# The Development of the Misesian Theory of Interventionism

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With comment by Murray N. Rothbard

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The aim of this chapter is to describe the evolution of the Misesian theory of interventionism from its first articulations by Ludwig von Mises to its modern reformulation by Murray N. Rothbard. The main focus will be on an emerging typology of interventionism according to which various government actions can be classified and their economic effects analyzed. It will be argued that Mises's theory of interventionism has undergone substantive changes, by both Mises and Rothbard, and further that these changes can be called extensions and improvements. The changes are extensions of the scope of the concept of interventionism to an increasing variety of categories of government policy to which the original form of argument was applicable. They can be called improvements because it is only this more comprehensive concept of interventionism that can adequately fit into the analytical role that Mises tried to make it play in his overall theory of economic policy.[1]

## Origins of the Theory: Price Control

The earliest discussion by Mises of interventionism was a short section of his *Theory of Money and Credit* (1912) on "The Regulation of Prices by Authoritarian Decree" in which can be found in embryo the main features—both strengths and weaknesses—of his later and more

[1] I have limited the focus of this chapter to the scope of the concept of interventionism because I believe that the main substance of the Misesian theory of interventionism has not undergone any important change by Mises or his students. Only the scope—the range of application—of the argument has evolved over time, while the essence of the argument has remained the same and is firmly rooted in Mises's theory of the market process.

developed analysis. The strengths, in this writer's view, are (1) his detailed account of the "phases" of action and reaction as spontaneous market forces respond to and frustrate attempts by the government to intervene into the market (in this case, control prices) (1912, pp. 245-249) and (2) his placement of the critique of interventionism into the wider context of the analysis of comparative economic systems, in particular his familiar statement that "there is no middle way" between capitalism and socialism (1912, p. 247). The major weakness of his critique of interventionism, I will argue, is his narrow focus on only some particular types of intervention (in this case only price control) even though the basic logic of his theory is much more general. Since the purpose of this section in the 1912 book was limited to the relevance of price controls to monetary theory, a better starting point for examining the origins of Mises's theory of interventionism might be his more extensive paper on the "Theory of Price Controls" (1923). Here Mises offers his more detailed analysis of the "phases" of government action and market reaction, which constitutes the heart of his critique of interventionism.

Mises does not claim complete originality for his theory. As he pointed out in the first paragraph of this essay, the fundamental idea on which his critique of interventionism is based came from the demonstrations by the physiocrats and the classical economists that market prices are not arbitrary but determined by the conditions of supply and demand in the market. From this follows the classical economists' critique of price controls as "superfluous, useless, and harmful."

It is superfluous because built-in forces are at work that limit the arbitrariness of the exchanging parties. It is useless because the government objective of lower prices cannot be achieved by controls. And it is harmful because it deters production and consumption from those uses that, from the consumer's viewpoint, are most important (1923, p. 140).

Clearly Mises saw himself as merely elaborating on this basic insight in classical economics that attempts to set prices by decree were inappropriate means to the ends sought. Mises added the following to this classical critique of interventionism: (1) He placed it in a wider context by relating it to the alternative economic systems of capitalism and socialism. (2) He presented a lucid step-by-step analysis of how market forces react to interventionist policy in such a way as to frustrate it at every turn.

The classical economists had formulated their criticism of price controls before the ascendancy of Marxian socialism and its advocacy not of the control over prices but of the complete abolition of the price system. The Marxist insisted that the market order is not the only option available to society but that central planning could undertake deliberately the functions performed spontaneously by the market. The choice is not laissez faire versus the interventionism that had been discredited by the classical economists. The choice is private versus common ownership of the means of production. As Mises points out, the doctrines of Marxism contain "the beginnings of this perception" that state intervention into a private property order is fundamentally incapable of achieving the redistributionary goals of the socialist movement (1923, p. 140).

It is one of Mises's significant contributions that he was able to place the critique of interventionism in the wider context of the study of comparative economic systems. Whereas to classical economists the critique of interventionism comprised the whole of their case for the classical liberal policy of laissez faire, to Mises it was but one component of a three-part argument.

1. We have three main types of economic order to choose among: socialism, capitalism, or interventionism.[2] Such other systems, such as syndicalism, which lack any kind of ordering mechanism, cannot be treated as a serious option for society. We could rely on the unhampered market as the ordering mechanism of the economy; we could use government policy to intervene in that mechanism; or we could select the Marxian alternative of central planning as a deliberate ordering mechanism and entirely dispense with the market. No viable fourth option has ever been formulated.

