicitly set forth in Marx's "The Fiddler," dedicated to his father.

[44]The poems were largely written in 1836 and 1837, in Marx's first months in Berlin. Two of the poems constituted Marx's first published writings, in the *Berlin Atheneum* in 1841. The others have been mainly lost.

[45]Richard Wurmbrand, *Marx and Satan* (Westchester, Ill.: Crossway Books, 1986), pp. 12-13.

See this sword?
The prince of darkness
Sold it to me.

and

With Satan I have struck my deal,
He chalks the signs, beats time for me
I play the death march fast and free.

Particularly instructive is Marx's lengthy unfinished poetic drama of this youthful period, *Oulanem, A Tragedy*. In the course of this drama his hero, Oulanem, delivers a remarkable soliloquy, pouring out sustained invective, a deep hatred of the world and of mankind, a hatred of creation, and a threat and a vision of total world destruction.

Thus Oulanem pours out his vials of wrath:

I shall howl gigantic curses on mankind.
Ha! Eternity! She is an eternal grief. ...
Ourselves being clockwork, blindly mechanical,
Made to be foul-calendars of Time and Space,
Having no purpose save to happen, to be ruined,
So that there shall be something to ruin ...
If there is a Something which devours,
I'll leap within it, though I bring the world to ruins—
The world which bulks between me and the Abyss
I will smash to pieces with my enduring curses.
I'll throw my arms around its harsh reality:
Embracing me, the world will dumbly pass away,
And then sink down to utter nothingness,
Perished, with no existence—that would be really living!

And

... the leaden world holds us fat,
And we are chained, shattered, empty, frightened,
Eternally chained to this marble block of Being, ... and we—
We are the apes of a cold God.[46]

All this reveals a spirit that often seems to animate militant atheism. In contrast to the non-militant variety, which expresses a simple

[46]For the complete translated text of *Oulanem*, see Robert Payne, *The Unknown Karl Marx* (New York: New York University Press, 1971), pp. 81-83. Also excellent on the poems and on Marx as a messianist is Bruce Mazlish, *The Meaning of Karl Marx* (New York, Oxford University Press, 1984).

Pastor Wurmbrand points out that *Oulanem* is an anagram of Emmanuel, the Biblical name for Jesus, and that such inversions of holy names are standard practice in Satanic cults. There is no real evidence, however, that Marx was a member of such a cult. Wurmbrand *Marx and Satan*, pp. 13-14 and *passim*.

disbelief in God's existence, militant atheism seems to believe implicitly in God's existence, but to hate Him and to wage war for His destruction. Such a spirit was all too clearly revealed in the retort of militant atheist and anarcho-communist Bakunin to the famous pro-theist remark of Voltaire: "If God did not exist, it would be necessary to create Him." To which the demented Bakunin retorted: "If God did exist, it would be necessary to destroy Him." It was this hatred of God as a creator greater than himself that apparently animated Karl Marx.

When Marx came to the University of Berlin, the heart of Hegelianism, he found that doctrine regnant but in a certain amount of disarray. Hegel had died in 1831; the Great Philosopher was supposed to bring about the end of History, but now Hegel was dead, and History continued to march on. So if Hegel himself was not the final culmination of history, then perhaps the Prussian State of Friedrich Wilhelm III was not the final stage of history either. But if he was not, then mightn't the dialectic of history be getting ready for yet another twist, another *aufhebung*?

So reasoned groups of radical youth, who, during the late 1830s and 1840s in Germany and elsewhere, formed the movement of the Young, or Left, Hegelians. Disillusioned in the Prussian State, the Young Hegelians proclaimed the inevitable coming apocalyptic revolution that would destroy and transcend that State, a revolution that would *really* bring about the end of History in the form of national, or world, communism. After Hegel, there was one more twist of the dialectic to go.

One of the first and most influential of the Left Hegelians was a Polish aristocrat, Count August Cieszkowski, who wrote in German and published in 1838 his *Prolegomena to a Historiosophy*. Cieszkowski brought to Hegelianism a new dialectic of history, a new variant of the three ages of man. The first age, the age of antiquity, was, for some reason, the Age of Emotion, the epoch of pure feeling, of no reflective thought, of elemental immediacy and hence unity with nature. The "spirit" was "in itself" (*an sich*). The second age, the Christian Era, stretching from the birth of Jesus to the death of the great Hegel, was the Age of Thought, of reflection, in which the "spirit" moved "toward itself," in the direction of abstraction and universality. But Christianity, the Age of Thought, was also an era of intolerable duality, of alienation, of man separated from God, of spirit separated from matter, and thought from action. Finally, the third and culminating age, the Age a-borning, heralded (of course!) by Count Cieszkowski, was to be the Age of Action. The third post-Hegelian age would be an age of practical action, in

which the thought of both Christianity and of Hegel would be transcended and embodied into an act of will, a final revolution to overthrow and transcend existing institutions. For the term "practical action," Cieszkowski borrowed the Greek word *praxis* to summarize the new age, a term that would soon acquire virtually talismanic influence in Marxism. This final age of action would bring about, at last, a blessed unity of thought and action, spirit and matter, God and earth, and total "freedom." With Hegel and the mystics, Cieszkowski stressed that *all* past events, even those seemingly evil, were necessary to the ultimate and culminating salvation.

In a work published in French in Paris in 1844, Cieszkowski also heralded the new class destined to become the leaders of the revolutionary society: the *intelligentsia*, a word that had recently been coined by a German-educated Pole, B. F. Trentowski.[47] Cieszkowski thus proclaimed and glorified a development that would at least be implicit in the Marxist movement (after all, the great Marxists, from Marx and Engels on down, were all bourgeois intellectuals rather than children of the proletariat). Generally, however, Marxists have been shamefaced about this reality that belies Marxian proletarianism and equality, and the "new class" theorists have all been critics of Marxian socialism, (e.g. Bakunin, Machajski, Michels, Djilas).

Count Cieszkowski, however, was not destined to ride the wave of the future of revolutionary socialism. For he took the Christian messianic, rather than the atheistic, path to the new society. In his massive, unfinished work of 1848, *Our Father* (*Ojcze nasz*), Cieszkowski maintained that the new age of revolutionary communism would be a Third Age, an Age of the Holy Spirit (shades of Joachimism!), an era that would be the Kingdom of God on earth "as it is in heaven." This final Kingdom of God on earth would reintegrate all of "organic humanity," and would be governed by a Central Government of All Mankind, headed by a Universal Council of the People.

At that time, it was by no means clear which strand of revolutionary communism, the religious or the atheist, would ultimately win out. Thus, Alexander Ivanovich Herzen, a founder of the Russian revolutionary tradition, was entranced by Cieszkowski's brand of Left Hegelianism, writing that "the future society is to be the work not of the heart, but of the concrete. Hegel is the new Christ bringing the word of truth to men."[48] And soon, Bruno Bauer, friend and mentor

[47]In B. F. Trentowski, *The Relationship of Philosophy to Cybernetics* (Poznan, 1843), in which the author also coined the word "cybernetics" for the new, emerging form of rational social technology which would transform mankind. See Billington, *Fire in the Minds*, p. 231.

[48]Billington, *Fire in the Minds*, p. 225.

of Karl Marx and leader of the *Doktorklub* of Young Hegelians at the University of Berlin, hailed Cieszkowski's new philosophy of action in late 1841 as "The Trumpet Call of the Last Judgment."

But the winning strand in the European socialist movement, as we have indicated, was eventually to be Karl Marx's atheism. If Hegel had pantheized and elaborated the dialectic of the Christian messianics, Marx now "stood Hegel on his head" by atheizing the dialectic, and resting it not on mysticism or religion or "spirit" or the Absolute Idea or the World-Mind, but on the supposedly solid and "scientific" foundation of philosophical materialism. Marx adopted his materialism from the Left Hegelian Ludwig Feuerbach, particularly from his work *The Essence of Christianity* (1843). In contrast to the Hegelian emphasis on "spirit," Marx would study the allegedly scientific laws of matter in some way operating through history. Marx, in short, took the dialectic and made it into a "materialist dialectic of history."

By recasting the dialectic onto materialist and atheist terms, however, Marx gave up the powerful motor of the dialectic as it supposedly operated through history: either Christian messianism or Providence or the growing self-consciousness of the World-Spirit. How could Marx find a "scientific" materialist replacement, newly grounded in the ineluctable "laws of history," that would explain the historical process thus far, and also—and most importantly—explain the inevitability of the imminent apocalyptic transformation of the world into communism? It is one thing to base the prediction of a forthcoming Armageddon on the Bible; it is quite another to deduce this event from allegedly scientific law. Setting forth the specifics of this engine of history was to occupy Karl Marx for the rest of his life.

Although Marx found Feuerbach indispensable for adopting a thoroughgoing atheist and materialist position, Marx soon found that Feuerbach had not gone nearly far enough. Even though Feuerbach was a philosophical communist, he basically believed that if man foreswore religion, then man's alienation from his self would be over. To Marx, religion was only one of the problems. The entire world of man (the *Menschenwelt*) was alienating, and had to be radically overthrown, root and branch. Only apocalyptic destruction of this world of man would permit true human nature to be realized. Only then would the existing un-man (*Unmensch*) truly become man (*Mensch*). As Marx thundered in the fourth of his "theses on Feuerbach," "One must proceed to destroy the 'earthly family' as it is 'both in theory and in practice.'"[49]

In particular, declared Marx, true man, as Feuerbach had argued, is a "communal being" (*Gemeinwesen*) or "species being" (*Gattungswesen*).

[49]Tucker, *Philosophy and Myth*, p. 101.

Although the state as it exists must be negated or transcended, man's participation in the state comes as such a communal being. The major problem comes in the private sphere, the market, or "civil society," in which un-man acts as an egoist, as a private person, treating others as means, and not collectively as masters of their fate. And in existing society, unfortunately, civil society is primary, while the State, or "political community," is secondary. What must be done to realize the full nature of mankind is to transcend the State and civil society by politicizing all of life, by making all of man's actions "collective." Then real individual man will become a true and full species being.[50,51]

But only a revolution, an orgy of destruction, can accomplish such a task. And here, Marx harkened back to the call for total destruction that had animated his vision of the world in the poems of his youth. Indeed, in a speech in London in 1856, Marx gave graphic and loving expression to this goal of his "praxis." He mentioned that in Germany in the Middle Ages there existed a secret tribunal called the *Vehmgericht*. He then explained:

> If a red cross was seen marked on a house, people knew that its owner was doomed by the *Vehm*. All the houses of Europe are now marked with the mysterious red cross. History is the judge—its executioner the proletarian.[52]

Marx, in fact, was not satisfied with the philosophical communism to which he and Engels had separately been converted by the slightly older Left Hegelian Moses Hess in the early 1840s. To Hess's communism, Marx, by the end of 1843, added the crucial emphasis on the *proletariat*, not simply as an economic class, but as destined to become the "universal class" when communism was achieved. Ironically, Marx acquired his vision of the proletariat as the key to the communist revolution from an influential book published in 1842 by a youthful enemy of socialism, Lorenz von Stein. Stein interpreted the socialist and communist movements of the day as rationalizations

[50]Tucker, *Philosophy and Myth*, p. 105.

[51]It is both ironic and fascinating that the dominant intellectuals in contemporary Hungary who are leading the drive away from socialism and toward freedom are honoring the Marxian concept of "civil society" as what they are moving toward while going away from the collective and the communal.

[52]Tucker, *Philosophy and Myth*, p. 15.

[53]Stein was a conservative Hegelian monarchist, who had been assigned by the Prussian government to study the unsettling new doctrines of socialism and communism becoming rampant in France. Marx displayed a "minute textual familiarity" with Stein's book, Lorenz von Stein, *Der Socialismus und Communismus des heutigen Frankreichs* (Liepzig, 1842), a book that remains untranslated. Stein spent his mature years as professor of public finance and public administration at the University of Vienna. See Tucker, *Philosophy and Myth*, pp. 114-17.

of the class interests of the propertyless proletariat. Marx discovered in Stein's attack the "scientific" engine for the inevitable coming of the communist revolution.[53] The proletariat, the most "alienated" and allegedly "propertyless" class, would be the key.

We have been accustomed, ever since Stalin's alterations of Marx, to regard "socialism" as the "first stage" of a communist-run society, and "communism" as the ultimate stage. This is not the way Marx saw the development of his system. Marx, as well as all the other communists of his day, used "socialism" and "communism" interchangeably to describe their ideal society. Instead, Marx foresaw the dialectic operating mysteriously to bring about the first stage, of "raw" or "crude" communism, to be magically transformed by the workings of the dialectic into the "higher" stage of communism. It is remarkable that Marx, especially in his "Private Property and Communism," accepted the horrendous picture that von Stein drew of the "raw" stage of communism. Stein forecast that communism would attempt to enforce egalitarianism by wildly and ferociously expropriating and destroying property, confiscating it, and coercively communizing women as well as material wealth. Indeed, Marx's evaluation of raw communism, the stage of the dictatorship of the proletariat, was even more negative than Stein's: "In the same way as women abandon marriage for general [i.e., universal] prostitution, so the whole world of wealth, that is, the objective being of man, is to abandon the relation of exclusive marriage with the private property owner for the relation of general prostitution with the community." Not only that, but, as Professor Tucker puts it, Marx concedes that "raw communism is not the real transcendence of private property but only the universalizing of it, and not the abolition of labour but only its extension to all men. It is merely a new form in which the vileness of private property comes to the surface."

In short, in the stage of communalization of private property, what Marx himself considers the worst features of private property will be maximized. Not only that: but Marx concedes the truth of the charge of anti-communists then and now that communism and communization is but the expression, in Marx's words, of "envy and a desire to reduce all to a common level." Far from leading to a flowering of human personality, as Marx is supposed to claim, he admits that communism will negate that personality totally. Thus Marx:

> In completely negating the *personality* of man, this type of communism is really nothing but the logical expression of private property. General *envy*, constituting itself as a power, is the disguise in which *greed* reestablishes itself and satisfies itself, only in *another way*. ... In the approach to *woman* as the spoil and handmaid of communal

> lust is expressed the infinite degradation in which man exists for himself.[54]

Marx clearly did not stress this dark side of communist revolution in his later writings. Professor Tucker explains that "these vivid indications from the Paris manuscripts of the way in which Marx envisaged and evaluated the immediate post-revolutionary period very probably explain the extreme reticence that he always later showed on this topic in his published writings."[55]

But if this communism is admittedly so monstrous, a regime of "infinite degradation," why should anyone favor it, much less dedicate one's life and fight a bloody revolution to establish it? Here, as so often in Marx's thought and writings, he falls back on the mystique of the "dialectic"—that wondrous magic wand by which one social system inevitably gives rise to its victorious transcendence and negation. And, in this case, by which total evil—which turns out, interestingly enough, to be the post-revolutionary dictatorship of the proletariat and *not* previous capitalism—becomes transformed into total good, a never-never land absent the division of labor and all other forms of alienation. The curious point is that while Marx attempts to explain the dialectic movement from feudalism to capitalism and from capitalism to the first stage of communism in terms of class struggle and the material productive forces, both of these drop out once raw communism is achieved. The allegedly inevitable transformation from the hell of raw communism to the alleged heaven of higher communism is left totally unexplained; to rely on *that* crucial transformation, we must fall back on pure faith in the mystique of the dialectic.

Despite Marx's claim to be a "scientific socialist," scorning all other Socialists whom he dismissed as moralistic and "utopian," it should be clear that Marx himself was even more in the messianic utopian tradition than were the competing "Utopians." For Marx not only sought a desired future society that would put an end to history, he claimed to have found the path toward that utopia inevitably determined by the "laws of history."

But a utopian, and a fierce one, Marx certainly was. A hallmark of every utopia is a militant desire to put an end to history, to freeze mankind in a static state, to put an end to diversity and man's free will, and to order everyone's life in accordance with the utopian's totalitarian plan. Many early communists and socialists set forth their fixed utopias in great and absurd detail, determining the size of everyone's living quarters, the food they would eat, etc. Marx was

[54]Quoted in Tucker, *Philosophy and Myth*, p. 155. Italics are Marx's.
[55]Tucker, *Philosophy and Myth*, pp. 155-56.

not silly enough to do that, but his entire system, as Professor Thomas Molnar points out, is "the search of the utopian mind for the definitive stabilization of mankind or, in gnostic terms, its reabsorption into the timeless." For Marx, his quest for utopia was, as we have seen, an explicit attack on God's creation and a ferocious desire to destroy it. The idea of crushing the many, the diverse facets of creation, and of returning to an allegedly lost Unity with God began, as we have seen, with Plotinus. As Molnar summed up:

> In this view, existence itself is wound on nonbeing. Philosophers from Plotinus to Fichte and beyond have held that the reabsorption of the polichrome universe in the eternal One would be preferable to creation. Short of this solution, they propose to arrange a world in which change is brought under control so as to put an end to a disturbingly free will and to society's uncharted moves. They aspire to return from the linear Hebrew-Christian concept to the Greco-Hindu cycle—that is, to a changeless, timeless permanence.

The triumph of unity over diversity means that, for the utopians including Marx, "civil society, with its disturbing diversity, can be abolished."[56]

Substituting in Marx for God's will or the Hegelian dialectic of the World-Spirit or the Absolute Idea, is monist materialism, its central assumption, as Molnar puts it, being "that the universe consists of matter plus some sort of one-dimensional law immanent in matter." In that case, "man himself is reduced to a complex but manipulable material aggregate, living in the company of other aggregates, and forming increasingly complex super aggregates called societies, political bodies, churches." The alleged laws of history, then, are derived by scientific Marxists as supposedly evident and immanent within this matter itself.

The Marxian process toward utopia, then, is man acquiring insights into his own true nature, and then rearranging the world to accord with that nature. Engels, in fact, explicitly proclaimed the Hegelian concepts of the Man-God: "Hitherto the question has always stood: What is God?—and German Hegelian philosophy has revolved it as follows: God is man. ... Man must now arrange the world in a *truly* human way, according to the demands of his *nature*."[57]

[56]Thomas Molnar, "Marxism and the Utopian Theme," *Marxist Perspectives* (Winter 1978): 153-54. The economist David McCord Wright, while not delving into the religious roots of the problem, stressed that one group in society, the statists, seeks "the achievement of a fixed ideal static pattern of technical and social organization. Once this ideal is reached, or closely approximated, it need only be repeated endlessly thereafter." David McCord Wright, *Democracy and Progress* (New York: Macmillan, 1948), p. 21.

[57]Molnar, "Marxism," pp.149, 150-51.

But this process is rife with self-contradictions; for example, and centrally, how can mere matter gain insights into his [its?] nature? As Molnar puts it: "for how can matter gather insights? And if it has insights, it is not entirely matter, but matter *plus*."

In this allegedly inevitable process, of arriving at the proletarian communist utopia after the proletarian class becomes conscious of its true nature, what is supposed to be Karl Marx's own role? In Hegelian theory, Hegel himself is the final and greatest world-historical figure, the Man-God of man-gods. Similarly, Marx in his own view stands at a focal point of history as the man who brought to the world the crucial knowledge of man's true nature and of the laws of history, thereby serving as the "midwife" of the process that would put an end to history. Thus Molnar:

> Like other utopian and gnostic writers, Marx is much less interested in the stages of history up to the present (the egotistic *now* of all utopian writers) than the final stages when the stuff of time becomes more concentrated, when the drama approaches its denouement. In fact, the utopian writer conceives of history as a process leading to himself since he, the ultimate *comprehensor*, stands in the center of history. It is natural that things accelerate during his own lifetime and come to a watershed: *he* looms large between the Before and the After.[58]

Thus, in common with other utopian socialists and communists, Marx sought in communism the apothesis of the collective species-mankind as one new super-being, in which the only meaning possessed by the individual is as a negligible particle of that collective organism. Many of Marx's numerous epigones carried out his quest. One incisive portrayal of Marxian collective organicism—what amounts to a celebration of the New Socialist Man to be created during the communizing process—was that of a top Bolshevik theoretician of the early twentieth century, Alexander Alexandrovich Bogdanov. Bogdanov, too, spoke of "three ages" of human history. First was a religious, authoritarian society and a self-sufficient economy. Next came the "second age," an exchange economy, marked by diversity and the emergence of the "autonomy" of the "individual human personality." But this individualism, at first progressive, later becomes an obstacle to progress as it hampers and "contradicts the unifying tendencies of the machine age." But then there will arise the Third Age, the final stage of history, communism. This last stage will be marked by a collective self-sufficient economy, and by

> the fusion of personal lives into one colossal whole, harmonious in the relations of its parts, systematically grouping all elements for one

[58]Molnar, "Marxism," pp. 151-52.

> common struggle—struggle against the endless spontaneity of nature. ... An enormous mass of creative activity ... is necessary in order to solve this task. It demands the forces not of man but of mankind—and only in working at this task does mankind as such emerge.[59]

Finally, at the apex of Marxian messianic communism is a man who fuses all the tendencies and strands analyzed thus far. A blend of Christian messianist *and* devoted Marxist-Leninist-Stalinist, the twentieth century German Marxist Ernst Bloch set forth his vision in his recently translated three-volume phantasmagoria *The Principle of Hope* (*Daz Prinzip Hoffung*). Early in his career, Bloch wrote a laudatory study of the views and life of the coercive Anabaptist communist, Thomas Müntzer, whom he hailed as magical, or "theurgic." The inner "truth" of things, wrote Bloch, will only be discovered after "a complete transformation of the universe, a grand apocalypse, the descent of the Messiah, a new heaven and a new earth." There is more than a hint in Bloch that disease, nay death itself, will be abolished upon the advent of communism.[60] God is developing; "God himself is part of the Utopia, a finality that is still unrealized." For Bloch mystical ecstasies and the worship of Lenin and Stalin went hand in hand. As J. P. Stern writes, Bloch's *Principle of Hope* contains such remarkable declarations as "*Ubi Lenin, ibi Jerusalem*" [Where Lenin is, there is Jerusalem], and that "the Bolshevist fulfillment of Communism" is part of "the age-old fight for God."

In the person of Ernst Bloch, the old grievous split within the European communist movement of the 1830s and 1840s between its Christian and atheist wings was at last reconciled. Or, to put it another way, in a final bizarre twist of the dialectic of history, the total conquest by 1848 of the Christian variants of communism at the hands of the superior revolutionary will and organizing of Karl Marx, was now transcended and negated. The messianic eshcatological vision of heretical religious and Christian communism was now back in full force, within the supposed stronghold of atheistic communism, Marxism itself. From Ernst Bloch to the fanatical cults of personality of Stalin and Mao to the genocidal vision and ruthlessness of Pol Pot in Cambodia and the Shining Path guerrilla movement in Peru, it seems that, within the body and soul of Marxism, Thomas Müntzer had at last triumphed conclusively over Feuerbach.

