

The Myth of the Failure of Capitalism

Ludwig von Mises

(1932)

The nearly universal opinion expressed these days is that the economic crisis of recent years marks the end of capitalism. Capitalism allegedly has failed, has proven itself incapable of solving economic problems, and so mankind has no alternative, if it is to survive, then to make the transition to a planned economy, to socialism.

This is hardly a new idea. The socialists have always maintained that economic crises are the inevitable result of the capitalistic method of production and that there is no other means of eliminating economic crises than the transition to socialism. If these assertions are expressed more forcefully these days and evoke greater public response, it is not because the present crisis is greater or longer than its predecessors, but rather primarily because today public opinion is much more strongly influenced by socialist views than it was in previous decades.

I.

When there was no economic theory, the belief was that whoever had power and was determined to use it could accomplish anything. In the interest of their spiritual welfare and with a view toward their reward in heaven, rulers were admonished by their priests to exercise moderation in their use of power. Also, it was not a question of what limits the inherent conditions of human life and production set for this power, but rather that they were considered boundless and omnipotent in the sphere of social affairs.

The foundation of social sciences, the work of a large number of great intellects, of whom David Hume and Adam Smith are most outstanding, has destroyed this conception. One discovered that social power was a spiritual one and not (as was supposed) a material and, in the rough sense of the word, a real one. And there was the recognition of a necessary coherence within market phenomena which power is unable to destroy. There was also a realization that something was operative in social affairs that the powerful could not influence and to which they had to accommodate themselves, just as they had to adjust to the laws of nature. In the history of human thought and science there is no greater discovery.

If one proceeds from this recognition of the laws of the market, economic theory shows just what kind of situation arises from the interference of force and power in market processes. The isolated intervention cannot reach the end the authorities strive for in enacting it and must result in consequences which are undesirable from the standpoint of the authorities. Even from the point of view of the authorities themselves the intervention is pointless and harmful. Proceeding from this perception, if one wants to arrange market activity according to the conclusions of scientific thought — and we give thought to these matters not only because we are seeking knowledge for its own sake, but also because we want to arrange our actions such that we can reach the goals we aspire to — one then comes unavoidably to a rejection of such interventions as superfluous, unnecessary, and harmful, a notion which characterizes the liberal teaching. It is not that liberalism wants to carry standards of value over into science; it wants to take from science a compass for market actions. Liberalism uses the results of scientific research in order to construct society in such a way that it will be able to realize as effectively as possible the purposes it is intended to realize. The politico-economic

parties do not differ on the end result for which they strive but on the means they should employ to achieve their common goal. The liberals are of the opinion that private property in the means of production is the only way to create wealth for everyone, because they consider socialism impractical and because they believe that the system of interventionism (which according to the view of its advocates is between capitalism and socialism) cannot achieve its proponents' goals.

The liberal view has found bitter opposition. But the opponents of liberalism have not been successful in undermining its basic theory nor the practical application of this theory. They have not sought to defend themselves against the crushing criticism which the liberals have leveled against their plans by logical refutation; instead they have used evasions. The socialists considered themselves removed from this criticism, because Marxism has declared inquiry about the establishment and the efficacy of a socialist commonwealth heretical; they continued to cherish the socialist state of the future as heaven on earth, but refused to engage in a discussion of the details of their plan. The interventionists chose another path. They argued, on insufficient grounds, against the universal validity of economic theory. Not in a position to dispute economic theory logically, they could refer to nothing other than some "moral pathos," of which they spoke in the invitation to the founding meeting of the *Vereins für Sozialpolitik* [Association for Social Policy] in Eisenach. Against logic they set moralism, against theory emotional prejudice, against argument the reference to the will of the state.

Economic theory predicted the effects of interventionism and state and municipal socialism exactly as they happened. All the warnings were ignored. For 50 or 60 years the politics of European countries has been anticapitalist and antiliberal. More than 40 years ago Sidney Webb (Lord Passfield) wrote,

it can now fairly be claimed that the socialist philosophy of to-day is but the conscious and explicit assertion of principles of social organization which have been already in great part unconsciously adopted. The economic history of the century is an almost continuous record of the progress of Socialism.[1]

That was at the beginning of this development and it was in England where liberalism was able for the longest time to hold off the anticapitalistic economic policies. Since then interventionist policies have made great strides. In general the view today is that we live in an age in which the "hampered economy" reigns — as the forerunner of the blessed socialist collective consciousness to come.

Now, because indeed that which economic theory predicted has happened, because the fruits of the anticapitalistic economic policies have come to light, a cry is heard from all sides: this is the decline of capitalism, the capitalistic system has failed!

Liberalism cannot be deemed responsible for any of the institutions which give today's economic policies their character. It was against the nationalization and the bringing under municipal control of projects which now show themselves to be catastrophes for the public sector and a source of filthy corruption; it was against the denial of protection for those willing to work and against placing state power at the disposal of the trade unions, against unemployment compensation, which has made unemployment a permanent and universal phenomenon, against social insurance, which has made those insured into grumblers, malingers, and neurasthenics, against tariffs (and thereby implicitly against cartels), against the limitation of freedom to live, to travel, or study where one likes, against excessive taxation and against inflation, against armaments, against colonial acquisitions, against the oppression of minorities, against imperialism

and against war. It put up stubborn resistance against the politics of capital consumption. And liberalism did not create the armed party troops who are just waiting for the convenient opportunity to start a civil war.

II.