2. Of these three, socialism must be rejected for any technologically advanced society. As Mises's "calculation argument" showed, the economic order is too complex to be susceptible to deliberate control in the form of comprehensive central planning.[3] Market prices act as what he called "aids to the mind" for decentralized decision makers; these aids permit them to utilize far more knowledge than any one human mind could assimilate on its own. Thus the market system cannot be entirely abolished without reducing society's production processes to a very primitive level. The private property system cannot be replaced. All that remains is the possibility that it be regulated by some form of intervention.

3. But interventionism is itself not a viable option; either attempts to implement it must fail because of reactions by spontaneous market forces, or it must be carried further and more extensively until it is indistinguishable from socialism.

The bulk of Mises's 1923 essay on price controls is devoted to a discussion of how spontaneous market forces react to attempts at

[2] In this chapter I will loosely refer to society's "options" or "choices" among economic systems, despite the fact that strictly speaking, of course, societies do not choose their economic systems or anything else for that matter. An economic system is not consciously chosen but rather evolves under economic and ideological influences.

[3] See Mises (1922). The chronological order in which Mises formulated these three steps of argument was (1), (3), and then (2), as is illustrated by the quoted comments about interventionism in Mises (1912), writ- ten before he had articulated the calculation argument. However the order used here is more convenient for explaining the logical place of the critique of interventionism in Mises's system of thought.

controlling prices in such a way as to lead interventionists either to expand their control until private property exists in name only, and thus its knowledge- generating function is subverted, or to accept defeat and cease intervening altogether. The point is not that interventionism is impossible but rather that a coherent, workable economic order founded on a principled application of interventionist policy is impossible. Isolated acts of intervention invariably result in responses by private owners and entrepreneurs, which in turn call forth more extensive policies of intervention.

Thus, for example, the government places a ceiling on the price of milk lower than that which the market would dictate, leading milk suppliers to respond by withholding milk from the market to await the lifting of the ceiling. This in turn leads milk buyers to look for and bid up the price of substitutes. The government counters by ordering milk suppliers to sell at the decreed price, but this disrupts the operation of the price-rationing mechanism, leading to arbitrary distribution of milk to those buyers "who come first" or "have personal connections." The government's attempts to regulate distribution do not eliminate the queues or the corruption and in any case only affect the distribution of the already available supply of milk. The existing inventories will soon be depleted, since milk production "no longer covers its cost," so the government will have to compel milk producers to supply their product even at a loss or to place ceilings on the factors of production such as cows and milking machines, whose costs now exceed the revenues permitted milk producers (1923, p. 145).

In this way the attempt to make the first control over a single price work necessitates the imposition of more extensive controls until, if the policy is pursued, there is nothing left of private ownership. Mises specifically refers to the war economy (from World War I) as an illustration of these fairly predictable "phases" of increasing interventionism: "at first price control, then forced sales, then rationing, then regulation of production and distribution, and, finally, attempts at central planning of all production and distribution" (1923, p. 146).[4]

These two related aspects of Mises's theory of interventionism, his placement of the critique of intervention into the wider context of comparative economic systems and his analysis of the phases of increasing intervention and market response, continued as the main themes of his later discussions of the subject. And in this writer's view these main themes have never been answered and still constitute the primary strengths of the Misesian theory of interventionism.

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[4] But of course there is nothing inevitable in this sequence of increasing government control over economic life. A change in ideology that favors abandoning this trend can quickly reverse its direction, as Mises hoped would one day happen. See John Hagel (1975).

But just as the 1923 essay contained the essential strengths of the Misesian theory of interventionism, it equally reflects the main weakness of that theory, a weakness that Mises alleviated but never entirely eliminated in his later writings. Although the basic logic of his detailed analysis of interventionism is quite general, Mises persisted in applying it rather narrowly, in this case only to price controls. This was unfortunate not only because it prevented Mises from analyzing other types of intervention whose consequences were also subject to his critique, but more crucially, this narrow focus seriously weakened his broader argument concerning comparative economic systems. It was Mises's stated objective, even in 1923, to "reject all intervention as superfluous, useless, and harmful," and this is logically required if his argument for choosing among capitalism, socialism, and interventionism is to be complete (1923, p. 140). But, in fact, as the title of his 1923 essay makes clear, he was providing a detailed case against only one type of intervention, price control, leaving untouched the plethora of other forms of interventionist tools.[5] Thus this is not merely a complaint about other things we would all like Mises to have done. It represents a serious gap in his argument. That price controls cannot work is simply not sufficient for proving that there is no middle way between capitalism and socialism.