[59]Quoted in S. V. Utechin, "Philosophy and Society: Alexander Bogdanov," in Leopold Labedz, ed., *Revisionism: Essays on the History of Marxist Ideas* (New York: Praeger, 1962), p. 122.

[60]J. P. Stern, "Marxism on Stilts: Review of Ernst Bloch, "The Principle of Hope," *The New Republic* 196 (March 9, 1987): 40, 42. Also see Kolakowski, *Main Currents*, vol. 3, pp. 423-24.

The Subjectivist Roots of James Buchanan's Economics

Thomas J. DiLorenzo*

> I have often argued that the Austrians seem ... to be more successful in conveying the central principle of economics to students than alternative schools ... or approaches.
>
> —James M. Buchanan, 1976

When James Buchanan was awarded the 1986 Nobel Prize in economics the Nobel committee cited *The Calculus of Consent*,[1] co-authored in 1962 with Gordon Tullock, as Buchanan's most important work. But Buchanan himself has stated that he considers his 1969 book, *Cost and Choice: An Inquiry in Economic Theory*,[2] to be his most important theoretical contribution.

Even though *Cost and Choice* was published seven years after *The Calculus of Consent*, it embodies important elements of Buchanan's thinking that are crucial to his contributions to *The Calculus of Consent* and to much of his other work. Of particular interest to Austrian economists is the fact that subjective cost theory lies at the heart of many of Buchanan's contributions to economic theory. Moreover, other Austrian-school insights, such as methodological individualism and an emphasis on market (and non-market) *processes*, as opposed to equilibrium conditions or end states, also figure prominently in Buchanan's work.

Buchanan's Nobel Prize is widely regarded as a salute to public choice economics. But the award also reflects well on the Austrian school, to the extent that it has influenced Buchanan's thinking.

*Thomas J. DiLorenzo is the Scott L. Probasco, Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

[1]James Buchanan and Gordon Tullock, *The Calculus of Consent* (Ann Arbor: University of Michigan Press, 1962).

[2]James Buchanan, *Cost and Choice: An Inquiry in Economic Theory* (Chicago: University of Chicago Press, 1969).

The Review of Austrian Economics, Vol. 4, 1990, pp. 180-95
ISSN 0889-3047

Buchanan's Principles of *Cost and Choice*

Buchanan has clearly stated that subjective cost theory is at the heart of much of his work in public choice and public policy. This methodological distinction is what separates much of his work from other economists who have written on public policy issues. The notion of opportunity cost is usually defined acceptably by most economists, according to Buchanan, but the problem is that "the logic of the concept is not normally allowed to enter into and inform the subsequent analytical applications."[3] Such applications are essential, for a consistent application of the notion of opportunity cost, writes Buchanan,

> clarifies important areas of disagreement on policy issues. In public finance alone, debates over tax incidence, tax capitalization, public debt burden, and the role of cost-benefit analysis can be partially resolved when protagonists accept common concepts of cost. The unsatisfactory state of welfare economics can at least be understood and appreciated more adequately when the incorporated cost confusions are exposed. The ... debate over the possibility of socialist calculation emerges with perhaps a different glow. Something can be said about such ... topics as the draft and crime.[4]

Buchanan's cost theory "is properly labeled Austrian,"[5] and also owes a debt to developments of the "London School Tradition" during the period of the 1930s to the 1950s.[6]

One of the essential points of *Cost and Choice* is that, to many economists, cost is divorced from the act of choice. To neoclassical economists cost is objective in that it can be estimated *ex post* by external observers, even though market values are set by the subjective evaluations of market participants. Furthermore, in "the predictive science of economics" cost is, according to Buchanan,

> the objectively-identifiable magnitude that is minimized. It is the market value of the alternate product that might be produced by rational reallocation of resource inputs to uses other than that observed. This market value is reflected in the market prices for resource units; hence, cost is measured directly by prospective money outlays.[7]

One consequence of objective cost theory is that the theory "is not a theory of choice at all. Individuals do not choose; they behave

[3]Ibid., p. ix.

[4]Ibid.

[5]Ibid.

[6]James Buchanan and G. F. Thirlby, eds., *LSE Essays on Cost* (New York: New York University Press, 1981).

[7]James Buchanan,*Cost and Choice*, p. 112.

predictably in response to objectively-measurable changes in their environment."[8] For according to the objective cost theory:

> Cost ... is faced in the strict sense only by the automaton, the pure economic man, who inhabits the scientist's model. It is the behavior-inhibiting element that is plugged into the purely mechanistic market model. The conversion of objective data reflecting prospective money outlays into the subjective evaluations made by real-world decision-makers is of no concern to the predictive theorist.[9]

Buchanan acknowledges an intellectual debt to Philip Wicksteed, who was the first to tie opportunity cost directly to choice. Wicksteed wrote, for instance, that the cost of production, "in the sense of the historical and irrevocable fact that resources have been directed to this or that special purpose, has no influence on the value of the thing produced."[10] In this respect cost of production does not affect supply. What does affect supply is *anticipated* cost "in the sense of alternatives still open which must now be relinquished in order to produce this specific article," and which "influences the craftsman in determining whether he shall produce it or not."[11]

Wicksteed's work was refined by Hayek, Mises, and other Austrians, and by some members of the London School. Buchanan summarizes the resultant "choice-bound conception of cost" as follows:

> (1) Cost must be borne exclusively by the decision-maker; it is not possible for cost to be shifted to or imposed on others.
>
> (2) Cost is subjective; it exists in the mind of the decision-maker and nowhere else.
>
> (3) Cost is based on anticipations; it is necessarily a forward-looking or *ex ante* concept.
>
> (4) Cost can never be realized because of the fact of choice itself; that which is given up cannot be enjoyed.
>
> (5) Cost cannot be measured by someone other than the decision-maker because there is no way that subjective experience can be directly observed.
>
> (6) Cost can be dated at the moment of decision or choice.[12]

Buchanan makes an important distinction between choice-influencing and choice-influenced cost. The former is the type of cost

[8]Ibid.

[9]Ibid.

[10]Philip Wicksteed, *The Common Sense of Political Economy* (London: MacMillan, 1910).

[11]Ibid.

[12]Buchanan, *Cost and Choice*, p. 43.

discussed by Wicksteed, whereas the latter is the type of (subjective) cost that is the consequence of economic choices. Such costs may be borne by the decisionmaker, or by others on whom costs may sometimes be shifted. This distinction is critical to much of Buchanan's work in public finance and public choice.

The Importance of Subjective Cost Theory to Public Finance and Public Choice

Buchanan gained an international reputation as a public finance scholar long before the phrase public choice was ever coined. Moreover, his subjective cost theory is what distinguishes his work from other prominent public finance theorists such as Paul Samuelson and Richard Musgrave.

Buchanan's work on tax incidence theory is a clear example of how subjectivist insights have shaped his thinking about public finance. Neoclassical public finance theory has focused on the "cost" of taxation in terms of (1) who pays the amounts of money actually sent into the Treasury, and, (2) the "excess burden" or welfare costs of taxation. Both of these costs are assumed to be objective and measurable.

Buchanan takes a very different approach to the issue of tax incidence. Specifically, he was the first modern scholar to examine the relationship between taxes *as costs of public goods* and the importance of those taxes in democratic decisionmaking. Neoclassical tax incidence theory, according to Buchanan, "examines the choice behavior of individuals and firms, but this is not the choice behavior that involves either the financing of public goods or the selection among taxing alternatives."[13] The individual or firm is assumed by the neoclassical theory "to be subjected to an imposed change in the alternatives of *private or market choice*" (emphasis in original).[14]

Neoclassical tax-incidence theory is concerned almost exclusively with the tax-induced changes in the costs of undertaking *private* production, investment, and consumption decisions, but lacks a theory of public choice. The analysis yields no information about the (subjective) cost of *public* goods.

With the neoclassical approach to tax incidence theory the economist quite naturally views his role as one of adviser to political decision makers. If the economist can identify the effects of a tax on the economy, his role is to advise the presumably benevolent political authorities as to which type of tax would raise the "desired" amount of revenue and at the same time minimize the "excess burden" on

[13]Ibid., p. 53.
[14]Ibid.

society. According to this viewpoint, the economist's role is to construct a social welfare function, even if the members of society, i.e., taxpayers, have no input into the construction of the social welfare function or to the choice of tax instruments.

Buchanan has long recognized that this approach is inherently authoritarian, for in the name of maximizing some idealized notion of "social welfare," it ignores the preferences of those who comprise the society. For example, neoclassical public finance theory holds that individuals would prefer a "lump-sum" tax to an excise tax that raised the same amount of revenue because the former causes no excess burden. But to reach this conclusion, writes Buchanan,

> the economist must assume that the taxpayer is exclusively interested in the post-tax changes in his position and that he is indifferent among tax instruments otherwise. But there are obviously many reasons why the taxpayer may not evaluate alternative tax instruments in the same way that the applied welfare economist evaluates them. The taxpayer might, in the first place, prefer to suffer the higher measurable cost imposed by the excise tax because of the wider range of personal options that this form of tax allows [i.e., to avoid an excise tax on liquor by not purchasing it]. This option feature may well outweigh the excess burden. In the second place, the taxpayer may prefer the excise tax on liquor for sumptuary reasons even though he knows that he, too, bears an excess burden. The tax-induced reduction in liquor purchases by others may be more than enough to modify the relative standing of this tax on his preference scale.[15]

Informed by subjective cost theory, Buchanan suggests an alternative approach by asking the fundamental question: "What are the 'costs' of public goods in the genuine opportunity-cost, or *choice-influencing* sense?" (emphasis in original).[16] This question ties costs directly to choice and requires one to identify the choosing agent. The choosing agents are (at least in part) the voters in a democratic decision making structure. Since there are many different types of decision-making structures, democratic and non-democratic, the focus of Buchanan's approach is on how choice-influencing costs affect these decisionmakers in alternative institutional settings. To Buchanan, it is impossible to evaluate alternative tax systems without a theory of public choice, and that theory must be based on the insights of subjective cost theory.

One of the most important distinctions between Buchanan's and the neoclassical approach to taxation theory was recently described

[15]Ibid., p. 54.
[16]Ibid., p. 55.

by one of his students, Richard E. Wagner. Wagner observed that much of the "optimal taxation" literature, which has largely ignored Buchanan's work, is labeled "individualistic," but would appear to be anything but. According to Wagner

> It is ... a curious piece of vocabulary that affixes the designation "individualistic" to an analytic construction in which people are manipulated as objects at the disposal of some type of despot, who is presumed to be benevolent by virtue of being named "Social Welfare Function." ... [In the optimal taxation literature] policy outcomes are assessed against some transcendent criterion of goodness, independent of any consideration of what the participants might or might not work out among themselves ...[17]

As an aside, it is interesting that Buchanan's suggested approach to the study of tax incidence has been met with intense hostility by some neoclassical theorists. In 1980 he published *The Power to Tax* (with Geoffrey Brennan),[18] a book that is, among other things, an exposition of Buchanan's brand of tax-incidence theory. One reviewer for the *Economic Journal* was so offended by the book that he called the authors "fascists" for merely recommending that citizens should be given a greater voice in the choice of tax instruments.

In *The Power to Tax* Buchanan and Brennan disagreed with economic orthodoxy that broad-based taxes are the most "efficient" tax structure. They argued that a system of multiple excise taxes, rather than a few broad-based taxes, would give taxpayers more control over government by permitting them to escape taxation by reducing their purchases of heavily-taxed items. Altering one's consumption patterns in this way would be a way of "protesting" against excessive government spending.

Buchanan's subjectivist cost theory has colored his views of many economic phenomena besides tax incidence. For example, in criticizing benefit/cost studies of governmental programs, Buchanan reminds us that the costs that are discussed in such studies are not choice-influencing costs. Thus, their usefulness is limited at best, and misguided at worst.

In real-world political settings, the costs that influence the choice calculus of an individual voter are his or her own personal share in the costs of government in terms of the alternatives foregone. *The distribution* of taxes certainly makes a difference in the evaluation of governmental programs, but this is ignored by benefit/cost studies.

[17]Richard E. Wagner, "Normative and Positive Foundations of Tax Reform," *Cato Journal* (Fall 1985): 386 and 388.

[18]James Buchanan and Geoffrey Brennan, *The Power to Tax* (New York: Cambridge University Press, 1980).

Subjective Cost, Public Choice, and Fiscal Institutions

Buchanan's subjectivist roots have also led him to the conclusion that "institutions matter." This may sound simplistic, but to many economists the notion that the means of making choices influence the choices themselves may imply irrational behavior. Buchanan has ignored this criticism, however, and has demonstrated throughout his career how the institutions of fiscal choice *do* matter because they influence public choices.

As Buchanan and Wagner have written, "individual choice behavior is affected by the costs and benefits of choice alternatives as these are perceived by the chooser, and not as they may exist in some objective dimension necessarily measurable by third parties."[19] Furthermore, "different tax institutions will exert differing effects on the individual's perception of his share in the costs of public services. From this, it follows that the form of tax institution, or the tax structure generally, can affect budgetary choices."[20] And, according to Buchanan and Wagner, it is *perceptions* of individuals concerning the differential effects of fiscal institutions that are relevant to public choice.

This type of thinking is at the heart of much of "the new public finance," which Buchanan has had an important role in establishing. One example of this new approach is the literature on "fiscal illusion." According to the so-called fiscal illusion hypothesis, complex and indirect payment structures create a fiscal illusion that will systematically produce higher levels of government spending than those with single-payment structures. In essence, complex and indirect tax structures weaken the cost signals upon which public choices are based.

This notion is similar to the analytical basis of the psychological literature on information processing.[21] In that literature the degree to which any message is understood varies directly with the strength of the particular signal to be received and inversely with the noise present when the signal is transmitted. It is easier, for instance, to hear what someone says in a room that is not crowded and filled with background chatter. The fiscal illusion literature espouses a similar interpretation of economic phenomena.

[19]James Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1976), p. 126.

[20]Ibid.

[21]See Richard E. Wagner, "Revenue Structure, Fiscal Illusion, and Budgetary Choice," *Public Choice* (Spring 1978); and Thomas J. DiLorenzo, "Utility Profits, Fiscal Illusion, and Local Public Expenditures," *Public Choice* (Fall 1981).

Thus, the size of governmental budgets will be directly related to the complexity and indirectness of tax systems. The *perceived* or choice-influencing costs will be lower under indirect than direct taxation, and will be lower under a multiplicity of tax sources than under a system that relies heavily on a single source. Indirect taxation, therefore, is likely to lead to greater budgetary expansion. Casual evidence supports this hypothesis, as does a body of economic research.[22]

Nevertheless, "orthodox" public finance theorists have largely neglected the theory of fiscal illusion. A reason for this neglect, according to Buchanan and Wagner, is that the orthodox theory "defines rational behavior in terms of objectifiable magnitudes and, furthermore, embodies the hypothesis that ... persons do not systematically err. The subjectively determined perceptions of persons ... have been neglected."[23] Not all economists, however, have ignored subjectively determined perceptions, such as those embodied in the fiscal illusion literature. "The ... Austrian School of economists, along with a more specialized tradition in cost theory centering on the London School of Economics in the 1930s, provide notable exceptions."[24]

The theory of fiscal illusion has led to a greater understanding of the effects of alternative tax systems. For example, one reason the inflation tax is so pernicious is because it reduces the *perceived* cost of government. Debt-financed budget deficits are also better understood once one incorporates a subjectivist view of cost. Buchanan's decades-long research on the public debt demonstrates as much as anything the importance of Austrian-school insights to his contributions to economic theory.

Buchanan and the Public Debt Controversy

Buchanan has been involved in the public debt controversy for over 30 years. He never accepted the dreamy world of Keynesian interventionism, wherein a benevolent government, faithfully obeying the academic economic sages, could "stimulate" the economy through deficit spending. Nor has he accepted the technocratic world of Robert Barro and other believers in the Ricardian "equivalence theorem," which holds that there is no fundamental difference between debt and tax finance. Buchanan has long maintained that federal deficit spending is destructive, for it crowds out private spending and imposes burdens on future generations.

[22]Ibid.
[23]Buchanan and Wager, *Democracy in Deficit*, p. 130.
[24]Ibid.

The reason why Buchanan has differed from these schools of thought, on the issue of deficit finance, is his insistence that "institutions matter," which is deduced from his subjectivist cost theory. Deficit spending allows the governmental sector to replace or crowd out private spending because,

> the replacement of current tax financing by government borrowing has the effect of reducing the "perceived price" of governmental goods and services. This "relative price" change embodies an income effect of the orthodox Hicksian sort, and this income effect will generate some attempted increase in the rate of private spending. ... To the extent that the costs of governmental goods and services are perceived to be lowered by any degree through the substitution of debt for tax finance, the "relative" price change will be present.[25]

Furthermore, the reason why deficit spending leads to governmental expansion is that in response to a reduction in the perceived price of publicly-provided goods and services, taxpayers "increase their demands for such goods and services. Preferred budget levels will be higher, and these preferences will be sensed by politicians and translated into political outcomes."[26]

Money Creation and Subjective Cost Theory

Buchanan's views of the inflation tax are also colored by subjectivist insights. Much has been written about how inflation effectively constitutes a "tax" on privately-held wealth. But inflation is not really equivalent to a tax, because "no explicit political discussion and decision takes place on either the source or the rate of tax to be imposed."[27] Consequently, "individual citizens are likely to be less informed about the probable costs of an inflation tax than they are about even the most indirect and complex [tax] levy."[28]

Once again, choice-influencing costs are altered by real-world fiscal institutions. But in this instance, the consequences are perhaps even worse than with deficit finance. The problem is that:

> the tax signal under inflation is overwhelmed by the accompanying noise which takes the form of rising prices. ... Psychologically, individuals do not sense inflation to be a tax on their money balances; they do not attribute the diminution of their real wealth to the legalized "counterfeiting" activities of government. Rather, the sense data take the form of rising prices for goods and services purchased in the private sector. The decline in real wealth is attributed to

[25]Buchanan and Wagner, *Democracy in Deficit*, p. 138.
[26]Ibid., p. 139.
[27]Ibid., p. 142.
[28]Ibid.

> failings in the market economy, not to governmental money creation. ... Inflationary finance, then, will generally produce an underestimation of the opportunity cost of public services, in addition to promoting a false attribution in the minds of citizens as to the reason for the decline in their real wealth, a false attribution that nonetheless influences the specific character of public policies.[29]

The so-called inflation tax is pernicious not only because it is a hidden tax on privately-held wealth, but also because it leads to false perceptions of the cause of the inflation. Political demagoguery adds to the confusion, as politicians are naturally inclined to lie to the public and blame the inflation on greedy capitalists, farmers, mortgage bankers, and others in the private sector. The proposed solution is typically to place even more power in the hands of the inflation-generating governmental authorities.

Methodological Individualism and the Market Process

A rigorous application of methodological individualism is perhaps what most separates the Austrian and Public Choice schools from most others. The idea that the individual should be the unit of analysis has spared public choice and Austrian economists from many of the mistakes of what might be called collectivist economics. The Austrians, for example, have exposed a great deal of macroeconomic nonsense due to the fact that Keynesian theory largely ignored aggregation problems. The Austrian conception of markets, based on the interaction among individuals and on man's inherent "propensity to truck, barter and exchange," is also more useful and informative, in my view, than the perfect competition model.

Buchanan and other public choice theorists have greatly improved our understanding of the political process by scrapping the "organic" view of collective action, which describes government, more or less, as a benevolent despot, making decisions that are assumed to be in "the public interest."

Not so long ago, in 1968, Buchanan remarked:

> Most ... economists take an approach different from my own, and one that I regard as both confused and wrong. In my vision of social order, individual persons are the basic component units, and "government" is simply that complex of institutions through which individuals make collective decisions, and through which they carry out collective as opposed to private activities. Politics is the activity of persons in the context of such institutions.[30]

[29]Ibid., p. 143.

[30]James Buchanan, "An Economists's Approach to Scientific Politics," in M. Parsons, ed., *Perspectives in the Study of Politics* (Chicago: Rand McNally, 1968), p. 78.

Of course, the economics profession has changed significantly since then, particularly in light of the public choice revolution. Methodological individualism has replaced more collectivist views in academic circles.

Nevertheless, it is far from clear that there has been a decisive "victory." Social welfare functions still clutter the economics journals. Moreover, there is no shortage of recommendations for government intervention in the name of the mythical "public interest." Proponents of methodological individualism have made great strides, but the collectivist mind set dies a slow death.

Buchanan has also long been considered a proponent of the Austrian view of the market process. In this regard he is more than just a "fellow traveller"; his work has played an important role in helping to distinguish between the theory of the market as a process and the alternative, neoclassical theory of competitive equilibrium. Thus, in addition to his seminal work on subjective cost theory, Buchanan has helped clarify the Austrian view of the market as a process.

In his 1963 presidential address to the Southern Economic Association, Buchanan explained how the economics profession was apparently being led astray by its focus on the "theory of resource allocation." He forcefully argued that the standard neoclassical definition of economics as the study of the allocation of scarce means among competing ends "has served to retard, rather than advance, scientific progress."[31] The reason for this, according to Buchanan, is that there is very little economic content in much of modern economics. What neoclassical economics, all too often involves is a computation problem, the computation of equilibrium prices, for example, which "to the subjectivist, [seems] an absurd exercise."[32]

A good example is the work of Nobel Laureate Tjalling Koopmans, who began his career by working out the optimal allocation of a set of tankers carrying oil across the Atlantic during World War II. Buchanan properly labels such work as engineering, not economics, and claims that he must have been "a confirmed subjectivist long before I realized what I was because I recall thinking in 1946, when Koopmans was lecturing ... at the University of Chicago, that there seemed to be absolutely no economic content in what he was doing ..."[33]

[31]James Buchanan, "What Should Economists Do?" *Southern Economic Journal* (January 1964): 213-22.

[32]James Buchanan, "General Implications of Subjectivism in Economics," in Geoffrey Brennan and Robert D. Tollison, eds., *What Should Economists Do?* (Indianapolis, Ind.: Liberty Press, 1979), p. 85.

[33]Ibid.

Buchanan has attempted to persuade the economics profession to abandon its fixation on allocation problems per se, for "if there is really nothing more to economics than this, we had as well turn it all over to the applied mathematicians."[34] This does appear to be the direction the profession has been heading, for "developments of note ... during the past two decades consist largely of improvements in ... computing techniques, in the mathematics of social engineering."[35]

Instead of becoming weakly-trained mathematicians (at least by the standards of professional mathematicians), Buchanan suggested replacing the theory of resource allocation with the theory of markets. This would require paying more attention to

> a particular form of human activity, and upon the various institutional arrangements that arise as a result of this form of activity. [Namely,] man's behavior in the market relationship, reflecting the propensity to truck and to barter, and the manifold variations in structure that this relationship can take.[36]

These, Buchanan has written, are the proper subjects of economics.

