The Economic Role Of Saving And Capital Goods

Ludwig von Mises

As the popular philosophy of the common man sees it, human wealth and welfare are the products of the cooperation of two primordial factors: nature and human labor. All the things that enable man to live and to enjoy life are supplied either by nature or by work or by a combination of naturegiven opportunities with human labor.

As nature dispenses its gifts gratuitously, it follows that all the final fruits of production, the consumers' goods, ought to be allotted exclusively to the workers whose toil has created them. But unfortunately in this sinful world conditions are different. There the "predatory" classes of the "exploiters" want to reap although they have not sown.

The landowners, the capitalists, and the entrepreneurs appropriate to themselves what by rights belongs to the workers who have produced it. All the evils of the world are the necessary effect of this originary wrong. Such are the ideas that dominate the thinking of most of our contemporaries. The socialists and the syndicalists conclude that in order to render human affairs more satisfactory it is necessary to eliminate those whom their jargon calls the "robber barons," i.e., the entrepreneurs, the capitalists, and the landowners, entirely; the conduct of all production affairs ought to be entrusted either to the social apparatus of compulsion and coercion, the state (in the Marxian terminology called Society), or to the men employed in the individual plants or branches of production.

Other people are more considerate in their reformist zeal. They do not intend to expropriate those whom they call the "leisure class" entirely. They want only to take away from them as much as is needed to bring about "more equality" in the "distribution" of wealth and income.

But both groups, the party of the thoroughgoing socialists and that of the more cautious reformers, *From *The Freeman,* August 1963 agree in the basic doctrine according to which profit and interest are "unearned" income, are therefore morally objectionable, are the cause of the misery of the great majority of all honest workingmen and their families, and ought to be sharply curbed, if not entirely abolished, in a decent and satisfactory organization of society. Yet this whole interpretation of human conditions is fallacious.

The policies engendered by it are pernicious from whatever point of view we may judge them. Western civilization is doomed if we do not succeed very soon in substituting reasonable methods of dealing with economic problems for the present disastrous methods.

Three Factors of Production Mere work—that is, effort not guided by a rational plan and not aided by the employment of tools and intermediary products—brings about very little for the improvement of the worker's condition. Such work is not a specifically human device. It is what man has in common with all other animals. It is bestirring oneself instinctively and using one's bare hands to gather whatever is eatable and drinkable that can be found and appropriated.

Physical exertion turns into a factor of human production when it is directed by reason toward a definite end and employs tools and previously produced intermediary products. Mind—reason—is the most important equipment of man. In the human sphere, labor counts only as *one* item in a combination of natural resources, capital goods, and labor; all these three factors are employed, according to a definite plan devised by reason, for the attainment of an end chosen.

Labor, in the sense in which this term is used in dealing with human affairs, is only one of several factors of production. The establishment of this fact demolishes entire- ly all the theses and claims of the popular doctrine of exploitation. Those saving and thereby accumulating capital goods, and those abstaining from the consumption of previously accumulated capital goods, contribute their share to the outcome of the processes of production.

Equally indispensable in the conduct of affairs is the role played by the human mind. Entrepreneurial judgment directs the toil of the workers and the employment of the capital goods toward the ultimate end of production, the best possible removal of what causes people to feel discontented and unhappy. What distinguishes contemporary life in the countries of Western civilization from conditions as they prevailed in earlier ages—and still exist for the greater number of those living today—is not the changes in the supply of labor and the skill of the workers and not the familiarity with the exploits of pure science and their utilization by the applied sciences, by technology. It is the amount of capital accumulated.

The issue has been intentionally obscured by the verbiage employed by the international and national government agencies dealing with what is called foreign aid for the underdeveloped countries. What these poor countries need in order to adopt the Western methods of mass production for the satisfaction of the wants of the masses is not information about a "know how." There is no secrecy about technological methods. They are taught at the technological schools and they are accurately described in textbooks, manuals, and periodical magazines. There are many experienced specialists available for the execution of every project that one may find practicable for these backward countries.

What prevents a country like India from adopting the American methods of industry is the paucity of its supply of capital goods. As the Indian government's confiscatory policies are deterring foreign capitalists from investing in India and as its prosocialist bigotry sabotages domestic accumulation of capital, their country depends on the alms that Western nations are giving to it. Consumers Direct the Use of Capital Capital goods come into existence by saving. A part of the goods produced is withheld from immediate consumption and employed for processes the fruits of which will only mature at a later date. All material civilization is based upon this "capitalistic" approach to the problems of production.

"Roundabout methods of production," as Boehm-Bawerk called them, are chosen because they generate a higher output per unit of input. Early man lived from hand to mouth. Civilized man produces tools and intermediary products in the pursuit of long-range designs that finally bring forth results which direct, less time-consuming methods could never have attained or only with an incomparably higher expenditure of labor and material factors. Those saving—that is consuming less than their share of the goods produced—inaugurate progress toward general prosperity. For the seed they have sown enriches not only themselves but also all other strata of society. It benefits the consumers.

The capital goods are for the owner a dead fund, a liability rather than an asset, if not used in production for the best possible and cheapest provision of the people with the goods and services they are asking for most urgently. In the market economy the owners of capital goods are forced to employ their property as if it were entrusted to them by the consumers under the stipulation to invest it in those lines in which it best serves those consumers.

Virtually, the capitalists are mandataries of the consumers, bound to comply with their wishes. In order to attend to the orders received from the consumers, their real bosses, the capitalists must either themselves proceed to investment and the conduct of business or, if they are not prepared for such entrepreneurial activity or distrust their own abilities, hand over their funds to men whom they consider as better fitted for such a function. Whatever alternative they may choose, the supremacy of the consumers remains intact.

No matter what the financial structure of the firm or company may be, the entrepreneur who operates with other peoples' money depends no less on the market, that is, the consumers, than the entrepreneur who fully owns his outfit. There is no other method to make wage rates rise than by investing more capital per worker. More investment of capital means: to give to the laborer more efficient tools. With the aid of better tools and machines, the quantity of the products increases and their quality improves. As the employer consequently will be in a position to obtain from the consumers more for what the employee has produced in one hour of work, he is able—and, by the competition of other employers, forced—to pay a higher price for the man's work. As the labor union doctrine sees it, the wage increases that they are obtaining by what is euphemistically called "collective bargaining" are not to burden the buyers of the products but should be absorbed by the employers. The latter should cut down what in the eyes of the communists is called "unearned income," that is, interest on the capital invested and the profits derived from success in filling wants of the consumers that until then had remained unsatisfied. Thus the unions hope to transfer step by step all this allegedly unearned income from the pockets of the capitalists and entrepreneurs into those of the employees.

What really happens on the market is, however, very different. At the market price *m* of the product p, all those who were prepared to spend m for a unit of p could buy as much as they wanted. The total quantity of p produced and offered for sale was *s*. It was not larger than *s* because with such a larger quantity the price, in order to clear the market, would have to drop below m to m-. But at this price of m- the producers with the highest costs would suffer losses and would thereby be forced to stop producing p. These marginal producers likewise incur losses and are forced to discontinue producing p if the wage increase enforced by the union (or by a governmental minimum wage decree) causes an increase of production costs not compensated by a rise in the price of m to m+.

The resulting restriction of production necessitates a reduction of the labor force. The outcome of the union's "victory" is the unemployment of a number of workers. The result is the same if the employers are in a position to shift the increase in production costs fully to the consumers, without a drop in the quantity of p produced and sold. If the consumers are spending more for the purchase of p, they must cut down their buying of some other commodity *q.* Then the demand for *q* drops and brings about unemployment of a part of the men who were previously engaged in turning out *q.*

The union doctrine qualifies interest received by the owners of the capital invested in the enterprise as "unearned" and concludes that it could be abolished entirely or considerably shortened without any harm to the employees and the consumers. The rise in production costs caused by wage increases could therefore be borne by shortening the company's net earnings and a corresponding reduction of the dividends paid to the shareholders.

The same idea is at the bottom of the unions' claim that every increase in what they call productivity of labor (that is, in the sum of the prices received for the total output divided by the number of man hours spent in its production) should be added to the wage bill. Both methods mean confiscating for the benefit of the employees the whole or at least a considerable part of the returns on the capital provided by the saving of the capitalists. But what induces the capitalists to abstain from consuming their capital and to increase it by new saving is the fact that their forbearance is counterbalanced by the proceeds of their investments. If one deprives them of these proceeds, the only use they can make of the capital they own is to consume it and thus to inaugurate general progressive impoverishment. The Only Sound Policy What elevates the wage rates paid to the American workers above the rates paid in foreign countries is the fact that the investment of capital per worker is in this country higher than abroad. Saving, the accumulation of capital, has created and preserved up to now the high standard of living of the average American employee. All the methods by which the federal government and the governments of the states, the political parties, and the unions are trying to improve the conditions of people anxious to earn wages and salaries are not only vain but directly pernicious.

There is only one kind of policy that can effectively benefit the employees, namely, a policy that refrains from putting any obstacles in the way of further saving and accumulation of capital.

