

THE FREE MARKET

THE MONTHLY PUBLICATION OF THE MISES INSTITUTE

How Entrepreneurs Make Society Better

HANS-HERMANN HOPPE

The capitalist entrepreneur acts with a specific goal in mind: to attain a monetary profit. He saves or borrows saved money, he hires labor, and he buys or rents raw materials, capital goods, and land.

He then proceeds to produce his product or service, whatever it may be, and he hopes to sell this product for a monetary profit. In *Human Action*, Mises notes that, for the capitalist, “profit appears as a surplus of money received over money expended and loss as a surplus of money expended over money received. Profit and loss can be expressed in definite amounts of money.”

As with all action, a capitalist enterprise is risky. The cost of production—the money expended—does not determine the revenue received. In fact, if the cost of production determined price and revenue, no capitalist would ever fail. Rather, it is anticipated prices and revenues that determine what production costs the capitalist can possibly afford.

Yet the capitalist does not know what future prices will be paid or what quantity of his product will be bought at such prices. This depends exclusively on the buyers of his product, and the capitalist has no control over them. The

capitalist must speculate what the future demand will be. If he is correct and the expected future prices do correspond to the later fixed market prices, he will earn a profit. On the other hand, while no capitalist aims at making losses—because losses imply that he must ultimately give up his function as a capitalist and become either a hired employee of another capitalist, or a self-sufficient producer-consumer—every capitalist can err with his speculation. Actually-realized prices can fall

This article is a selection from “The Ethics of Entrepreneurship and Profit,” a lecture delivered by Prof. Hoppe at the University of Reading, England in June 2014.



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below his expectations and below his accordingly assumed production cost, in which case he does not earn a profit but incurs a loss.

While it is possible to determine exactly how much money a capitalist has gained or lost in the course of time, his money profit or loss does not imply much if anything about the capitalist's state of happiness, i.e., about his psychic profit or loss. For the capitalist, money is rarely if ever the ultimate goal. In practically all cases, money is a means to further action, motivated by still more distant and ultimate goals. The capitalist may want to use it to continue or expand his role as a profit-seeking capitalist. He may use it as cash to be held for not-yet-determined future employments. He may want to spend it on consumer goods and personal consumption. Or he may wish to use it for philanthropic or charitable causes, etc.

What can be unambiguously stated about a capitalist's profit or loss is this: his profit or loss is the quantitative expression of the size of his contribution to the well-being of his fellow men, i.e., the buyers and consumers of his product, who have surrendered their money in exchange for his more highly valued (by the buyers) product. The capitalist's profit indicates that he has successfully transformed socially less highly valued and appraised means of action into socially more highly valued and appraised ones, and thus increased and enhanced social welfare. *Mutatis mutandis*, the capitalist's loss indicates that he has used some more valuable inputs for the production of a less valuable output and so wasted scarce physical means and impoverished society.

Money profits are not just good for the capitalist, then. They are also good for his fellow men. The higher a capitalist's profit, the greater has been his contribution to social welfare. Likewise, money losses are bad not only for the capitalist, but they are bad also for his fellow men, whose welfare has been impaired by his error.

The question of justice: of the ethically "right" or "wrong" dimension of the actions of a capitalist-entrepreneur, arises, as in the case of all actions, again only in connection with conflicts. It arises with rivalrous ownership claims and disputes regarding specific physical means of action. And the answer for the capitalist here is the same as for everyone, in any one of his actions.

The capitalist's actions and profits are just, if he has originally appropriated or produced his production factors or has acquired them—either bought or rented them—in a mutually-beneficial exchange from a previous owner, if all his employees are hired freely at mutually agreeable terms, and if he does not physically damage the property of others in the production process. Otherwise, if some or all of the capitalist's production factors are neither appropriated or produced by him, nor bought or rented by him from a previous owner (but derived instead from the expropriation of another person's previous property), if he employs non-consensual, "forced" labor in his production, or if he causes physical damage to others' property during production, his actions and resulting profits are unjust.

In that case, the unjustly harmed person, the slave, or any person in possession of proof of his own un-relinquished older title to some or all of the capitalist's means of production, has a just claim against him and can insist on restitution—exactly as the matter would be judged and handled outside the business world, in all civil affairs. ■



Hans-Hermann Hoppe is Professor Emeritus of Economics at the University of Nevada, Las Vegas and Distinguished Fellow at the Mises Institute.