This approach helps us understand why, in perfect competition, there is no competition (or any trade, for that matter). It also reveals how a market is not competitive by definition, as in the neoclassical model, but that a market *becomes* competitive. "It is this becoming process, brought about by the continuous pressure of human behavior in exchange, that is the central part of our discipline, ... not the dry rot of postulated perfection."[37]

Thus, Buchanan's view of the market system may properly be labeled Austrian. Furthermore, he has urged us to apply this same notion of the economic process to the study of political institutions. This is why public choice theory is largely a study of political *processes*, with policy recommendations usually focusing on altering institutional processes, rather than political outcomes or end states.

The Importance of Austrian Economics to Public Choice

Buchanan has done seminal work in many areas of economics, but his Nobel Prize was awarded primarily for his role in establishing, with Gordon Tullock, the subdiscipline of public choice. As this paper has shown, many of the essential principles of public choice (and of "the new public finance") have subjectivist or Austrian roots. This fact doesn't seem to have been sufficiently appreciated by the economics

[34]James Buchanan, "What Should Economists Do?" p. 217.
[35]Ibid.
[36]Ibid.
[37]Buchanan, *Cost and Choice*, p. 83.

profession, however, for a number of reasons.

One possible reason, Buchanan writes in *Cost and Choice*, is that "it is not easy to question long-accepted precepts." He further confessed that he has "found it difficult to prevent the analysis [in *Cost and Choice*] from lapsing into the kind of conventional [neoclassical] methodology that I have often used in other works."[38] Moreover, many economists may balk at seriously considering the impact of subjectivist insights, writes Buchanan, because "in effect, the incorporation of the London [or Austrian] conception of opportunity cost amounts to transforming one of the foundation stones of economic theory. [However,] only when this basic modification is completed can real progress toward changing the superstructure [of economics] be attempted on a large scale."[39]

The public choice revolution provides supportive evidence for this conjecture, since many insights in public choice have subjectivist or Austrian roots. However, there are many instances where the public choice revolution has taken a step backward, in my view, because of insufficient attention paid to these roots. One should not be overly critical of public choice economists, however, for in a recent article Buchanan himself seems to have forgotten his subjectivist roots, thereby walking into a theoretical and public policy mine field.

In a paper entitled "Rent Seeking, Noncompensated Transfers, and Laws of Succession,"[40] Buchanan analyzes the supposed inefficiencies generated whenever potential heirs "compete" for an inheritance. The basic hypothesis is that the "investment of effort, time, and resources in this rent-seeking activity will be socially wasteful."[41] The behavior of children, as potential heirs, is assumed to be analytically identical to the behavior of lobbyists for protectionism, price supports, and all other sorts of government-generated monopoly rents. "To ... potential recipients [of a bequest]," writes Buchanan, "any such value becomes precisely analogous to a rental opportunity that has been artificially created. The frugal rich man whose fortune must be transferred by gifts or bequests stands ... in precisely the same relationship as Queen Elizabeth before her courtiers when she announced the possible assignment of a playing-card monopoly."[42]

[38]Ibid.

[39]Ibid.

[40]James Buchanan, "Rent Seeking, Noncompensated Transfers, and Laws of Succession," *Journal of Law and Economics* (April 1983): 71-85. For another critical look at Buchanan's work from an Austrian perspective see Peter J. Boettke, "Virginia Political Economy: A View From Vienna," *Market Process* (Fall 1987): 7-15, published by the Center for the Study of Market Processes, George Mason University, Fairfax, Va.

[41]Ibid., p. 74.

[42]Ibid., p. 83.

This logic led Buchanan to recommend governmentally-imposed restrictions on the disposition of inheritances, for "once the probable emergence of wasteful rent seeking is acknowledged ... the efficiency basis for the argument against any and all [government] restrictions on the transfer power [of individuals] vanishes."[43]

Ironically, this argument appears to have much in common with the type of reasoning that Buchanan so effectively criticized in *Cost and Choice*. Specifically, he assumes that benefits and costs are *objective* in order to conclude that "all noncompensated transfers are rents to the recipients."[44]

Gifts and bequests are labeled "noncompensated transfers" in Buchanan's analysis because there is no objectively measurable "payment" for these "transfers." But surely such gifts involve implicit, mutually-advantageous exchanges. In the case at hand, there is an exchange of tangible wealth for psychic income. Altruistic behavior toward the donor is "exchanged" for a more tangible form of wealth. Since such exchanges have persisted for millennia, it is reasonable to assume that there must be "gains from trade" to the participants.

This latter interpretation is consistent with the subjectivist principles Buchanan has advocated throughout his career. But in a bizarre repudiation of those principles—at least in this particular paper—Buchanan chooses to ignore them. "To the extent that gifts and bequests are literally payments for equal values received in exchange ... there is no net transfer of value among persons involved and there is no incentive for the emergence of rent-seeking behavior. Hence, for purposes of the analysis in this paper, fully compensated transfers of value can be neglected."[45]

By ignoring this elementary subjectivist insight for the sake of argument, Buchanan renders his case for governmental controls of inheritance untenable. His case is based on neoclassical notions of efficiency, namely, that such "rent seeking" is "socially wasteful." But as he also stated in an earlier work, since individuals base choices on data that are inherently subjective, the economist can identify waste in the actions of other people only by imposing his own standard of value.[46] And this is what Buchanan appears to be doing in this essay. Such work can only impede the public choice "revolution," however, by lending credence to public choice critics who claim that much of public choice

[43]Ibid., p. 76.

[44]Ibid., p. 71.

[45]Ibid., p. 72.

[46]James Buchanan, "Is Economics the Science of Choice?" in Brennan and Tollison, ed., *What Should Economists Do?*, p. 61.

is simply a political crusade "masquerading as science."[47]

A second example of how ignoring subjectivist or Austrian insights has impeded research in public choice is a contradiction in the work of Robert Tollison, one of Buchanan's most prolific students. Following Buchanan's advice on viewing the market as a process, rather than as an equilibrium condition, Tollison has written that:

> when competition is viewed as a dynamic, value-creating, evolutionary process, the role of economic rents in stimulating entrepreneurial decisions and in prompting an efficient allocation of resources is crucial. ... [P]rofit seeking in a competitive market order is a normal feature of economic life. The returns of resource owners will be driven to normal levels ... by competitive profit seeking as some resource owners earn positive rents which promote entry and others earn negative rents which cause exit. Profit seeking and economic rents are inherently related to the efficiency of the competitive market process. Such activities drive the competitive price system and create value (e.g., new products) in the economy.[48]

But a few pages along in the same article Tollison condemns as "wasteful rent seeking" all forms of non-price competition "in imperfectly competitive markets." The contradiction lies in the fact that if one views competition as a "dynamic, value-creating, evolutionary process," as Tollison initially suggested, then the forms of non-price competition that he labeled wasteful—advertising, R&D spending, product differentiation—are viewed as an essential ingredient of the competitive process, not as wasteful rent-seeking or monopolizing devices.[49]

There is now an emerging literature in public choice that labels almost all forms of private business behavior as "wasteful rent seeking."[50] Oddly, much of this literature recommends government regulation as a means of reducing such waste. But surely, granting even greater powers to government will lead to more, not less, rent seeking.

I have written elsewhere[51] how such bizarre reasoning has come

[47]For an elaboration of this point see Thomas J. DiLorenzo, "Property Rights, Information Costs, and the Economics of Rent Seeking," *Journal of Institutional and Theoretical Economics* (Spring 1988).

[48]Robert D. Tollison, "Rent Seeking: A Survey," *Kyklos* 35 (1982): 577.

[49]See Stephen C. Littlechild, "Misleading Calculations of the Social Costs of Monopoly Power," *Economic Journal* (June 1981): 348-63; and Thomas J. DiLorenzo, "The Domain of Rent-Seeking Behavior: Private or Public Choice?" *International Review of Law and Economics* (December 1984): 185-97.

[50]Don Boudreaux and Thomas J. DiLorenzo, "A Critique of the Economics of Raising Rivals' Costs," unpubl. ms., Department. of Economics, George Mason University.

[51]Thomas J. DiLorenzo, "Competition and Political Entrepreneurship: Austrian Insights Into Public Choice Theory," *Review of Austrian Economics* 2 (1987): 59-72.

about, at least partly, because of the failure of public choice economists to pay sufficient attention to the fundamental Austrian concepts of subjectivism, methodological individualism, and the concept of the market as a dynamic process. This is why students of public choice, above all, should more fully appreciate the subjectivist roots of James Buchanan's economics.

Finally, it is worth repeating that I have not attempted a comprehensive review of the impact of Austrian economics on the work of James Buchanan. Such an undertaking would require at least a book-length treatment. My only objective has been to point out a relatively neglected aspect of at least some of Buchanan's work, namely, its subjectivist roots.

Subjective cost theory is not at the heart of all of Buchanan's work; perhaps not even most of it. At times his writing seems strictly positivist. But a case can be made that many of his most important contributions to economics may be properly labeled "Austrian." Moreover, an equally strong case can be made that the work of Buchanan, and of other public choice scholars, is weakest when it neglects fundamental Austrian-school insights.

Notes and Comments

The DMVP-MVP Controversy: A Note

Walter Block*

We are all familiar with the process of discounting the future. From the earliest courses in economics we are taught that money receivable right now is not the equivalent of money receivable one year hence; that money receivable one year from now is not equivalent to money which will fall in to our clutches after a period of two years. And not just because inflation may erode part of the value, or because of the risk of never seeing the money. Even in a perfectly certain world of no inflation, where all accounts receivable were fully guaranteed, we would still value money more, the sooner we were to receive it.

If this were not so, we could never act in the present,[1] for every action done now *could* have been done in the future. The fact that we choose to act in the present, when we could have waited, shows that we prefer the present; that we enjoy goods, the sooner, the better. But the future will present the same alternatives: action and non action. *Future* action will thus *also* imply time preference for the present, paradoxically. By acting in the immediate future, instead of waiting for the even more distant future, we also show ourselves as present oriented. The only way to illustrate a lack of preference for the present is never to act at all—a manifest impossibility for human beings.

One implication of the foregoing is that we discount money receivable in the future. This is done in accordance with the rate of interest. Simply put, we prefer a dollar today to a dollar tomorrow because we can always put our present dollar in the bank, collect the interest payment, and have more than a dollar. Given a non-inflationary world and a guarantee that the bank will not renege, we are sure to have more in the next period. If the rate of interest is 10 percent, then $1.00 today will be worth $1.10 at the end of one year.

Alternatively, we can say that payments receivable in the future

*Walter Block is senior research fellow at the Fraser Institute and director of its Center for the Study of Religion and Economics; he is also co-editor of *The Review of Austrian Economics*.

[1]Ludwig von Mises, *Human Action*, 3rd ed. (Chicago: Henry Regnery, 1966), p. 484.

The Review of Austrian Economics, Vol. 4, 1990, pp. 199-207
ISSN 0889-3047

are *discounted* to obtain present discounted values. Thus $1.00 due at the end of one year is worth $.90 today, for $.90 is the amount of money that has to be put in the bank today for it to turn into $1.00 at the end of the year (ignoring rounding errors and compound interest). We can say, then, that $.90 is the present discounted value of $1.00 receivable in one year.

All of this is elementary, and accepted by the entire economics profession. It would not be worth mentioning, but for the fact *that* virtually all economists refuse to *apply* the doctrine of discounting future income streams to the case of marginal productivity. Specifically, in the view of most economists, there is a tendency, on the market, for factor payments to equal the Marginal Value Products (MVP) of the factors. Abstracting from questions of perfect or imperfect competition, this means, for example, that in the view of the profession, wages will come to equal the value of the marginal product of labor (the marginal physical product of labor multiplied by the price at which the product can be sold).

In contrast, the Austrian school[2] insists that what tends toward equality with wages is not MVP, but *discounted* MVP, or DMVP. There is no real point at issue when work on immediate consumption goods is considered. For example, the wage of the grocer's clerk, it is admitted by both sides, will tend to equal his MVP, because there is virtually no time that elapses between the labor and the consumption of the final good. Since there is no time under which the discounting process can work, DMVP reduces to MVP.

The divergence between the Austrian and orthodox schools is reached in the cases where labor is added to the value of intermediate or higher order goods. Consider a year's labor on a process that will not reach the consumption stage for a number of years. Here, the Austrians insist that cognizance be taken of the time element; that just as we all commonly discount values receivable only in the future, we not falter when it comes to applying this insight to discounting the value of labor imputed to products which will not be usable until some years have passed. The Austrians argue, in other words, that *all* values receivable in the future be discounted by the rate of interest, even the values of the marginal product of labor, or any other factor, when such value cannot be used in consumption until an elapse of time has taken place.

Why do the non-Austrian economists refuse to follow the Austrians

[2]Murray N. Rothbard, *Man, Economy, and State* (New York: Van Nostrand, 1962), pp. 406-09 and 431-33; and Eugen von Böhm-Bawerk, *Capital and Interest*, vol. 2 (South Holland, Ill.: Libertarian Press, 1959), pp. 302-12.

on this seemingly straightforward application of the principle of discounting held by all? This is difficult to answer since most economists completely ignore DMVP, concentrating on MVP instead. Therefore the few orthodox economists who even *mention* DMVP (rejecting it in favor of MVP) are of great interest.

In the view of Sir John Hicks,[3] DMVP and MVP are consistent with each other; they are, in effect, alternatives, and either can be reasonably chosen. In Professor Hicks's words: "This conception [DMVP] is intermediate between 'net productivity' and 'marginal productivity,' as we have defined them; just as they are consistent with each other, since they describe the same phenomenon under slightly different assumptions, so 'discounted marginal productivity' is consistent with them."[4] And what are these "slightly different assumptions" that distinguish "net" and "marginal" productivity? Hicks answers: "'Net productivity' assumes the methods of production to be fixed; marginal productivity assumes them to be variable."[5] But this is puzzling, for it is nonsense to suppose that the methods of production are fixed. What makes these proceedings mysterious indeed is that no one knows this better than Professor Hicks himself, for in his very next sentence he tells us: "In fact, there can be very little doubt that [the methods of production] nearly always are variable to some extent; and consequently the marginal productivity theory has a deeper significance than the [net productivity theory]."[6] If this is so, it seems hard to conclude that "net" and "marginal" productivity theories are equivalent.

But what of our main point: Are DMVP and MVP theories equivalent? What reason does Professor Hicks give in support of his view that these latter two are consistent with each other? In point of fact, he gives *no* reason to support this conclusion. What he does say is that if we make the highly artificial assumption that the period of production ("the length of time elapsing between the payment of labor and the sale of the product") is fixed, then, "in order to maintain the condition of equality of selling price and cost of production, the cost of [any] additional circulating capital [equal to the wage paid multiplied by the period of production] must be deducted from the marginal product, i.e.[,] the marginal product (estimated in this manner) must be 'discounted.'"[7]

But this statement poses more problems than it answers. First

[3]John R. Hicks, *The Theory of Wages*, 2nd ed. (New York: St. Martin's Press, 1963).
[4]Ibid., pp. 17ff.
[5]Ibid., p. 14.
[6]Ibid.
[7]Ibid., pp. 17ff.

there is the question of exactly *what* is to be deducted from the MVP. In the Austrian view, the deduction is equivalent to discounting the MVP by the rate of interest. In Hicks's view, what is to be deducted from the MVP is nothing based on the interest rate, but rather, "the cost of additional circulating capital ... [which comes about] ... when the amount of labour employed slightly increases."[8] Circulating capital, it will be remembered, is equal to "the wages paid, multiplied by the length of time elapsing between the payment of labor and sale of the product." Why this amount is selected, rather than any other, is never explained. Nor are we given any reason to believe that a discount, so constructed, is equivalent to the discount based on the market rate of interest.

On the contrary, there is every reason to suppose that the two methods will give *different* results. In the Austrian view, the discounting period is between the time of the payment of labor and the *final* sale to the consumer. In the Hicksian vision, the relevant time, the period of production, is measured from payment of labor to the sale of the product. For Hicks, then, *any* sale will do, whether or not it is to the final consumer of the good.

For Austrians this matter is not at all arbitrary. The reason final consumption is insisted upon is that this alone is consistent with the essence of the whole process of production. The end, the goal, the final aim of production is *consumption.* It is not until the process has reached the consumption phase that it can be said to be completed in any meaningful sense. A worker's efforts have no value whatsoever if they are not eventually carried through to the consumption level. These efforts, then, must be discounted back to the present from the time that they come to fruition, that is, from the time that they become embodied in an item of final consumption. If this were not so, then the concept of DMVP would make no sense. For if every time a change in vertical integration of industry occurred, and there were greater or fewer stages of production between the worker's efforts and the final consumption stage, this would mean an increase or decrease in the number of sales that the good had to go through before it reached the consumer. But if this is so, it would necessarily imply a change in the "length of time elapsing between the payment of labor and the sale of the product." Thus, every time vertical integration increased, and more stages of production were created, this "period of production" would decrease; if the period of production decreases, then, for Hicks, the circulating capital must fall, since circulating capital is the wage multiplied by the period of production. And if

[8]Ibid.

circulating capital falls, then the DMVP must rise, since DMVP equals MVP minus a decreasing circulating capital, and MVP stays the same. Alternatively, vertical disintegration would imply a decrease in DMVP. Thus, a purely *legal* phenomenon, the ownership and organization of business enterprise, would intimately affect a purely *economic* phenomenon, the DMVP, which is defined in terms of productivity and the interest rate, and not at all in terms of mere legalistic ownership and sale.

Hicks gives no reason for wanting to "maintain the condition of equality of selling price and cost of production." Indeed, the Austrian view would be the diametric opposite. Here, there is no assumption that merely because businessmen invested in a product, and undertook certain expenses and costs, that *therefore* the consumer will spend an amount of money necessary to make the process profitable. This could only occur if we assumed perfect knowledge and hence an evenly rotating economy, an experience denied to man on this side of the Garden of Eden.

Finally, and most importantly, this scenario of Hicks's is *not* an indication that DMVP and MVP theories are consistent with each other, as Hicks supposedly sets out to show. Rather, it is a *denial* of that claim. If we accept all the assumptions made, it is an *acceptance* of the DMVP view ("the marginal product must be 'discounted'") and *hence* a *rejection* of the MVP theory, which denies that any such deduction must be made.

We need not, of course, accept the fixity of the period of production; we can, with Hicks, in his very next paragraph, "assume that the period of production is variable."[9] If we do, we will learn that "the additional product created by additional labour under the circumstances (of variability of the period of production) is a true marginal product, which in equilibrium must equal the wage, without any discounting."[10] So we see Hicks in his true colors: a complete reversal of field, where the MVP theory is now to be accepted, fully, and the DMVP theory to be rejected; again, far from his stated view that they are equivalent.

Undaunted by this, in his most recent conclusion, Professor Hicks completely reverses field once again and concludes: "Such a modernized wage-fund [the DMVP theory, with the realistic assumption of a variable period of production] is perfectly consistent with marginal productivity [MVP]; and I have often been tempted to use it on a considerable scale in this book. But I have concluded that the advantages

[9]Ibid., p. 14.
[10]Ibid., pp. 17ff.

of such a treatment would not compensate for the obstacles it would probably place in the way of readers brought up on the English tradition."[11] In other words, DMVP and MVP theory are once again fully compatible, but MVP theory is preferable on aesthetic grounds! What is to be done? I think we can conclude that MVP and DMVP theory are logically inconsistent, one denying the need for any discounting of MVP and the other insisting upon it.

I turn next to Professor Earl Rolph,[12] who also sees a possible reconciliation of the DMVP and the MVP theories. Defining the former as the view that "[factors] receive the discounted value of their marginal products," Professor Rolph sees the dispute as merely a verbal one: "An examination of the context in which these two propositions appear in economic discussions reveals that the term 'product' does not mean the same thing."[13] In the MVP view,"'product' refers to the *immediate* results of present valuable activities" while "in contrast, the term 'product' in the phrase 'discounted value of marginal product' refers to some *remote* product" (emphasis is mine).[14]

Now this "remote product," to the Austrian, is *consumption*, the be-all and end-all of production. True, if one is prepared to admit that any immediate results of an industrial process, such as a hole in the ground, in preparation for a new dwelling, that will not result in consumption goods for years to come, are *equivalent* to a final product, then one can agree with Professor Rolph that "the only apparent difference between the two views is a choice of words to say virtually the same thing."[15]

The Austrians, however, are not willing to make such a facile equation. It is only in the evenly rotating economy, where full and perfect information of all future events is given to all market participants, that each and every immediate result of an industrial process in the higher orders of capital goods will be guaranteed to come to fruition, eventually, as a consumption good. In the real world, *not all* "immediate results" of production will be so blessed. Many holes in the ground will remain just that—holes in the ground. Be the intentions of the entrepreneurs ever so well motivated, they will not all be filled up with houses.

[11]Ibid., pp. 17-18ff.

[12]Earl Rolph, "The Discounted Marginal Productivity Doctrine," in *Readings in the Theory of Income Distribution* (Homewood, Ill.: Richard D. Irwin, 1951), pp. 278-93.

[13]Ibid.,p. 279.

[14]Ibid., pp. 279-80.

[15]Ibid., p. 282.

Moreover, even if all intermediate efforts are crowned, eventually, with final consumption results, the equation of DMVP and MVP is still invalid. Even in this case there would be a *time element* differential to distinguish between them. The higher the order of production, the further removed, in time, from consumption.

As Professor Rothbard states:

> Every activity may have its immediate "results," but they are not results that would command any monetary income from anyone if the owners of the factors themselves were joint owners of all they produced until the final consumption stage. In that case, it would be obvious that they do not get paid immediately; hence, their product is not immediate. The only reason that they *are* paid immediately (and even here there is not strict immediacy) on the market is that capitalists *advance* present goods in exchange for those *future* goods for which they expect a premium, or interest return. Thus, the owners of the factors are paid the *discounted* value of their marginal product.[16]

It must be concluded, then, that an immediate result of a higher order production process is *not* equivalent to consumption; and that factors do *not* receive the undiscounted value of their immediate marginal products. Rather, factors tend, in the unhampered market, to receive the *discounted* value of what their marginal products are thought to be worth as potential, future consumption goods.

In the remainder of this paper I shall construct another objection to DMVP theory, and then try to show that it too fails to disprove the validity of DMVP.

According to this objection, DMVP theory is satisfactory for the intertemporal level, but not on the intratemporal. Intertemporally, it makes sense for the value of a factor to be determined, in part, by how many years away from final consumption it lies. If factor A is to be used *now*, and factor B one year from now, then the price of B must be adjusted downward accordingly; B must sell for less then A. But suppose A and B are identical! If intratemporal equilibrium is to be attained, then identical factors must receive the same remuneration. B's price cannot then be adjusted downward by the discount, as DMVP theory would have it.