The Individual In Society

Ludwig von Mises

The words freedom and liberty signified for the most eminent representatives of mankind one of the most precious and desirable goods. Today it is fashionable to sneer at them. They are, trumpets the modern sage, "slippery" notions and "bourgeois" prejudices. Freedom and liberty are not to be found in nature. In nature there is no phenomenon to which these terms could be meaningfully applied. Whatever man does, he can never free himself from the restraints which nature imposes upon him. If he wants to succeed in acting, he must submit unconditionally to the laws of nature.

Freedom and liberty always refer to interhuman relations. A man is free as far as he can live and get on without being at the mercy of arbitrary decisions on the part of other people. In the frame of society everybody depends upon his fellow citizens. Social man cannot become independent without forsaking all the advantages of social cooperation.

The fundamental social phenomenon is the division of labor and its counterpart—human cooperation. Experience teaches man that cooperative action is more efficient and productive than isolated action of self-sufficient individuals. The natural conditions determining man's life and effort are such that the division of labor increases output per unit of labor expended.

These natural facts are: (1) the innate inequality of men with regard to their ability to perform various kinds of labor, and (2) the unequal distribution of the nature-given, non-human opportunities of production on the surface of the earth. One may as well consider these two facts as one and the same fact, namely, the manifoldness of nature which makes the universe a complex of infinite varieties.

Innate Inequality

The division of labor is the outcome of man's conscious reaction to the multiplicity of natural conditions. On the other hand, it is itself a factor bringing about differentiation. It assigns to the various geographic areas specific functions in the complex of the processes of production. It makes some areas urban, others rural; it locates the various branches of manufacturing, mining, and agriculture in different places. Still more important, however, is the fact that it intensifies the innate inequality of men.

Exercise and practice of specific tasks adjust individuals better to the requirements of their performance; men develop some of their inborn faculties and stunt the development of others. Vocational types emerge, people become specialists. The division of labor splits the various processes of production into minute tasks, many of which can be performed by mechanical devices. It is this fact that made the use of machinery possible and brought about the amazing improvements in technical methods of production. Mechanization is the fruit of the division of labor, its most beneficial achievement, not its motive and fountain spring. Power-driven specialized machinery could be employed only in a social environment under the division of labor. Every step forward on the road toward the use of more specialized, more refined, and more productive machines requires a further specialization of tasks.

Within Society Seen from the point of view of the individual, society is the great means for the attainment of all his ends. The preservation of society is an essential condition of any plans an individual may want to realize by any action whatever. Even the refractory delinquent who fails to adjust his conduct to the requirements of life within the societal tic confusion. They realized that it was hopeless for them to fight openly and sincerely for restraint and servitude. The notions liberty and freedom had such prestige that no propaganda could shake their popularity.

Since time immemorial in the realm of Western civilization liberty has been considered as the most precious good. What gave to the West its eminence was precisely its concern about liberty, a social ideal foreign to the oriental peoples. The social philosophy of the Occident is essentially a philosophy of freedom. The main content of the history of Europe and the communities founded by European emigrants and their descendants in other parts of the world was the struggle for liberty. "Rugged" individualism is the signature of our civilization. No open attack upon the freedom of the individual had any prospect of success.

New Definitions

Thus the advocates of totalitarianism chose other tactics. They reversed the meaning of words. They call true or genuine liberty the condition of the individuals under a system in which they have no right other than to obey orders. They call themselves true *liberals* because they strive after such a social order. They call democracy the Russian methods of dictatorial government. They call the labor union methods of violence and coercion "industrial democracy." They call freedom of the press a state of affairs in which only the government is free to publish books and newspapers. They define liberty as the opportunity to do the "right" things, and, of course, they arrogate to themselves the determination of what is right and what is not. In their eyes government omnipotence means full liberty.

To free the police power from all restraints is the true meaning of their struggle for freedom. The market economy, say these self-styled liberals, grants liberty only to a parasitic class of exploiters, the bourgeoisie; that these scoundrels enjoy the freedom to enslave the masses; that the wage earner is not free; that he must toil for the sole benefit of his masters, the employers; that the capitalists appropriate to themselves what according to the inalienable rights of man should belong to the worker; that under socialism the worker will enjoy freedom and human dignity because he will no longer have to slave for a capitalist; that socialism means the emancipation of the common man, means freedom for all; that it means, moreover, riches for all.

These doctrines have been able to triumph because they did not encounter effective rational criticism. It is useless to stand upon an alleged "natural" right of individuals to own property if other people assert that the foremost "natural" right *is* that of income equality. Such disputes can never be settled. It is beside the point to criticize nonessential, attendant features of the socialist program. One does not refute socialism by attacking the socialists' stand on religion, marriage, birth control, and art. A New Subterfuge In spite of these serious shortcomings of the defenders of economic freedom it was impossible to fool all the people all the time about the essential features of socialism.

The most fanatical planners were forced to admit that their projects involve the abolition of many freedoms people enjoy under capitalism and "plutodemocracy." Pressed hard, they resorted to a new subterfuge. The freedom to be abolished, they emphasize, is merely the spurious "economic" freedom of the capitalists that harms the common man; that outside the "economic sphere" freedom will not only be fully preserved, but considerably expanded.

"Planning for Freedom" has lately become the most popular slogan of the champions of totalitarian government and the Russification of all nations. The fallacy of this argument stems from the spurious distinction between two realms of human life and action, the "economic" sphere and the "noneconomic" sphere. Strictly speaking, people do not long for tangible goods as such, but for the services which these goods are fitted to render them. They want to attain the increment in wellbeing which these services are able to convey. It is a fact that people, in dealing on the market, are motivated not only by the desire to get food, shelter, and sexual enjoyment, but also by manifold "ideal" urges. Acting man is always concerned both with "material" and "ideal" things. He chooses between various alternatives, no matter whether they are to be classified as material or ideal.

In the actual scales of value, material and ideal things are jumbled together. Preserving the Market Freedom, as people enjoyed it in the democratic countries of Western civilization in the years of the old liberalism's triumph, was not a product of constitutions, bills of rights, laws, and statutes. Those documents aimed only at safeguarding liberty and freedom, firmly established by the operation of the market economy, against encroachments on the part of officeholders. No government and no civil law can guarantee and bring about freedom otherwise than by supporting and defending the fundamental institutions of the market economy.

Government means always coercion and compulsion and is by necessity the opposite of liberty. Government is a guarantor of liberty and is compatible with liberty only if its range is adequately restricted to the preservation of economic freedom. Where there is no market economy, the best-intentioned provisions of constitutions and laws remain a dead letter. Competition The freedom of man under capitalism is an effect of competition. The worker does not depend on the good graces of an employer. If his employer discharges him, he finds another employer. The consumer is not at the mercy of the shopkeeper. He is free to patronize another shop if he likes. Nobody must kiss other people's hands or fear their disfavor. Interpersonal relations are businesslike.

The exchange of goods and services is mutual; it is not a favor to sell or to buy, it is a transaction dictated by selfishness on either side. It is true that in his capacity as a producer every man depends either directly, as does the entrepreneur, or indirectly, as does the hired worker, on the demands of the consumers. However, this dependence upon the supremacy of the consumers is not unlimited. If a man has a weighty reason for defying the sovereignty of the consumers, he can try it.

There is in the range of the market a very substantial and effective right to resist oppression. Nobody is forced to go into the liquor industry or into a gun factory if his conscience objects. He may have to pay a price for his conviction; there are in this world no ends the attainment of which is gratuitous. But it is left to a man's own decision to choose between a material advantage and the call of what he believes to be his duty. In the market economy the individual alone is the supreme arbiter in matters of his satisfaction. Capitalist society has no means of compelling a man to change his occupation or his place of work other than to reward those complying with the wants of the consumers by higher pay.

It is precisely this kind of pressure which many people consider as unbearable and hope to see abolished under socialism. They are too dull to realize that the only alternative is to convey to the authorities full power to determine in what branch and at what place a man should work. In his capacity as a consumer man is no less free. He alone decides what is more and what is less important for him. He chooses how to spend his money according to his own will. The substitution of economic planning for the market economy removes all freedom and leaves to the individual merely the right to obey. The authority directing all economic matters controls all aspects of a man's life and activities. It is the only employer. All labor becomes compulsory labor because the employee must accept what the chief deigns to offer him. The economic tsar determines what and how much of each the consumer may consume. There is no sector of human life in which a decision is left to the individual's value judgments. The authority assigns a definite task to him, trains him for this job, and employs him at the place and in the manner it deems expedient.

The "Planned" Life Is not Free As soon as the economic freedom which the market economy grants to its members is removed, all political liberties and bills of rights become humbug. Habeas corpus and trial by jury are a sham if, under the pretext of economic expediency, the authority has full power to relegate every citizen it dislikes to the arctic or to a desert and to assign him "hard labor" for life. Freedom of the press is a mere blind if the authority controls all printing offices and paper plants. And so are all the other rights of men. A man has freedom as far as he shapes his life according to his own plans. A man whose fate is determined by the plans of a superior authority, in which the exclusive power to plan is vested, is not free in the sense in which the term "free" was used and understood by all people until the semantic revolution of our day brought about a confusion of tongues.

