

Capitalism versus Socialism

MOST of our contemporaries are highly critical of what they call "the unequal distribution of wealth." As they see it, justice would require a state of affairs under which nobody enjoys what are to be considered superfluous luxuries as long as other people lack things necessary for the preservation of life, health, and cheerfulness. The ideal condition of mankind, they pretend, would be an equal distribution of all consumers' goods available. As the most practical method to achieve this end, they advocate the radical expropriation of all material factors of production and the conduct of all production activities by society, that is to say, by the social apparatus of coercion and compulsion, commonly called government or state.

The supporters of this program of socialism or communism reject the economic system of capitalism for a number of reasons. Their critique emphasizes the alleged fact that the system as such is not only unjust, a violation of the perennial God-given natural law, but also inherently inefficient and thus the ultimate cause of all the misery and poverty that plague mankind. Once the wicked institution of private ownership of the material factors of production will have been replaced by public ownership, human conditions will become blissful. Everybody will receive what he needs. All that separates mankind from this perfect state of earthly affairs is the unfairness in the distribution of wealth.

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The essential viciousness of this method of dealing with the fundamental problems of mankind's material and spiritual welfare is to be seen in its preoccupation with the concept of distribution. As these authors and doctrinaires see it, the economic and social problem is to give to everybody his due, his fair share in the endowment that God or nature has destined for the use of all men. They do not see that poverty is "the primitive condition of the human race."¹ They do not realize that all that enables man to elevate his standard of living above the level of the animals is the fruit of his planned activity. Man's economic task is not the distribution of gifts dispensed by a benevolent donor, but production. He tries to alter the state of his environment in such a way that conditions become more favorable to the preservation and development of his vital forces. He works.

Precisely, say the superficial among the critics of social conditions. Labor and nothing but labor brings forth all the goods the utilization of which elevates the condition of men above the level of the animals. As all products are the output of labor, only those who labor should have the right to enjoy them.

THIS may sound rather plausible as far as it refers to the conditions and circumstances of some fabulous non-human beings. But it turns into the most fateful of all popular delusions when applied to homo sapiens. Man's eminence manifests itself in his being fully aware of the flux of time. Man lives consciously in a changing universe; he distinguishes, sooner and later, between past, present,² and future; he

1. *Bentham*, *Principles of the Civil Code* (in *Works*, ed. Bowring, Vol. I), p. 309.

2. About the praxeological concept of "present" see *Human Action*, Third ed., pp. 100f.

makes plans to influence the future state of affairs and tries to convert these plans into fact. Conscious planning for the future is the specifically human characteristic. Timely provision for future wants is what distinguishes human action from the hunting drives of beasts and of savages. Pre-meditation, early attention to future needs, leads to production for deferred consumption, to the intercalation of time between exertion and the enjoyment of its outcome, to the adoption of what Boehm-Bawerk called round-about methods of production. To the nature-given factors of production, man-made factors are added by the deferment of consumption. Man's material environment and his style of life are radically transformed. There emerges what is called human civilization.

This civilization is not an achievement of kings, generals or other *Fuehrers*. Neither is it the result of the labors of "common" men. It is the fruit of the cooperation of two types of men: of those whose saving, i.e., deferment of consumption, makes entering upon time-absorbing, round-about methods of production possible, and of those who know how to direct the application of such methods. Without saving and successful endeavors to use the accumulated savings wisely, there cannot be any question of a standard of living worthy of the qualification human.

Simple saving, that is, the abstention from immediate consumption in order to make more abundant consumption at a later date possible, is not a specifically human contrivance. There are also animals that practice it. Driven by instinctive urges, some species of animals are also committed to what we would have to call capitalistic saving if it were done in full consciousness of its effects. But man alone has elevated intentional deferment of consumption to a fundamental principle of action. He abstains temporarily from consumption in order to enjoy later the continuous services of appliances that could not have been produced without such a postponement.

Saving is always the abstention from some kind of immediate consumption for the sake of making an increase or improvement in later consumption possible. It is saving that accumulates capital, dissaving that makes the available supply of capital shrink. In acting, man chooses between increasing his competence by additional saving or reducing the amount of his capital by keeping his consumption above the rate correct accountancy considers as his income.

Additional saving as well as the non-

consumption of already previously accumulated savings are never "automatic," but always the result of an intentional abstention from instantaneous consumption. In abstaining from instantaneous consumption, the saver expects to be fully rewarded either by keeping something for later consumption or by acquiring a capital good, by acquiring the *property* of a capital good.