First, suppose that there are two equally skilled carpenters: Ike and Mike. They are exactly alike insofar as carpentry abilities are concerned. They each, therefore, have the same MVP. An entrepreneur, employing several other carpenters, will benefit (lose) by the exact same amount whether he hires (fires) Ike or Mike. His revenues will change by the same amount regardless of which carpenter he

[16]Rothbard, *Man, Economy, and State*, p. 432.

deals with. Under such assumptions, intratemporal equilibrium must require that Ike and Mike receive equal wages. If they do not, the familiar market forces will be set up in motion to make sure they do.

But suppose Ike takes a job in a consumption industry, where his work is practically simultaneous with consumption, and Mike finds employment in a higher-order production process, whose fruits will not be available for consumption for 10 years. It would seem, according to DMVP theory, that Mike's wages would have to be heavily discounted, and hence much lower than Ike's. But if this is so, it is in violation of the intratemporal equilibrium that must exist, since we are dealing with equally productive workers, by assumption.

Consider, also, two identical 100 pound bags of coal. Intratemporal equilibrium demands that they receive the exact same price. But if one of them is used for heating a home right now, and the other used in the beginning step of a process which will not be completed for one year, then it would seem that this latter bag of coal will have to sell at a lower price, low enough to reflect the discount called for by the DMVP theory.

The examples could be multiplied without limit.[17] Fish is used for immediate consumption—and also for salting and curing. Some wine is allowed to ferment for one year. But other wine, identical to the first, at the outset, is allowed to ferment for longer periods of time. DMVP theory, it is contended, cannot be correct if it calls for different prices for the same identical good, service, or factor. And yet if this is not what would satisfy DMVP, it is hard to see what would.

The way to solve this paradox is to take this objection "by the horns" and show it to be without merit. Accordingly, for the sake of argument, assume its analysis is correct: if the MVP of the bag of coal to be used up for consumption is $100, and the rate of interest is five percent, then it follows ineluctably that the equilibrium DMVP of an identical bag of coal, to be used in a one year long process, is $95, ignoring compounding complications. So the intertemporal or time market may be in equilibrium, but the spot coal market certainly cannot, for one bag of coal sells for $100, while another, identical to the first in every way, sells for $95. The only problem is, entrepreneurs at the higher level of production will not be able to buy any coal! Why should they be able to if they are only willing to pay $95, for something that coal owners are able to charge $100 for?

What must then happen? The entrepreneurs at the higher stage

[17]See Böhm-Bawerk, *Capital and Interest*, for an enumeration, as well as for an eloquent and fully complete analysis.

of production will have to abstain from all projects using coal that cannot attain a DMVP of at least $100, the alternative cost of coal. But at a five percent interest rate, in order to reach a DMVP of $100, the MVP must be $105.

In the words of Professor Rothbard:

> The more remote the time of operation is from the time when the final product is completed, the greater must be the difference allowed for the annual interest income earned by the capitalists who advance present goods and thereby make possible the entire length of the production process. The *amount* of the discount from the MVP is greater here because the higher stage is more remote than the others from final consumption. Therefore, in order for investment to take place in the higher stages, their MVP has to be far higher than the MVP in the shorter processes.[18]

Thus we see that this objection is without merit. The DMVP's must be equated, in the evenly rotating economy, in all areas of production, not the MVP's. Coal will have the same price (assuming equal quality) wherever it is used in the structure of production: for consumption goods, or in long-term heavy industry. But the further away, in time, from consumption a process is, the higher will its MVP have to be to make its employment there profitable, and to result in a DMVP equivalent to the lower orders of production, and in consumption.

[18]Rothbard, *Man, Economy, and State*, p. 409.

Misconceptions about Austrian Business Cycle Theory: A Comment

James Clark and James Keeler*

A recent set of articles (see Michael Bordo 1986; Roger Garrison 1986; Herschel Grossman 1986; Gottfried Haberler 1986; Axel Leijonhufvud 1986 and Leland B. Yeager, 1986) reviews the Austrian theory of the business cycle in comparison to other theories. One of the main issues they consider is the neutrality of disturbances in the money supply, and on this point Thomas Humphrey (1984) is cited as refuting the Austrians' claim to be unique in that they consider relative price changes (Yeager 1986, p. 382). Humphrey quotes and summarizes several quantity theorists and Monetarists on the real effects of a monetary disturbance and concludes that rather than being distinct, the Austrian theory is quite similar to that of the Monetarists both in its explanation of how money affects the economy and in its policy implications.

This note contends that beyond the surface similarity of monetary nonneutrality there are significant differences between the Austrian and Monetarist business cycle theories. The theoretical approaches diverge in the use of macroeconomic aggregates. Different concepts of the monetary mechanism result in different implications about what relative price changes occur and their causes, and about the types of unemployment. In the Monetarist view, the economy will return to its original equilibrium structure, while the Austrian view denies that possibility. Humphrey misrepresents the Austrians and the Monetarists by neglecting their differences and claiming their theories are essentially the same.

For Monetarists, the appropriate concepts are macroeconomic aggregates, especially real cash balances, non-cash assets, the price level, investment, employment, and income. Their analysis focuses on long-run changes in these aggregates. Friedman's portfolio adjustment mechanism is the response to an increase in the money supply and a decrease in the yield of cash as an asset, relative to non-cash

*James Clark is senior research assistant at the Federal Reserve Bank of Boston. James Keeler is associate professor of economics at Kenyon College.

Review of Austrian Economics, Vol. 4, 1990, pp. 208-11
ISSN 0889-3047

assets, which then leads to increased spending on newly produced goods and services. Similarly, the Phillips Curve analysis focuses on a relation among aggregates for the price level and unemployment. The recession phase of the business cycle is characterized by cyclical unemployment in response to the general rising real wage. Such real effects focus on macroeconomic aggregates and occur within a temporary adjustment period toward the long-run equilibrium.

Many of these same macroeconomic aggregates are not considered meaningful concepts by the Austrians, who are more concerned with relative changes among the components of the aggregates. Hayek, in discussing the phase of the cycle in which income peaks and begins to decline, stresses changes in the types of investment activities undertaken. The composition of investment spending changes from long-term (early stages in the production process which are removed in time from the actual production of final goods) capital projects to short-term (later stage) investments. This change leads to the unemployment of resources complementary to long-term investment projects. While other Austrians suggest a decrease in total investment during a recession as a cause of unemployment, Hayek maintains that unemployment increases independently of changes in the total amount of investment and states

> whether this [decrease in total investment] is or is not the case is not so important as the fact that the demand for resources which are specific to the early stages ... will cease and unemployment will ensue here, while the increased demand in the later stages must exhaust itself in a rise in money wages in these stages without creating additional employment [Hayek 1939, p. 28n; see also Hayek 1969, p. 284].

Overall unemployment in the recession phase of the Austrian business cycle theory is not a relation among aggregates, but is frictional and structural and is in response to changes in relative yields of capital types. Further, the inappropriate investment during the expansion phase of the cycle forever changes the distribution of wealth and income, so that the original equilibrium cannot be reestablished (Mises 1963, p. 555). Nonneutralities occur within the aggregates and have lasting effects.

The theoretic constructs are fundamentally distinct for the two schools of thought and that is evident in their treatments of macroeconomic aggregates and in the importance they place on disequilibrium. Humphrey's article shows a misunderstanding of this in the statement:

> with the possible exception of a singular Austrian concern for the composition (as opposed to level) of real output, there is little

> difference between the two views of the monetary mechanism [Humphrey 1984, p. 14].

Yeager's comments clarify the importance of the difference: that changes in relative prices,

> though crucial to the distinctively Austrian scenario, are mere details in the monetary disequilibrium account of the business cycle. Understandably the monetarists emphasize the centerpiece of their story—a disequilibrium relation between the nominal quantity of money and the general level of prices and wages [Yeager 1986, p. 382].

As the issue of unemployment exemplifies, the two approaches lead to contrasting descriptions, explanations and predictions of business cycle phenomena.

Humphrey correctly chides the Austrians for claiming that Quantity Theorists and Monetarists completely ignore real effects of a monetary disturbance. Even Mises's comments on the quantity theory (Mises 1963, pp. 412-13) appear consistent with the more recent examples given by Humphrey. However, the relative price changes the Austrians and Monetarists describe are not the "exact counterparts" claimed by Humphrey. In the Monetarist theory, institutional rigidities prevent some prices from changing as rapidly as others, resulting in relative price changes and real effects on the levels of aggregates during disequilibrium. Humphrey's review begins with a quote from Alexander del Mar which leaves the impression that the relative price changes are random. His quotes from Irving Fisher and Clark Warburton clearly state that relative price changes are due to some prices adjusting more slowly than others for institutional reasons. Austrian theory has never relied upon this explanation. His reviews of Friedman and Brunner and Meltzer show a role for the interest rate only in changing relative yields between broad aggregates of cash and noncash assets. In contrast, the fundamental cause in Austrian business cycle theory is that a monetary disturbance distorts the yields of various capital types and alters the time structure of investment allocations (Hayek 1969, p. 277 and Mises 1963, p. 555). The two theories analyze different relative price changes which occur for different reasons.

Humphrey's article does establish that Monetarists consider certain relative price changes. While there are similar general phenomena in the two theories, such as the occurrence of relative price changes, the specific phenomena and the processes that generate them are not similar. Concluding that the two theories are "virtually the same" misrepresents both Austrians and Monetarists.

References

Bordo, Michael D. "Austrian Influence on Business Cycle Theory." *Cato Journal* 6 (Fall 1986): 455-59.

Garrison, Roger W. "Hayekian Trade Cycle Theory: A Reappraisal." *Cato Journal* 6 (Fall 1986): 437-53.

Grossman, Herschel I. "Money, Real Activity and Rationality." *Cato Journal* 6 (Fall 1986): 401-08.

Haberler, Gottfried. "Reflections on Hayek's Business Cycle Theory." *Cato Journal* 6 (Fall 1986): 421-35.

Hayek, Friedrich A. *Profits, Interest and Investment*. London: Routledge and Kegan Paul Ltd., 1939.

_____."Three Elucidations of the Ricardo Effect." *Journal of Political Economy* 77 (March/April 1969): 274-85.

Humphrey, Thomas M. "On Nonneutral Relative Price Effects in Monetarist Thought: Some Austrian Misconceptions." Federal Reserve Bank of Richmond *Economic Review* (May/June 1984): 13-19.

Leijonhufvud, Axel. "Real and Monetary Factors in Business Fluctuations." *Cato Journal* 6 (Fall 1986): 409-19.

Mises, Ludwig von. *Human Action: A Treatise on Economics*, 3rd rev. ed. Chicago: Henry Regnery Co., 1963.

Yeager, Leland B. "The Significance of Monetary Disequilibrium." *Cato Journal* 6 (Fall 1986): 369-99.

Book Reviews

Understanding: A Phenomenological-Pragmatic Analysis. By Gary B. Madison. Westport, Connecticut: Greenwood Press, 1982.

Professor Gary B. Madison, an outstanding proponent of hermeneutics, finds this sort of philosophy beset by unfair criticism.[1] Hermeneutics, which seeks dialogue based on "common understandings,"[2] has been rudely rebuffed by critics guilty of "egregious misunderstandings."[3] Some of these errors are "so to speak, honest ones. ... Others are, quite frankly, dishonest ones, obstacles deliberately thrown in the path of the uninitiated by opponents of hermeneutics who have every interest in slowing its progress."[4] Some of the "more vituperative critics of hermeneutics, in rejecting it wholesale, discard in the process all claims to intellectual integrity."[5]

Madison does not state whom he has in mind in his charges. His remarks place any reviewer in a difficult position. Whether my remarks are "vituperative" or lacking in "intellectual integrity" must be for others to judge. In an effort to steer clear of such charges, however, I shall for the most part confine myself to an exposition of Madison's own views rather than a criticism of them from my own perspective. I shall endeavor to show that the alleged misunderstandings of the critics in fact accurately characterize Madison's main statement of his approach to the theory of knowledge, his large treatise *Understanding*.[6] Madison escapes relativism only because he uses this term in an idiosyncratic way. As the critics use the term, Madison *is* a relativist. Nothing directly follows from this contention about other philosophers of this movement, e.g., Gadamer and Ricoeur; but for now it is assumed that Madison's own views are similar to those of other hermeneutic philosophers.

The first two of the misunderstandings of hermeneutics Madison has noted can be usefully considered together, as they are closely

[1]Gary B. Madison, "Hermeneutical Integrity: A Guide for the Perplexed," *Market Process* 6, no. 1 (Spring 1988): 2-8.

[2]Ibid., p. 4.

[3]Ibid., p. 1

[4]Ibid.

[5]Ibid., 7.

[6]Gary B. Madison, *Understanding: A Phenomenological-Pragmatic Analysis* (Westport, Conn.: Greenwood Press, 1982).

The Review of Austrian Economics, Vol. 4, 1990, pp. 215-22
ISSN 0889-3047

related. Contrary to criticism, Madison claims that hermeneutics neither rejects reason nor entails relativism. Hermeneutics does not, to be sure, accept "the position that has dominated philosophy since the time of Plato, which holds that human beings are endowed with a special kind of faculty called reason by means of which they can intuit or otherwise discover absolutely indubitable, eternally valid, objective truths."[7] Claims to truth of this kind are incompatible with the "maintenance of a free and democratic society."

How does that last contention go again? Suppose someone claimed to know with certainty that people should be free to criticize one another. Is this belief inconsistent with a free society? Why does thinking a proposition absolutely true prevent one from listening to criticism of it?

The Declaration of Independence claims certain "truths to be self-evident." Were the signers of the Declaration advancing claims incompatible with the free society they thought they were establishing? Madison may, if he wishes, "bite the bullet" and contend that the signers misunderstood the basis for their own belief in a free society. He can hardly deny that in this and like cases a considerable prima facie case against his views needs to be met.[8]

By the way, if claiming absolute truth *did* create difficulties for existence of a free society, how would this show that we do not have absolutely true beliefs? Perhaps it would be better if we kept our claims to them to ourselves, on this assumption; but that is a different issue.

Instead of a supposed method of attaining truth that has universal validity, hermeneutics, Madison states, "holds to a fallibilist and pluralist view of reason." It denies that the so-called scientific method is the only valid procedure of investigation, regardless of the topic. Like Mises, advocates of hermeneutics distinguish understanding human action from explanation in physics. Both Austrian economics and hermeneutics reject "scientism."

The charge of relativism so frequently directed at hermeneutics also in Madison's view misfires. Hermeneutics does reject the view that knowledge rests on self-evident grounds. But this is far from saying that hermeneutics "license[s] an all pervasive intellectual permissiveness, as immoderate critics would have us believe."[9] Hermeneutics seeks mutual understanding, based on the common grounds, in part unarticulated, that render conversation possible in the first place. We cannot attain *absolute* truth: but we can seek a reasonable consensus.

[7]Madison, "Hermeneutical Integrity," p. 1.

[8]Madison's political views are set forward in his *The Logic of Liberty*. Incidentally, if Madison examines my forthcoming review of this book in the *International Philosophical Quarterly*, he will find the claim that I am biased against him hard to maintain.

[9]Ibid., p. 4.

Madison counters the "foundationalist" view he opposes in the following way: "It is really difficult to know what some critics have in mind when they appeal to absolute ["objective" in their sense] grounds. An absolute ground would have to be a ground which does not itself have a ground, a groundless ground, which sounds like a meaningless notion ..."[10]

Madison's argument depends on a blatant ambiguity in the use of "groundless." To claim that a proposition is self-evident is to say that its truth does not depend on something else. Its truth is apparent "on inspection" and requires no further grounds to justify it. But "groundless" in this sense does not mean "arbitrary," a different sense of "groundless": just the point of claiming self-evidence is to say that a proposition is *not* arbitrary. Of course Madison may deny that there are self-evident truths, but this requires argument rather than assertion.

Whether or not "foundationalism" is correct, I certainly do not wish to claim that anyone who rejects this position counts as an irrationalist or a relativist. Whether or not these latter terms apply to a philosopher's position depends, it seems to me, much more on the role it accords reason than on whether it is "foundationalist." Many moral "intuitionists," e.g., think that one can directly grasp the truth of various moral propositions but do not think these derivable from a basic principle or ground. Sir David Ross and H. A. Prichard, who held this position, are not usually thought of as irrationalists.

No formal definition of "irrationalism" or "relativism" will be offered here. But as the critics of hermeneutics use these terms, someone who denies or very strictly limits the ability of reason to attain truth counts as an irrationalist. "Truth" here is understood in a way in which these two statements are *not* equivalent in meaning: (1) "*X* is true" and (2) "A consensus accepts *X*." Further, the truth of the second statement normally does not provide sufficient evidence for the truth of the first statement.

A relativist claims that most or all of someone's beliefs reflect the perspective of a group to which the person belongs. Most people in Western societies give great credence to the laws of physics: as relativists see things, this fact reflects not the unavoidable truth of physics but an assumption present in our modern "worldview." Relativists hold either that people cannot distinguish between what their perspective inclines them to favor and what is true or, more extremely, what someone's perspective suggests to him *is* the truth ("for him" as is sometimes added).

If the disputed terms are taken this way, it will soon be apparent that Madison is both an irrationalist and a relativist. Why then does he deny this? The answer lies in his much more restricted analysis

[10]Ibid., p. 4

of the terms, according to which he has indeed been unfairly characterized by the opponents of hermeneutics.

The critics and Madison thus can reach agreement. The dispute over the first two charges arises only because of the differing ways the principal terms in them have been understood by the parties to the dispute.

One further *caveat*. The material presented below does not show that one ought not to adopt Madison's views. It is only an attempt to say what those views are.

To return to the main thread of Madison's case, let us now put his statements within the context of his treatise on *Understanding*. In the Introduction, Madison informs us that by "its very nature, therefore, science is hostile to cultural diversity, for each culture represents a different conception of what reality is, and, from a purely descriptive point of view, there are as many 'realities' as there are cultures. This violates the basic working premise on which science is built: the oneness of truth and reality."[11]

This sounds relativistic, but perhaps Madison himself does not mean to adopt the "purely descriptive point of view." The start of Chapter 1 closes this loophole: "Let us begin by boldly asserting a thesis in violation of all apparent scientific rationality: the understanding of the world characteristic of another culture cannot be adequately expressed in the language of Western science, for science is but one way of analyzing and understanding reality and for this very reason cannot legitimately claim to be universal."[12]

In defense of his denial of universality, Madison cites with favor the hypothesis of Benjamin Whorf that thought is relative to language. The various languages carve up the world in differing ways that are not perfectly translatable from one language to another. Students of Austrian theory will note the radical dissimilarity of Whorf's views with those of Mises. Mises's opposition to polylogism is especially to the point here.

Chapter 3, "Separate Reality," compares in some detail belief in witchcraft with belief in science. Madison relies for his information on witchcraft on the classic studies of the Azande in the South Sudan by Sir Edward Evans-Pritchard. He rightly notes that witchcraft for these tribesmen is a carefully elaborated system. According to Madison, "*A system as such cannot be falsified* [emphasis in original] ... it is obvious that magic involves circular reasoning. It cannot be criticized for this, however, since circular reasoning is not a defect in any system qua system. Indeed all systems of belief are circular, including science ... "[13]

But regardless of what people believe, does not science work in a way that witchcraft does not? Physical bodies obey the laws of grav-

[11]Madison, *Understanding*, p. 9.

[12]Ibid., p. 12.

[13]Ibid., pp. 88-89.

itation, even if they are located in the Southern Sudan.

To Madison, this point is far from decisive. "The fact of the matter is, however, that magic also 'works.' Indeed, it could be laid down as a general principle that any *sufficiently developed system is bound to work* [emphasis in original]. ... It is extremely difficult, therefore, to see how it could be maintained that science is better, more rational, or truer than magic in the absolute sense of the terms."[14]

Space does not permit a full summary of Madison's *magnum opus*, and with some regret one passes by his discussions of analogy, metaphor, and imagination and moves directly to the culmination of the work.

The climax of the work comes in this passage: "As a result of our attempt to overcome the rationalist tradition—*the* tradition in Western thought—we have been led into a position of skepticism."[15] Madison proceeds to raise against himself the objection that skepticism is self-refuting: "More precisely, when one says that all knowledge is belief and is historically and culturally conditioned (such that there is no one 'true' world that is identically the same for all), is he not making a statement that claims to be universally valid and therefore contradicts what it says?"[16]

Our author seeks to escape this predicament by distinguishing sharply between direct experience and theory. Like the Greek skeptic Sextus Empiricus, he thinks it valuable to show the equal "validity" of contradictory beliefs about experience.

If one asks why, Madison replies with perfect forthrightness: "The skeptical critique can begin to have its desired effect only when, as a result of 'setting things in opposition' one comes to see the relativity and groundlessness of one's habitual beliefs. ... This is anything but a comforting realization. It is, in fact, the 'dark night' of the understanding. The state of mind produced by a successful skeptical critique is anxiety."[17]

To this anxiety, three responses are possible. One can ignore the lesson of skepticism and retreat to one's previous condition of servitude, i.e., to dogmatism. If one does not seek escape from anxiety, then either one "may lose the battle and, overcome with realization of the folly of all belief systems, succumb to madness. Or one may win the battle and achieve a kind of knowledge—the knowledge of the ultimate impossibility of knowledge—which can be called wisdom."[18]

We are at last in a position to see why Madison so vigorously repudiates relativism.[19] Relativism denies that there is a reality

[14]Ibid., pp. 99-100.

[15]Ibid., p. 277.

[16]Ibid., pp. 278-79.

[17]Ibid., p. 284.

[18]Ibid.

[19]See for example, ibid., pp. 20 and 115.

apart from the various cultural systems of belief. Each society has its own "truth" and there exists no absolute perspective from which the different cultures can be judged.

For Madison, the problem with relativism is not that it repudiates truth but rather that it makes truth too readily accessible. There is indeed a reality beyond our culturally determined outlooks, but of it we can know nothing, other than its bare existence.

Now we can see the basis of Madison's protest. As he uses the term, he is not a relativist, since he does believe in the existence of reality. As the critics see matters, this view is still relativistic since Madison thinks that nothing except the existence of reality can be grasped in a way that is not relative of culture. (A similar point applies to the issue of irrationalism.)

Madison and the critics are both "right," since each group is using the terms "irrationalist" and "relativist" differently. Madison's defense here is as the critics see it, really an admission. Further, Madison's use of the term "relativist" is, to say the least, highly unusual. He is perfectly free to invent a non-standard use of the term according to which hermeneutics is not a relativist view. It is going rather too far to "criticize the critics" for intemperate usage because they, in accord with ordinary usage, conclude that hermeneutics is a type of relativism.