## Broadening the Theory: Price Control and Production Restrictions

Mises's first attempt to present a general theory of interventionism, his 1926 essay "Interventionism," represents a clear advancement over his previous work. Here Mises offers a definition of interventionism that appears general enough to encompass a wide variety of types of government interference into the market order, and thus it is more appropriate to his contention that "there is no middle of the road" between capitalism and socialism (1926, p. 26). "Intervention is a limited order by a social authority forcing the owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would" (1926, p. 20). The use of the phrase "limited order," Mises explains, is intended to distinguish interventionism from socialism, which aims at "directing the whole economy and replacing the profit motive of individuals with obedience as the driving force of human action" (1926, p. 20). Thus it might appear from this definition that any government policy, beyond that necessary for the preservation of private property and short of complete control over the means of production, qualifies as interventionism.

[5] In the 1920s price control was probably the most popular form of interventionism advocated, but this is no longer the case.

Yet Mises draws back from such an interpretation of his definition and proceeds to explicitly narrow its scope. First he excludes "partial socialization" from the category of interventionism. "Nationalization of a railroad constitutes no intervention; but a decree that orders an enterprise to charge lower freight rates than it otherwise would is intervention" (1926, p. 19). Actually this limitation can be reconciled with his quoted definition, since the nationalization of a railroad is not a "limited order" to private owners of railroads but a complete confiscation of their property. But this should argue for a still more general definition of interventionism, because in his critique of socialism Mises excluded partial socialization from his definition of socialism.[6] If the nationalization of a railroad is neither intervention nor socialism, nor, certainly, laissez faire capitalism, then perhaps it is the "middle way." The whole thrust of Mises's economic writings seems more consistent with the inclusion of nationalization of industries within the category of intervention into the market order.

The exclusion of government subsidies and of at least some forms of taxation from Mises's 1926 concept of interventionism is just as explicit—and just as disturbing—as his barring of nationalization from the concept. And there is a complete omission of the various types of macroeconomic interventionism such as monetary expansion and credit manipulation from his discussion (with the exception of a remark that government cannot enrich mankind by printing money). His 1926 categories of interventionism do not readily incorporate any of these kinds of policy, although they all involve the use of force, they all temporarily induce market participants to employ their resources in a manner different from the way they otherwise would, and they all invariably result in a spontaneous market reaction that at least partially frustrates the policy. Although there may be sufficient differences between, on the one hand, price control and product restrictions and, on the other, taxes, subsidies, or monetary expansion to warrant making them different types of intervention, it would seem to be inconsistent with Mises's overall perspective to omit the latter type altogether.

Mises insists that "government measures that use market means, that is, seek to influence demand and supply through changes of market factors, are not included in this concept of intervention" (1926, pp. 19-20).[7] When the government offers a subsidy that supplies milk to destitute mothers, he says, "there is no intervention" (1926, p. 20). Of course Mises is free to

[6] See Mises (1922, p. 119): "nationalized and municipalized undertakings within an otherwise capitalist system are not Socialism."

[7] The use of the market means to accomplish interventionist goals is not a clearcut way to distinguish Mises's price and product control from other government policies. Any violent intervention into the market relies on the market as a necessary surrounding environment and at the same time employs nonmarket means to alter the direction in which this environment would have otherwise developed.

define intervention as narrowly as he wants, but doing so leaves a gap in his critique of the "middle way." He does not explain why an economic system in which the state taxed half of all incomes, and then used "market means" to purchase consumption goods from private owners, does not constitute a workable compromise between capitalism and socialism.

In a footnote Mises acknowledges that "there may be some doubt about the suitability of... interference by taxation which consists of expropriation of some wealth or income" as a category of intervention, and [i]ndeed Mises was to add a separate category for confiscatory and redistribu- tionary taxation in his later work. But Mises gives two reasons in 1926 for excluding taxation as a separate classification of interventionism. First, he says that the effects of such measures may in part be identical to those of another category that he does include, production restrictions.[8] Although this may be admitted, it is also true that taxation is different enough from other forms of intervention to justify separate analysis. Second, and less plausibly, he contends that taxation in part consists of "influencing the distribution of production income without restricting production itself." This statement I find in fundamental conflict with the whole Misesian analysis of the market order. Mises always emphatically argued that distribution in the market system is inextricably connected to the production process. There is no separate process of the production of goods that is followed by their distribution, rather the distribution of incomes is an integral part of the single process of capitalist production. As Mises phrased it, "under capitalism incomes emerge as the result of market transactions which are indissolubly linked up with production" (1922, p. 151).[9] One cannot arbitrarily redistribute incomes without drastically disturbing the process of production in the market. Thus the notion of taxes that somehow influence production income without disturbing production itself is difficult to reconcile with Mises's own depiction of the process of production under capitalism.