Where there is no saving, no capital goods come into existence. And there is no saving without purpose. A man defers consumption for the sake of an improvement of later conditions. He may want to improve his own conditions or those of definite other people. He does not abstain from consumption simply for the pleasure of somebody unknown.

There cannot be any such thing as a capital good that is not owned by a definite owner. Capital goods come into existence as the property of the individual or the group of individuals who were in the position to consume definite things but abstained from this consumption for the sake of later utilization. The way in which capital goods come into existence as private property determines the institutions of the capitalistic system.

Of course, today's heirs of the capitalistic civilization also construct the scheme of a world-embracing social body that forces every human being to submit meekly to all its orders. In such a socialist universe everything will be planned by the supreme authority and to the individual "comrades" no other sphere of action will be left than unconditional surrender to the will of their masters. The comrades will drudge, but all the yield of their endeavors will be at the disposal of the high authority. Such is the ideal of socialism or communism, nowadays also called planning. The individual comrade will enjoy what the supreme authority assigns to him for his consumption and enjoyment. Everything else, all material factors of production, will be owned by the authority.

SUCH is the alternative. Mankind has to choose: On the one side—Private property in the material factors of production. Then the demand of the consumers on the market determines what has to be produced, of what quality, and in what quantity. On the other side—All the material factors of production are owned by the central authority and thus every individual entirely depends on its will and has to obey its orders. This authority alone determines what has to be produced and

what and how much each comrade should be permitted to use or to consume.

If one does not permit individuals to keep as their property the things produced for temporarily deferred utilization, one removes any incentive to create such things and thus makes it impossible for acting man to raise his condition above the level of non-human animals. Thus the anti-property (i.e., socialist or communist) authors had to construct the design of a society in which all men are forced to obey unconditionally the orders issued from a central authority, from the great god called state, society, or mankind.

II

THE social meaning and the economic function of private property have been widely misunderstood and misinterpreted because people confuse conditions of the market economy with those of the militaristic systems vaguely labeled feudalism. The feudal lord was a conqueror or a conqueror's accomplice. He was anxious to deprive all those who did not belong to his own cluster of any opportunity to make a living otherwise than by humbly serving him or one of his class comrades. All the land — and this means in a primitive society virtually all the material factors of production — was owned by members of the proprietary caste and to the others, to those disdainfully called the "villains," nothing was left but unconditional surrender to the armed hereditary nobility. Those not belonging to this aristocracy were serfs or slaves, they had to obey and to drudge while the products of their toil were consumed by their masters.

The eminence of the inhabitants of Europe and their descendants who have settled in other continents consists in the fact that they have abolished this system and substituted for it a state of freedom and civic rights for every human being. It was a long and slow evolution, again and again interrupted by reactionary episodes, and great parts of our globe are even today only superficially affected by it. At the end of the eighteenth century the triumphal progress of this new social system was accelerated. Its most spectacular manifestation in the moral and intellectual sphere is known as the Enlightenment, its political and constitutional reforms as the liberal movement, while its economic and social effects are commonly referred to as the Industrial Revolution and the emergence of modern capitalism.

The historians dealing with the various phases of this up-to-now most momentous and weighty period of mankind's evolution tend to confine their investigations to special aspects of the course of affairs. They mostly neglect to show how the events in the various fields of human activity were connected with one another and determined by the same ideological and material factors. Unimportant detail sometimes engrosses their attention and prevents them from seeing the most consequential facts in the right light.

The most unfortunate outcome of this methodological confusion is to be seen in the current fateful misinterpretation of the recent political and economic developments of the civilized nations.



Ludwig von Mises

The great liberal movement of the eighteenth and nineteenth centuries aimed at the abolition of the rule of hereditary princes and aristocracies and the establishment of the rule of elected representatives of the people. All kinds of slavery and serfdom ought to be abolished. All members of the nation should enjoy the full rights and privileges of citizenship. The laws and the practice of the administrative officers should not discriminate between the citizens.

This liberal revolutionary program clashed very soon with another program that was derived from the postulates of old communist sects. These sects, many of them inspired by religious ideas, had advocated confiscation and redistribution of land or some other forms of egalitarianism and of primitive communism. Now their successors proclaimed that a fully satisfactory state of human conditions could be attained only where all material factors of production are owned and operated by

"society" and the fruits of economic endeavors are evenly distributed among all human beings.

