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It's the People vs. the Government

Murray N. Rothbard

Murray N. Rothbard (1926–1995) was dean of the Austrian School. He was an economist, economic historian, and libertarian political philosopher. This essay is the introduction to a new edition of Mises's The Clash of Group Interests, published by the Mises Institute, 2011.

he advocates of free-market economics almost invariably pin the blame for government intervention solely on erroneous ideas—that is, on incorrect ideas about which policies will advance the public weal. To most of these writers, any such concept as "ruling class" sounds impossibly Marxist. In short, what they are really saying is that there are no irreconcilable conflicts of class or group interests in human history, that everyone's interests are always compatible, and that therefore any political clashes can only stem from misapprehensions of this common interest.

In his essay "The Clash of Group Interests," Ludwig von Mises, the outstanding champion of the free market in the twentieth century, avoids the naïve trap embraced by so many of his colleagues. Instead, Mises sets forth a highly sophisticated and libertarian theory of classes and of class conflict by distinguishing sharply between the free market and government intervention.

It is true that on the *free market* there are no clashes of class or group interests; all participants benefit from the market and therefore all their interests are in harmony.

But the matter changes drastically, Mises points out, when we move to the intervention of government. For that very intervention necessarily *creates* conflict between those classes of people who are benefited or privileged by the State and those who are burdened by it. These conflicting classes created by State intervention Mises calls *castes*. As Mises states,

"Thus there prevails a solidarity of interests among all caste members and a conflict of interests among the various castes. Each privileged caste aims at the attainment of new privileges and at the preservation of old ones. Each underprivileged caste aims at the abolition of its disqualifications. Within a caste society there is an irreconcilable antagonism between the interests of the various castes."



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In this profound analysis Mises harkens back to the original libertarian theory of class analysis, originated by Charles Comte and Charles Dunoyer, leaders of French laissez-faire liberalism in the early nineteenth century.

But Mises has a grave problem; as a utilitarian, indeed as someone who equates utilitarianism with economics and with the free market, he has to be able to convince everyone, even those whom he concedes are the ruling castes, that they would be better off in a free market and a free society, and that they too should agitate for this end. He attempts to do this by setting up a dichotomy between "short-run" and "long-run" interests, the latter being termed "the rightly understood" interests. Even the short-run beneficiaries of statism, Mises asserts, will lose in the long run. As Mises puts it,

"In the short run an individual or a group may profit from violating the interests of other groups or individuals. But in the long run, in indulging in such actions, they damage their own selfish interests no less than those of the people they have injured. The sacrifice that a man or a group makes in renouncing some short-run gains, lest they endanger the peaceful operation of the apparatus of social cooperation, is merely temporary. It amounts to an abandonment of a small immediate profit for the sake of incomparably greater advantages in the long run."

The great problem here is: why *should* people always consult their long-run, as contrasted to their short-run, interests?

Why is the long run the "right understanding"? Ludwig von Mises, more than any economist of his day, has brought to the discipline the realization of the great and abiding importance of *time preference* in human action: the preference of achieving a given satisfaction now rather than later. In short, everyone prefers the shorter to the longer run, some to different degrees than others.

How can Mises, as a utilitarian, say that a lower time preference for the present is "better" than a higher? In brief, some moral doctrine beyond utilitarianism is necessary to assert that people *should* consult their longrun over their short-run interests. This consideration becomes even more important when we consider those cases where government intervention confers great, not "small," gains on the privileged, and where retribution does not arrive for a very long time, so that the "temporary" in the above quote is a long time indeed.

Mises, in "The Clash of Group Interests," tries to dismiss war between nations and nationalisms as senseless, at least in the long run. But he does not come to grips with the problem of national boundaries; since the essence of the nation-State is that it has a monopoly of force over a given territorial area, there is ineluctably a conflict of interest between States and their rulers over the size of their territories, the size of the areas over which their dominion is exercised.