An International View of **DRUG PROHIBITION**

An Interview with Mark Thornton

Mark Thornton, Mises Institute Senior Fellow, recently traveled to the United Kingdom to take part in Oxford University's Oxford Union Debates.

Mises Institute: Why were you invited to debate at Oxford?

Mark Thornton: The Oxford Union can pretty much get whoever they want to debate, including presidents, prime ministers, Mother Theresa, the Dalai Lama, and even Julian Assange, so I was honored that they invited me. I met several students in the Oxford Union and at Oxford University who were familiar with my work on the drug war and at the Mises Institute. Each side of the debate generally consists of a student presenter and three experts. The debate is similar in structure to the House of Commons and has been that way since 1823.

MI: What was your basic line of argumentation and how was it received? How did the other side justify the drug war?

MT: My opening joke, which came at the expense of the American public, was very well received and my arguments were also very well received. My argument was that the war on drugs has no benefits, just costs and negative unintended consequences. These include drug-addict crime, drug-dealer violence, bribery and corruption, and the increase in drug potency to deadly levels. I gave them the theory of how to connect those dots and some history of how the dots connected. I then described ten benefits of legalizing drugs that fit into the three categories of making us safer, making us healthier, and improving human welfare. I ended my

presentation with four examples of what happens when drug laws are liberalized. One example was an experiment where heroin addicts were provided with doses of pharmaceutical-grade heroin. The result was a dramatic drop in their criminality, a large increase in their employment, and an increase of those seeking treatment. Another example was the needle-exchange policy. Countries with liberal needle-exchange policies (free needles on demand) have very low HIV/AIDS and other needle-borne disease transmission rates and countries with very strict needle policies (only available by prescription) have very high transmission rates. I received a very enthusiastic response from the audience.

The three experts on the pro-drug-war side made the following arguments. The first expert said that there was no war on drugs and that prohibition had never really been tried. The second expert's argument was that drugs were bad—that's it! She was a drug addict herself and revealed that she wanted a marijuana leaf tattooed on the back of her hand when she was young, but the tattoo artist refused because she was not 18 years old at the time. What makes her think that businesses will sell cocaine to 14 year olds if it was legalized? The final expert argued that if we legalize drugs then eventually almost everyone will be hard-core drug

CONTINUED ON PAGE 5

Mises Scholar and Alumni Notes

Senior Fellow **JÖRG GUIDO HÜLSMANN** lectured in Munich, Germany on “Fiat Money and the Poverty of Nations” at the Ludwig von MisesInstitut Deutschland Conference 2014, and he gave two lectures in Sofia, Bulgaria on “Does Fiat Money Help to Finance the Economy?” and “The Cultural Consequences of Fiat Money.” Dr. Hülsmann also gave the commencement address at the Angers School of Asset Management (ESEMAP) on credit crises, and spoke on “Protecting the Portfolio Against Inflation” at the Swiss Pensions Conference in Zurich.

Senior Fellow **WALTER BLOCK** in July appeared on CNBC’s show *Street Signs* to discuss the privatization of roads.

Senior Fellow **PETER KLEIN** has been promoted to Full Professor at the University of Missouri, effective September 1.

Senior Fellow **MARK THORNTON** appeared on the *Scott Horton Show* and the Heartland Institute’s audio interview series to discuss immigration and the drug war. Dr. Thornton also appeared on the *Butler on Business* show during July to discuss business cycles and the current economic trends.

Senior Fellow **JESÚS HUERTA DE SOTO** spoke at Segovia Cathedral in Spain on Diego Covarrubias and the Spanish Scholastics. A video of the talk has been translated into English and can be viewed online at the Mises Economics Blog.

Former Mises Fellow **XAVIER MÉRA** successfully defended his Ph.D. dissertation at the University of Angers.

Associated Scholar **THORSTEN POLLEIT** delivered a talk on fiat money, booms, and busts at the Center for Financial Studies at the University of Frankfurt.

Faculty, Alumni, Members, and Donors: Send us your news at updates@mises.org.