Despite these somewhat artificial restrictions of the scope of his concept of intervention, Mises does extend the idea to cover two main types of intervention: "restrictions of production" and "interference with the structure of prices" (1926, p. 20). Thus we see here a definite advance

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[8] Mises, both in 1926 and in 1949, wanted to include some taxation such as tariffs under his production-restriction category.

[9] See also Mises (1949, p. 800): ". . . in the market economy this alleged dualism of two independent processes, that of production and that of distribution, does not exist. There is only one process going on. Goods are not first produced and then distributed. There is no such thing as an appropriation of portions out of a stock of ownerless goods. The products come into existence as somebody's property. If one wants to distribute them, one must first confiscate them." Incidentally, this statement seems to argue against Mises's 1926 dichotomy between taxation (as at least sometimes restrictive) and subsidization (as never restrictive). Rather these two policies should be viewed as connected aspects of the same redistributionary type of intervention.

over his earlier treatments, which seemed to implicitly identify interventionism with price control, and we have for the first time a rudimentary typology of interventionism.

Although Mises does not offer as detailed an analysis of production restrictions as he had of price controls, his three pages on the former mention "protective tariffs," "class restrictions of trade and occupation" such as licenses, and labor legislation (1926, pp. 21-22). He offers no detailed analysis of the effects of these measures, but he does present a concise general statement of such effects.

All production restrictions directly hamper some production inasmuch as they prevent certain employment opportunities that are open to the goods of higher order (land, capital, labor). By its very nature, a government decree that "it be" cannot create anything that has not been created before (1926, pp. 22-23).

All forms of production restrictions close off options that might have been available to entrepreneurs and capitalists, and thus are bound to reduce the number, variety, and value of new opportunities that otherwise would have been discovered. Since it is the discovery of such new opportunities for improving products and services that is the driving force of the market process, "we cannot calculate how much better those products and services would be today, without the expenditure of additional labor, if the hustle and bustle of government were not aiming (inadvertently, to be sure) at making things worse" (1926, p. 33). Since in Mises's system the market is viewed not as a mechanism for allocating known means to given ends but rather as what Hayek calls a "discovery procedure," we can never know what will fail to be discovered when we hamper that procedure.[10]

## A More General Theory: The Inclusion of Taxation and Macrointervention

The outlines of a general Austrian theory of interventionism were already evident in Mises's 1926 essay, but his extensive discussion of "The Hampered Market Economy" in *Human Action* (1949) constitutes Mises's most comprehensive analysis of interventionism. One of the most serious limitations of his earlier presentations, the exclusion of at least some kinds of taxation from the category of intervention, is largely rectified. Furthermore Mises now explicitly includes a section on "Currency and Credit Manipulation," including foreign exchange control and legal tender laws, as varieties of intervention. Not only does Mises broaden the scope

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[10] On this discovery-hindering aspect of interventionism see Kirzner (1978). This essay also offers a fascinating argument that relates Mises's critique of interventionism to his calculation argument against socialism.

of interventionism to these new areas, he also provides a more substantive analysis of the general nature of interventionism. Despite these important revisions there is still room for improvement in the theory of interventionism as Mises left it, particularly as regards the nature of partial socialization and government expenditures.[11]

Mises begins his discussion of "Interference by Taxation" by conceiving of an ideal tax as one that is neutral rather than one that is just. A neutral tax, were it achievable, "would not divert the operation of the market from the lines in which it would develop in the absence of any taxation" (1949, p. 730). But after establishing this as the ideal Mises proceeds to point out that such a tax could only be possible "in the imaginary con- struction of the evenly rotating economy" under conditions of "perfect income equality" and that, since the "changing economy is entirely different from this imaginary construction," in the real world "no tax can be neutral" (1949, p. 731).[12] Thus Mises now treats taxation as a category of interventionism, which he non[e]theless still defines as he had in 1926 as any government policy that "forces the entrepreneurs and capitalists to employ some of the factors of production in a way different from what they would have resorted to if they were only obeying the dictates of the market" (1949, pp. 714-715).

Many of the deleterious effects of taxation are examined by Mises in his chapter on "Confiscation and Redistribution." The close resemblance of this critique of interference with the market by taxation to his critique of other forms of intervention are evident. The argument here as elsewhere is not that the market yields the best imaginable results—in this case some optimal distribution of wealth—but rather that (1) the market process is absolutely necessary for the preservation or expansion of any technologically advanced economy and (2) the intervention at issue—in this case taxation— seriously impedes, and if carried far enough completely undermines, the operation of this process. Not only does intervention sabotage the market mechanism, but the market by responding to the intervention equally sabotages it. Thus attempts to achieve a preconceived ideal distribution of wealth through taxes will not only reduce the total available for distribution but will also be continually undone by the redistributionary processes inherent in the workings of the market.