The Economics And Politics Of My Job

Ludwig Von Mises

Our economic system—the market economy or capitalism— is a system of consumers' supremacy. The customer is sovereign; he is, says a popular slogan, "always right." Businessmen are under the necessity of turning out what the consumers ask for and they must sell their wares at prices which the consumers can afford and are prepared to pay. A business operation is a manifest failure if the proceeds from the sales do not reimburse the businessman for all he has expended in producing the article. Thus the consumers in buying at a definite price determine also the height of the wages that are paid to all those engaged in the industries. It follows that an employer cannot pay more to an employee than the equivalent of the value the latter's work, according to the judgment of the buying public, adds to the merchandise. (This is the reason why the movie star gets much more than the charwoman.) If he were to pay more, he would not recover his outlays from the purchasers; he would suffer losses and would finally go bankrupt. In paying wages, the employer acts as a mandatory of the consumers, as it were. It is upon the consumers that the incidence of the wage payments falls. As the immense majority of the goods produced are bought and consumed by people who are themselves receiving wages and salaries, it is obvious that in spending their earnings the wage earners and employees themselves are foremost in determining the height of the compensation they will get.

What Makes Wages Rise?

The buyers do not pay for the toil and trouble the worker took nor for the length of time he spent in working. They pay for the products. The better the tools are which the worker uses in his job, the more he can perform in an hour, the higher is, con- 'sequently, his remuneration. What makes wages rise and renders the material conditions of the wage earners more satisfactory is improvement in the technological equipment.

American wages are higher than wages in other countries because the capital invested per head of the worker is greater and the plants are thereby in the position to use the most efficient tools and machines. What is called the American way of life is the result of the fact that the United States has put fewer obstacles in the way of saving and capital accumulation than other nations.

The economic backwardness of such countries as India consists precisely in the fact that their policies hinder both the accumulation of domestic capital and the investment of foreign capital. As the capital required is lacking, the Indian enterprises are prevented from employing sufficient quantities of modern equipment, are therefore producing much less per man-hour, and can only afford to pay wage rates which, compared with American wage rates, appear as shockingly low. There is only one way that leads to an improvement of the standard of living for the wage-earning masses—the increase in the amount of capital invested. All other methods, however popular they may be, are not only futile, but are actually detrimental to the well-being of those they allegedly want to benefit.

The fundamental question is: Is it possible to raise wage rates for all those eager to find jobs above the height they would have attained on an unhampered labor market?

Public opinion believes that the improvement in the conditions of the wage earners is an achievement of the unions and of various legislative measures. It gives to unionism and to legislation credit for the rise in wage rates, the shortening of hours of work, the disappearance of child labor, and many other changes. The prevalence of this belief made unionism popular and is responsible for the trend in labor legislation of the last decades. As people think that they owe to unionism their high standard of living, they condone violence, coercion, and intimidation on the part of unionized labor and are indifferent to the curtailment of personal freedom inherent in the union-shop and closed-shop clauses. As long as these fallacies prevail upon the minds of the voters, it is vain to expect a resolute departure from the policies mistakenly called progressive.

What Causes Unemployment? Yet this popular doctrine misconstrues every aspect of economic reality. The height of wage rates at which all those eager to get jobs can be employed depends on the marginal productivity of labor, or, in other words, on the worker's contribution to the usefulness of the product.

The more capital—other things being equal—is invested, the higher wages climb on the free labor market, i.e., on the labor market not manipulated by the government and the unions. At these market wage rates all those eager to employ workers can hire as many as they want. At these market wage rates all those who want to be employed can get a job. There prevails on a free labor market a tendency toward full employment. In fact, the policy of letting the free market determine the height of wage rates is the only reasonable and successful full-employment policy. If wage rates, either by union pressure and compulsion or by government decree, are raised above this height, lasting unemployment of a part of the potential labor force develops.

These opinions are passionately rejected by the union bosses and their followers among politicians and the self-styled intellectuals. The panacea they recommend to fight unemployment is credit expansion and inflation, euphemistically called "an easy money policy."

As has been pointed out above, an addition to the available stock of capital previously accumulated makes a further improvement of the industries' technological equipment possible, thus raises the marginal productivity of labor and consequently also wage rates. But credit expansion, whether it is effected by issuing additional banknotes or by granting additional credits on bank accounts subject to check, does not add anything to the nation's wealth of capital goods. It merely creates the illusion of an increase in the amount of funds available for an expansion of production. Because they can obtain cheaper credit, people erroneously believe that the country's wealth has thereby been increased and that therefore certain projects that could not be executed before are now feasible. The inauguration of these projects enhances the demand for labor and for raw materials and makes wage rates and commodity prices rise. An artificial boom is kindled.

Inflation and Unemployment

Under the conditions of this boom, nominal wage rates which before the credit expansion were too high for the state of the market and therefore created unemployment of a part of the potential labor force are no longer too high and the unemployed can get jobs again. However, this happens only because under the changed monetary and credit conditions prices are rising or, what is the same expressed in other words, the purchasing power of the monetary unit drops. Then the same amount of nominal wages—wage rates expressed in terms of money—means less in real wages—in terms of commodities that can be bought by the monetary unit. Inflation can cure unemployment only by curtailing the wage earner's real wages. But then the unions ask for a new increase in wages in order to keep pace with the rising cost of living and we are back where we were before, in a situation in which large scale unemployment can only be prevented by a further expansion of credit. This is what happened in this country as well as in many other countries in the last years. The unions, supported by the government, forced the enterprises to agree to wage rates that went beyond the potential market rates, that is, the rates which the public was prepared to refund to the employers in purchasing their products. This would have inevitably resulted in rising unemployment figures. But the government policies tried to prevent the emergence of serious unemployment by credit expansion— inflation. The outcome was rising prices, renewed demands for higher wages and reiterated credit expansion; in short, protracted inflation.

Inflation Can't Co On Endlessly

But finally the authorities became frightened. They know that inflation cannot go on endlessly. If one does not stop in time the pernicious policy of increasing the quantity of money and fiduciary media, the nation's currency system collapses entirely. The monetary unit's purchasing power sinks to a point which for all practical purposes is not better than zero. This happened again and again, in this country with the Continental Currency in 1781, in France in 1796, in Germany in 1923. It is never too early for a nation to realize that inflation cannot be considered as a way of life and that it is imperative to return to sound monetary policies.

What Causes the Slump?

It is not the task of this article to deal with all the consequences which the termination of inflationary measures brings about. We have only to establish the fact that the return to monetary stability does not generate a crisis. It only brings to light the malinvestments and other mistakes that were made under the hallucination of the illusory prosperity created by the easy money. People become aware of the faults committed and, no longer blinded by the phantom of cheap credit, begin to readjust their activities to the real state of the supply of material factors of production. It is this—certainly painful, but unavoidable—readjustment that constitutes the depression.

One of the unpleasant features of this process of discarding chimeras and returning to a sober estimate of reality concerns the height of wage rates. Under the impact of the progressing inflationary policy the union bureaucracy acquired the habit of asking at regular intervals for wage raises, and business, after some sham resistance, yielded. As a result these rates were at the moment too high for the state of the market and would have brought about a conspicuous amount of unemployment. But the ceaselessly progressing inflation very soon caught up with them. Then the unions asked again for new raises and so on.

The Purchasing Power Argument It does not matter what kind of justification the unions and their henchmen advance in favor of their claims. The unavoidable effects of forcing the employers to remunerate work done at higher rates than those the consumers are willing to restore to them in buying the products are always the same: rising unemployment figures. At the present juncture the unions try to rake up the old hundred-times-refuted purchasing power fable. They declare that putting more money into the hands of the wage earners—by raising wage rates, increasing the benefits to the unemployed, and embariking upon new public workswould enable the workers to spend more and thereby stimulate business and lead the economy out of the recession into prosperity. This is the spurious pro-inflation argument to make all people happy through printing paper bills.

Of course, if the quantity of the circulating media is increased, those into whose pockets the new fictitious wealth comes—whether they are workers or farmers or any other kind of people— will increase their spending. But it is precisely this increase in spending that inevitably brings about a general tendency of all prices to rise. Thus the help that an inflationary action could give to the wage earners is only of a short duration. To perpetuate it, one would have to resort again and again to new inflationary measures. It is clear that this leads to disaster.

There is a lot of nonsense said about these things. Some people assert that wage raises are "inflationary." But they are not in themselves inflationary. Nothing is inflationary except inflation, i. e., an increase in the quantity of money in circulation and credit subject to check (checkbook money). And under present conditions nobody but the government can bring an inflation into being. What the unions can generate by forcing the employers to accept wage rates higher than the potential market rates is not inflation and not higher commodity prices, but unemployment of a part of the people anxious to get a job. Inflation is a policy to which the government resorts in order to prevent the large scale unemployment the unions' wage raising would otherwise bring about.