MOST of these communist³ authors and revolutionaries were convinced that what they were aiming at was not only fully compatible with the customary program of the friends of representative government and freedom for all, but was its logical continuation, the very completion of all endeavors to give to mankind perfect happiness. Public opinion was by and large prepared to endorse this interpretation. As it was usual to call the adversaries of the liberal⁴ demand for representative government the parties of the "right" and the liberal groups the parties of the "left," the communist (and later also the socialist) groups were considered as "more to the left" than the liberals. Popular opinion began to believe that while the liberal parties represent only the selfish class interests of the "exploiting" bourgeoisie, the socialist parties were fighting for the true interests of the immense majority, the proletariat.

But while these reformers were merely talking and drafting spurious plans for political action, one of the greatest and most beneficial events of mankind's history was going on—the Industrial Revolution. Its new business principle—that transformed human affairs more radically than any religious, ethical, legal, or technological innovation had done before—was mass production destined for consumption by the masses, not merely for consumption by members of the well-to-do classes. This new principle was not invented by statesmen and politicians; it was for a long time even not noticed by the members of the aristocracy, the gentry, and the urban patriots. Yet, it was the very beginning of a new and better age of human affairs when some people in Hanoverian England started to import cotton from the American colonies; some took charge of its transformation into cotton goods for customers of modest income; while still others exported such goods to the Baltic ports to

have them ultimately exchanged against corn that, brought to England, appeased the hunger of starving paupers.

The characteristic feature of capitalism is the traders' unconditional dependence upon the market, that is, upon the best possible and cheapest satisfaction of the most urgent demand on the part of the consumers. For every kind of production human labor is required as a factor of production. But labor as such, however masterfully and conscientiously performed, is nothing but a waste of time, material, and human effort if it is not employed for the production of those goods and services that at the instant of their being ready for use or consumption will best satisfy in the cheapest possible way the most urgent demand of the public.

The market is the prototype of what are called democratic institutions. Supreme power is vested in the buyers, and vendors succeed only by satisfying in the best possible way the wants of the buyers. Private ownership of the factors of production forces the owners — enterprisers — to serve the consumers. Eminent economists have called the market a democracy in which every penny gives a right to vote.

III

BOTH the political or constitutional democracy and the economic or market democracy are administered according to the decisions of the majority. The consumers, by their buying or abstention from buying, are as supreme in the market as the citizens through their voting in plebiscites or in the election of officers are supreme in the conduct of the affairs of state. Representative government and the market economy are the product of the same evolutionary process, they condition one another, and it would seem today that they are disappearing together in the great reactionary counter-revolution of our age.

Yet, reference to this striking homogeneity must not prevent us from realizing that, as an instrument of giving expression to the genuine wants and interests of the individuals, the economic democracy of the market is by far superior to the political democracy of representative government. As a rule it is easier to choose between the alternatives which are open to a purchaser than to make a decision in matters of state and "high" politics. The average housewife may be very clever in acquiring the things she needs to feed and to clothe her children. But she may be less fit in electing the officers called to handle

3. The term "socialism" was fashioned only many decades later and did not come into general use before the 1850's.

4. "Liberal" is here used in its 19th-century meaning that still prevails in European usage. In America "liberal" is nowadays used by and large as synonymous with socialism or "moderate" socialism.

matters of foreign policy and military preparedness.

Then there is another important difference. In the market not only the wants and wishes of the majority are taken into account but also those of minorities, provided they are not entirely insignificant in numbers. The book trade publishes for the general reader, but also for small groups of experts in various fields. The garment trades are not only supplying clothing for people of normal size, but also merchandise for the use of abnormal customers. But in the political sphere only the will of the majority counts, and the minority is forced to accept what they may detest for rather serious reasons.

In the market economy, the buyers determine with every penny spent the direction of the production processes and thereby the essential features of all business activities. The consumers assign to everybody his position and function in the economic organism. The owners of the material factors of production are virtually mandataries or trustees of the consumers, revocably appointed by a daily repeated election. If they fail in their attempts to serve the consumers in the best possible and cheapest way, they suffer losses and, if they do not reform in time, lose their property.

FEUDAL property was acquired either by conquest or by a conqueror's favor. Once acquired, it could be enjoyed forever by the owner and his heirs. But capitalistic property must be acquired again and again by utilizing it for serving the consumers in the best possible way. Every owner of material factors of production is forced to adjust the services he renders to the best possible satisfaction of the continually changing demand of the consumers. A man may start his business career as the heir of a large fortune. But this does not necessarily help him in his competition with newcomers. The adjustment of an existing railroad system to the new situation created by the emergence of motor cars, trucks, and airplanes was a more difficult problem than many of the tasks that had to be solved by enterprises newly started.