Our 2014 Mises Summer Fellows

The Mises Institute hosted an international group of nine Mises Fellows this summer. Summer fellowships are available to graduate or law students, ABDs, and post-docs interested in academic research in the Austrian School and classical liberalism. A limited number of fellowships are available to exceptional undergraduates who have attended Mises University or the Austrian Economics Research Conference. These summer fellowships offer a unique opportunity for students to research and write in a particular area of specialization. Students were sponsored by our generous Donors.

This year’s Fellows, along with their sponsor names:

Front Row: Peter St. Onge (Victor J. and Willie T. Kurzweg Foundation), Jingjing Wang (Sally von Behren), Audrey Redford (Sally von Behren), Dante Bayona (Margaret Rowley), Ludvig Levasseur (Yousif Almoayyed), Joseph Salerno (faculty)

Back Row: Mark Thornton (faculty), Arkadiusz Sieroń (Walter Woodul), Matei Apavaloaei (Fox Foundation), Kyle Marchini (Dr. Don Printz), Jonathan Newman (Conant Family Foundation), Peter Klein (faculty)



AN INTERNATIONAL VIEW OF DRUG PROHIBITION CONTINUED FROM PAGE 3

addicts. As you can see the other side's arguments were mostly misinformation and fear tactics.

MI: We know that here in the US, drug legalization efforts have progressed significantly in many states, especially in Colorado and Washington. What was the view of these developments in the United Kingdom?

MT: Everyone I talked to about drug policy was aware of developments in Colorado and Washington and several people questioned me about them. My general impression was that people were hopeful that the US had broken its hard-core attitude against drugs. More generally, public opinion in the UK and Europe also seems to be moving toward more liberalized drug policy. This does not necessarily entail full drug legalization, but rather a policy where hard drugs are addressed as a medical problem, not a law enforcement problem, and where cannabis is regulated in a similar manner to alcohol and tobacco.

MI: Through the news media and popular culture we all have a certain image of what the drug war looks like here in America, with gangs and smugglers and drug runners. Has the drug war manifested itself differently in Europe or are things more or less the same there?

MT: Like the United States, Europe is a large, illegal drug-consuming region, rather than producing region, with similar laws against drugs. South America also produces much of the drugs that are smuggled into Europe. So naturally the problems are very similar. Part of that similarity is also driven by international treaties that forces countries to conform to certain legal norms with respect to illegal drugs. So yes, they have smugglers, gangs that sell drugs at the retail level, organized crime, bribery, and corruption, etc. There are some obvious exceptions such as cannabis coffee shops in the Netherlands. There are some noteworthy experiments as well, such as the decriminalization of all drugs in Portugal. It would not be incorrect to say that Portugal's reform was an act of desperation, but one should remember that the US was equally desperate when we repealed alcohol prohibition in the depths of the Great Depression.

MI: Has the fight against the drug war become a worldwide movement, or are successful efforts cropping up in only a few countries?

MT: Both. Successful efforts are cropping up in only a few countries; however, I think there has been a worldwide ideological movement in favor of more liberal drugs laws. The balance in favor of more liberal drug laws in both Europe and the Western Hemisphere is starting to become apparent. Medical marijuana and decriminalized recreational marijuana are very acceptable throughout much of the developed world. The people of Mexico, Central America, and the drug-producing countries of South America have been devastated by the war on drugs and are desperate for a solution. It may seem as if the victories are sporadic and isolated, but I believe when history looks back on our recent past and near-term future that it will label the period the "End of the War on Drugs," in much the same way we have the "End of the Cold War" and the "End of Communism." At least that is my hope.

MI: When we think of illegal drugs, we generally mean cocaine, opium, and marijuana. But there is increasing attention being paid to prescription drugs in this country. Is this a growing issue in other countries as well?

MT: This problem was predictable as I showed in my book, *The Economics of Prohibition*. As the war on drugs has progressed with more enforcement capabilities and greater penalties, the black market has responded with higher potency and more potent and dangerous drug types. When I was writing back in the 1980s, the progression was increasingly higher potency cannabis, to cocaine, crack, and heroin. Since that time crystal meth, ecstasy, and prescription opiates have been added to the mix. More recently, new chemical drugs have been invented that are technically legal. I wonder if today's drug warriors had a button to push that could dial us back in time, prior to government intervention in drugs, and have a situation where people smoked low-potency pot and opium on the fringes of society and drank Coca-Cola (which contained cocaine rather than caffeine), would they push that button?