The Dilemma of Present-Day Policies The dilemma which this country and many others have to face is very serious. The extremely popular method of raising wage rates above the height the unhampered labor market would have established would produce catastrophic mass unemployment if inflationary credit expansion were not to rescue it. But inflation has not only very pernicious social effects. It cannot go on endlessly without resulting in the complete breakdown of the whole monetary system.

Public opinion, entirely under the sway of the fallacious labor union doctrines, sympathizes more or less with the union bosses' demand for a considerable rise in wage rates. As conditions are today, the unions have the power to make the employers submit to their dictates. They can call strikes and, without being restrained by the author ities, resort with impunity to violence against those willing to work. They are aware of the fact that the enhancement of wage rates will increase the number of jobless. The only remedy they suggest is more ample funds for unemployment compensation and a more ample supply of credit, i. e., inflation. The government, meekly yielding to a misguided public opinion and worried about the outcome of the impending election campaign, has unfortunately already begun to reverse its attempts to return to a sound monetary policy. Thus we are again committed to the pernicious methods of meddling with the supply of money. We are going on with the inflation that with accelerated speed makes the purchasing power of the dollar shrink. Where will it end? This is the question which Mr. Reuther and all the rest never ask.

The Wage Earner s Stake Only stupendous ignorance can call the policies adopted by the self-styled progressives "pro-labor" policies. The wage earner like every other citizen is firmly interested in the preservation of the dollar's purchasing power. If, thanks to his union, his weekly earnings are raised above the market rate, he must very soon discover that the upward movement in prices not only deprives him of the advantages he expected, but besides makes the value of his savings, of his insurance policy, and of his pension rights dwindle. And, still worse, he may lose his job and will not find another. All political parties and pressure groups protest that they are opposed to inflation. But what they really mean is that they do not like the unavoidable consequences of inflation, namely, the rise in living costs. Actually they favor all policies that necessarily bring about an increase in the quantity of the circulating media. They ask not only for an easy money policy to make the unions' endless wage boosting possible but also for more government spending and—at the same time—for tax abatement through raising the exemptions.

Duped by the spurious Marxian concept of irreconcilable conflicts between the interests of the social classes, people assume that the interests of the propertied classes alone are opposed to the unions' demand for higher wage rates. In fact, the wage earners are no less interested than any other groups or classes in a return to sound money. A lot has been said in the last months about the harm fraudulent officers have inflicted upon the union membership. But the havoc done to the workers by the union's excessive wage boosting is much more detrimental.

It would be an exaggeration to contend that the tactics of the unions are the sole threat to monetary stability and to a reasonable economic policy. Organized wage earners are not the only pressure group whose claims menace today the stability of our monetary system. But they are the most powerful and most influential of these groups and the primary responsibility rests with them.

Capitalism and the Common Man Capitalism has improved the standard of living of the wage earners to an unprecedented extent. The average American family enjoys today amenities of which, only a hundred years ago, not even the richest nabobs dreamed. All this well-being is conditioned by the increase in savings and capital accumulated; without these funds that enable business to make practical use of scientific and technological progress the American worker would not produce more and better things per hour of work than the Asiatic coolies, would not earn more, and would, like them, wretchedly live on the verge of starvation. All measures which—like our income and corporation tax system—aim at preventing further capital accumulation or even at capital decumulation are therefore virtually antilabor and antisocial. One further observation must still be made about this matter of saving and capital formation. The improvement of well-being brought about by capitalism made it possible for the common man to save and thus to become a capitalist himself in a modest way. A considerable part of the capital working in American business is the counterpart of the savings of the masses. Millions of wage earners own saving deposits, bonds, and insurance policies. All these claims are payable in dollars and their worth depends on the soundness of the nation's money. To preserve the dollar's purchasing power is also from this point of view of vital interest to the masses. In order to attain this end, it is not enough to print upon the banknotes the noble maxim, In God we trust. One must adopt an appropriate policy.

The Elite Under Capitalism

Ludwig von Mises

A long line of eminent authors, beginning with Adam Ferguson, tried to grasp the characteristic feature that distinguishes the modern capitalistic society, the market economy, from the older systems of the arrangement of social cooperation. They distinguished between warlike nations and commercial nations, between societies of a militant structure and those of individual freedom, between the society based on status and that based on contract. The appreciation of each of the two "ideal types" was, of course, different with the various authors. But they all agreed in establishing the contrast between the two types of social cooperation as well as in the cognition that no third principle of the arrangement of social affairs is thinkable and feasible.

One may disagree with some of the characteristics that they ascribed to each of the two types, but one must admit that the classification as such makes us comprehend essential facts of history as well as of contemporary social conflicts. There are several reasons that prevent a full understanding of the significance of the distinction between these two types of society. There is in the first place the popular repugnance to assign to the inborn inequality of various individuals its due importance. There is furthermore the failure to realize the fundamental difference that exists between the meaning and the effects of private ownership of the means of production in the precapitalistic and in the capitalistic society. Finally, there is serious confusion brought about by the ambiguous employment of the term "economic power."

Inborn Inequality

The doctrine that ascribed all differences between individuals to postnatal influences is untenable. The fact that human beings are born unequal in regard to physical and mental capacities is not denied by any reasonable man, certainly also not by pediatrists. Some individuals surpass their fellow men in health and vigor, in brain power and aptitude for various performances, in energy and resolution. Some people are better fit for the pursuit of earthly affairs, some less. From this point of view we may—without indulging in any judgment of value—distinguish between superior and inferior men. Karl Marx referred to "the inequality of individual endowment and therefore productive capacity (Leistungsfahigkeit) as natural privileges" and was fully aware of the fact that men "would not be different individuals if they were not unequal."

In the precapitalistic ages the better endowed, the "superior" people, took advantage of their superiority by seizing power and enthralling the masses of weaker, i.e., "inferior" men. Victorious warriors appropriated to themselves all the land available for hunting and fishing, cattle raising and tilling. Nothing was left to the rest of the people than to serve the princes and their retinue. They were serfs and slaves, landless and penniless underlings. Such was by and large the state of affairs in most parts of the world in the ages in which the "heroes" 3 were supreme and "commercialism" was absent. But then, in a process that, although again and again frustrated by a renascence of the spirit of violence, went on for centuries and is still going on, the spirit of business, i.e., of peaceful cooperation under the principle of the division of labor, undermined the mentality of the "good old days." Capitalism—the market economy—radically transformed the economic and political organization of mankind.

In the precapitalistic society the superior men knew no other method of utilizing their own superiority than to subdue the masses of inferior people. But under capitalism the more able and more gifted men can profit from their superiority only by serving to the best of their abilities the wishes and wants of the majority of less gifted men. In the market economy the consumers are supreme. They determine, by their buying or abstention from buying, what should be produced, by whom and how, of what quality and in what quantity. The entrepreneurs, capitalists, and landowners who fail to satisfy in the best possible and cheapest way the most urgent of the not yet satisfied wishes of the consumers are forced to go out of business and forfeit their preferred position. In business offices and in laboratories the keenest minds are busy fructifying the most complex achievements of scientific research for the production of ever better implements and gadgets for people who have no inkling of the scientific theories that make the fabrication of such things possible. The bigger an enterprise is, the more it is forced to adjust its production activities to the changing whims and fancies of the masses, its masters. The fundamental principle of capitalism is mass production to supply the masses. It is the patronage of the masses that makes enterprises grow into bigness. The common man is supreme in the market economy. He is the customer "who is always right."

In the political sphere representative government is the corollary of the supremacy of the consumers in the market. The officeholders depend on the voters in a way similar to that in which the entrepreneurs and investors depend on the consumers. The same historical process that substituted the capitalistic mode of production for precapitalistic methods substituted popular government— democracy—for royal absolutism and other forms of government by the few. And wherever the market economy is superseded by socialism, autocracy makes a comeback. It does not matter whether the socialist or communist despotism is camouflaged by the use of aliases such as "dictatorship of the proletariat" or "people's democracy" or "Fiihrer principle." It always amounts to a subjection of the many to the few.

It is hardly possible to misconstrue more improperly the state of affairs prevailing in the capitalistic society than by dubbing the capitalists and entrepreneurs a "ruling" class intent upon "exploiting" the masses of decent men. We do not have to raise the question how the men who under capitalism are businessmen would have tried to take advantage of their superior talents in any other thinkable organization of production activities. Under capitalism they are vying with one another in serving the masses of less gifted men. All their thoughts aim at perfecting the methods of supplying the consumers. Every year, every month, every week something unheard of before appears on the market and is very soon made accessible to the many. Precisely because they are producing for profit, the businessmen are producing for the use of the consumers.

Confusion Concerning Property

The second deficiency of the customary treatment of the problems of society's economic organization is the confusion produced by the indiscriminate employment of juridical concepts, first of all the concept of private property. In the precapitalist^ ages there prevailed by and large economic self-sufficiency, first of every household, later—with the gradual progress toward commercialism—of small regional units. The much greater part of all products did not reach the market. They were consumed without having been sold and bought. Under such conditions there was no essential difference between private ownership of producers' goods and that of consumers' goods. In each case property served the owner exclusively. To own something, whether a producers' good or a consumers' good, meant to have it for oneself alone and to deal with it for one's own satisfaction. But it is different in the frame of a market economy. The owner of producer's goods, the capitalist, can derive advantage from his ownership only by employing them for the best possible satisfaction of the wants of the consumers.