Mises's writings had from the very first treated government manipulation of the supply of money and credit as a harmful interference with the workings of the market process. Thus his explicit inclusion of a

[11] I have not been able to find any discussion by Mises that retracts his 1926 exclusion of nationalization from the concept of interventionism.

[12] In a recent paper Rothbard seemed to suggest that Mises thought a neutral tax was achievable in the real world. This may have been true of the Mises of 1926, but I cannot see how the Mises of 1949 can be so interpreted.

chapter in 1949 on these policies as instruments of interventionism is more a clarification of the broadened scope of the concept of intervention than it is a change in his views on the effects of such policies.[13]

Since both taxation and monetary expansion are now accepted by Mises as forms of interventionism, evidently there is no longer the loophole cited earlier concerning government expenditures. If there is no way government can obtain revenues without intervening into and thereby hampering the market, then there is no room for a "middle way" policy that is neither laissez faire capitalism nor socialism but that employs selective subsidies to improve on the operation of capitalism. The government cannot spend resources in its favored spheres of activity without forcibly withdrawing them from other spheres that are more highly valued by the consumers. As Mises puts it, "government does not have the power to encourage one branch of production except by curtailing other branches (1949, p. 737). Thus in contrast to his statement in 1926, "If government buys milk in the market in order to sell it inexpensively to destitute mothers or even to distribute it without charge, or if government subsidizes educational institutions" there *is* intervention (1926, p. 20).

Even so, Mises's treatment of taxation and subsidies is so one-sided as to leave unanalyzed a whole class of economic consequences on the expenditure side. When the government taxes and then spends, the distortions it imposes on the market are not confined to those revealed by a study of the incidence of the taxes per se. Rather the net effect of the government policy should contrast the government's use of resources with those uses the tax- payers would have made of them in the absence of the taxes. This should involve an analysis of the incidence of the government's spending as well as its taxing. The government intervenes when it collects its revenues and then intervenes again when it spends them on milk for destitute mothers or whatever instead of on what the taxpayers would have preferred. By focusing exclusively on the taxation side of the government budget, Mises's theory of interventionism still fails to cope fully with the economic impact of government expenditures.

## Rothbard's Typology of Interventionism

The final form of Mises's theory of interventionism constitutes more an unordered list of types of government interference into the market than an actual typology. Rothbard's contributions to the Misesian theory of interventionism are his establishment of definite categories of intervention

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[13] Mises had in 1929 intended to include a chapter on the manipulation of credit in his original German edition of *A Critique of Interventionism*, which suggests that he already considered macroeconomic policy as a category of intervention (1977, p. 153).

(into which the kinds of intervention Mises analyzed can be meaningfully classified), his further subdivisions and analysis of taxation (which Mises had included but said little about), his inclusion of government expenditure, and nationalization (which Mises had excluded altogether).

Rothbard's typology derives from the fact that in the free market the complex of voluntary relationships that develops can be reduced to a series of exchanges between two individuals, or autonomous actions by individuals. Thus a very natural way of classifying various forms of violent interference into the market is to distinguish them on the basis of how they impinge on these paired relationships and autonomous activities of the market.

An intervention that solely restricts an individual's autonomous activities Rothbard calls an "autistic intervention." When the government forces an individual to engage in a coerced exchange with it, this is called a "binary intervention." And when the government interferes with the other- wise voluntary relationship between a pair of individuals, Rothbard calls this a "triangular intervention."

Most of the interventionist policies to which Mises gave serious attention come under the category of triangular intervention, the interference with pairs of otherwise voluntary transactors in the market. Indeed Rothbard's two-way subdivision of triangular intervention bears great resemblance to Mises's 1926 classification of intervention: price control and product control (either by prohibition or by grant of monopoly privilege). The other two types of intervention Mises listed in 1949, taxation and monetary and credit expenditure, constitute the three subcategories of Rothbard's binary intervention. Autistic intervention, since it refers to isolated actions of an individual outside of the exchange nexus, does not pose any significant problems that are amenable to economic analysis.