Madison thinks that hermeneutics has been subjected to one more unfair charge. Hermeneutics, contrary to the critics, is relevant to economics. Although he does not mention me, I think his comments refer to a passage of my "Hermeneutics versus Austrian Economics."[20]

Madison's comments are as follows: "The more vociferous critics of hermeneutics inform us that while hermeneutics may have some idle entertainment value as a mode of philosophy, it has nothing whatsoever to say to practicing economists. As evidence they point out that neither Gadamer nor Ricoeur has written on economic issues. This argument is such as to perplex even a hermeneuticist, who is not a person to scorn the values of rational argumentation. If the issue is the relevance of hermeneutics to economics, then it is obviously quite *irrelevant* whether Gadamer or Ricoeur has or has not written on economic issues. In that case it is up to other people, economists in particular, to draw out the relevant implications."[21]

Though lacking the desire to perplex Madison, I did indeed note that the major hermeneutic philosophers have not written about economic theory. I did not say that neither has written on "economic issues"; Ricoeur has written a number of socialistically inclined essays.

[20]David Gordon, "Hermeneutics versus Austrian Economics" (Occasional Paper; Auburn, Ala.: The Ludwig von Mises Institute, 1986).

[21]Ibid., p. 6

Heidegger, to mention someone Madison passes over here, has quite a bit to say about politics.

To turn to the substance of the argument, I do not at all claim that because particular writers have not discussed economic theory, hermeneutics has been proved irrelevant to economics. The comment to which Madison takes exception was but one step in an unsuccessful inquiry to determine why hermeneutics is thought by some to be relevant to economics. If there were a particular economic doctrine associated with the movement, this would of course answer the question. I raised the issue of the hermeneuticists' economic views simply to explore a possible reply to skepticism about the relevance of hermeneutics to economics.

Before turning to the major item in dispute, I hope I do not again arouse perplexity in Professor Madison if I object to his phrase "idle entertainment value." Certainly it is very far from my view that if a style of philosophy is unrelated to economics, it is for that reason lacking in seriousness or value. Whether Madison has me in mind here I am unable to determine; but one would like to know who among the "vociferous critics" has taken this position.

But this is by the way. The major hermeneutic philosophers have endeavored to show that understanding arises from a given context that to a large extent is practical in nature and not verbally articulated. Science, in their view, is not an absolutely true system that stands in sovereign independence above all else. It emerges from the world into which we are "thrown," as Heidegger puts the matter.

If one finds this position illuminating, fine. But it does not rule out or even throw into question any scientific discipline or technological process. It does subject to challenge certain philosophical interpretations of science, but it leaves the sciences strictly alone.[22]

An economist can be as completely "scientistic" as he pleases and remain a good hermeneuticist. Madison, on the contrary, contends that "while hermeneutics does not ... mandate a method or set of methods for any discipline, it nonetheless does have something important to say on the issue of methodology."[23] If "we hold that the proper object of economics is human *subjects*, a hermeneutic approach ought to be pursued and a scientistic one dismissed." The "hermeneutical critique of objectivism," if taken to heart by economists, will free the discipline "to become what it ought to be if it is to be genuinely *human science*."[24]

Here one must ask: *why* should economics be a discipline that

[22]An excellent article showing the irrelevance of hermeneutics to social science is Mark Okrent, "Hermeneutics, Transcendental Philosophy and Social Science," *Inquiry* 27 (March 1984): 23-50. Okrent, far from being prejudiced against hermeneutics, is a strong proponent of Heidegger's philosophy.

[23]Gordon, "Hermeneutics versus Austrian Economics," p. 6.

[24]Ibid., p. 6.

endeavors to understand human beings? Hermeneutic philosophy neither requires nor suggests this, any more than it tells psychologists or biologists what to do. If "human science" entails the use of hermeneutics, all Madison is saying is that if one postulates that economics is a hermeneutic discipline, then it will turn out to be one. If, however, one claims that since Austrian economics does view economics as a "human science," it can benefit from attention to hermeneutics, I have no a priori objection. "The proof of the pudding is in the eating"; and if a hermeneutic economics is in the offing, let us see it. I do venture one prediction: we have a long wait in store for us.

David Gordon
The Ludwig von Mises Institute

A Conflict of Visions: Ideological Origins of Political Struggles. By Thomas Sowell. New York: William Morrow, 1987.

Thomas Sowell has achieved an enviable reputation in many different areas of economics. His many works on the economics of immigration, culminating in *Ethnic America*, have won him an eminent place in this field. His *Knowledge and Decisions* applies in a comprehensive way the insights of Friedrich A. Hayek to a vast number of social phenomena. As if this were not enough, Sowell has also published widely in the history of economic thought.

It is with no little anticipation, then, that one turns to Sowell's venture into the history of ideas. Will the insight and imagination displayed in his previous work enable him to contribute a new way of looking at intellectual history? Admittedly, perusal of his *Marxism: Philosophy and Economics* dims one's enthusiasm. That book offered little but a tired rehash of elementary Marxist economics, presented as a major piece of scholarship.[1] Further, except for in the final chapter Sowell manifested a surprising sympathy for Marxism.

Sowell has made the work of analysis of his book as straightforward as possible, since he has carefully constructed it around a central thesis which the title adumbrates. What does Sowell mean by a vision? He informs us that "a vision is a sense of *causation*." It is more like a hunch or a "gut feeling" than it is like an exercise in logical or factual verification. "These things come later, and feed on the raw material provided by the vision" (p. 16). The "hunches" that Sowell concerns himself with do not primarily involve moral judgments. "People with the same moral values readily reach different political conclusions. ... Labeling beliefs 'value premises' can readily become one more means by which conclusions insulate themselves from confrontation with evidence or logic" (p. 217).

Before plunging into Sowell's distinction between "constrained" and "unconstrained" visions, the principal subject of the book, a pause over "vision" seems necessary. Sowell may mean by this an innocuous truism: theorists rarely arrive at a total system at once but rather extend and shape an initial conjecture as evidence turns up and as

[1]In support of my assessment, see the review by David Ramsay Steele in *International Philosophical Quarterly* 26, no. 2 (June 1986): 201-03.

The Review of Austrian Economics, Vol. 4, 1990, pp. 223-33
ISSN 0889-3047

consequences of their initial insight occur to them. Even interpreted this way, Sowell's explanation of "vision" can be challenged, as he seems later in the book to rule out, without consideration, the development of a theory by a priori reasoning, in the style of Mises's praxeology, instead of by empirical testing.

But this issue hardly concerns him, and it would be wrong to read too much into his brief remarks about method. The controversial part of his remarks arises from the fact that, as the citation above shows, he almost certainly intends more by the use of "vision" than the commonplace that theorists begin from conjectures. He offers no evidence whatever that any theorist has in fact begun from a "gut feeling" about social causation. He also gives no support for his view that moral judgments are not part of the visions from which theories start.

To avert misunderstanding, I do not claim that it is false that theories stem from visions of Sowell's sort. He may well be right; as guesses go, his seems better than many. But this is just the point. In the absence of evidence as to how particular thinkers have arrived at their theories, Sowell's "visions" are just a shot in the dark. Even if one finds the two types of visions into which Sowell divides theories of society to be a dichotomy of surpassing excellence, this would in itself indicate a fact about theories that already exist. To say that theories can be grouped in a certain way tells us nothing about how the theories came into existence.

Another instance of Sowell's penchant for confusing conjecture with historical fact occurs, ironically enough, in a section of Chapter 9 entitled "Paradigms and Evidence." To illustrate the danger that one's vision may lead to refusal to acknowledge evidence that falsifies a theory, Sowell instances the case of the British psychologist Cyril Burt. Since Burt's death, examination of his use of statistics in his studies of mental ability has strongly suggested that he "faked" some of the data.

Concerning Burt's misuse of data, Sowell remarks: "The issue here is not heredity versus environment but evidence versus visions. Clearly, Burtt [sic] had little to gain personally from falsifying the data. In fact, he had much to lose, including a reputation and a painful setback for the cause he espoused. That he would risk such a gamble is one measure of his commitment to his vision ... Sir Cyril Burtt [sic] thus represented one extreme in the relationship of evidence to visions—the total subordination of evidence to conclusions based on a vision or the theories derived from it" (pp. 207-08).

Sowell's conjecture about the reasons for Burt's misuse of data may be correct. But Sowell offers no evidence whatever on the matter. Has Sowell done any research on Burt? Has he as much as opened any biographical studies of Burt? Has he considered other hypotheses, e.g., "kinks" in Burt's personality? Somehow Sowell just *knows* what happened. Incidentally, Sowell states that eventually, even

Burt's supporter Arthur Jensen had to admit that Burt's statistics were unacceptable. In point of fact, Jensen was one of the first to call attention to the difficulty. But perhaps Sowell's vision has transmitted Jensen's thoughts to him as well as Burt's.

Sowell's reason for excluding moral judgments from his visions seems unconvincing. Granted that there are "visions," will not their contents depend very much on the idiosyncracies of individual theorists? Why should one exclude someone's development of a theory because of a "gut feeling" about morality? No doubt Sowell is right that people with different moral views often have similar policy conclusions. But is this always the case? People who believe that certain ethnic groups ought to be killed sometimes have quite different policy conclusions from those who do not share this position.

Suppose, however, that people's moral views *never* determine their policy conclusions. It still does not follow that moral judgments cannot form part of the initial vision from which a theory begins. Perhaps, on the implausible assumption stated, moral judgments "drop out" at some point. This once more appears entirely a question of "what makes people tick."

Regardless of whether anyone has ever had a close encounter of the Sowell kind, his visions can, as suggested earlier, be looked at as ways of classifying actually existing theories. Sowell contends that social theories fall into two main kinds: "constrained" and "unconstrained" visions.

One further preliminary matter needs to be addressed before we at last examine the visions. Sowell, in accord with his views about the limited role of value judgments in social science, maintains that his two visions are, as a matter of fact, a useful tool for analyzing social theories. His statement of the two visions does not express a value preference of his own; in particular, in his presentation he does not argue that the constrained vision is correct. Sowell has reacted with sharpness to reviewers who take him to be praising one vision while condemning the other, and his grievance has considerable merit. Examination of Sowell's other work will disclose without difficulty that Sowell is a prime instance of the constrained vision. But it hardly follows from this that his present book is a work of advocacy rather than neutral assessment. There is, however, excuse for the reviewers, as we shall later see.

What, then, are the two visions? Our author places prime emphasis on the attitude toward human nature characteristic of each one. The two visions differ mainly over what human beings can become, not what they now are like. "In the unconstrained vision, human nature is itself a variable and in fact the central variable to be changed" (p. 87). People may *now* be as selfish and shortsighted as you please; but given the "right" conditions, usually involving direction by an elite, a veritable metamorphosis will occur. Persons will now work happily together in harmony: all *will be* for the best in this best of all possible worlds. A

change in human nature, one assumes, means that human beings will acquire traits they do not now have. Unfortunately, Sowell does not offer a definition of "human nature." The problems this omission generates will be discussed below.

The constrained vision looks at human beings as basically unalterable in their nature. Adam Smith, a key exponent of this outlook, believed that "moral or socially beneficial behavior could be evoked from man only by incentives ... " (p. 23). Rather than a futile attempt to make people "better" than nature has designed them, one can accomplish more by acknowledging the limits within which people function.

Together with contrasting approaches to human nature goes differing concepts of reason. For the unconstrained vision, reason is a direct and explicit matter. If one desires social change, the agenda is clear: one must devise a suitable plan, and carry it out. Explicit principles are the order of the day, rather than reliance on custom. If the usual way of doing things fails at the bar of reason, away with it.

The proponent of constraint rejects this fast and furious policy. He does not deny the value of what Sowell terms "articulate reason" when social conditions allow exactly formulated measures. But much of the operation of society takes place by means of customary rules that cannot be fully specified. Too much information exists for any person or group to have at their conscious command. Instead, one needs to rely on "the unintended consequences of human action" which will succeed in generating an order beyond the capacity of anyone to grasp in comprehensive fashion. The free market stands as the foremost example of a "spontaneous order." The task of the government, in this view, lies rather in providing a general framework of rules which permits unplanned social institutions to function than in enacting plans of its own.

The position just sketched will be familiar to anyone who has encountered the works of Friedrich Hayek; and the frequent references the book contains to him lead one strongly to suspect that Hayek is the principal model of the person of constrained vision. Since Sowell's main work of theory, *Knowledge and Decisions*, sedulously follows in Hayek's footsteps, perhaps our author should not protest too loudly when reviewers of *A Conflict of Visions* ascribe to him the identical constrained view he has elsewhere explicitly taken over as his own.

Again following Hayek, Sowell maintains that the constrained vision offers little scope for the application of moral theory. It displays but slight concern for moral rights when these do not operate for the general benefit. People cannot "stand on their rights" if doing so proves overly inconvenient to society. Law concerns itself with what works best in general and often cannot be fine tuned to handle claims that particular persons have been unjustly treated. "This is a *process* conception of rights—the legal ability of people to carry on certain

processes without regard to the desirability of the particular results ... " (pp. 185-86).

In brief, the constrained vision stresses the "primacy of social interests over those of the individual ... " (p. 187). By contrast, unconstrained visionaries place much more emphasis on what is right, apart from its social consequences. To a holder of this view, e.g., someone does not lose his right to free speech even if his exercise of that right is liable to foment disorder. Rights arise not from their usefulness as a tool to oil the social mechanism; they are owed to their possessors. It is morally wrong to refuse them their due recognition. Similarly, if an unconstrained visionary thinks that the poor ought to receive welfare, he will tend to regard this as a matter of justice. Like John Rawls, he will endorse a moral theory obligating people to transfer income to the needy. The person of constraint will tend to eschew altogether arguments based purely on moral theory. In his view, the working of society allows no room for these speculative ventures to operate. This attitude receives its clearest encapsulation in the title of the second volume of Hayek's *Law, Legislation, and Liberty: The Mirage of Social Justice*.

To reiterate an earlier point, the differing importance each vision accords to moral theory does *not* indicate conflicting value judgments. Quite the contrary, the advocate of constrained vision shares the same desires to aid the needy of his more freewheeling opposite number. It is not that he is an Ebenezer Scrooge disdaining any concern for the unfortunate. Rather, he believes that the spontaneous order of the market best helps the poor. The concept of "social justice" leads exactly to the abstract rationalism he wishes to confine within rigid limits.

Sowell includes substantially more in the book, including an application of his social visions to various policy issues and a discussion of evidence. But what has been said so far gives enough of a basis for an analysis of his thesis.

The difficulties begin with the first of the characteristics of the visions, i.e., each one's attitude toward human nature. Many people have thought that changes in institutions can produce radical changes in people's behavior, but it is not clear that this involves belief in a change in human nature. Instead, it may be that the same human nature is held to be capable of quite different forms of life under various conditions.

If, like Shelley, one believes that "Power, like a desolating pestilence, pollutes whate'er it touches; / And obedience, bane of all freedom, virtue, justice, truth, / Makes slaves of men; / And of the human frame, a mechanized automaton," one may think that the abolition of government will have beneficial effects. But these need not come about through changes in human nature: philosophical anarchism of Shelley's

kind may be based on liberating potential held already present in human beings.

I do not argue that Sowell incorrectly attributes to anyone in particular a belief that human nature is alterable. Rather, he fails altogether to draw the distinction just mentioned, making his analysis of the unconstrained visionaries difficult to assess. Even if one takes William Godwin, the ubiquitous example Sowell offers of someone whose vision was stratospherically unconstrained, one still wishes to ask: did Godwin think that the abolition of government and of false doctrines of morality would change human nature? It is not clear that he did. In a passage that Sowell cites, Godwin advocates attempting to appeal to "the generous and magnanimous sentiments of our natures" (pp. 2-5, quoting Godwin, *Enquiry Concerning Political Justice*). This hardly supports the view that Godwin wished to alter human nature. Here he seems to be saying that treatment of a certain kind will elicit a response from traits already present.

Admittedly, some passages in Godwin require considerable straining if one denies that Godwin did indeed contemplate a change in human nature. When, for example, he speculates that the future may bring an end to death, one can but gape in astonishment. But, once more, the point at issue is not whether Sowell has rightly or wrongly appraised Godwin; it is that he does not distinguish changes in human nature from changes in the environment which manifest traits that people have now. For a change in human nature, certain traits *not* currently present would have to emerge.

In defense of Sowell, it might be argued that we have been making too heavy weather of a distinction of minor importance. Is not the vital core of Sowell's argument that some theorists believe that people will always be largely self interested, with at most a tincture of altruism; while others think that in changed circumstances people can become devoted to one another's welfare? As Marx put the latter viewpoint, in a "higher stage" of socialism, "the free development of each will be the condition for the free development of all."

Here, as it seems to me, the suggested difference does not do quite the job Sowell has in mind for it. Presumably, the difference between what the two visions expect from human beings is supposed to emerge in action. The day when "the secrets of all hearts shall be revealed" does not, after all, belong to *human* history. If behavior, then, is the visible manifestation of what traits people have, does not the distinction Sowell has in mind reduce to one between those who expect different conditions to bring about substantial changes in human action and those who deny this?

The difficulty for Sowell, if he accepts this reconstruction of his distinction, is that many advocates of the constrained vision come down on the wrong side. Persons who criticize unconstrained visionaries

usually think that their radical plans for a new social order will worsen things. If, instead, one supports institutions that accord with human nature as it actually is, they think that much better results will ensue. If, e.g., one relies on the market to channel self-interested businessmen to fulfill the preferences of consumers, success appears far more likely than if one attempts a Procrustean policy of remolding people. No doubt; but looked at from an external point of view, *both* "constrained" and "unconstrained" visionaries believe that institutional change will make a vast difference to the sort of behavior prevalent in society. Once one puts some pressure on the idea of a change in human nature, the difference between the visions, as Sowell presents them, seems entirely a matter of varying approaches to policy and morality. The alleged difference in views on human nature "does no work"; it adds nothing to the visions.

Sowell might try to escape this argument by strengthening the view of human nature characteristic of the constrained vision. On the revised view, "constraint" would *really* mean constraint. A proponent of this version of the position would claim that little or no change in the condition of society is possible, regardless of what people do. We are just "stuck with" human beings as they are and that is that. A new problem arises here, however. On what grounds can the policies of the unconstrained vision be opposed? True, they will leave human nature as it is, but so will everything else. Why is any policy better or worse than another, if none affects the way people act?

Perhaps Sowell's best chance for escape is to attribute to the constrained vision the view that things can get worse than they now are but not much better. This gives both a reason to oppose certain measures—they will cause harm—yet at the same time the "not much better" provision distinguishes the position from its rival vision. The obvious difficulty here is that of the baseline. Worse or better than what? The economic system now prevalent in the United States? But do not those who fall within the constrained camp often think that some economic changes produce a great improvement? Hayek himself hardly takes the line, "Capitalism is the best we can hope for, and it is not very good."

Sowell's analysis of reason also gets him into some dubious areas. As he presents matters, advocates of the constrained point of view favor the market system. Those in the enemy camp find the market's reliance on inarticulate reason uncongenial. Favoring explicit planning as they do, they naturally incline to support central direction. Here Sowell's portrayal fits perfectly, if his aim is to sum up in brief the essential doctrines professed by F. A. Hayek. If, as seems apparently the case, he has a more ambitious goal and wishes to characterize major approaches to society in a way that "cuts at the joints," the analysis Sowell offers is more open to objection. Many free market

advocates think that people can consciously decide to establish a market society. Although of course the market itself operates without central planning, it by no means follows that establishing a market order requires that one rely on a supposed "inarticulate reason." To think otherwise is to adopt a too exclusively Hayekian outlook. Ludwig von Mises, Hayek's teacher, was much more "rationalistic" than Hayek. Yet, contrary to what Sowell's classification system would lead one to expect, Mises more strongly supported reliance on the market than Hayek does. The nineteenth-century Continental liberals, whom Hayek spurns as overly rationalistic, again were firm defenders of the market—the prime example, in Sowell's opinion, of a constrained social policy. To avert a possible misunderstanding, Sowell does *not* say that all on the constrained vision team must support the free market. Marx, whose vision Sowell thinks was in good part constrained, of course did not. Nevertheless, the free market is supposed to be a prime instance of a social institution that operates by inarticulate reason. As such, it fits into the constrained model.

In brief, my criticism is that both constrained and unconstrained figures have defended an institution Sowell thinks a criterion for one (but not the other) of the visions. Another criticism arises when one looks at a different connection, that supposedly present between emphasis on process and a pessimistic view of human beings. Thomas Hobbes certainly qualifies as taking a low view of human nature: to him, the dominant passion controlling human beings was the fear of violent death. Much controversial ink has been spilled over the issue of whether he was a psychological egoist; but even if he was not, there is little place in his system for actions done out of regard for others. Nevertheless, Hobbes's account of the origins of the state falls squarely within the "constructivist rationalist" camp. Thus, a strong "constrained" position on one issue combines with an equally powerful "unconstrained" account of another.

Many of the nineteenth-century classical liberals painted glowing pictures of the future of society that placed them outside the bounds of the constrained. But just what in their opinion would lead to such happy results was complete reliance on the market mechanism. Their adherence to a constrained theory of how society works led them directly to an unconstrained picture of human potential. Had Sowell examined the *Economic Harmonies* of Bastiat, instead of concentrating with such singleminded attention on William Godwin, his visions might have had quite other contents.

The examples just given cannot be dismissed as aberrations. What is supposed to be the logical connection between a pessimistic view of human beings and a reliance on process as opposed to "articulate reason?" The two areas appear entirely distinct. Someone with a pessimistic position, e.g., will not think that people can achieve very

much of value; but this does not tell us the role he accords to articulate reason. Similarly, an optimist will adopt a roseate view of whatever he thinks the best method of running society.

Perhaps the relation between the two areas is supposed to be this. If someone takes a "low" view of human beings, he will not rate highly their reasoning ability. Thus, he will fear to place much confidence in planning and will think reliance on custom and institutions which have arisen through evolution to be essential. Further, he will be very dubious of the *bona fides* of social reformers who promise wonders if power is handed to them. His suspicions will extend to self-anointed Platonic guardians as well. A pessimist will indeed be skeptical about abstract reason and its acolytes, but the conclusion that he will seek refuge in "inarticulate reason" does not follow. He may think that owing to the defects of human beings, however bad the results of planning, this is still "the best we've got." Once more, one's assessment of the best method of dealing with social problems is distinct from how much success one thinks it possible for human beings to attain. (For the past few paragraphs, I have put to one side the criticisms advanced against Sowell's account of human nature and assumed that we know in a rough-and-ready way what he has in mind.)

Although I have directed some criticism toward Sowell's account of the constrained attitude to reason, his presentation of the way the market works has considerable importance. Many social theorists ignore the "economic point of view." They fail to realize that the choice of one goal entails costs elsewhere and that not all "good things" can be achieved at once. Sowell's brief presentation of the free market may give some of them pause, should they chance to come upon it.

Our evaluation of Sowell's remarks on morality must be much more "constrained" in its enthusiasm. Sowell deprecates the importance of "value preferences": as he sees it, people have quite similar preferences but differ sharply on the best means to achieve their goals.