In the market economy property in the means of production is acquired and preserved by serving the public and is lost if the public becomes dissatisfied with the way in which it is served. Private property of the material factors of production is a public mandate, as it were, which is withdrawn as soon as the consumers think that other people would employ the capital goods more efficiently for their, viz.,^the consumers', benefit. By the instrumentality of the profit and loss system the capitalists are forced to deal with "their" property as if it were other peoples' property entrusted to them under the obligation "to utilize it for the, best possible provision of the virtual beneficiaries, the consumers. This real meaning of private ownership of the material factors of production under capitalism could be ignored and misinterpreted because all peopleeconomists, lawyers, and laymen—had been led astray by the fact that the legal concept of property as developed by the juridical practices and doctrines of precapitalistic ages has been retained unchanged or only slightly altered while its effective meaning has been radically transformed.

In the feudal society the economic situation of every individual was determined by the share allotted to him by the powers that be. The poor man was poor because little land or no land at all had been given to him. He could with good reason think —to say it openly would have been too dangerous—: I am poor because other people have more than a fair share. But in the frame of a capitalistic society the accumulation of additional capital by those who succeeded in utilizing their funds for the best possible provision of the consumers enriches not only the owners but all of the people, on the one hand by raising the marginal productivity of labor and thereby wages, and on the other hand by increasing the quantity of goods produced and brought to the market. The peoples of the economically backward countries are poorer than the Americans because their countries lack a sufficient number of successful capitalists and entrepreneurs. A tendency toward an improvement of the standard of living of the masses can prevail only when and where the accumulation of new capital outruns the increase in population figures.

The formation of capital is a process performed with the cooperation of the consumers: only those entrepreneurs can earn surpluses whose activities satisfy best the public. And the utilization of the once accumulated capital is directed by the anticipation of the most urgent of the not yet fully satisfied wishes of the consumers. Thus capital comes into existence and is employed according to the wishes of the consumers.

When in dealing with market phenomena we apply the term "power," we must be fully aware of the fact that we are employing it with a connotation that is entirely different from the traditional connotation attached to it in dealing with issues of government and affairs of state.

Governmental power is the faculty to beat into submission all those who would dare to disobey the orders issued by the authorities. Nobody would call government an entity that lacks this faculty. Every governmental action is backed by constables, prison guards, and executioners. However beneficial a governmental action may appear, it is ultimately made possible only by the government's power to compel its subjects to do what many of them would not do if they were not threatened by the police and the penal courts. A government supported hospital serves charitable purposes. But the taxes collected that enable the authorities to spend money for the upkeep of the hospital are not paid voluntarily. The citizens pay taxes because not to pay them would bring them into prison and physical resistance to the revenue agents to the gallows.

It is true that the majority of the people willynilly acquiesce in this state of affairs and, as David Hume put it, "resign their own sentiments and passions to those of their rulers." They proceed in this way because they think that in the long run they serve better their own interests by being loyal to their government than by overturning it. But this does not alter the fact that governmental power means the exclusive faculty to frustrate any disobedience by the recourse to violence. As human nature is, the institution of government is an indispensable means to make civilized life possible.

The alternative is anarchy and the law of the stronger. But the fact remains that government is the power to imprison and to kill.

The concept of economic power as applied by the socialist authors means something entirely different. The fact to which it refers is the capacity to influence other peoples' behavior by offering them something the acquisition of which they consider as more desirable than the avoidance of the sacrifice they have to make for it. In plain words: it means the invitation to enter into a bargain, an act of exchange. I will give you a if you give me b. There is no question of any compulsion nor of any threats. The buyer does not "rule" the seller and the seller does not "rule" the buyer.

Of course, in the market economy everybody's style of life is adjusted to the division of labor, and a return to self-sufficiency is out of the question. Everybody's bare survival would be jeopardized if suddenly he would be forced to experience the autarky of ages gone by. But in the regular course of market transactions there is no danger of such a relapse into the conditions of the primeval household economy. A faint image of the effects of any disturbance in the usual course of market exchanges is provided when labor union violence benevolently tolerated or even openly encouraged and aided by the government, stops the activities of vital branches of business.

In the market economy every specialist—and there are no other people than specialists—depends on all other specialists. This mutuality is the characteristic feature of interpersonal relations under capitalism. The socialists ignore the fact of mutuality and speak of economic power. For example, as they see it, "the capacity to determine product" is one of the powers of the entrepreneur.5 One can hardly misconstrue more radically the essential features of the market economy. It is not business, but the consumers who ultimately determine what should be produced. It is a silly fable that nations go to war because there is a munitions industry and that people are getting drunk because the distillers have "economic power." If one calls economic power the capacity to choose—or, as the socialists prefer to say, to "determine"—the product, one must establish the fact that this power is fully vested in the buyers and consumers.

"Modern civilization, nearly all civilization," said the great British economist, Edwin Cannan, "is based on the principle of making things pleasant for those who please the market and unpleasant for those who fail to do so."6 The market, that means the buyers; the consumers, that means all of the people. To the contrary, under planning or socialism the goals of production are determined by the supreme planning authority; the individual gets what the authority thinks he ought to get. All this empty talk about the economic power of business aims at obliterating this fundamental distinction between freedom and bondage.

The "Power" of the Employer

People refer to economic power also in describing the internal conditions prevailing within the various enterprises. The owner of a private firm or the president of a corporation, it is said, enjoys within his outfit absolute power. He is free to indulge in his whims and fancies. All employees depend on his arbitrariness. They must stoop and obey or else face dismissal and starvation. Such observations, too, ascribe to the employer powers that are vested in the consumers.

The requirement to outstrip its competitors by serving the public in the cheapest and best possible way enjoins upon every enterprise the necessity to employ the personnel best fitted for the performance of the various functions entrusted to them. The individual enterprise must try to outdo its competitors not only by the employment of the most suitable methods of production and the purchase of the best fitted materials, but also by hiring the right type of workers. It is true that the head of an enterprise has the faculty to give vent to his sympathies or antipathies. He is free to prefer an inferior man to a better man; he may fire a valuable assistant and in his place employ an incompetent and inefficient substitute. But all the faults he commits in this regard affect the profitability of his enterprise. He has to pay for them in full. It is the very supremacy of the market that penalizes such capricious behavior. The market forces the entrepreneurs to deal with every employee exclusively from the point of view of the services he renders to the satisfaction of the consumers.

What curbs in all market transactions the temptation of indulging in malice and venom is precisely the costs involved in such behavior. The consumer is free to boycott for some reasons, popularly called noneconomic or irrational, the purveyor who would in the best and cheapest way satisfy his wants. But then he has to bear the consequences; he will either be less perfectly served or he will have to pay a higher price. Civil government enforces its commandments by recourse to violence or the threat of violence. The market does not need any recourse to violence because neglect of its rationality penalizes itself.

The critics of capitalism fully acknowledge this fact in pointing out that for private enterprise nothing counts but the striving after profit. Profit can be made only by satisfying the consumers better or cheaper or better and cheaper than others do. The consumer has in his capacity as customer the right to be full of whim and fancies. The businessman qua producer has only one aim: to provide for the consumer. If one deplores the businessman's unfeeling preoccupation with profit-seeking, one has to realize two things. First, that this attitude is prescribed to the entrepreneur by the consumers who are not prepared to accept any excuse for poor service. Secondly, that it is precisely this neglect of "the human angle" that prevents arbitrariness and partiality from affecting the employer-employee nexus.

To establish these facts does not amount either to a commendation or to a condemnation of the market economy or its political corollary, government by the people (representative government, democracy). Science is neutral with regard to any judgments of value. It neither approves nor condemns; it just describes and analyzes what is. Stressing the fact that under unhampered capitalism the consumers are supreme in determining the goals of production does not imply any opinion about the moral and intellectual capacities of these individuals. The individuals qua consumers as well as qua voters are mortal men liable to error and may very often choose what in the long run will harm them. Philosophers may be right in severely criticizing the conduct of their fellow citizens. But there is, in a free society, no other means to avoid the evils resulting from one's fellows' bad judgment than to induce them to alter their ways of life voluntarily. Where there is freedom, this is the task incumbent upon the elite.

Men are unequal and the inherent inferiority of the many manifests itself also in the manner in which they enjoy the affluence capitalism bestows upon them. It would be a boon for mankind, say many authors, if the common man would spend less time and money for the satisfaction of vulgar appetites and more for higher and nobler gratifications. But should not the distinguished critics rather blame themselves than the masses? Why did they, whom fate and nature have blessed with moral and intellectual eminence, not better succeed in persuading the masses of inferior people to drop their vulgar tastes and habits? If something is wrong with the behavior of the many, the fault rests no more with the inferiority of the masses than with the inability or unwillingness of the elite to induce all other people to accept their own higher standards of value. The serious crisis of our civilization is caused not only by the shortcomings of the masses. It is no less the effect of a failure of the elite.