The fact that made the capitalistic methods of the conduct of business emerge and flourish is precisely the excellence of the services it renders to the masses. Nothing characterizes the fabulous improvement in the standard of living of the many better than the quantitative role that the entertainment industries play in modern business.

Capitalism has radically transformed all human affairs. Population figures have multiplied. In the few countries where neither the policies of the governments nor obstinate preservation of traditional ways on the part of the citizens put insurmountable obstacles in the way of capitalistic entrepreneurship, the living conditions of the immense majority of people have improved spectacularly. Implements never known before or considered as extravagant luxuries are now customarily available to the average man. The general standard of education and of material and spiritual well-being is improving from year to year.

All this is not an achievement of governments or of any charitable measures. More often than not it is precisely governmental action that frustrates beneficial developments which the regular operation of capitalistic institutions tends to bring about.

Let us look upon one special case. In the precapitalistic ages, saving and thereby the betterment of one's economic condition was really possible, apart from professional money-lenders (bankers), only to people who owned a farm or a shop. They could invest savings in an improvement or expansion of their property. Other people, the propertyless proletarians, could save only by hiding a few coins in a corner they considered as safe. Capitalism made the accumulation of some capital through saving accessible to everybody. Life insurance institutions, savings banks, and bonds give the opportunity of saving and earning interest to the masses of people with modest incomes, and these people make ample use of it. On the loan markets of the advanced countries, the funds provided by the numerous class of such people play an important role. They could be an important factor in making the operation of the capitalistic system familiar to those who are not themselves employed in the financial conduct of business affairs. And first of all — they could more and more improve the economic and social standing of the many.

But unfortunately the policies of practically all nations sabotage this evolution in the most disgraceful manner. The governments of the United States, Great Britain, France, and Germany, not to speak of most of the smaller nations, were or are still committed to the most radical inflationist policies. While continually talking about their solicitude for the common man, they have without shame, again and again through government-made inflation, robbed the people who have taken out

insurance policies, who are working under pension plans, who own bonds or savings deposits.

IV

THE authors who in Western Europe at the end of the eighteenth century and in the first decades of the nineteenth century developed plans for the establishment of socialism were not familiar with the social ideas and conditions in Central Europe. They did not pay any attention to the *Wohlfahrtsstaat*, the welfare-state of the German monarchical governments of the eighteenth century. Neither did they read the classical book of German socialism, Fichte's *Geschlossener Handelsstaat*, published in the year 1800. When much later — in the last decades of the nineteenth century — the nations of the West, first among them England, embarked upon the Fabian methods of a temperate progress toward socialism, they did not raise the question why continental governments whom they despised as backward and absolutist had long before already adopted the allegedly new and progressive principles of social reform.

But the German socialists of the second part of the nineteenth century could not avoid dealing with this problem. They had to face the policies of Bismarck, the man of whom the pro-socialist *Encyclopaedia of the Social Sciences* says that he was "with reason regarded as the foremost exponent of state socialism in his day."⁵ Lassalle toyed with the idea to further the cause of socialism by cooperation with this most "reactionary" paladin of the Hohenzollern. But Lassalle's premature death put an end to such plans and, very soon, also to the activities of the socialist group of which he had been the chief. Under the leadership of the disciples of Marx, the German socialist party turned to radical opposition to the Kaiser's regime. They voted in the Reichstag against all bills suggested by the government. Of course, being a minority party, their votes could not prevent the Reichstag's approval of various pro-labor laws, among them those establishing the famous social security system. Only in one case could they prevent the creation of a government-supported socialization measure, viz., the establishment of a governmental tobacco monopoly. But all the other nationalization and municipalization measures of the Bismarck age were adopted

5. See W. H. Dawson in the *Encyclopaedia of the Social Sciences*, Vol. II, p. 573.

in spite of the passionate opposition of the socialist party. And the nationalization policy of the German Reich that, thanks to the victories of its armies, in those years enjoyed all over the world an unprecedented prestige was adopted by many nations of Eastern and Southern Europe.

IN vain did the German socialist doctrinaires try to explain and to justify the manifest contradiction between their fanatical advocacy of socialism and their stubborn opposition to all nationalization measures put into effect.⁶ But notwithstanding the support the nationalization and municipalization policy of the authorities got from self-styled conservative and Christian parties, it very soon lost its popularity with the rulers as well as with those ruled. The nationalized industries were rather poorly operated under the management of the administrators appointed by the authorities. The services they had to render to the customers became highly unsatisfactory, and the fees they charged were more and more increased. And, worst of all, the financial results of the management by public servants were deplorable. The deficits of these outfits were a heavy burden on the national treasuries and forced again and again an increase in taxation. At the beginning of the twentieth century, one could no longer deny the obvious fact that the public authorities had scandalously failed in their attempts to administer the various business organizations they had acquired in the conduct of their "state socialism."