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While in the free market, each man's gain is another man's gain, one State's gain in territory is necessarily another State's loss, and so the conflicts of interest over boundaries are irreconcilable—even though they are less important the fewer the government interventions in society.

Mises's notable theory of classes has been curiously neglected by most of his followers. By bringing it back into prominence, we have to abandon the cozy view that all of us, we *and* our privileged rulers alike, are in a continuing harmony of interest. By amending Mises's theory to account for time preference and other problems in his "rightly understood" analysis, we conclude with the still less cozy view that the interests of the State-privileged and of the rest of society are at loggerheads—and further, that only moral principles beyond utilitarianism can ultimately settle the dispute between them.

Bagus Gets it Right

Patrick Barron

Patrick Barron is a private consultant in the banking industry. He teaches in the Graduate School of Banking at the University of Wisconsin. Philipp Bagus is a former Mises Institute Summer Fellow.

n a small gem of a book, *The Tragedy of the Euro*, Professor Philipp Bagus of Universidad Rey Juan Carlos in Madrid has given us much more than an explanation of why the euro will fail the common man in Europe. He has given us a grand lesson in power politics and economic reality that is applicable throughout the world at all times and all places.

The title of his book frames his economic argument. A resource succumbs to the "tragedy of the commons" when property rights in the resource either are missing or not sufficiently enforced. All grab for as much of the resource as quickly as they can until the resource is plundered to extinction.

In this case, the euro is the resource that is being plundered by the European elite in its bid for centralized power and special privileges at the expense of the common European citizen. This plunder has played out against a background of great change in Europe. The vision of a united postwar Europe always meant two essentially different ideals: the liberal order (in the nineteenth-century meaning of the term) of free trade and free migration, which would leave the nation-States intact; and the statist ideal of a centralized European empire.

The fall of the Soviet Union signaled the possibility that the liberal order would prevail following the brutality of twentieth-century socialism of the German and Russian varieties. This beneficial development would have meant the end of special privileges for the European elite, who had waged a several-decades-long battle to hijack the post-World War II European project

The Liberal Vision of Postwar Europe

The founders of modern, postwar Europe had one aim in mind—the prevention of war by removing the need 4 February 2011 The Free Market

for war. The two twentieth-century European-initiated world wars had economic nationalism as their foundational cause. This process started during the so-called Progressive Era at the turn of the nineteenth to the twentieth century and reached its zenith in the 1930s.

In the heart of Europe, with an advanced industrial economy manned by an industrious people, Germany was especially vulnerable to trade barriers. Its homegrown energy and food resources were inadequate to run its industrial economy and feed its dense population. As an illustration, Professor Bagus reminds us that the British naval blockade of Germany in World War I doomed 100,000 Germans to the cruelest death of all-starvation. With the demise of free trade in the early 1930s, Germany was haunted by the specter of a renewal of its immediate post-WWI fate of widespread famine.

When these conditions were combined with the destruction of the middle class during the 1923 hyperinflation, the German people were easy targets for a tyrannical regime that promised economic security at the expense of freedom. Eventually, Germany embarked on a campaign of conquest to secure *lebensraum*, or "living space," validating a dictum famously attributed to Bastiat: when goods do not cross borders, armies will.

It was this scenario that the European integrationists hoped to avoid through four main avenues—free movement of people, capital, goods, and services within Europe. This goal has been largely achieved and has made a war between any two European states almost unthinkable today. This goal does not require a centralized enforcement mechanism or regulatory bureaucracy in order to function. It especially does not require a common currency among its members.

The Centralizing Vision of Postwar Europe

Almost immediately after the formation of the first, modest European integration success, the formation of the European Coal and Steel Community, the European elite began its propaganda campaign to build a permanent European bureaucracy in order to secure special privileges for itself and its class.

Dr. Bagus adds much to our understanding of this process. He explains that the European elite in different countries forms a class that transcends borders; that is, the elite in France, for example, have more in common with the elite in Germany and Spain than they do with their own countrymen who are common citizens. So French bureaucratic elite ensures that property developers in Spain and exporters in Germany get the funds they need at a low price. This is one battle line.