The Gold Problem

Ludwig von Mises

Why gold?

Because, as conditions are today and for the time that can be foreseen today, the gold standard alone makes the determination of money's purchasing power independent of the ambitions and machinations of dictators, political parties, and pressure groups. The gold standard alone is what the nineteenth century liberals, the champions of representative government, civil liberties, and prosperity for all, called sound money. The eminence and usefulness of the gold standard consists in the fact that it makes the supply of money depend on the profitability of mining gold, and thus checks large-scale inflationary ventures on the part of governments. The gold standard did not fail. The governments sabotaged it and still go on sabotaging it. But no government is powerful enough to destroy the gold standard as long as the market economy is not entirely suppressed by the establishment of socialism in every part of the world.

Governments believe that it is the gold standard's fault alone that their inflationary schemes not only fail to produce the expected benefits but unavoidably bring about conditions that also in the eyes of the rulers themselves and of all of the people are considered as much worse than the alleged or real evils they were designed to eliminate. But for the gold standard, they are told by hosts of pseudo-economists, they could make everybody perfectly prosperous. Let us test the three doctrines advanced for thesupport of this fable of government omnipotence.

The Santa Claus Power of the State The state is God, said Ferdinand Lassalle, the founder of the German socialist movement. As such the state has the power to "create" unlimited quantities of money and thus to make everybody happy. Irreverent people branded such a policy of "creating" money as inflation. The official terminology calls it nowadays "deficit spending."

But whatever the name used in dealing with this phenomenon may be, its meaning is obvious. The government increases the quantity of money in circulation. Then a greater quantity of money "chases," as a rather silly but popular way of talking about these problems says, a quantity of goods and services that has not increased. The government's action did not add anything to the available amount of useful things and services. It merely makes the prices paid for them soar. If the government wants to raise the income of some people—e.g., government employees—it has to confiscate by taxation a part of some other people's incomes and to distribute the amount collected among its employees. Then the taxpayers are forced to restrict their spending, while the recipients of the higher salaries are increasing their spending to the same amount. There does not result a conspicuous change in the purchasing power of the monetary unit.

But if the government provides the money it wants for the payment of higher salaries by printing it, the new money in the hands of the beneficiaries of the higher salaries constitutes on the market an additional demand for the not increased quantity of goods and services offered for sale. The unavoidable result is a general tendency of prices to rise.

Any attempts the governments and their propaganda offices make to conceal this concatenation of events are vain. Deficit spending means increasing the quantity of money in circulation. That the official terminology avoids calling it inflation, is of no avail whatever.

The government and its chiefs do not have the powers of the mythical Santa Claus. They cannot spend but by taking out of the pockets of some people.

The "Cheap Money" Fallacy Interest is the difference in the valuation of present goods and future goods. It is the discount in the valuation of future goods as against that of present goods. It cannot be "abolished" as long as people prefer an apple available today to an apple available only in a year, in ten years, or in a hundred years. The height of the originary rate of interest, which is the main component of the market rate of interest as determined on the loan market, reflects the difference in people's valuation of present and future satisfaction of needs. The disappearance of interest, that is an interest rate of zero, would mean that people do not care a whit about satisfying any of their present wants and are exclusively intent upon satisfying their future wants, their wants of the later years, decades, and centuries to come. People would only save and invest and never consume. On the other hand, if people were to stop making any provision for the future, be it even the future of the tomorrow, would not save at all and consume all capital goods accumulated by previous generations, the rate of interest would rise beyond any limits.

It is thus obvious that the height of the market rate of interest ultimately does not depend on the whims, fancies, and the pecuniary interests of the personnel operating the government apparatus of coercion and compulsion, the much referred to "public sector" of the economy. But the government has the power to push the Federal Reserve System and the banks subject to it into a policy of cheap money. Then the banks are expanding credit. Underbidding the rate of interest as established on the not-manipulated loan market, they offer additional credit created out of nothing. Thus they are intentionally falsifying the businessmen's estimation of market conditions. Although the supply of capital goods (that can only be increased by additional saving) remained unchanged, the illusion of a richer supply of capital is conjured up.

Business is induced to embark upon projects which a sober calculation, not misled by the cheap-money ventures, would have disclosed as malinvestments. The additional quantities of credit inundating the market make prices and wages soar. An artificial boom, a boom built entirely upon the illusions of easy money, develops. But such a boom cannot last. Sooner or later it must become clear that, under the illusions created by the credit expansion, business has embarked upon projects for the execution of which it is not rich enough. When this malinvestment becomes visible, the boom collapses. The depression that follows is the process of liquidating the errors committed in the ecstasies of the artificial boom, is the return to calm reasoning and a reasonable conduct of affairs within the limits of the available supply of capital goods. It is a painful process, but it is a process of recovery. Credit expansion is not a nostrum to make people happy. The boom it engenders must inevitably lead to a debacle.

If it were possible to substitute credit expansion (cheap money) for the accumulation of capital goods by saving, there would not be any poverty in the world. The economically backward nations would not have to complain about the insufficiency of their capital equipment. All they would have to do for the improvement of their conditions would be to expand credit more and more. No "foreign aid" schemes would have emerged. In granting foreign aid to the backward nations, the American government implicitly acknowledges that credit expansion is no substitute for capital accumulation through saving.

The Failure of Minimum Wage Legislation and of Labor Unionism

The height of wage rates is determined by the consumers' appraisal of the value the worker's labor adds to the value of the article available for sale. As the immense majority of the consumers are themselves earners of wages and salaries, this means that the determination of the compensation for work and services rendered is made by the same kind of people who are receiving these wages and salaries. The fat earnings of the movie star and the boxing champion are provided by the welders, street sweepers, and charwomen who attend the performances and matches.

An entrepreneur who would try to pay a hired man less than the amount this man's work adds to the value of the product would be priced out of the labor market by the competition of other entrepreneurs eager to earn money. On the other hand, no entrepreneur can pay more to his helpers than the amount the consumers are prepared to refund to him in buying the product. If he were to pay higher wages, he would suffer losses and would be ejected from the ranks of the businessmen. Governments decreeing minimum wage laws above the level of the market wage rates restrict the number of hands that can find jobs. They are producing unemployment of a part of the labor force. The same is true for what is euphemistically called "collective bargaining." The only difference between the two methods concerns the apparatus enforcing the minimum wage. The government enforces its orders in resorting to policemen and prison guards. The unions "picket." They and their members and officials have acquired the power and the right to commit wrongs to person and property, to deprive individuals of the means of earning a livelihood, and to commit many other acts which no one can do with impunity.1 Nobody is today in a position to disobey an order issued by a union. To the employers no other choice is left than either to surrender to the dictates of the unions or to go out of business.

But governments and unions are impotent against economic law. Violence can prevent the employers from hiring help at potential market rates, but it cannot force them to employ all those who are anxious to get jobs. The result of the governments' and the unions' meddling with the height of wage rates cannot be anything else than an incessant increase in the number of unemployed. To prevent this outcome the government-manipulated banking systems of all Western nations are resorting to inflation. Increasing the quantity of money in circulation and thereby lowering the purchasing power of the monetary unit, they are cutting down the oversized payrolls to a height consonant with the state of the market. This is today called Keynesian full-employment policy. It is in fact a method to perpetuate by continued inflation the futile attempts of governments and labor unions to meddle with the conditions of the labor market. As soon as the progress of inflation has adjusted wage rates so far as to avoid a spread of unemployment, government and unions resume with renewed zeal their ventures to raise wage rates above the level at which every job-seeker can find a job.

The experience of this age of the New Deal, the Fair Deal, the New Frontier, and the Great Society confirms the fundamental thesis of British nineteenth- century liberalism: there is but one means to improve the material conditions of all of the wage earners, viz., to increase the per-head quota of capital invested. This result can only be brought about by additional saving and capital accumulation, never by government decrees, labor union violence and intimidation, and inflation. The foes of the gold standard are wrong also in this regard.

U. S. Cold Holdings Shrinking In many parts of the earth an increasing number of people realize that the U. S. and most of the other nations are firmly committed to a policy of progressing inflation. They have learned enough from the experience of the last decades to conclude that on account of these inflationary policies the ounce of gold will one day become more expensive in terms both of the currency of the U. S. and of their own country. They are alarmed and would like to avoid being victimized by this outcome. Americans are forbidden to own gold coins and gold ingots. Their attempts to protect their financial assets consist in the methods that the Germans in the most spectacular inflation that history knows called "Fkicht in die Sachwerte." They are investing in common stock and real estate and prefer to have debts payable in legal tender money to having claims payable in it.

Even in the countries in which people are free to buy gold there are up to now no conspicuous purchases of gold on the part of financially potent individuals and institutions. Up to the moment at which French agencies began to buy gold, the buyers of gold were mostly people with modest incomes anxious to keep a few gold coins as a reserve for rainy days. It was the purchases on the part of such people that via the London gold market reduced the gold holdings of the United States. There is only one method available to prevent a farther reduction of the American gold reserve: radical abandonment of deficit spending as well as of any kind of "easy money" policy.