Sowell radically underestimates the significance of differences in moral outlook. Some people, e.g., presented with the elementary argument that shows why minimum wages will result in unemployment, will continue to support this measure. Unemployment of some may help particular groups to raise their income, and these latter may not care about the ill effects on others.

Nor are cases of conflict restricted to clashes between morality and "selfishness." Ronald Dworkin, a leading political and legal philosopher, favors egalitarianism even though it may involve some degree of lessened economic efficiency. To a large extent, Dworkin would concede to Sowell the importance of the market. He would demur from the "constrained vision" view that since "everyone" wants prosperity, considerations of justice must "get out of the way" if they interfere with the processes by which society operates.

Although Dworkin's substantive account of justice seems to me wrong, his view that morality is relevant to social theory makes much more sense than the view Sowell attributes to the constrained visionaries.

It may well be true that most people want an efficient economy, but it is a far cry from this to thinking that morality has nothing to do with the market. For one thing, how can one acceptably delimit the property rights people possess without reference to rights? The constrained visionary, as Sowell presents him, would no doubt reply that people should simply accept whatever system of property evolution has been served up to them. But why should they? Their doing so surely is not needed for the working of the market, since the market can operate with any generally acceptable scheme of rights. Why then need anyone who acknowledges the importance of the market avoid the notion of justice? Of course, some theories of justice are inimical to the market order, such as Rawls's system as usually interpreted. But even the constrained visionary and his ventriloquist Sowell should be aware that other moral theories support the free market. What is wrong with libertarian natural rights?

The argument is not altered if one takes account of Hume's point that since any private property system is better than none, people ought to avoid changing a conventionally established system lest they bring about disorder. The effects of particular changes are an empirical matter: will *any* alteration of what exists upset everything? How much disorder one is willing to tolerate, if necessary, to institute a morally appropriate system seems a matter for discussion, not one to be settled by reference to a spurious dichotomy of types of vision.

Once more, then, the items in Sowell's visions manifest no coherence. Someone who favors the free market need not adopt the moral skepticism that Sowell thinks appropriate to someone of constrained vision. Unless, like Sowell and his mentor Hayek, one is already a moral skeptic, one will not at all find that the operation of the market makes nugatory appeals to moral theory. Even if one thinks that social reason is largely inarticulate, moral theory can still remain. Why cannot a moral theory operate by inarticulate means? (I do not myself favor this approach but wish only to appoint that Sowell's presentation of inarticulate reason leaves it open to acceptance.)

A defender of Sowell might contend that we have misunderstood the point of his visions. He need not be taken as claiming that the various points of each vision are logically connected. Rather, the visions are a useful tool in looking at intellectual history: many thinkers can in fact be grouped in the way Sowell has set forward. Nor is the value of the scheme much affected by the fact that some thinkers—Sowell instances Karl Marx and John Stuart Mill—do not fall completely within either of the categories. No system of classification is perfect.

It seems to me wrong to say that Sowell thinks it a pure matter

of fact that the elements of each vision go together, just as it happens to be the case that no state of the United States has the letter "Q" in its name. On the contrary, Sowell thinks that the positions included in his visions *do* fit together, and it is this claim I have been principally concerned to challenge.

Considered just as a method of classification, little can be said apart from a detailed consideration of its application to particular theorists. One more general problem with the scheme, however, is that few important writers seem to fit comfortably within the unconstrained camp. Sowell continually has to discuss Godwin—an underestimated but not *that* significant a figure—in order to have a case of someone who fits this side of his system.

Sowell's unconstrained vision accurately characterizes a number of twentieth-century "leftists" whom he mentions, such as Gunnar Myrdal. But apart from passing mention of Condorcet, Fourier, Paine, etc., he does not discuss any supposedly unconstrained visionary who lived before the twentieth century except Godwin. The only major contemporary theorist he deals with in this group is John Rawls; and Sowell grievously misunderstands him. Sowell thinks that Rawls's theory of justice uses abstract principles to ride roughshod over the processes by which the market functions efficiently. Contrary to Sowell, Rawls's difference principle does make provision for economic efficiency, since inequalities that are to the benefit of the worst-off are allowed. Someone who agrees with Sowell that the free market works to the advantage of the poor need have no trouble with the difference principle. Rawls himself does not share this view of the free market, but this is a factual issue, not an issue of the theory itself. Hayek thinks Rawls's theory largely compatible with his own views. Nothing in the preceding remarks is intended as an endorsement of Rawls's theory; but even a wrong theory does not justify the use of bad arguments to criticize it.

Further, if in fact the elements of Sowell's visions do not fit together logically, it may be that his system "works" only to the extent that it is parasitic on divisions of genuine intellectual importance. Two that come to mind are that between supporters and opponents of the free market and another between moral skeptics and "cognitivists." Also, though even a good classification will not fit everyone, even a useless scheme will fit *some* people.

Like all of Sowell's books, *A Conflict of Visions* is composed in a style that is easy to read, if at times boring in its unvarying and nondescript tone. Unlike much of his previous work, it is lacking in intellectual substance.

David Gordon
The Ludwig von Mises Institute

A Farewell to Marx: An Outline and Appraisal of His Theories. By David Conway. New York: Penguin Books, 1987.

David Conway's book supplies what many have been seeking for a long time—a reliable introductory study of Marxism which can be recommended without reservation to students. But he has also accomplished more. Even experienced scholars will find his discussion insightful and original.

The author concentrates his discussion around one central question: on what grounds did Marx condemn capitalism and wish to replace it with socialism? Three issues come to the fore in Marx's response. First, Marx believed that capitalism causes alienation, a dire though nebulous state of affairs which socialism would overcome. Second, capitalism rests on exploitation of the working class. Third, capitalism, once a progressive system, now blocks the growth of the forces of production. Inevitable economic crises will replace it with socialism. In this system, central planning will enable production to increase to a vast extent.

Conway rejects all of these Marxist claims and in the course of his analysis of them gives a masterly conspectus of the entire Marxist system. To turn at once to the first issue on Conway's agenda, our author gives short shrift to "alienation," a much discussed word that has behind it little substance.

Marx believed that workers under capitalism lack autonomy, since they work for capitalist employers and do not decide for themselves what they wish to produce. Nor does the capitalist have in mind the development of the laborer's creative powers. On the contrary, capitalism rests upon the division of labor. The consequence of this method, in which tasks are split up into small, specialized operations, is that work often stultifies creativity.

Conway disposes of Marx's indictment quite easily. If workers want "creative" work, they are free to demand this, and whatever other conditions they wish, from their employers. Workers are also free under capitalism to establish firms under their own control: what could be more autonomous than this?

There is, however, one "catch." No guarantee exists that workers in "creative" conditions will be able to earn enough money to justify

The Review of Austrian Economics, Vol. 4, 1990, pp. 234-40
ISSN 0889-3047

the greater production costs of these conditions. If workers do cover the increased costs, it is hardly likely that their salaries will be as high as under capitalism.

For this the reason is evident. If creative, "non-alienated" conditions were more productive than those that at present exist, employers would rush to establish them. As Marx himself noted, capitalists aim constantly for profit and they are hardly likely to overlook a superior way of inducing more and better work.

The facts, unfortunately for Marx, are entirely otherwise. It is just the system of division of labor which he condemns, not his non-alienated utopia, that is most productive. If so, then a well-established economic theory tells us that wages will be higher here than under alternative methods of production. Labor receives the discounted marginal value of its product. Less technically, the wages of labor depends on what it produces. If, then, "better" working conditions reduce production, wages will also fall.

Much to the surprise of some Marxists, if no one else, workers usually prefer higher wages to the "creative" work others think best for them. If workers choose more pay over the alleged benefits of "non-alienated" work, is this not a supreme example of autonomy? By earning more money than otherwise possible, workers increase the goods and services available to them. Some workers are benighted enough to prefer watching baseball on television to spending time in socialist "re-education" camps.

But, the socialist will say, why choose between better working conditions and more goods and services? Under central planning, one can have both. A "higher" stage of socialism, at any rate, will in Marx's words make "the free development of each the condition for the free development of all."

Such promises have by now a hollow ring. No reason exists for thinking central planning will aid in overcoming alienation. As Conway notes: "Let us first consider the claim advanced by Marx that communism permits each individual to do what he likes, as he likes, when he likes during the period of work. This, surely, must be rejected as purest fantasy. Apart from anything else it seems totally incompatible with having a centrally planned economy. How could planners ensure that there would be enough people in each branch of industry at each moment of the working day should each individual have complete freedom to decide what he does during it?" (p. 47).

Further, a socialist economy of any complexity would not work at all. Here of course the calculation argument of Ludwig von Mises is decisive: without markets, a developed economy will be unable to produce capital goods efficiently. Briefly put, Mises has removed socialism as a "live option."

I venture to suggest that Conway ought to have made more use of

this decisive point. He does mention the calculation argument, which he terms "the argument from ignorance" (pp. 184-85). But he credits it to Friedrich A. Hayek, not Mises; and he thus does not state it in its strongest form.

Though Conway's treatment of alienation on the whole deserves high praise, the most outstanding part of the book is his section on exploitation under capitalism. As Conway notes, "exploitation" is a technical term in Marx's economics. Marx believes that workers sold their employers their labor power—their capacity to labor—while their wages were determined by the cost of the commodities workers required to subsist. More exactly, the "cost" of labor depends on what a particular society regards as an acceptable standard of life. As Conway notes, this need not be bare physical subsistence (p. 97). The gap that existed between labor power and the cost of labor explained the secret of capital. How, if a capitalist both bought and sold everything at its value, could he make a profit? Marx's account of labor provided his answer, and it is this very gap that constitutes exploitation.

If capitalism has a "secret," then as Conway shows, Marx's account leaves it a very well kept secret indeed. His explanation of profit relies on the labor theory of value. Conway, here following the classic treatment of Böhm-Bawerk, demolishes this theory quickly and effectively. It assumes that in an exchange, each commodity traded has an equal value with whatever in that exchange is given up for it. On this assumption, Marx inquires: what do all commodities have in common that enables us to determine the ratios at which commodities equal each other? He locates the answer in labor. Two commodities exchange in proportion to the average socially necessary labor time required to produce each one.

This account goes wrong from the start. An exchange is not an equality, far from it. Each person in an exchange prefers what he obtains to what he gives up: how could the trade otherwise voluntarily take place? An exchange is then a double inequality, not an equality. And on this sounder theory, one can readily build up a theory of value much superior to the Marxist account. Conway presents this competing view, the subjective or marginal utility theory of value, in a clear and simple way (pp. 98ff). And on this account, the worker is not "exploited."

Perhaps wisely, Conway passes by the complicated "transformation problem." This is Marx's convoluted attempt to square the circle—his attempt to show that his labor theory could explain why prices of production do not correspond to labor values. Böhm-Bawerk exploded for all time Marx's manifold fallacies here.

Instead, our author turns to ethics: does capitalism wrongfully exploit the worker? Here "exploit" is used not in its technical sense in Marxist economics, but in its ordinary language meaning. Inciden-

tally, Marx's choice of the term "exploitation" has considerable rhetorical force. It would not follow, if his view of economics were right, that there is anything unsatisfactory in labor's receiving less than its capacity for labor enables it to produce. But the use of the word "exploitation" serves to make part of Marx's case for him. It is quite easy to forget Marx's technical meaning and slide over to the ordinary language use, in which exploitation by definition is objectionable.

But to return to Conway, on what grounds do Marxists claim workers are exploited? Much of their case rests on the false assumption that the capitalist is not doing anything. But surely providing capital is an essential task of production. Nor is Marx justified in ridiculing the theory that interest payments reward capitalists for abstinence. No doubt capitalists could not in all cases readily consume personally the wealth they now invest: but they need not invest anything. The fact that they do invest, then, does indicate a sacrifice of possible consumption (p. 112). Conway's case could have been made even more effectively had he explicitly brought in the Austrian view that interest payments reflect the rate of time preference.

Suppose one grants that Conway is right. Capitalists are not useless drones but exercise a productive function of vital significance. A socialist might attack on a different front: he might admit that capitalists are productive but deny that they have justly obtained their property.

To this Conway has a ready reply. He denies that it is unjust for individuals to hold land and other resources for productive purposes. Appropriating unowned land, e.g., need not prevent anyone else from access to the means he or she needs to have a fulfilling life. Hence morality imposes no bar against appropriation.

In this argument, Conway appeals to a principle of rights that strikes me as dubious. Following the philosopher Samuel Scheffler, Conway states: "we shall construe every person as having a natural right to a sufficient share of every good capable of distribution whose enjoyment is a necessary condition of a person's having a reasonable chance of living a decent and fulfilling life." (pp. 117-18). (Conway holds that the right is subject to one qualification, but this does not affect our discussion.) As Conway interprets this principle, it allows property acquisition subject to something quite like the "Lockean proviso": there must be "enough and as good" (p. 19) of whatever is appropriated left over for others.

I cannot think that the restrictions Conway's principle impose on acquisition of property can be defended in the fashion our author sets forward. *Why* does everyone have so extensive a natural right as Scheffler's principle mandates? Do persons physically unable to provide for themselves have a natural right that others provide them with medicine and nursing care? Are those with high standards of

living obligated to devote large shares of their resources to aiding the destitute in Ethiopia and Bangladesh? Though I cannot argue the point here, I think that the straight-forward Rothbardian variant of Lockean rights avoids these and other problems.

But even if Conway's view of rights is wrong, his adoption of it serves a useful purpose in the case against Marxism. If even his overly permissive view of rights allows property rights, how much more can they be supported on a more restricted view of the goods and services people are entitled to claim from others?

One escape remains to the Marxist. He may hold that, whether or not there is in principle an objection on moral grounds to private property, in practice the question admits of but one response. In actually existing capitalism, wealth was mainly acquired through plunder of colonies and the use of slave labor.

This Conway denies. He claims that "landed and colonial wealth played virtually no part in financing the first capitalist industrial ventures." In fact, capital expanded through exactly the account Marx ridiculed; businessmen in the Industrial Revolution tended to "plough back" nearly all their profits in further investment (p. 111. Conway's sources are works of R. Cameron and F. Crouzet, as cited at pp. 214-15.)

Capitalism, Conway has abundantly shown, stands acquitted of the charge of exploitation. But what of the Marxist claim that the capitalist system leads inevitably to crisis and collapse? Here, space compels me to be brief. Suffice it to say that this claim too stands bereft of support.

Marx's theory of capitalist development has both a general basis in the "laws" of history and includes specific means by which capitalism fulfills these supposed laws of history. The first of these depends on the view that productive forces—roughly the technology and methods of production that exist at a time—tend continually to grow. The economic system that exists at a particular stage of history is the one that best enables the forces of production to grow. When the system reaches the limits of the growth of capital within it, a new system will replace it. Conway notes that Marx's explanation of the economic system is a functional one. That is, he explains the economic system by its role in promoting the growth of the forces of production.

But this sort of explanation is at best incomplete. The growth of the forces of production does not precede the system whose existence it is supposed to explain. How then is it supposed to explain it? Granted the "function" of the system, some causal account is needed to explain how the economic system exists. Otherwise, our causal explanation will go in the wrong direction—the (later) production forces will "cause" the (earlier) system that enables them to develop. In a detailed discussion, Conway maintains that G. A. Cohen, the

leading supporter of this sort of functional account, has not filled his analysis out in an acceptable way (pp. 73-75).

There is a further point that to my mind invalidates the Marxist theory. Why should we assume that *each* new economic system is the one that will allow the maximum development of the productive forces possible at a particular time in history? Isn't it the case, e.g., that capitalism would have been a more productive economic system than feudalism? (I cannot think acceptable the contention of Douglas North that feudalism is a type of capitalism. But if one thinks there is "something to" this, rephrase the point: isn't a capitalist system that need not be bound by feudal restrictions always more productive than one that is thus restricted?)

Conway shows very well that Marx's specific mechanisms designed to explain the collapse of capitalism fail of their purpose. Marx's account here relies on the theory that the rate of profit tends under capitalism to fall: his argument for this is a tissue of error (pp. 113-39). As Conway notes, on the best account of the business cycle, that of Ludwig von Mises, depression is not intrinsic to capitalism. It results from the collapse of overinvestment due to government-induced expansion of bank credit. Depression is a problem not of the free market, but of governmental interference with it (pp. 140-41).

I have so far been in entire accord with the main lines of Conway's presentation. But I fear I must part company with him in his fifth chapter, "Politics." Here he argues that Marx favored democracy: unlike Lenin and his successors, Marx did not favor the suppression of workers and their subjection to the minority dictatorship of a "vanguard" party. Conway fully and fairly presents the evidence against his view (pp. 148ff); he nevertheless holds that even such phrases as the "dictatorship of the proletariat" are not what they seem. He interprets Marx's advocacy of dictatorship in a way that leaves him still a democrat.

It seems to me that Conway has here fallen into a trap. No doubt Marx did support certain freedoms for "workers." But the proletariat hardly subsumes everyone within society: and there is no evidence that Marx thought of extending "democratic" freedoms to non-proletarian opponents of socialism.

Further, even if one confines the discussion to workers, one needs to distinguish, in a way that Conway fails to do, between democracy and civil liberties. The fact that Marx wished workers to take an active role in government hardly shows that he wished to extend civil liberties to workers who opposed socialism. Would he not more likely have regarded them as "class traitors" to be dealt with ruthlessly?

Conway's last full chapter, "Theory or Ideology," is strikingly original. He denies that Marx has made a case for his claim that morality reflects class interests. What exactly is the argument that

moral judgments are not objectively true? Marx offers none—he simply dismisses morality with a wave of the hand.

Conway's case so far, while perfectly in order, follows standard lines. His originality emerges in his treatment of the related Marxist claim that religion is ideological. Here he counters by presenting with apparent approval Schopenhauer's assertion that some religions—Christianity, Brahmanism, and Buddhism—allegorically present the truth of the human condition. The truth in question is that of the futility of life and the need for a release from the domination of the will. Many will find this more than a little *outré*. A less radical response to Marx might content itself with noting that specific religious claims need to be discussed rather than dismissed *en bloc*. But like all of Conway's book, his view is clearly presented and provocative.

I do not think anyone can finish Conway's excellent book without learning a great deal about both Marxism and effective philosophical argument.

David Gordon
The Ludwig von Mises Institute

The International Political Economy of Coffee: From Juan Valdez to Yank's Diner. By Richard L. Lucier. New York: Praeger Publishers, 1988.

Coffee is of global importance, ranking second to petroleum in world commodity trade. Moreover, coffee is of particular importance as a major export commodity in many low-income countries in Latin America, Africa, and Asia. The primary purpose of *The International Political Economy of Coffee* is to integrate political science and economics in analyzing the five-fold increase in world coffee prices over an 18-month period in the mid-1970s. The effects of this price increase, resulting from a frost in Brazil in 1975, are traced from Yank's Diner in Scranton, Pennsylvania through the world coffee market (and the international coffee agreements) to several countries in which coffee is the major export and a prime determinant of the level of economic activity.[1] The effects of higher coffee prices on individual consumers in the United States and on coffee producers in Brazil, Columbia, and the Ivory Coast are analyzed. The individual coffee producer in Columbia is personified by "Juan Valdez," the Columbian coffee industry's fictional TV advertising spokesman. A stated concern of the book is to show how Juan Valdez and Yank's Diner are mutually dependent upon each other.

The book is divided into seven chapters. Chapter 1 describes the consumer outcry against higher coffee prices in the United States following the Brazilian frost, the resulting U.S. Congressional hearings, and General Accounting Office study of the world coffee system. The impact of this economic shock in the United States coffee market is the starting point of the inquiry into economic interdependence between countries producing coffee and countries consuming coffee. Chapter 3 describes the world coffee market, emphasizing the role of Brazil as a "dominant oligopolist" in coffee production. Coffee production and trade is considered in a broader political-economic context of economic growth and development of "Third World" countries.[2] Chapter 4 describes the history of the international coffee agreements. The issues raised in these agreements between countries producing and consuming coffee were the subject of negotiations in the call by less-developed countries for a New International Economic

[1] The information in the book about Yank's Diner was taken from an article in the *Wall Street Journal*.

The Review of Austrian Economics, Vol. 4, 1990, pp. 241-48
ISSN 0889-3047

Order (NIEO) during the 1970s. Chapters 5 and 6 focus on the role of coffee in economic development in Columbia and the Ivory Coast. The political economy of coffee in the 1980s is considered in the final chapter of the book, including a brief analysis of the effects of a Brazilian drought in late 1985.

This book presents a wealth of data about the international coffee industry. Trends in production and use of coffee, supply and demand, prices, exports and imports by various countries, the growth in production and consumption of soluble relative to roast coffee, market shares of leading firms in the coffee industry, and other aspects of coffee trade are clearly described and well documented. Thus, this book is a good data source about the world coffee market. Moreover, it clearly traces through the effects of the 1975 Brazilian frost on coffee consumers and producers. So long as the book is used as a source of data about the world coffee market, there is little room for criticism.

However, the book is not merely about the coffee industry. The broader objective is to analyze the relationship between coffee production and economic development in less developed countries. In doing so, the author focuses on "the highly charged issues of dependency, national sovereignty, and the forces that shape developing countries' political economies" (p. 19).

Lucier's aim is to integrate political science and economics into a single work on economic development by focusing on power relationships. He concludes, and properly so, that it is central to political-economic analysis that both power and markets be understood. However, the author fails to properly distinguish between power and market relationships.[3] Market transactions are based on consensus whereas the governmental decision-making process inevitably involves power and coercion. A finding of "market failure" based on an oligopolistic view of coffee production leads the author to favor cartelistic solutions enacted and enforced through international agreements in regulating the production and consumption of coffee throughout the world.

[2]The Third World concept was forged after World War II, largely under United Nations auspices. The unifying characteristic of the Third World is that its constituents receive aid from Western governments. In economic development literature, the Third World was previously known as the underdeveloped world, the less-developed world, and now is often referred to as the South. See Peter T. Bauer and Basil S. Yamey, "The Third World and the West: An Economic Perspective," chap. 6 in *The Third World: Premises of U.S. Policy*, W. Scott Thompson, ed. (San Francisco: Institute for Contemporary Studies, 1978), pp. 118-20.

[3]Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1970).

International Coffee Agreements

Coffee was one of the first commodities in which control over world trade was attempted. Brazil, producing from 75 to 90 percent of the world's coffee in the early 1900s, led Columbia and other Latin American countries to a series of producer-country agreements to control exports and raise world prices from 1902 until the first International Coffee Agreement was signed in 1962. This agreement represented a major change in the world coffee market since major coffee importing countries (including the United States) also became signatories. The 1962 Agreement, ending in 1968, was followed by similar international coffee agreements in 1968, 1976, and 1983. The agreements, based on a system of country-by-country export quotas, restrict marketing and raise coffee prices.[4] As one might expect, however, the effectiveness of the cartels was eroded by competition as exporters shipped through third countries to cheat on the agreement.