Such were conditions when the outcome of the First World War made the socialist parties paramount in Central and Eastern Europe and also considerably strengthened their influence in Western Europe. There was in those years in Europe practically no serious opposition to most radical pro-socialist plans.

The German revolutionary government was formed in 1918 by members of the Marxian social-democratic party. It had no less power than the Russian government of Lenin and, like the Russian leader, it considered socialism as the only reasonable and possible solution to all political and economic problems. But it was also fully familiar with the fact that the nationalization measures adopted by the Imperial Reich before the war had brought unsatisfactory financial results and rather poor

6. About the lame excuses of Engels and Kautsky, see my book *Socialism*, translated by J. Kahane, 1951 edition, pages 240 ff.

service and also that the socialist measures resorted to in the years of the war had been unsuccessful. Socialism was in their opinion the great panacea, but it seemed that nobody knew what it really meant and how to bring it about properly. Thus, the victorious socialist leaders did what all governments do when they do not know what to do. They appointed a committee of professors and other people considered to be experts. For more than fifty years the Marxians had fanatically advocated socialization as the focal point of their program, as the nostrum to heal all earthly evils and to lead mankind forward into the new garden of Eden. Now they had seized power and all of the people expected that they would redeem their promise. Now they had to socialize. But at once they had to confess that they did not know what to do and they were asking professors what socialization meant and how it could be put into practice.

It was the greatest intellectual fiasco history has ever known and it put in the eyes of all reasonable people an inglorious end to all the teachings of Marx and hosts of lesser known utopians.

Neither was the fate of the socialist ideas and plans in the West of Europe better than in the county of Marx. The members of the Fabian Society were no less perplexed than their continental friends. Like these, they too were fully convinced that capitalism was stone dead forever and that henceforth socialism alone would rule all nations. But they too had to admit that they had no plan of action. The flamboyantly advertised scheme of Guild Socialism was, as all people had to admit very soon, simply nonsense. It quietly disappeared from the British political scene.

But, of course, the intellectual debacle of socialism and especially of Marxism in the West did not affect conditions in the East. Russia and other Eastern countries of Europe and China turned to all-round nationalization. For them, neither the critical refutation of the Marxian and other socialist doctrines nor the failure of all nationalization experiments meant anything. Marxism became the quasi-religion of the backward nations which were anxious to get the machines and, first of all, the deadly weapons developed in the West, but which abhorred the philosophy that had brought about the West's social and scientific achievements.

The Eastern political doctrine asking for immediate full socialization of all spheres of life and the pitiless extermination of all opponents gets rather sympathetic support

on the part of many parties and influential politicians in the Western countries. "Building bridges to the communist sector of the world" is a task rather prevalent with many governments of the West. It is fashionable with some snobbish people to praise the unlimited despotism of Russia and China. And, worst of all, out of the taxes collected from the revenues of private business some governments, first of all that of the United States, are paying enormous subsidies to governments that have to face tremendous deficits precisely because they have nationalized many enterprises, especially railroads, post, telegraph and telephone service, and many others.

In the fully industrialized parts of our globe, in the countries of Western and Central Europe and Northern America, the system of private enterprise not merely survives, but continually improves and expands the services it renders. The statesmen, the bureaucrats, and the politicians look askance upon business. Most of the journalists, the writers of fiction, and the university teachers are propagating various brands of socialism. The rising generation is imbued with socialism in the schools. Only very rarely does one hear a voice criticizing socialist ideas, plans, and actions.

But socialism is for the peoples of the industrial world no longer a living force. There is no longer any question of nationalizing further branches of business.⁷

NONE of the many governments sympathizing with the socialist philosophy dares today seriously to suggest further measures of nationalization. On the contrary. For example, the American Government as well as every reasonable American would have reason to be glad if the new Administration could get rid of the Post Office with its proverbial inefficiency and its fantastic deficit.

Socialism started in the age of Saint-Simon as an attempt to give articulation to the ripeness of Caucasian man's Western civilization. It tried to preserve this aspect when it later looked upon colonialism and imperialism as its main targets. Today it is the rallying cry of the East, of the Russians and the Chinese, who reject the West's ideology, but eagerly try to copy its technology.

7. The British Labor cabinet paid homage to its party-ideology in dealing with the steel industry. But everybody knows that this is merely a facade to conceal a little the great failure of all that the various British left-wing parties were aiming at for many decades.