Facts About The "Industrial Revolution"

Ludwig von Mises

An examination of the so-called horrors of the "Industrial Revolution" and the persistent myth that industrial progress is a plot against employees. Socialist and interventionist authors assert that the history of modern industrialism and especially the history of the British "Industrial Revolution" provide an empirical verification of the "realistic" or "institutional" doctrine and utterly explode the "abstract" dogmatism of the economists.1 The economists flatly deny that labor unions and government prolabor legislation can and did lastingly benefit the whole class of wage earners and raise their standard of living. But the facts, say the anti-economists, have refuted these fallacies. As they see it, the statesmen and legislators who enacted the factory acts displayed a better insight into reality than the economists; while laissezfaire philosophy allegedly taught that the sufferings of the toiling masses are unavoidable, the common sense of laymen succeeded in quelling the worst excesses of profit-seeking business. The improvement in the conditions of the workers, they say, is entirely an achievement of governments and labor unions.

Such are the ideas permeating most of the historical studies dealing with the evolution of modern industrialism. The authors begin by sketching an idyllic image of conditions as they prevailed on the eve of the "Industrial Revolution." At that time, they tell us, things were, by and large, satisfactory. The peasants were happy. So also were the industrial workers under the domestic system. They worked in their own cottages and enjoyed a certain economic independence since they owned a garden plot and their tools. But then "the Industrial Revolution fell like a war or a plague" on these people.2 The factory system reduced the free worker to virtual slavery; it lowered his standard of living to the level of bare subsistence; in cramming women and children into the mills it destroyed family life and sapped the very foundations of society, morality, and public health. A small minority of ruthless exploiters had cleverly succeeded in imposing their yoke upon the immense majority.

The truth is that economic conditions were highly unsatisfactory on the eve of the Industrial Revolution. The traditional social system was not elastic enough to provide for the needs of a rapidly increasing population. Neither farming nor the guilds had any use for the additional hands. Business was imbued with the inherited spirit of privilege and exclusive monopoly; its institutional foundations were licenses and the grant of a patent of monopoly; its philosophy was restriction and the prohibition of competition both domestic and foreign. The number of people for whom there was no room left in the rigid system of paternalism and government tutelage of business grew rapidly. They were virtually outcasts. The apathetic majority of these wretched people lived from the crumbs that fell from the tables of the established castes. In the harvest season they earned a trifle by occasional help on farms, for the rest they depended upon private charity and communal poor relief. Thousands of the most vigorous youths of these strata were pressed into the service of the Royal Army and Navy; many of them were killed or maimed in action; many more perished ingloriously from the hardships of the barbarous discipline, from tropical diseases, or from syphillis.3 Other thousands, the boldest and most ruthless of their class, infested the country as vagabonds, beggars, tramps, robbers, and prostitutes. The authorities did not know of any means to cope with these individuals other than the poorhouse and the workhouse. The support the government gave to the popular resentment against the introduction of new inventions and labor-saving devices made things quite hopeless.

The factory system developed in a continuous struggle against innumerable obstacles. It had to fight popular prejudice, old established customs, legally binding rules and regulations, the animosity of the authorities, the vested interests of privileged groups, the envy of the guilds. The capital equipment of the individual firms was insufficient, the provision of credit extremely difficult and costly. Technological and commercial experience was lacking. Most factory owners failed; comparatively few succeeded. Profits were sometimes considerable, but so were losses. It took many decades until the common practice of reinvesting the greater part of profits earned accumulated adequate capital for the conduct of affairs on a broader scale.

That the factories could thrive in spite of all these hindrances was due to two reasons. First there were the teachings of the new social philosophy expounded by economists, who demolished the prestige of mercantilism, paternalism, and restrictionism. They exploded the superstitious belief that labor-saving devices and processes cause unemployment and reduce all people to poverty and decay. The laissez-faire economists were the pioneers of the unprecedented technological achievements of the last two hundred years. Then there was another factor that weakened the opposition to innovations. The factories freed the authorities and the ruling landed aristocracy from an embarrassing problem that had grown too large for them. They provided sustenance for the masses of paupers. They emptied the poor houses, the workhouses, and the prisons. They converted starving beggars into self-supporting breadwinners. The factory owners did not have the power to compel anybody to take a factory job. They could only hire people who were ready to work for the wages offered to them. Low as these wage rates were, they were nonetheless much more than these paupers could earn in any other field open to them. It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens arid the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation.

It is deplorable that such conditions existed. But if one wants to blame those responsible, one must not blame the factory owners who—driven by selfishness, of course, and not by "altruism"—did all they could to eradicate the evils. What had caused these evils was the economic order of the precapitalistic era, the order of the "good old days."

In the first decades of the Industrial Revolution the standard of living of the factory workers was shockingly bad when compared with contemporary conditions of the upper classes and with the present conditions of the industrial masses. Hours of work were long, the sanitary conditions in the workshops deplorable. The individual's capacity to work was used up rapidly. But the fact remains that for the surplus population which the enclosure movement had reduced to dire wretchedness and for which there was literally no room left in the frame of the prevailing system of production, work in the factories was salvation. These people thronged into the plants for no reason other than the urge to improve their standard of living.

The laissez-faire ideology and its offshoot, the "Industrial Revolution," blasted the ideological and institutional barriers to progress and welfare. They demolished the social order in which a constantly increasing number of people were doomed to abject need and destitution. The processing trades of earlier ages had almost exclusively catered to the wants of the well-to-do. Their expansion was limited by the amount of luxuries the wealthier strata of the population could afford. Those not engaged in the production of primary commodities could earn a living only as far as the upper classes were disposed to utilize their skill and services. But now a different principle came into operation. The factory system inaugurated a new mode of marketing as well as of production. Its characteristic feature was that the manufactures were not designed for the consumption of a few well-to-do only, but for the consumption of those who had hitherto played but a negligible role as consumers. Cheap things for the many, was the objective of the factory system. The classical factory of the early days of the Industrial Revolution was the cotton mill. Now, the cotton goods it turned out were not something the rich were asking for. These wealthy people clung to silk, linen, and cambric.

Whenever the factory with its methods of mass production by means of power-driven machines invaded a new branch of production, it started with the production of cheap goods for the broad masses. The factories turned to the production of more refined and therefore more expensive goods only at a later stage, when the unprecedented improvement in the masses' standard of living which they caused made it profitable to apply the methods of mass production also to these better articles. Thus, for instance, the factory-made shoe was for many years bought only by the "proletarians" while the wealthier consumers continued to patronize the custom shoemakers. The much talked about sweatshops did not produce clothes for the rich, but for people in modest circumstances. The fashionable ladies and gentlemen preferred and still do prefer custom-made frocks and suits. The outstanding fact about the Industrial Revolution is that it opened an age of mass production for the needs of the masses. The wage earners are no longer people toiling merely for other people's well-being. They themselves are the main consumers of the products the factories turn out. Big business depends upon mass consumption. There is, in present-day America, not a single branch of big business that would not cater to the needs of the masses. The very principle of capitalist entrepreneurship is to provide for the common man.

In his capacity as consumer the common man is the sovereign whose buying or abstention from buying decides the fate of entrepreneurial activities. There is in the market economy no other means of acquiring and preserving wealth than by supplying the masses in the best and cheapest way with all the goods they ask for.

Blinded by their prejudices, many historians and writers have entirely failed to recognize this fundamental fact. As they see it, wage earners toil for the benefit of other people. They never raise the question who these "other" people are. Mr. and Mrs. Hammond tell us that the workers were happier in 1760 than they were in 1830.4 This is an arbitrary value judgment. There is no means of comparing and measuring the happiness of different people and of the same people at different times. We may agree for the sake of argument that an individual who was born in 1740 was happier in 1760 than in 1830. But let us not forget that in 1770 (according to the estimate of Arthur Young) England had 8.5 million inhabitants, while in 1831 (according to the census) the figure was 16 million.5 This conspicuous increase was mainly conditioned by the Industrial Revolution. With regard to these additional Englishmen the assertion of the eminent historians can only be approved by those who endorse the melancholy verses of Sophocles: "Not to be born is, beyond all question, the best; but when a man has once seen the light of day, this is next best, that speedily he should return to that place whence he came."

The early industrialists were for the most part men who had their origin in the same social strata from which their workers came. They lived very modestly, spent only a fraction of their earnings for their households, and put the rest back into the business. But as the entrepreneurs grew richer, the sons of successful businessmen began to intrude into the circles of the ruling class. The highborn gentlemen envied the wealth of the parvenus and resented their sympathies with the reform movement. They hit back by investigating the material and moral conditions of the factory hands and enacting factory legislation.

The history of capitalism in Great Britain as well as in all other capitalist countries is a record of an unceasing tendency toward the improvement in the wage earners' standard of living. This evolution coincided with the development of prolabor legislation and the spread of labor unionism on the one hand and with the increase in the marginal productivity of labor on the other hand. The economists assert that the improvement in the workers' material conditions is due to the increase in the per capita quota of capital invested and the technological achievements which the employment of this additional capital brought about.