Some clarification is in order concerning these categories as Rothbard uses them. First, although *binary intervention* is formally defined as a situation "where the intervener forces the subject to make an exchange or gift to the former," the category is used to cover cases that do not readily fit this definition (1962, p. 767). In particular Rothbard designates not only taxation, which clearly fits this definition, but also government expenditure, monetary expansion, and credit expansion as binary interventions.[14] In the case of government expenditure it is difficult to see how, by handing out a subsidy, the government is forcing the subject to make an exchange or gift to the intervener. Rather it seems that the

[14] Rothbard's reason for including monetary and credit expansion under the binary category is that "creating new money is, anyway, a form of taxation" (1962, p. 794). It could plausibly be included under the triangular category also, on the grounds that eroding the value of the monetary unit undermines all the outstanding contracts that have been made in terms of that unit, thus intervening with pairs of transactors.

government is completing a coerced transfer of wealth from one subject to another, which was begun when the taxes were collected. Similarly monetary and credit expansion involve not simple transfers of wealth from one subject to the intervener but rather a whole series of unpredictable transfers from those who happen to receive the new money relatively late in the inflation process to those— including but not confined to government—who get to spend the money relatively early. Perhaps a reformulation of the definition of binary in- tervention, to make it specifically include coerced transfers of wealth to others individuals as well as to the intervener, would help to clarify this.

A second caveat concerning Rothbard's typology is that the categories, as he admits, are not mutually exclusive. Some government policies such as tariffs can be put under both binary and triangular classifications, and "acts of binary intervention have definite triangular repercussions" (1970, p. 11). This may present serious difficulties in classifying some government policies and may even raise doubts about the cogency of the distinction between binary and triangular intervention. However, in the absence of a better typology, Rothbard's seems to be fully adequate for the task at hand: facilitating the systematic study of the economic effects of all forms of government intervention into the market order. For the purpose of carrying out this study it is not so important whether a license restriction that imposes a fee as a condition to enter an industry is analyzed as a triangular type because it is a form of product control or as a binary type because it is a form of taxation. For practical purposes it might be sufficient to simply decide on the basis of whether the primary purpose of the intervention is to manipulate production or prices directly (triangular) or to raise revenues or redistribute wealth, which would have indirect effects on production and prices (binary).

In addition to the articulation of a typology, the main contributions of Rothbard's analysis are in his examinations of the two subcategories of binary intervention that Mises had minimized or neglected: taxation and government expenditure.[15] By offering a more detailed study of the effects of taxation, and by explicitly including government expenditure as a form of intervention, Rothbard has substantively advanced the Misesian theory.

Although Mises distinguished among three "classes" of taxation, these classifications are not very satisfactory, nor was his analysis of any of them very detailed.[16] Rothbard provides a more helpful distinction

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[15] Rothbard claims that "writers on political economy have recognized only the [triangular] type as intervention" (1970, p. 10). Although I would agree that most writers, including Mises, have neglected government expenditure and have offered very little analysis of taxation, Mises did (at least by 1949) specifically recognize taxation and monetary and credit manipulation as forms of intervention.

[16] Mises tried to distinguish among three "classes" of tax intervention: (1) taxes that aim "at totally suppressing or at restricting the production of definite commodities," (2) taxes

between taxes on income and taxes on accumulated wealth and then further subdivides each of these according to type of income or wealth (1962; 1970). This procedure permits him to engage in a much more systematic analysis of the different economic effects associated with a wide variety of tax policies, from sales and excise taxes to taxes on wages, corporate income, profits, capital gains, gifts, and property.

I have argued that the main limitations of Mises's 1949 theory of interventionism was its failure to include nationalization and government expenditure as forms of intervention. As the description of Rothbard's typology of interventionism has shown, he assigned an important analytical role to the category of government spending. In addition, Rothbard was able to cope with nationalization both under this government expenditure category as well as under the rubric of "Grants of Monopolistic Privilege." Just as Rothbard had usefully broken taxation into analytical subcategories he also subdivides government expenditures into "transfer" and "resource-using" expenditures. The latter involve circumstances where the intervener determines the direction of spending of the forcibly collected revenues, and the former consist of circumstances where beneficiaries designated by the intervener spend the revenues.

In Rothbard's theory, then, the government subsidy to milk consumers that Mises had excluded is treated as interventionism of the binary, government-expenditures category and, within this, under the transfer-payments subcategory. The other government policy I have criticized Mises for excluding, the nationalization of an industry, is a bit more complicated but can readily fit into Rothbard's categories and can perhaps serve as an illustration of the analytical utility of these categories. First the act of nationalization itself entails the confiscation of the property of all the capitalists in that industry, clearly a form of binary intervention analogous to a lump-sum tax. Next the operation of the industry by a government bureau involves a second binary intervention of the resource-using government-expenditures variety. Then if the bureau runs a deficit further binary taxation interventions may be required. And in many cases the government may find it necessary to exclude legally potential new entrants into the industry from competing with the nationalized bureau, constituting an additional triangular intervention in the form of product control via a grant of monopoly privilege.