Lucier is a firm proponent of international coffee agreements contending that free trade is a myth and that the real choice is between commodity agreements (including consumers as well as producers) and oligopolistic arrangements between producers only (pp. 163-65). Thus, the agreements, in his view, merely reflect the reality that governments are heavily involved in coffee markets in producing countries and coffee trade in highly developed countries is heavily concentrated in a few transnational firms. Further, Lucier argues that the agreements have been broadly beneficial because they both slowed the shift in production from low- to high cost producers and controlled production to balance world demand and supply. Lucier concludes that even coffee consuming countries benefit from these international agreements by having more leverage in marketing decisions. However, the latter conclusion is challenged by Law who found coffee prices under the agreements during the 1963-1972 period were *higher and less stable* than they had been in the preceding 10 years.[5]

The long term effects of commodity agreements are predictable from cartel theory. The post-World War II period has seen cartel-like international agreements in a number of other products including oil, wheat, and sugar. Despite the temporary success of the Organization of Petroleum Exporting Countries (OPEC) in restricting total sales, the effectiveness of cartels in raising prices is inevitably eroded over time.[6]

[4]A new coffee agreement is scheduled to begin October 1, 1989. In early 1989, the United States, objecting to inflexible quotas and sales to nations that are not members of the pact and at lower prices than members are required to pay, threatened not to join the agreement.

[5]Alton D. Law, *International Commodity Agreements* (Lexington, Mass.: D. C. Heath, 1975), p. 84.

[6]Peter H. Lindert, *International Economics*, 8th ed. (Homewood, Ill.: Irwin, 1986), p. 207.

There were some special factors contributing to OPEC's success in raising prices for a decade or so, but time has largely dissipated its power too. Thus, the typical results to be expected from restrictions on competition and higher prices arising from commodity agreements are: consumer resentment, a faster search for substitutes, cheating among signatories, an expansion of output outside the agreement, a constant struggle to keep total output or trade down and individual nations' shares up, and retardation of needed resource and production adjustments.[7] The economic arguments against the various international coffee agreements and other commodity agreements are similar to those of other government cartels. Commodity agreements are more likely to inhibit productive resource allocation since quotas and prices are determined by political influence and past production and trading patterns rather than comparative advantage and market forces.[8] Similarly, Bauer finds that commodity agreements tend to freeze the pattern of production, protect high-cost producers and restrict the growth of lower-cost supplies.[9]

Cartel theory suggests that arbitrarily raising product price will spur the development of substitutes. Thus, it is not surprising that Brazilian and Columbian coffee has faced increased competition as more and more countries began to produce and export coffee. Whereas only 14 percent of the world's coffee was grown outside of Central and South America in the late 1940s, non-American, chiefly African, coffee production has increased rapidly since that time and now constitutes about one-third of total world exports.[10] There is little doubt, given the huge number of countries exporting coffee, that coffee consumers would be protected better by the market process than by world-wide cartel arrangements agreed upon by producing and consuming countries.[11]

Economic Development and the New International Economic Order

The United Nations Conference on Trade and Development (UNCTAD) was convened in Geneva in 1964. The "Third World" countries

[7]Alton D. Law, *International Commodity Agreements*, pp. 77-78.

[8]Ibid., p. 111.

[9]Peter T. Bauer, *Dissent on Development*, rev. ed. (Cambridge, Mass.: Harvard University Press, 1976), p. 263.

[10]U.S. Department of Agriculture, *Agricultural Statistics 1987* (Washington, D.C.: U.S. Department of Agriculture Printing Office, 1988), p. 238.

[11]Nappi finds that past coffee agreements have defended a price floor above the long-term market price, frozen the industry structure through the allotment of export quotas, and not provided a mechanism to encourage reduction of high cost production capacity. See Carmine Nappi, *Commodity Market Controls* (Lexington, Mass.: D. C. Heath, 1979), p. 76.

succeeded in drawing attention to their view that the system of international trade and investments was established by the industrial high-income North at the expense of the low income South.[12] The oil shock of the mid-1970s galvanized the UNCTAD movement into a demand for a "New International Economic Order."[13] This NIEO was to apply the OPEC cartelization approach to coffee and other primary products. One of the planks in the NIEO platform was to manipulate markets of primary products—as in international commodity agreements—so as to stabilize and raise commodity prices.[14]

Lucier appears sympathetic to the NIEO view that the system of international trade and finance benefits richer countries at less-developed countries expense. Two components of the NIEO were (1) stable and higher product prices, and (2) increased access for "developing country" exports to "developed"-country markets (p. 103). Thus, the international coffee agreements foreshadowed the active stance exemplified in the NIEO and coincides with the first component of the NIEO agenda.

The above discussion suggests that the economic results of cartelization of coffee markets are similar to those for other commodities. International commodity agreements are generally sold as measures to stabilize markets. However, stabilization schemes for cocoa, coffee, tin, and other products face the formidable incentive and information problems of correctly guessing what the long-run price trend will be, mustering sufficient resources to keep the price near that trend, and following through with the appropriate actions. After reviewing the experience with such schemes, Lindert concludes that price stabilization is "plausible in principle but unworkable in practice."[15]

Market stabilization schemes are interesting intellectual exercises but of little practical significance. Even if government officials could obtain the information necessary to increase price stability, the incentives of the political process are such that they are unlikely to do so. In this respect, international commodity agreements are similar to domestic government programs to stabilize markets. Neither theory nor historical experience provide reason to think that the political process will succeed in stabilizing markets where private action fails

[12]Bauer points out that the term Third World reflects a condescending attitude because we normally do not talk about the First or Second World. It is countries in Asia, Africa and Latin America that are lumped together by this term—as if they "were all much of a muchness." There is a great deal of ambiguity in distinctions made between developed and less developed countries but the term less developed is much less misleading than underdeveloped, developing, or Third World used as an adjective (Peter T. Bauer, *Dissent on Development*, p. 25).

[13]Peter H. Lindert, *International Economics*, p. 275.

[14]Ibid., p. 276.

[15]Ibid., p. 281.

to do so.[16] For example, the International Coffee Agreement of 1976, advertised as a stabilization device, failed to prevent two years of high prices following the Brazilian frost in 1975.[17] And, aside from the stabilization aspects of commodity agreements, there is no more justification for artificially raising prices through production and marketing controls (to assist producers) than there is for any other government redistribution program.[18]

The second component of the NIEO agenda, increased access (by more highly developed countries) for exports from less developed countries, warrants emphasis and support. The effort by Brazil in the late 1960s and mid-1970s to increase exports of soluble coffee to the United States, for example, was opposed by the National Coffee Association (the trade association representing United States coffee processors) and ultimately by the U.S. Congress (p. 142). This action is symptomatic of the schizophrenic nature of governmental policies in the United States and other economically advanced countries toward low income countries. On the one hand, various governmental economic development initiatives are launched at taxpayer expense to assist less developed countries, such as the Alliance for Progress and the Caribbean Initiative by the United States. At the same time, however, economic development is impeded by restricting imports of sugar, coffee, and so on, from these countries. The most effective way rich countries can help poor countries is to reduce trade barriers against their exports.[19]

[16]After more than 400 pages of formal analysis investigating the conditions under which government stabilization policies might be effective, Newbery and Stiglitz conclude: "In short ... we believe that the gains to be had from a commodity price stabilization programme are likely to be small, and that most of the benefits in risk reduction may be had by improving the workings of the market, for example, by making futures markets more readily accessible (directly or indirectly) to small producers," (David M. G. Newbery and Joseph E. Stiglitz, *The Theory of Commodity Price Stabilization: A Study in the Economics of Risk* [New York: Oxford University Press, 1981], p. 445). The authors acknowledge that their formal analysis is oversimplified by assuming away the formidable "empirical" problems in obtaining the information required to design and implement a price stabilization program to cope with "market failure" that arises due to the lack of perfect information and appropriate insurance markets to deal with risk. However, they completely ignore the incentive problems that predictably result in "government failure" as well as the policy implications of that failure. Ibid., pp. 442-44.

[17]Bruce L. Gardner, *The Governing of Agriculture* (Lawrence, Kans.: The Regents Press of Kansas, 1981), p. 104.

[18]It is suggested by some people that the United States (and other industrial countries) should participate in international commodity agreements as a form of economic assistance to developing countries. However, no system of transferring income from the United States consumers of coffee and other products to foreign producers can be justified as increasing social utility. See David Osterfeld, "Social Utility and Government Transfers of Wealth: An Austrian Perspective," *The Review of Austrian Economics* 2 (1987): 79-99.

[19]Peter T. Bauer and Basil S. Yamey, "The Third World and the West," p. 115.

A thesis of Lucier's book is that "trade, focused on exports, is an undependable engine of growth and development" (p. 104). In this so-called classic dependence scenario, less developed countries are alleged to be dependent upon technically advanced countries as customers for their exports and as sources of the imports needed for economic growth and development. Furthermore, the development and wealth in the advanced countries and the lack of development and poverty in the poor countries are held to be a function of one another.[20] However, this dependency view has little relevance. When trade occurs, there is mutual dependence—interdependence—and all parties benefit from it. The fact that many less developed countries mainly export primary commodities in exchange for imports of manufacturing capital goods does not mean that such trade is harmful.

Development economists frequently assume that government planning is a central factor in economic development. In this view, there must be a "development policy" or "development strategy" with government activity regulating investment expenditure, imports and exports, and terms of trade. Lucier favors government planning in "developing countries" to direct investment and production and to protect "infant industries" from foreign competition as ways to promote economic and political development (pp. 97-98). However, there is a great deal of evidence that centralization and increased governmental power is "much more likely to obstruct economic progress than to advance it."[21]

Lucier draws a sharp distinction between economic growth and economic development. Economic growth is identified with increases in output and income while,

> economic development is a process of change: in the composition of output, in production processes, in the distribution of income, in the production and diffusion of knowledge, and in the sophistication and modernization of the entire social system and its institutions [p. 93].

In this view, economic growth occurs without economic development when the outcome is not consistent with the "development goals." In the Ivory Coast following independence in 1960, for example, a high rate of economic growth was achieved with the assistance of foreign investment from France and other developed countries—but (according to Lucier) little economic development. The major beneficiaries of the economic growth were foreign-owned firms, and the Ivorian population did not receive "its share of economic benefits" (p. 303).

The "terms-of-trade" are held to be of critical importance if "exports are concentrated on a few primary commodities" (p. 95). Bauer

[20]Anthony S. Smith, "The Case of Dependency Theory," chap. 11 in *The Third World: Premises of U. S. Policy*, p. 211.

[21]Bauer and Yamey, "The Third World and the West," p. 84.

in sharp contrast, finds that the discussion about terms of trade of less developed countries is misleading or incorrect and that "terms of trade are, in fact, unrelated to the prime causes of poverty in the underdeveloped world."[22]

Much of the analysis in economic development involves a "nirvana approach"—comparing the present situation with an unattainable outcome.[23] In assessing the effects of trade, investment, and other factors contributing to the development of economic activity in any country, the relevant comparison is between the present situation and the condition that would exist in the absence of the factor(s) responsible for the change in economic conditions. For example, the fact that incomes in a poor country would be higher if a smaller proportion of the rewards were going to "foreign factors of production" (p. 303) or if terms of trade were more favorable are not relevant in assessing the effects of foreign investment, international trade, and so on.

In brief, Lucier's book is much more informative about the operation of the international coffee market than it is as a policy guide for ways to promote economic development in less developed countries. The objective of public policy should be to develop an institutional framework that provides maximum scope for individual choice. Only in this way can resources be used most effectively throughout the world and the interests of producers and consumers best be served. The recommended cartelization of the world coffee market in the form of international coffee agreements is not consistent with this objective.

E. C. Pasour, Jr.
North Carolina State University, Raleigh

[22]Ibid., p. 258.

[23]Harold Demsetz, "Information and Efficiency: Another Viewpoint," *Journal of Law and Economics* 12 (1969): 1-22.

Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard. Edited by Walter Block and Llewellyn H. Rockwell, Jr. Auburn, Alabama: The Ludwig von Mises Institute, 1988.

Man, Economy, and Liberty, which grew out of a conference celebrating Murray Rothbard's 60th birthday in 1986, is a collection of essays by 30 contributors—economists, philosophers, historians, political scientists, sociologists, and long-time friends and companions—honoring one of the world's foremost living champions of liberty.

Edited by Walter Block and Llewellyn H. Rockwell, Jr., *Man, Economy, and Liberty* amply and yet incompletely attests to Rothbard's productivity and his achievements. Author of 16 books and thousands of articles, scholarly and journalistic, ranging over the entire field of the humane studies, Rothbard ranks among the great social thinkers. A system-builder, he is the architect of a rigorously consistent social philosophy.

Economics and ethics are the cornerstones of the Rothbardian system, strictly separated, but firmly grounded in the nature of man, and complementing each other to form an integrated system of rationalist philosophy.

Economics, and here Rothbard follows Ludwig von Mises, sets out from the axiom that humans act, i.e., that they pursue their most highly valued goals with scarce means. Combined with a few empirical, and empirically testable assumptions (such as that labor implies disutility), all of economic theory can be logically deduced from this indisputable starting point, thus elevating its propositions to the status of apodictic, a priori true laws and establishing economics as a logic of action (praxeology). Modeled after Mises's *Human Action*, *Man, Economy, and State*, Rothbard's first *magnum opus*, completed while still in his mid-30s, develops the entire body of economic theory—from the law of marginal utility to the business cycle theory—along these lines, repairing in its course the few remaining inconsistencies in the Misesian system (such as his theory of monopoly prices and of governmental security production), and presenting, for the first time, a full case for a pure market economy as optimizing, always and necessarily so, social utility.

Ethics is the second pillar of the Rothbardian system. Contrary to the utilitarian Mises, who denies the possibility of a rational ethics,

The Review of Austrian Economics, Vol. 4, pp. 249-63
ISSN 0889-3047

Rothbard recognizes the need for an ethic to complement a value-free economics so as to make the case for the free market truly water-tight. Drawing on the theory of natural rights, in particular the work of John Locke, and the genuine American tradition of anarchistic thought of Lysander Spooner and Benjamin Tucker, he provides also for its foundation with the principles of self-ownership and original appropriation of unowned resources through homesteading. Any other proposal, Rothbard shows, either does not qualify as a human ethic applicable to everyone qua human being; or is not viable in that following it would literally imply death while obviously requiring a surviving proponent, thus leading to performative contradictions. The former is the case with all proposals which imply granting *A* ownership over *B* and/or resources homesteaded by *B*, but not giving *B* the same right regarding *A*. The latter is the case with all proposals advocating universal (communal) co-ownership of everybody and everything by all (for then no one would be allowed to do anything with anything before he had everyone elses's consent to do whatever he wanted to do). In *The Ethics of Liberty*, his second *magnum opus*, Rothbard deduces the corpus of libertarian law—from the law of contracts to the theory of punishment—from these axiomatic principles, and along the way subjects the libertarianism of, among others, James Buchanan, Friedrich A. Hayek, and Robert Nozick, to criticisms.

Yet Rothbard's anti-statism is by no means confined merely to general theoretical considerations. Though first and foremost a theoretician, he is also a historian, and his work contains a wealth of empirical information rarely matched by any "empiricist." Moreover, it is precisely his recognition of economics and ethics as pure, aprioristic theory, and of such theoretical reasoning as logically anteceding and constraining every empirical investigation, which makes his historical scholarship superior to that of most standard historians (not to mention the pseudo-historical research of the "cliometricians"), and that has established him as one of today's outstanding "revisionist" historians. Whether economic or political history, from the American colonial history, the panic of 1819, the Jacksonian period, the Progressive Era, World War I, America's Great Depression, Hoover, FDR and the New Deal, from U.S. monetary history, the establishment of the Federal Reserve System, the destruction of the gold standard, the Bretton Woods agreement, to U.S. foreign policy—Rothbard, with a detective's eye for the minutest detail of history's by-ways, has time and again challenged common wisdom and historical orthodoxy and has provided his readers with a vision of the historical process as a permanent struggle between truth and falsehood, economic wisdom and blundering, and between the forces of liberty and of power elites exploiting and enriching themselves at the expense of others and covering their tracks through lies and deceptions.

There is no substitute for reading Rothbard himself, if for no other

reason than his ability as a writer, and the rigor of his reasoning. Now however, for everyone concerned with Rothbard, Austrian economics, libertarianism, and rationalist philosophy in general, *Man, Economy, and Liberty* is required reading as well.

Sheldon Richman, in an especially noteworthy study, explores the young Rothbard who wrote several hundred private reviews of books on almost everything for the late Volker Fund between 1952 and 1962. No one who reads his account can come away without being "impressed at how steady [Rothbard] is in so many ways, a Rock of Gibraltar—intellectually, philosophically, even stylistically." Almost everything that would later appear as the Rothbardian system is already contained, in a programmatic form, in these reviews: his vigorous opposition against empiricism-positivism; his untiring attacks on historicism, and ethical skepticism and relativism; his rejection of conservatism and its preference for "classical" (Greek) as opposed to modern (Lockean) natural rights theories; his anti-state vigilance; his relentless defense, instead, of epistemological and ethical rationalism, of praxeology, and of natural rights theory (as a logical theory akin to praxeology), and of their implied extremism and absolutism (truth can be discovered); as well as his revisionist historical outlook and his approbation of the pre-Marxist, classical liberal class, or power elite analysis of Charles Comte and Charles Dunoyer.

Gary North, in a brilliant polemic, undertakes an explanation of "Why Rothbard Will Never Win the Nobel Prize," and why he, similarly to Mises, has been treated most shabbily by academia throughout his career. Not only has he been out of step with the spirit of times from the 50s to the mid-70s as an advocate of laissez faire; he remains so to this day, even with the tide of Keynesianism and interventionism subsiding, because of his absolutism and apriorism when academia still, unchangingly, professes a confused pluralism (how can a pluralism of values be said to be justified unless *it* can be shown to rest on a non-pluralist, absolute value?). More importantly, "Murray Rothbard has an addiction: clear, forthright writing. He says what he thinks, and he explains why he thinks it, in easily followed logic. He does not use equations, statistics, and the other paraphernalia of the economic priesthood. He simply takes the reader step by step through economic reasoning, selecting the relevant facts—relevant in terms of the economic logic he sets forth—and drawing conclusions." But doing this is a no-no among today's professional economists. "What impresses them is an economics book which cannot be understood even after three or four readings, and when its conclusions are at last grasped, they prove to be utterly inapplicable to the real world." Worse still, Rothbard's addiction to verbal logic, and his refusal to employ mathematics, is not merely accidental, but principled: utility is subjective and ordinal, and hence is unmeasurable; action takes

place in discrete steps, and hence calculus, which requires the assumption of infinitely small steps, cannot be employed in economics; and action is choosing, preferring one thing to another, and hence indifference curve analysis is plain irrelevant.

While the lucidity of his writing has contributed to his neglect by the academic establishment, it has been instrumental for Rothbard's success in creating a social movement. Barred from all positions of academic power and prestige, and prevented to this day from turning out Ph.D. students, it has been the sheer power of his words that has attracted a steadily growing, world-wide following, from all social strata, of individuals dedicated to the perennial goal of independent thinking, relentless logic, and intellectual courage.

Numerous contributors offer restatements of Rothbardian themes and analyses, locating them in the context of past or present controversies, and applying Rothbardian insights to new problem areas, or replying to critics. Dominick Armentano restates Rothbard's pathbreaking monopoly theory: while it is meaningful to define a monopolist as a producer who, by virtue of a grant of privilege from government, is no longer subject to a regime of unrestricted free entry, and while its prices then can indeed be characterized as "too high" (as compared with free market prices, i.e., those that would prevail if there were no legal restrictions on entry), any attempt to distinguish between monopoly and competitive prices within the framework of a free market, such as in orthodox monopoly theory, is operationally meaningless. Either such attempts rely on the "model of perfect competition" (criticized also in E. C. Pasour's contribution), which applies only to the never-never land of equilibrium (and is false even there—among other reasons—because of its assumption of a perfectly horizontal demand curve, which contradicts the law of marginal utility as a proposition deductively derived from the incontestable axiom of action) and is thus entirely irrelevant in helping to decide whether or not any real world prices are monopolistic ones. Or they define monopoly prices as higher prices reached through restricting production so as to take advantage of an inelastic demand and attain a higher total revenue. For one thing, however, every seller always sets his price such that he expects any price higher than the chosen one to encounter an elastic demand and so to lead to a reduced total revenue—and hence, under this definition, it would be impossible not to be a monopolist. And secondly, any movement from a subcompetitive price to a competitive one also involves a restriction and there exists no criterion whatsoever to distinguish such a restriction from the alleged monopoly price situation. Hence, to say anything more than that prices are free-market prices (or not) is devoid of any grounding in reality and thus meaningless.

Walter Block offers a fresh look at the institution of fractional reserve (deposit) banking, the pillar of all of today's banking systems, and

defends Rothbard's claim—once, in the good old days, considered obvious—that anything but 100 percent reserve banking is fraud, plain and simple; and that, if banks would not act fraudulently because they were to admit openly that their instantaneous liabilities exceed their assets on hand, then they would no longer be banks but lotteries, and their notes would not qualify as money but as lottery tickets.

Roger Garrison reexamines the pure time preference theory of interest as espoused by Frank Fetter, Ludwig von Mises, and Rothbard, and criticizes a number of rival theories (in particular those of Gustav Cassel and Irving Fisher). In acting, man not only invariably aims to substitute a more for a less satisfactory state of affairs and demonstrates a preference for more rather than less goods; invariably he must also consider when in the future his goals will be reached; hence, every action also demonstrates a universal preference of earlier over later goods. That is to say, every action requires time to attain its goal; and since man must consume sometimes, time is always scarce for him. Thus, *ceteris paribus*, present or earlier goods are, and must invariably be, valued more highly than future or later ones; and an exchange of a present good for a future one can only take place if the value of the future good is expected to exceed that of the present one—the value difference between present inputs and future outputs being interest. Contrary to all kinds of productivity theories of interest, then, it is the universal existence of a positive time preference, and of it alone, that accounts for, and explains, the phenomenon of interest.

Roger Arnold applies Rothbardian insights in order to analyze, and dispose of, attempts—particularly fashionable in public choice circles—to justify the existence of the state on prisoners' dilemma (PD) and/or transaction costs (TC) grounds. While it may well be admitted that prisoner's dilemma settings (situations of strategic game playing) and "high" transaction costs exist, it is a non-sequitur to conclude that this would prove anything regarding the necessity or desirability of state action. For one thing—a point not mentioned by Arnold—because in order to come up with the conclusion that something *should* be done about these alleged problems, one must smuggle a norm into one's chain of reasoning and hence would have to offer a theory of ethics—something, however, for which one looks in vain in the relevant literature. Nor is the economic case, to which Arnold explicitly restricts his analysis, any more conclusive.