As far as labor legislation and union pressure did not exceed the limits of what the workers would have got without them as a necessary consequence of the acceleration of capital accumulation as compared with population, they were superfluous. As far as they exceeded these limits, they were harmful to the interests of the masses. They delayed the accumulation of capital, thus slowing down the tendency toward a rise in the marginal productivity of labor and in wage rates. They conferred privileges on some groups of wage earners at the expense of other groups. They created mass unemployment and decreased the amount of products available for the workers in their capacity as consumers.

The apologists of government interference with business and of labor unionism ascribe all the improvements in the conditions of the workers to the actions of governments and unions. Except for them, they contend, the workers' standard of living would be no higher today than it was in the early years of the factory system.

It is obvious that this controversy cannot be settled by appeal to historical experience. With regard to the establishment of the facts there is no disagreement between the two groups. Their antagonism concerns the interpretation of events, and this interpretation must be guided by the theory chosen. The epistemological and logical considerations which determine the correctness or incorrectness of a theory are logically and temporarily antecedent to the elucidation of the historical problem involved. The historical facts as such neither prove nor disprove any theory. They need to be interpreted in the light of theoretical insight. Most of the authors who wrote the history of the conditions of labor under capitalism were ignorant of economics and boasted of this ignorance. However, this contempt for sound economic reasoning did not mean that they approached the topic of their studies without prepossession and without bias in favor of any theory. They were guided by the popular fallacies concerning governmental omnipotence and the alleged blessings of labor unionism. It is beyond question that the Webbs as well as Lujo Brentano and a host of minor authors were at the very start of their studies imbued with a fanatical dislike of the market economy and an enthusiastic endorsement of the doctrines of socialism and interventionism. They were certainly honest and sincere in their convictions and tried to do their best. Their candor and probity exonerates them as individuals; it does not exonerate them as historians. However pure the intentions of a historian may be, there is no excuse for his recourse to fallacious doctrines. The first duty of a historian is to examine with the utmost care all the doctrines to which he resorts in dealing with the subject matter of his work. If he neglects to do this and naively espouses the garbled and confused ideas of popular opinion, he is not a historian but an apologist and propagandist.

The antagonism between the two opposite points of view is not merely a historical problem. It refers no less to the most burning problems of the present day. It is the matter of controversy in what is called in present-day America the problem of industrial relations.

Let us stress one aspect of the matter only. Vast areas—Eastern Asia, the East Indies, Southern and Southeastern Europe, Latin America—are only superficially affected by modern capitalism. Conditions in these countries by and large do not differ from those of England on the eve of the "Industrial Revolution." There are millions and millions of people for whom there is no secure place left in the traditional economic setting. The fate of these wretched masses can be improved only by industrialization. What they need most is entrepreneurs and capitalists. As their own foolish policies have deprived these nations of the further enjoyment of the assistance imported foreign capital hitherto gave them, they must embark upon domestic capital accumulation. They must go through all the stages through which the evolution of Western industrialism had to pass. They must start with comparatively low wage rates and long hours of work. But, deluded by the doctrines prevailing in present-day Western Europe and North America, their statesmen think that they can proceed in a different way. They encourage labor-union pressure and alleged prolabor legislation. Their interventionist radicalism nips in the bud all attempts to create domestic industries. These men do not comprehend that industrialization cannot begin with the adoption of the precepts of the International Labor Office and the principles of the American Congress of Industrial Organizations. Their stubborn dogmatism spells the doom of the Indian and Chinese coolies, the Mexican peons, and millions of other peoples, desperately struggling on the verge of starvation.

The role of savings

Brian Summers

One of the least appreciated aspects of the private enterprise system is the role of savings in increasing the wealth of all the people. That the savings of *some* can increase the wealth of *all* may seem, at first glance, paradoxical, so let us consider for a moment just what happens when an individual —call him Joe—forgoes a little spending to put a sum in the bank. Some people say: "The money that Joe has saved is money that won't be spent. The decrease in Joe's consumption can only mean a commensurate decrease in production and a resulting rise in unemployment. Saving should really be discouraged."

Saving is a form of spending! Joe's money doesn't just sit in the bank; the bank must lend it to someone in order to earn money to pay Joe interest. This lending is not only a form of spending, it is, in fact, the only kind of spending that actually increases wealth: *investment.* What happens when money is invested? Say a corporation goes to Joe's bank and borrows money to build a factory. The corporation then spends Joe's money on building materials, machines, tools, and labor. The money that Joe has saved winds up being spent just the same as if he had spent it himself. There is no decrease in production and no rise in unemployment. In fact, as we shall see, there is an *increase* in production and a *decline* in unemployment! Soon the factory is complete. The corporation then proceeds to hire workers. Joe's savings have increased employment! How does the corporation hire workers? By offering better conditions of employment than their competitors. Perhaps the most important con- dition—as far as workers are concerned—is the level of wages. In all probability, the workers in the new factory have been lured by higher salaries. Joe's savings, whether he realizes it or not, have increased the wealth of workers in a factory he probably has never seen. "You said that savings increase the wealth of *all* the people. What about the 210 million Americans who don't work in Joe's factory?" Competitive Bidding Consider first the workers in competing factories. If these factories don't want to lose their workers to new factories, they had better raise their wages. Joe's savings have increased salaries throughout an entire industry! As for workers in other fields, we should remember that most of them are potential factory workers. If you want to keep your best farm hand from going off to work in Joe's industry or taking a job that has been vacated by someone else who went off to work in Joe's industry, you had better give him a raise. Competition among employers means that Joe's savings, and the savings of millions of other Americans, raise the wages of *all* workers. "That is still not everybody! How about people who don't work?" Every man, woman, and child—worker and nonworker— is a consumer.

The end of economic activity— saving, factory building, working, and all the rest—is *consumption.* We should always keep this *end* in mind. The higher wages we have talked about would prove meaningless if they didn't result in increased consumption. Joe's savings benefit *everyone* because the factory, machines, and tools they helped build are designed to produce goods that consumers will prefer to those already being offered on the market. The corporation that borrowed money from Joe's bank took a financial risk because they think that they can satisfy consumers better than their competitors. In other words, they hope to give the consumer more for his money. If they fail, then the loss is theirs. If they succeed, then consumers consume more of what *they* want and thus enjoy a higher standard of living. The consumer—each and every one of us—is the final judge and ultimate winner. "Savings seem to be pretty good after all. What should be done to encourage more saving?" Instead of doing things to encourage saving, we should undo things that discourage it. In particular, the law itself is probably the greatest hindrance potential savers face. Let us make a brief survey of some of the ways in which the law discourages saving.

To begin with, people can't save money they no longer have. Every dollar that goes in taxes is a dollar that won't be saved. Add up all the taxes that Joe pays, and he may find himself withdrawing from, rather than adding to, his bank account. Tax Disincentives In addition to the general level of taxation, several specific taxes are especially discouraging to savers. Corporate profits taxes, capital gains taxes, and taxes on dividends and bank account interest hit the saver particularly hard and must be taken into account by every potential saver. High as taxes are, government spending is even higher. The difference, of course, is "made up" by running fiat money off the government printing presses—inflation. And inflation, combined with other ramifications of over-extended government, is enough to give even the most devoted saver cause to re-think his frugal habits.

The saver sees inflation galloping along faster than legal limits on interest rates. Even though he actually has lost money, in terms of purchasing power, he finds himself forced to pay taxes on his "earnings." The saver sees inflation increasing the paper value of his capital holdings. When he sells his holdings he must pay capital gains taxes—even though his "capital gains," in terms of real wealth, actually may have been capital losses. The saver sees inflation increasing the replacement costs of capital equipment—machines, spare parts, tools—while depreciation allowances are determined by original costs. He finds that depreciation allowances have become inadequate to pay for new equipment to replace the old. The saver sees inflation increasing the paper profits of his corporation.

In particular, inventory "profits"—the difference between the cost of producing an item and the cost of later replacing it in inventory after it has been sold—are a direct result of inflation. Were all these inventory "profits" available for investment in new inventory, the corporation could at least hold its own. However, almost half these "profits," on the average, wind up as corporate profits taxes. Thus, the saver may find his corporation losing money and paying profits taxes at the same time. Inflation itself, even without being combined with various governmental controls and taxes, is discouraging to potential savers.

With prices rising, people are encouraged to make purchases before prices go any higher, rather than to save for future purchases. This brief survey of ways in which the law discourages saving is, of course, by no means complete. However, I would like to conclude with one factor that can never be measured, but which is nonetheless very real. This is the factor of uncertainty. In recent years, the United States government has grown so interventionistic that every few months the president is announcing "strong new" economic measures. Who knows what is next? Already we hear congressmen calling for a virtual nationalization of oil companies. Who is going to invest under such circumstances? To complete the destruction of the American economy, the government does not have to expropriate the means of production. It merely has to make conditions so onerous and so frightful that no one will dare invest in private enterprise. A free market, and the belief that the market will continue to be free, is all the encouragement savers need.