## Conclusion

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that expropriate income and wealth "entirely." The last of these he dismisses as "merely a means for the realization of Socialism," and the first he subsumes under the production-restrictions category (1949, pp. 734-735). Only his second class of tax intervention, "confiscatory measures," receives separate attention (chap. 33).

The basic form of argument that Mises employed in critique of price control has found an increasingly general application to a wide variety of government policies. In an economy that is founded on private property, voluntary exchange, and the market process, attempts to violently manipulate the out- comes of this process lead to reactions that the intervener can neither specifically predict nor effectively prevent. Efforts to make the initial intervention work as designed must take the form of ever-wider and more obtrusive interventions, which are in further conflict with the workings of the market mechanism. In the end the interventionists must either extend their activities to the point where the process has been completely sabotaged or they must abandon their quest to control the market. Any "middle way" between these extremes may, of course, be advocated but would consist in a series of haphazard shocks to the economic system, scarcely any more deserving of the label "policy" than it would be to call throwing a monkey wrench into a complex piece of machinery "engineering." And of the two extremes the policy that abandons the market process altogether must—for reasons Mises presented in his critique of socialism—also abandon the benefits of a technologically advanced economy.

The proliferation of new forms of government interference into the market is certain to present many new challenges for the analyst in the future. Rothbard's extensive applications of the Misesian theory were far from exhaustive when he wrote them, and numerous interventionist innovations that require further study have since appeared. But I believe all these will prove susceptible to the Misesian critique of interventionism and that this susceptibility is enhanced by the extensions of the scope of the theory that Mises and Rothbard have made and, in particular, to the inventions by the latter of a general typology into which any interventionist policy can be classified.

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# Interventionism: Comment on Lavoie

## *By Murray N. Rothbard*

I was delighted to read Professor Lavoie's chapter. As far as I know, he is the first person to mention, let alone stress, the importance of my own contributions to the typology of government intervention. This makes Lavoie, in my own biased view at least, an unusually perceptive economist.

My development of the three categories of intervention—autistic, binary, and triangular—stemmed from unhappiness at the way in which economists were analyzing intervention. Even Mises, so systematic in every other area, treated various forms of government intervention on a piece-by- piece, ad hoc basis. Hence I sought a systematic way of categorizing and analyzing different forms of intervention.

It then became clear that free-market economists who opposed government intervention generally confined their opposition to what I have called "triangular" intervention: that is, government interference in exchanges between pairs of subjects. But, for some reason, when the government itself compelled someone to make an "exchange" with it, this was somehow omitted from the discussion. Yet, it was clear to me that this "binary" intervention was at least as much a coerced diversion from the voluntary activities of the market as the more conventional triangular variety—that, in short, taxation is fully as much an act of intervention as, say, price control.

On Don Lavoie's criticisms, I concede his point that it is incomplete to simply define binary intervention as the intervener, for example, the government, compelling someone to transfer something to itself. As Lavoie points out, this would cover taxation but not government expenditures financed by taxation. I agree with Lavoie that government expenditures should be treated as the completed result of a coerced transfer beginning with taxation, and the definition of binary intervention needs reformulation accordingly. In my defense, however, I would point out that in practice, in *Power and Market*, especially in treating government subsidies, this is precisely what I did. Expenditures were treated as completing coercion levied on taxpayers. Second, as Lavoie points out, specific acts of government intervention can overlap both the binary and triangular categories. The categories, however, are still helpful in analyzing and distinguishing between the various consequences.

I will go beyond Lavoie in self-criticism and underline my own unhappiness with the subdivision of government expenditures between "resource using" and "transfer payments." This distinction, of course, is not my own creation. The problem is that all government expenditures whatsoever are transfer payments, the only difference being whether a group of people calling themselves "government" acquire the money and the resources or whether other groups acquire the money and the resources *from* the government. Despite this problem, however, I still believe it is useful to distinguish between expenditures in which the government uses the resources and those where the government functions as a conduit for others.

Also, more needs to be done on monetary inflation as binary intervention. I believe Lavoie is correct in focusing on the transfers from the late to the early receivers of the new money. The crucial point is government money creation as a species of counterfeiting, in which resources are fraud- ulently—and therefore coercively—siphoned off from producers to the gainers from the counterfeiting operation.

Returning to the idea of government expenditures as the completion of a coercive act beginning with taxation, let us assume that *A, B, C,* . . . and so on are taxed a total of $10 billion and that the $10 billion are transferred to *X, Y, Z,* . . . and so on. The major point of taxation is precisely to trans- fer resources from one set of people to another, the recipients including the government itself among others. But suppose that the $10 billion, after being collected, are destroyed in a great bonfire. In that case, *A, B, C,* . . . would still lose the $10 billion, and they would lose the same amount of resources. Since the money supply would fall, everyone except *A, B, C,* . . . would gain proportionately from the general deflation. Clearly, such instances are rare; in all other cases, expenditures are necessary to complete the coercive transaction and the transfer of resources.