Another battle line is composed along geographic boundaries. The Latin countries, with France as their leader, comprise a block that is less productive than the harder-working and more capital-intensive Nordic countries, with Germany as their leader. The goal of the Latin bloc is to institutionalize resource transfers from the north to the south. This is where the euro proves to be a stealth weapon, for outright capital transfers are easy to see and understand and thusly can be limited, whereas the machinations of a central bank are not.

The elite adds to this a propaganda campaign in which, just as in America, economists are "employed" to do research for the European Central Bank and, therefore, form a corrupt priestly class protecting the elite from honest criticism. It is shocking to learn the brazenness with which the European elite, which includes even the German courts, ignores or rationalizes away

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the treaty-born prohibitions that, supposedly, would prevent the European Central Bank from financing the sovereign debt of its members. This is a lesson: paper assurances mean nothing if the parties involved are dishonest and the citizenry is unwilling or unable to throw the rascals out.

Here is the heart of Professor Bagus's contribution to our understanding. By grounding his explanation in solid Austrian economic concepts, we learn that the European Monetary Union (EMU) is both a Trojan horse for economic tyranny and, what probably is not understood even by its proponents, an impossible vehicle to sustain; it simply will fail of its inherent contradictions. Put in the simplest terms, the euro will be plundered by the Latin bloc until inflation reaches unacceptable levels or until the Nordic bloc refuses to participate any longer and secedes from the European Monetary Union-and possibly from the European Union itself.

Perhaps I lead a sheltered life, but I found *The Tragedy of the Euro* to read

like a great adventure novel. Here we have heroes (mostly postwar German bankers, resisting inflation) and villains (mostly postwar Frenchmen, allied with postwar German politicians, determined to keep the common German citizen paying and paying).

The villains believe, falsely, that they can secure for all time their special privileges over the German citizenry—which is not the same as the German elite, who often collude with the French elite for their own privileges. But this is their great error, which Professor Bagus explains so clearly. They want to ignore the laws of economics by building coercive pan-European bureaucracies to enforce their will. But this will not work. How long it will last is the question.

The European financial crisis proceeds from day to day. This wonderful book will help everyone understand what is really happening and, we hope, provide a lesson for others. Are you listening, America?

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Books from the Institute

The Tragedy of the Euro — Philipp Bagus

Philipp Bagus, professor of economics at Universidad Rey Juan Carlos in Madrid, and former Mises Summer Fellow, brings his scholarship to English readers, explaining the background to the idea of European unity and its heritage of sound money. He explains that the euro is not what the older classical liberals had hoped for but instead is a politically managed money that is destined for failure.

He writes with a keen sense for economic analytics and empirical detail, offering one of the most accessible and yet rigorous accounts of the emergence of the euro. He predicts its downfall due to political pressures, bad banking practices, and exploding public-sector liabilities. The analogies with the dollar are

indeed close, but with welfare states at a more advanced stage, it will be a race to see which paper currency will crumble first.

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Walter Block leaned on 82 of the most prominent libertarian thinkers and asked them to tell their life stories with an eye to intellectual development. The result is the most comprehensive collection of libertarian autobiographies ever published. Their stories are thrilling and fascinating. They reveal their main influences, their experiences, their choices, and their ambitions.

There are some very interesting lessons here for everyone. We learn what gives rise to serious thought about liberty and what causes a person to dedicate a professional career or vocation to the cause. We also discover some interesting empirical information about the most influential libertarian writers.

If there is a theme that emerges here, it is that the most powerful and effective message of liberty is the one that is both smart and truth-telling, not the one that is evasive or consciously dumbed down. The two most influential libertarians to emerge from the contest here are Rothbard and Rand, and this is for a reason.

This volume bears close study by anyone who is considering strategic issues. So far as we know, it is the first book of its kind, one sure to play a larger role in the future crafting of the message and scholarship of human liberty.

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