In order to show that state action provides an economic solution to PD and TC problems, it must be demonstrated (and Arnold quotes James Buchanan to this effect) that it is capable of increasing everyone's utility level above what it otherwise would be. Yet this is impossible: first, it has to be noted that there surely exist market solutions to PD and TC problems. Reason and persuasion can be employed; the adoption of a tit-for-tat strategy can help overcome PD;

and the reduction of TC is just as much part of entrepreneurial activities as is the reduction of any other kind of costs. If, in spite of this, PD and TC problems still remain unresolved, why, then, not ask "So what?" Maybe they do not deserve to be solved, or solving them would occur at the expense of solving other more urgent problems. Furthermore, if no market solution is available, then, by definition, any solution must be a coercive one. Yet, Arnold writes, "if individuals are coerced it follows that they are doing something they wouldn't be doing [and] one can not get more utility from something he wouldn't be doing than doing something he would want to do. We conclude that the State decreases utility levels—if not for all persons, then at least for some. And as long as we can not measure whether the 'winners' gain more in terms of utility than the 'losers' lose, we cannot guarantee that there is even, at minimum, a net gain to having the State." (As regards the notion that all individuals may "voluntarily agree to be coerced," Arnold points out that such a thing has never been actually observed; worse still, one should add, the idea is patently absurd: for if the voluntarily accepted coercion is voluntary, then it would have to be possible to revoke one's subjection to the state, and it would be no more than a voluntarily joined club. If, however, one does not have this right—and such, of course, is the characteristic mark of a state as compared to a club—then it would be logically inadmissable to claim that one's acceptance of coercion is a voluntary one, and hence one's utility level would be reduced if it were continued.)

Finally, regarding transaction-cost justifications of the state in particular, Arnold trenchantly notes, "all costs, no matter what names we attach to them, are subjective; therefore they are unmeasurable. Given this, it does not make sense to say that transaction costs are high, or low, or somewhere in between. We conclude that the argument that purports to justify the State's existence, or State interventions, on the grounds that transaction costs are high makes as much sense as an argument that purports to justify the State on the grounds that Tuesday follows Monday."

David Osterfeld explains the Rothbardian concepts of freedom (and markets) and of power (and government): freedom is defined as a situation where each person has exclusive control (ownership, property) over his physical body, over all nature-given resources homesteaded with its help, over everything produced by such means, and over all resources contractually acquired from previous owners. On the other hand, the exercise of power is characterized by a person's invasion—or threat thereof—of the physical integrity of another's appropriated resources, and by non-contractual or fraudulent modes of restricting or eliminating another's control over his acquired property. He then compares these Rothbardian categories with rival definitions which have gained wide acceptance in the field of political

science. Robert Dahl, Harold Lasswell, and Morton Kaplan, for instance, all very much alike, define power instead "as a special case of the exercise of influence involving severe losses for non-compliance," as "affecting policies of others with the help of (actual or threatened) severe deprivations for non-conformity with the policies intended." (One might add that a similar definition had also been proposed by M. Weber and has since become highly influential in sociology.) Osterfeld has little difficulty showing the inadequacy of this definition, and the advantage of employing the Rothbardian distinction: given the fact that feelings are subjective and unmeasurable, there is simply no way whatsoever to objectively determine whether or not the losses or deprivations are "severe," and hence whether or not power is present or absent. The definition is strictly speaking non-operational. In contrast, Rothbard's definition clearly is operational. (Osterfeld does not go so far as to say that Rothbard's definitions, therefore, are the correct ones.)

Osterfeld, in his wide-ranging essay, also contributes valuable explanations regarding Rothbard's conception of power elites and power elite analysis. He relates it to similar approaches in political science, in particular those following in the footsteps of G. Mosca and R. Michels ("iron law of oligarchy"). He elaborates on the "logic" of the connection between government and banking and business establishments in forming a highly stable ruling class (or caste), explains the nature of party competition in all this, and finally indicates the success of the Rothbardian theory of power in explaining and predicting empirical events and phenomena.

Jeffrey Paul takes issue with the property theories of Robert Nozick and Hillel Steiner. Contrary to Rothbard, who argues in favor of the unrestricted validity of the first-use-first-own-rule (i.e., the homesteading principle) and, as implied by it, the equally unrestricted validity of a voluntary-title-transfer theory of property, Nozick and Steiner accept the latter part of this theory yet, for somewhat different reasons, take exception to the former. Paul, while explicitly not engaged in the more ambitious task of demonstrating the validity of the Rothbardian theory, undertakes to show it to at least be consistent, and to expose the theories of Nozick and Steiner as inconsistent and thus false: Nozick claims that once resources are owned by someone, this person also acquires ownership in everything produced in turn with their help, and that his property then can only be legitimately acquired by someone else via voluntary, contractual transfers. (It is this part of his theory that made Nozick appear as a libertarian.) Yet how do resources come to be owned in the first place? Nozick explicitly rejects the idea that "mixing one's labor" with unowned, virginal objects is sufficient for this to happen—the central idea of John Locke's property theory—and, similar to Locke and

equally unfortunate, Nozick adds a "proviso." According to him, unowned objects become justly acquired if and only if a person's act of appropriation (a) improves the value of the object, and (b) does not worsen the position of others by depriving them of the liberty of using this object, or by adequately compensating them if such a worsening should occur. (He passes over in silence the all-decisive questions of how one would objectively ascertain whether or not someone's position had been worsened, and how much compensation would be adequate. Nor does he seem to be aware of the absurd implications of this theory: what, for instance if I were to declare that Nozick's ownership of his physical body worsened my position, and that he, in order to compensate me for this, would be required to shut up for ever or drop dead? Surely, on his theory, there can be nothing wrong with such a request.)

Paul has no trouble showing the inconsistency of this theory. What is Nozick's reason for adding the proviso (i.e., condition b) on the level of original appropriation? Mixing one's labor with a virginal resource, Nozick argues, does not imply that the resultant object is the exclusive result of one's labor; thus it also cannot entitle one to exclusive control over the resultant object but, he claims, only to the value added to it; and hence the welfarist proviso. But if this is correct, Paul notes, then there is no reason whatsoever why the proviso should ever be dropped, and the title-transfer theory of property should come into play at subsequent stages of production, as Nozick claims. For obviously, regardless of how far the process of manufacturing objects is removed from the original act of appropriating nature-given resources, invariably there remains a virginal component in each and every object, and hence the welfare proviso would have to apply throughout. (One should note again the self-refuting character of this line of reasoning.)

Moreover, as Paul points out, Nozick, in shifting his argument from the level of physical phenomena to that of values, may not have provided a reason for the introduction of the welfare proviso at all. For while it is true that no physical object can ever be regarded as the exclusive result of one's labor, the entire value or utility of an object surely can. For without being at least discovered by someone, objects are obviously without any value whatsoever to anyone. Discovering something, however, writes Paul, "is the product of human efforts, not of natural circumstance"; and hence the discoverer can be said to have created the entire value of a discovered resource and thus would be entitled to its full ownership even on Nozick's own added-value theory.

Steiner's theory is similar to Nozick's and breaks down for essentially the same reasons. Instead of the Lockean proviso, Steiner, at the level of original appropriation, advocates a principle of equal distribution of virginal resources, his reason for rejecting the homesteading principle being, like Nozick's, that virginal resources are produced by no one, and hence cannot be owned by anyone in particular.

Accepting this reasoning, however, leads to an all-out egalitarianism (i.e., it would be impossible to restrict it to the level of original appropriations, as Steiner would have it). Moreover, on this theory as on Nozick's, it would be impossible to justify each person's ownership of his own physical body (which Steiner takes for granted). His egalitarianism would also have to apply to bodies. But, as I have already shown regarding Nozick's case, such a position leads to performative contradictions and is thus self-defeating.

While the majority of the contributors to *Man, Economy, and Liberty* would probably describe themselves as Rothbardians of some sort, not all would accept this label. In fact, though invariably sympathetic to Rothbard, several contributors advance ideas incompatible with, or critical of, his work. Israel M. Kirzner's essay on welfare economics is a case in point. Kirzner sets out with a restatement of some basic tenets, uncontroversial at least among Austrian economists, such as (a) methodological individualism: only individuals act and have values; talk about society is meaningless unless it can be unambiguously translated into statements concerning individuals; (b) subjectivism: utility, welfare, etc., refer to unmeasurable states of affairs, demonstrated through actual choices and capable only of ordinal ranking; and (c) an emphasis on process: decisive for judging welfare implications is not so much the outcome of actions but rather the process, or the rules generating the outcome. He then correctly criticizes traditional welfare economics by pointing out that "to attempt to aggregate utility is not merely to violate the tenets of methodological individualism and subjectivism (by treating the sensations of different individuals as being able to be added up); it is to engage in an entirely meaningless exercise."

Much less convincing is his following critique of the idea of Pareto-optimality. Kirzner claims that this notion "reflects a supra-individual conception of society and its well-being," and he regards this as its main defect. Because he merely reiterates this claim and does not explain it, I fail to grasp it and would still contend that the idea of Pareto-optimality is fully compatible with methodological individualism because of its unanimity requirement. The problem with Pareto-optimality as a welfare criterion, as Rothbard has repeatedly explained, is a completely different one. According to its orthodox version, it does not provide any criterion for selecting the starting point from which we are to begin making Pareto-optimal changes and thus boils down to an unprincipled advocacy of the status quo. Based on this criterion, slavery, minimum wage laws, or rent controls, once in place, could never be justifiably abolished, because surely there will always be someone whose situation is thereby worsened. If, however, the Pareto criterion is firmly wedded to the notion of demonstrated preference, it in fact can be employed to yield such a

starting point and serve, then, as a perfectly unobjectionable welfare criterion: a person's original appropriation of unowned resources, as demonstrated by this very action, increases his utility (at least ex ante). At the same time, it makes no one worse off, because in appropriating them he takes nothing away from others. For obviously, others could have homesteaded these resources, too, if only they had perceived them as scarce. But they did not actually do so, which demonstrates that they attached no value to them whatsoever, and hence they cannot be said to have lost any utility on account of this act. Proceeding from this Pareto-optimal basis, then, any further act of production, utilizing homesteaded resources, is equally Pareto-optimal on demonstrated preference grounds, provided only that it does not uninvitedly impair the physical integrity of the resources homesteaded, or produced with homesteaded means by others. And finally, every voluntary exchange starting from this basis must also be regarded as a Pareto-optimal change, because it can only take place if both parties expect to benefit from it. Thus, contrary to Kirzner, Pareto-optimality is not only compatible with methodological individualism; together with the notion of demonstrated preference, it also provides the key to (Austrian) welfare economics and its proof that the free market, operating according to the rules just described, always, and invariably so, increases social utility, while each deviation from it decreases it.

Despite his initial emphasis on the importance of the consideration of processes for welfare economics, there is no systematic mention by Kirzner of any rules: of how to acquire resources, or change, or exchange them, of markets, or market interventions. Instead, what follows his critique of Pareto-optimality, is the suggestion of another welfare criterion—inspired by Hayek and open to more severe criticisms than Pareto's—and a murky, non-operational distinction.

Kirzner's new, as he claims genuinely Austrian, criterion is that of "coordination—permitting each agent to achieve his goals through the simultaneous satisfaction of the goals of the other agent." Regarding this proposal one might first note that while each individual can judge on his own whether or not some act of his or of others makes him better or worse off, or leaves his welfare unaffected, judging whether or not one's act simultaneously satisfies the goals of others would require knowing what their goals are, and it is this criterion, then, which actually suffers from a "supra-individual conception" incompatible with methodological individualism. Second, the coordination criterion is unduly restrictive in eliminating an entire class of actions which have clear-cut welfare implications from consideration altogether. If I plant a flower in my garden, my welfare is increased, no one is thereby made worse off, and hence one might say that social welfare has increased. Yet obviously, there is no question of coordination here, and it thus would seem plainly false to say that coordination is a universal desideratum

of action. Third, the coordination criterion suffers from precisely the same problem as the Pareto-criterion in its orthodox version, i.e., it boils down to an unprincipled defense of the status quo. Kirzner, too, would have to address the all-decisive question of how to assign property rights initially so as to have a justified starting point from which to begin to achieve better coordination. For surely, he would not want to argue that social welfare in any meaningful sense is increased if my actions and those of an IRS agent are coordinated as compared to a situation where I would try to obstruct his plans.

One may now admit that the last problem possibly can be overcome, and that the coordination criterion can be employed to reconstruct welfare economics along lines similar to those sketched above by utilizing the idea of Pareto-optimality, so as to reach the conclusion that the free market is not only always Pareto-optimal but always optimally coordinated as well—taking into account, of course, the facts of uncertainty and imperfect knowledge, the dispersal of knowledge among different individuals, the costs associated with the acquisition and communication of knowledge and of learning, etc. But the idea "that in a world of dispersed knowledge ... sub-optimality or states of discoordinatedness cannot be postulated to exist (if one properly includes the costs of information-acquisition)" Kirzner curiously holds to be false. Why? Because, he writes, the "dispersal of knowledge necessarily involves not merely new costs (of learning and communication) but also the very real possibility of what we may call 'genuine error'. ... Genuine error occurs where a decision maker's ignorance is not attributable to the costs of search, or of learning or of communication—i.e., it is the result of his ignorance of available, cost-worthy, avenues to needed information. ... At the level of the individual decision-maker we may describe his activity as having been sub-optimal when he subsequently discovers himself to have inexplicably overlooked available opportunities that were in fact worthwhile. He cannot 'condone' his faulty decision-making on the grounds of the cost of acquiring information, since the information was in fact costlessly available to him. He can account for his failure only by acknowledging his utter ignorance of the true circumstances (i.e., of his ignorance of the availability of relevant information at worthwhile low cost)."

I must confess that I consider this notion of utter ignorance meaningless. First, it is incompatible with the idea that costs are subjective and incurred at the point of decision making, which Kirzner elsewhere has done so much to explain, and rather represents a relapse into the presubjectivist era of economics. For how can he claim that knowledge was in fact "costlessly available," or available at a "worthwhile low cost" even though it was demonstrably not available to the actor—unless he were to claim that he had an objective measure of cost at hand. The fact that in retrospect, after

discovering an error, one might say "wow, I could have known this for nothing," does not prove anything about the costs incurred at the point of decision making. Second, the concept is non-operational. No one can distinguish between errors stemming from utter ignorance and those "normal" ones resulting from the costs of learning, information acquisition, and general uncertainty. Obviously, no one can know ex ante what kind of error it is that he is going to make—otherwise he would not make it. And ex post considerations of what it would have cost to have avoided certain mistakes if only one had known better earlier are just that: retrospective speculations which may or may not have any impact on current or future decision making. Third, the concept of entrepreneurship does not require the assumption of utter ignorance, as Kirzner implies, but rather only the clear-cut and indisputable fact of uncertainty. Uncertainty explains entrepreneurship and pure profits. Utter ignorance, even if it existed, is neither a necessary nor a sufficient condition for it. Finally, "So what if utter ignorance exists?" What has this to do with welfare economics? Economics in general and welfare economics in particular deal with action and interaction, with scarce means and goals, and with choices. Economic theory requires no specific assumption about possible types of knowledge and error. It merely requires that there be knowledge and error, i.e., that actors pursue goals employing knowledge—act intentionally—can tell the difference between success and failure, and can recognize intellectual errors of any sort as accountable for specific outcomes. Any discovery of new or different types of errors is thus plainly irrelevant for economics and economic theory.

Kirzner promises a "modern Austrian perspective on welfare economics." I am inclined to think that it is not an Austrian perspective at all. It appears to violate the principle of methodological individualism; it contradicts the principle of subjectivism; and no consideration is given to rules and processes of acting, and of employing scarce physical resources in the pursuit of scarce goals, and all attention is shifted to economically irrelevant problems in the psychology of knowledge.

Leland B. Yeager's stimulating paper also deals with welfare economics. His approach is different from Kirzner's. Despite his hope, however, that it may be "compatible with or complementary to what [Rothbard] has written," it suffers from equally grave deficiencies and is just as incompatible with the Rothbardian "Reconstruction of Utility and Welfare Economics." Following John Harsanyi, Yeager suggests "maximum expected average utility" as a welfare criterion. The idea is roughly as follows: assume the position of an "impartial spectator" who considers and must choose between "alternative types of society, in each of which he would be a person selected at random, enjoying or suffering his fate in accordance with that person's utility function and position in

life." Harsanyi and Yeager both argue that under these circumstances one would rationally choose the social order which maximizes average utility. For the sake of argument I am willing to accept this as plausible enough; and I am also prepared to go along with their, in particular Harsanyi's, critique of rival, more egalitarian welfare criteria as proposed by John Rawls or Amartya Sen. The average utility criterion does "already take account of risk aversion in cases of dispersed possible outcomes expressed in utility terms." All egalitarian sentiments, as they may exist, are already reflected in the impartial spectator's social welfare function. To propose a more egalitarian criterion would amount to double counting. Hence, according to Harsanyi's von Neumann-Morgenstern conception of utility, in any case the impartial spectator would rationally prefer to maximize expected average utility rather than choosing any other criterion. So far so good. But then, "So what?"

What is this but mental gymnastics, non-operational, and without any praxeological foundation—in this respect not at all different from the conceptions of the majority of contemporary political economists and theorists, whether they are utilitarians (like Yeager), or contractarians (like Rawls), right (like Hayek), or left (like Sen)? Asked what the basic rules regarding the appropriation, allocation, transformation and transfer of scarce resources are, that would be recommended on the grounds of the Rawlsian difference principle, or Yeagers maximum average utility criterion, or whatever, there is simply no definite answer forthcoming. This should be sufficient evidencing that something is wrong with the theory at hand. In academia, however, the opposite has occurred. If a theory yields no specific conclusions at all concerning the foremost practical question to be answered (i.e., how I am to employ scarce physical resources so as to act correctly, optimally, or justly); and/or if it allows us to reach any conclusion whatsoever, including incompatible ones (Hayek, it might be recalled, in *Law, Legislation, and Liberty*, characterizes his welfare criterion as essentially—John Rawls's), the more serious is the attention that it receives. Rawls, indeed, with a theory that is the most painful example of this species of operational meaninglessness, has come to be accorded the rank of the preeminent practical philosopher of our age.

The systematic explanation for this disturbing phenomenon is a fatal error on the level of theory construction committed by Yeager as well as by Rawls. Any welfare criterion must be praxeologically, constructively realizable, i.e., it must be possible for us, who invariably must act and employ resources, to actually implement such a criterion and to consistently act upon it, otherwise it would be no welfare criterion at all but a praxeologically irrelevant chimera. Yeager's criterion, like Rawls's or Hayek's, is such a chimera, because it cannot be constructively realized.

In Rawls this constructive unrealizability is particularly acute: Rawls supposedly gets his criteria from know-nothing epistemological zombies sitting behind a "veil of ignorance," engaged in unconstrained considerations of alternative social orders for actual, non-zombie persons. For one thing, "Who cares?" What has this to do with our, human problems? But secondly, even if we wanted to know, we could not even try finding out, because we are not zombies behind a veil, but individuals who must continuously act in order to make a living. Rawls's contribution is thus irrelevant, non-operational, and self-contradictory on top.

The impartial spectator model adopted by Harsanyi and Yeager is somewhat more realistic. Individual actors can indeed assume the role of a "neutral" spectator and evaluate alternative societies; and they may well use maximum average utility as their decision criterion. Yet what if Yeager, Harsanyi, Rawls, and I, as hard as we try to be as impartial as we can be, do not choose the same but incompatible societies as maximizing average utility, as is likely to happen? It is here that the theory breaks down again as inoperable and praxeologically impossible. For it would be impossible to realize incompatible societies simultaneously; only one can be realized at a time. But which one? The criterion of maximum average utility has already done its work—but still there is disagreement as to which arrangement maximizes average utility. Aggregating is inadmissible, as Yeager agrees, and would lead to arbitrary results. But then there is nothing left to go on. Faced with incompatible alternatives one is actually told not to do anything, because one's criterion does not yield a conclusion.

Obviously, however, such advice is impossible to follow. We cannot stop acting; we always must either do one thing or another, and through our actions we contribute to the construction of one society or another. The utilitarian maximum average utility criterion does not give us a clue as to what to do in this situation; it is impossible for us to actively apply it; and whatever its relevance otherwise might be, from the point of view of economic theory it is pure moonshine, without any importance for our human quest to know how we are to act with scarce resources here and now so as to act correctly in terms of either social utility or justice.

The Rothbardian welfare theory, in terms of a theory of property rights, provides a definite answer—in the form of praxeologically meaningful criteria—to this inescapable problem. If impartial spectators cannot come to an agreement, or constitutional contractors cannot reach a contract, obviously this cannot mean that they would then have to suspend acting, nor can it imply that any further action is as correct as any other one. The fact merely shows that it is irrelevant to welfare economics what impartial spectators think or believe. It is not what one says about social welfare that counts, but

what one demonstrates about utility through one's actions: in playing the intellectual game of considering alternative social models for their capability of maximizing average utility, or of designing constitutions, one is still acting and employing scarce physical resources, and hence, prior to even beginning these intellectual plays, as their very own praxeological foundation, there must be an acting man, defined in terms of physical resources. Utility considerations à la Yeager, or agreements, or contracts already presuppose the existence of physically independent decision making units and a description of their existence in terms of a person's property relations regarding definite physical resources—otherwise there is no one to agree on anything, and nothing on which to agree about which to contract. More specifically, by engaging in discussions about welfare criteria that may or may not end up in agreement, and instead result in a mere agreement on the fact of continuing disagreements—as in any intellectual enterprise—an actor invariably demonstrates a specific preference for the first-use-first-own rule of property acquisition as his ultimate welfare criterion: without it no one could independently act and say anything at any time, and no one else could act independently at the same time and agree or disagree independently with whatever had been initially said or proposed. It is the recognition of the homesteading principle which makes intellectual pursuits, i.e., the independent evaluation of propositions and truth claims, possible. And by virtue of engaging in such pursuits, i.e., by virtue of being an "intellectual" one demonstrates the validity of the homesteading principle as the ultimate rational welfare criterion.

There are other notable contributions in this volume of generally high-quality essays, such as David Gordon's perceptive observations on the claims of the theory of natural, or human rights; Antony Flew's critique—as the collectivist counterpart to the tradition of Locke and Rothbard—of Rousseau and his political philosophy; and Ralph Raico's article on the radical Free-Trade-Movement in nineteenth century Germany and John Prince Smith, its leader from the 1840s until his death in 1874—a tradition almost completely unknown to contemporary Germany.

Finally, the collection also offers a glimpse of Murray Rothbard as a movie critic (by Justus Doenecke), as a critic of music and culture (by Neil McCaffrey), and his principles of aesthetic judgment. The volume appropriately concludes with personal notes by Margit von Mises and Joey Rothbard.

Hans-Hermann Hoppe
University of Nevada, Las Vegas