To move on to broader concerns, let us ponder the implications of our new approach for the free-market economist. For the economist now finds that, in addition to the almost conventional attacks he may make on price controls or grants of monopoly privilege, binary intervention is just as much an intervention and perhaps just as reprehensible as the more familiar triangular categories. But if he is to oppose all binary intervention, too, the free-market economist must oppose all actions of the government whatsoever, since almost all such acts involve taxation and certainly all involve expenditures. And this would mean that the government, including the one under which he is forced to live, ineluctably takes on the praxeological status of an organization of banditti. Sociologically, the economist might even find himself a maverick or even a pariah among his fellow free-market economists, let alone in the profession as a whole.

Fortunately, the consistent free-market economist has the consolation of knowing that one of the fathers of our" discipline, J.B. Say, held many similar views. Thus, in rebutting the argument that taxes are harmless because they are recirculated into the economy by the state, Say quotes with approval Robert Hamilton who compared such impudence with the "forcible entry of a robber into a merchant's house, who should take away his money, and tell him he did him no injury, for the money, or part of it, would be employed in purchasing the commodities he dealt in, upon which he would receive a profit." Say then comments that "the encouragement afforded by the public expenditure is precisely analogous." Say then goes on to define taxation as: "the transfer of a portion of the national products from the hands of individuals to those of the government, for the purpose of meeting the public consumption of expenditure. . . . It is virtually a burden imposed upon individuals . . . by the ruling power . . . for the purpose of supplying the consumption it may think proper to make at their expense. . . ."[1] Say's hard-hitting politicoeconomic conclusion was eminently consistent with our current analysis. He declared that "the best scheme of finance is, to spend as little as possible; and the best tax is always the lightest."[2]

But even in the seemingly uncomplicated area of triangular intervention, there are deeper implications than might at first appear. If a free-market economist, for example, declares that *A* and *B* should be allowed to exchange goods or services without hindrance, then what if *A* or *B* are themselves interveners or participants in intervention? In short, if *A* has a horse and *B* a cow, and the economist is to advocate free and unhampered exchange between them, then suppose that A had stolen the horse from *C* a few weeks earlier? In that case, *A* was a previous intervener in the market and should himself at the very least be forced to give the horse back to *C*. Although it is true that this action will disrupt possible exchanges of property between *A* and *B*, it also restores the possibility of exchanges between *B* and *C*, or between *C* and someone else.

To put it another way: when free-market economists advocate free exchanges, they are saying that *A* and *B*, *B* and *C*, *D* and *E*, and all other possible pairs of people should be allowed to exchange their products freely. But exchanges are concretely transfers of property titles. In our previous example, if a horse is exchanged for a cow, then a property title in a horse is being exchanged for a title in a cow. But to say that *A* and *B* should be free to exchange property titles implies immediately that both property titles are valid, that is, that *A* and *B* legitimately own their property. For if, as we have seen, *A* has stolen his horse from *C*, this means that the government, if that is the justice-pursuing agency, cannot simply abstain from intervening in *A*'s property title. For if theft is to be

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[1] Jean-Baptiste Say, *A Treatise on Political Economy*, 6th ed. (Phila - delphia: Claxton, Remsen, and Haffelfinger, 1880), pp. 413, 446; quoted in Murray N. Rothbard, "The Myth of Neutral Taxation," *The Cato Journal* 1 (Fall 1981):551-552.

[2] Say, *Treatise*, p. 449; Rothbard, "Myth," p. 554.

illegal, *C* is the true owner rather than *A*, and *A*'s alleged property must be seized by the government and handed over to *C*, the legitimate owner.

We cannot, then, even talk about the free market without also talking about property titles. But, more than that, we cannot talk about the free market or about property without committing ourselves to some theory of justice in property titles, some way of deciding between, say, *A*'s and *C*'s competing claims to the same horse. Unless the decision is purely arbitrary, it can only be on the basis of *some* theory of justice in property.

The consistent free-market economist is now in parlous shape. He is close to concluding not only that government itself is illegitimate but also that the free market implies some theory of justice in property rights. But this means that he is likely to be a pariah, not only for his political stance but also for believing that applied economics cannot keep separate and watertight the realms of fact and value. In both these areas the free-market economist must find himself differing from, even while standing on the shoulders of, Ludwig von Mises. But he has the consolation of knowing that the same Mises, in never shirking the task of following the truth no matter where it might lead, is ever his inspiration and guide.