OxyContin (oxycodone) and Vicodin are opiate painkillers that are killing thousands of people in the US each year. Both are often wrongly viewed by addicts as safer alternatives to heroin. The use of the drug has already spread to Europe and elsewhere, and so have the deaths. ■



Spring QJAE Now Online

The spring 2014 issue of the Mises Institute's academic peer-reviewed journal, *The Quarterly Journal of Austrian Economics*, is now online, featuring new research and Austrian analysis on the United Kingdom's housing boom, loan-maturity mismatching, and the rebirth of Austrian economics during the 1970s. Also included are three reviews: a new Jean-Baptiste Say biography heralding Say as a true revolutionary; a new book unmasking healthcare policy; and *Defending the Undefendable II: Freedom in All Realms* by the indomitable Walter Block.

The journal is available at mises.org under the Literature tab.



Another Successful Year for the Rothbard Graduate Seminar



This year's Rothbard Graduate Seminar, a week of intense study, instruction, and discussion on Austrian economics for graduate students, met during June. Attendance is limited to a small number of exceptional students who are pursuing graduate degrees in economics, history, philosophy, law, political science, and business disciplines and who seek a career in

academia or research. The students, who arrived from six countries and 13 colleges and universities, met with faculty during the week to examine Rothbard's book *Economic Controversies*. The event was sponsored by our generous donor Alice J. Lillie. Some comments from attendees:

Thank you very much for making the Rothbard Graduate Seminar possible. This has been my first chance to attend and it has been quite a rewarding experience. Being able to spend so much time with other scholars who are steeped in the ideas of liberty has provided an incredible week of intellectual growth.

—Kyle Marchini

Thank you so much for the opportunity to attend the Rothbard Graduate Seminar. It allowed me to solidify several ideas and positions, as well as learn new insights and clarifications. Furthermore, it created a very safe and comfortable atmosphere and discourse to discuss ideas that we are very passionate about, but we lack the ability at our home universities to engage others productively.

—Audrey Redford

IN MEMORIAM

Both the Mises Institute and the cause of liberty mourn the passing of two good friends. Their support for our mission and concern for the future of freedom will always inspire us.

MR. PASQUALE “PATSY” ORZO, a longtime friend and Member of the Mises Institute, passed away. Mr. Orzo served in the National Guard and was a member of the Boy’s Club of New York and the Knights of Columbus. He was a board member of R.A.I.N., which served the elderly in the Bronx and northern Manhattan. He often volunteered his time at Bronx State and Calvary Hospitals.

MR. NOBU FUJIOKA, a friend of the Mises Institute, passed away. Mr. Fujioka was a retired Hawaii state agricultural inspector and an Army veteran.

COMING EVENTS

Register online at mises.org or by phone at 800.636.4737.

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|-------------------|--|
| November 8, 2014 | WEST COAST REGIONAL MISES CIRCLE IN COSTA MESA, CALIFORNIA |
| January 24, 2015 | SOUTHWEST REGIONAL MISES CIRCLE IN HOUSTON, TEXAS |
| March 12–14, 2015 | AUSTRIAN ECONOMICS RESEARCH CONFERENCE • Mises Institute |
| June 7–12, 2015 | ROTHBARD GRADUATE SEMINAR • Mises Institute |
| July 19–25, 2015 | MISES UNIVERSITY • Mises Institute |

New Translations

Ravi Wu’s new translations of the works of Austrian economists in Traditional Chinese are now available, including *What Must Be Done* by Hans-Hermann Hoppe, *Liberty & Property* by Ludwig von Mises, *Anatomy of the State* and *War Collectivism* by Murray Rothbard, and more.

Libreria San Giorgio has released a new Italian translation of *Economic Science and the Austrian Method* by Hans-Hermann Hoppe.

More information on these translations can be found on the Mises Economics Blog:

bastiat.mises.org/2014/06/new-chinese-translations-of-rothbard-hoppe-mises-molinari-and-more/



Anatomy of the State

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