The line of argument that leads to blaming capitalism for at least some of these things is based on the notion that entrepreneurs and capitalists are no longer liberal but interventionist and statist. The fact is correct, but the conclusions people want to draw from it are wrong-headed. These deductions stem from the entirely untenable Marxist view that entrepreneurs and capitalists protected their special class interests through liberalism during the time when capitalism flourished but now, in the late and declining period of capitalism, protect them through interventionism. This is supposed to be proof that the "hampered economy" of interventionism is the historically necessary economics of the phase of capitalism in which we find ourselves today. But the concept of classical political economy and of liberalism as the ideology (in the Marxist sense of the word) of the bourgeoisie is one of the many distorted techniques of Marxism. If entrepreneurs and capitalists were liberal thinkers around 1800 in England and interventionist, statist, and socialist thinkers around 1930 in Germany, the reason is that entrepreneurs and capitalists were also captivated by the prevailing ideas of the times. In 1800 no less than in 1930 entrepreneurs had special interests which were protected by interventionism and hurt by liberalism.

Today the great entrepreneurs are often cited as "economic leaders." Capitalistic society knows no "economic leaders." Therein lies the characteristic difference between socialist economies on the one hand and capitalist economies on the other hand: in the latter, the entrepreneurs and the owners of the means of production follow no leadership save that of the market. The custom of citing initiators of great enterprises as economic leaders already gives some indication that these days it is not usually the case that one reaches these positions by economic successes but rather by other means.

In the interventionist state it is no longer of crucial importance for the success of an enterprise that operations be run in such a way that the needs of the consumer are satisfied in the best and least expensive way; it is much more important that one has "good relations" with the controlling political factions, that the interventions redound to the advantage and not the disadvantage of the enterprise. A few more marks' worth of tariff protection for the output of the enterprise, a few marks less tariff protection for the inputs in the manufacturing process can help the enterprise more than the greatest prudence in the conduct of operations. An enterprise may be well run, but it will go under if it does not know how to protect its interests in the arrangement of tariff rates, in the wage negotiations before arbitration boards, and in governing bodies of cartels. It is much more important to have "connections" than to produce well and cheaply. Consequently the men who reach the top of such enterprises are not those who know how to organize operations and give production a direction which the market situation demands, but rather men who are in good standing both "above" and "below," men who know how to get along with the press and with all political parties, especially with the radicals, such that their dealings cause no offense. This is that class of general directors who deal more with federal dignitaries and party leaders than with those from whom they buy or to whom they sell.

Because many ventures depend on political favors, those who undertake such ventures must repay the politicians with favors. There has been no big venture in recent years which has not had to expend considerable sums for transactions which from the outset were clearly unprofitable but which, despite expected losses, had to be concluded for

political reasons. This is not to mention contributions to non-business concerns — election funds, public welfare institutions, and the like.

Powers working toward the independence of the directors of the large banks, industrial concerns, and joint-stock companies from the stockholders are asserting themselves more strongly. This politically expedited "tendency for big businesses to socialize themselves," that is, for letting interests other than the regard "for the highest possible yield for the stockholders" determine the management of the ventures, has been greeted by statist writers as a sign that we have already vanquished capitalism.[2] In the course of the reform of German stock rights, even legal efforts have already been made to put the interest and well-being of the entrepreneur, namely "his economic, legal, and social self-worth and lasting value and his independence from the changing majority of changing stockholders,"[3] above those of the shareholder.

With the influence of the state behind them and supported by a thoroughly interventionist public opinion, the leaders of big enterprises today feel so strong in relation to the stockholders that they believe they need not take their interests into account. In their conduct of the businesses of society in those countries in which statism has most strongly come to rule — for example in the successor states of the old Austro-Hungarian Empire — they are as unconcerned about profitability as the directors of public utilities. The result is ruin. The theory which has been advanced says that these ventures are too large to be run simply with a view toward profit. This concept is extraordinarily opportune whenever the result of conducting business while fundamentally renouncing profitability is the bankruptcy of the enterprise. It is opportune, because at this moment the same theory demands the intervention of the state for support of enterprises which are too big to be allowed to fail.

III.

It is true that socialism and interventionism have not yet succeeded in completely eliminating capitalism. If they had, we Europeans, after centuries of prosperity, would rediscover the meaning of hunger on a massive scale. Capitalism is still prominent enough that new industries are coming into existence, and those already established are improving and expanding their equipment and operations. All the economic advances which have been and will be made stem from the persistent remnant of capitalism in our society. But capitalism is always harassed by the intervention of the government and must pay as taxes a considerable part of its profits in order to defray the inferior productivity of public enterprise.

The crisis under which the world is presently suffering is the crisis of interventionism and of state and municipal socialism, in short the crisis of anticapitalist policies. Capitalist society is guided by the play of the market mechanism. On that issue there is no difference of opinion. The market prices bring supply and demand into congruence and determine the direction and extent of production. It is from the market that the capitalist economy receives its sense. If the function of the market as regulator of production is always thwarted by economic policies in so far as the latter try to determine prices, wages, and interest rates instead of letting the market determine them, then a crisis will surely develop.

Bastiat has not failed, but rather Marx and Schmoller.

[1] Cf. Webb, *Fabian Essays in Socialism*. Ed. by G. Bernard Shaw. (American ed., edited by H.G. Wilshire. New York: Humboldt Publishing Co., 1891) p. 4.

[2] Cf. Keynes, "The End of Laisser-Faire," 1926. See *Essays in Persuasion* (New York: W.W. Norton & Co., Inc., 1932) pp. 314–315.

[3] Cf. Passow, *Der Strukturwandel der Aktiengesellschaft im Lichte der Wirtschaftsenquete*, (Jena 1939), S.4.

Source: Originally published as "Die Legende von Versagen des Kapitalismus" in *Der Internationale Kapitalismus und die Krise, Festschrift für Julius Wolf* (1932). Translated from the German by Jane E. Sanders.

* * *