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- Complete typescript (118 pages) from the tapes of the lectures, with many corrections in several hands, including Margit von Mises's. Several instances of inserted typed text by Margit.

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L U D W I G v o n M I S E S

ECONOMIC POLICY

Thoughts for Today and Tomorrow

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INTRODUCTION

by Fritz Machlup

It would be too easy to say that "the author of this book needs no introduction," and to proceed immediately to introducing the book itself. It is not true, however, that introducing the author is altogether superfluous. There are people, even students of economics, who know little or nothing about Ludwig von Mises. And there are those who have erroneous or distorted knowledge of him, acquired from superficial hearsay or from the teaching of unfriendly critics. There has been no scarcity of critics of this most learned, highly original and uncompromising opponent of socialism and government intervention in all its forms.

Introducing Mises to those who know hardly anything about him and, at the same time, to satisfy the admirers of Mises who may be interested to read what I have to say about "the master," is not an easy task. I shall simplify it for myself by resorting to brevity. By sticking to bare outlines, I can avoid trying to solve some fascinating puzzles in the life of this great man.

Ludwig von Mises was born in 1881 in Lemberg, the capital of Galicia, a state in the Austrian monarchy. He died, more than 92 years later, in 1973 in New York.

Mises attended the Academic Gymnasium in Vienna. After graduation, in 1900, he enrolled at the Faculty of Law of the University of Vienna to study both law and economics. His first book, published in 1902, was a monograph in economic history, dealing with the development of manorial-peasant relations in Galicia, 1772-1848. He received his degree as doctor of law in 1906.

The life story of our author can be conveniently divided into three periods: his residence in Vienna until 1934; his stay in Geneva, Switzerland, 1934-1940; and the final 33 years in New York. Each of these periods can be characterized by the academic posts he held, by the students whom he inspired, and by the books he produced. The three academic institutions were the University of Vienna, the University Institute for Advanced International Studies in Geneva, and New York University. In Vienna he was "extraordinary" (unsalaried) professor, in Geneva he held the chair for international economic relations, and in New York he was visiting professor at the Graduate School of Business Administration.

An assiduous worker and prolific writer, Mises published 47 books, of which 19 were first editions and 28 were second editions or translations. This introduction of the author should not be encumbered by a listing of all titles, but it should not fail to state which ^{ones} I regard as the most important of his writings. First and foremost, his Theory of Money and Credit (first German edition 1912, 2nd edition 1924; English translation 1934, New English edition 1953), of which Lord Robbins said that he knew "few works which convey a more profound impression of the logical unity and the power of modern economic analysis." If this book had been widely read and promptly understood, the world might have been spared the disasters of hyperinflation and their social and political consequences. Secondly, there is the essay on "Economic Calculation in the Socialist Commonwealth" (first published as an article in German in 1920; English translation in a collective volume, 1935; republished 1963 and 1966), which argued that a centrally planned economy without competitive markets and market prices would be unable to engage in rational economic calculation. This theme is expanded and joined with many other issues of collectivism and socialism in the book Socialism: An Economic and Sociological Analysis (first German edition 1922, 2nd edition 1932; English translation 1936,

republished 1951 and 1959). The socialist economist Oskar Lange suggested that a statue of Mises be erected in front of the planning office in gratitude for his calling attention to the need for (actual or simulated) market prices in a socialist state. Finally, Human Action: A Treatise on Economics (published 1949 and republished 1966, almost 900 pages, expanding on a book first published in German in 1940), a work of truly awesome scope and intellectual range.

Where does Mises stand in the development of economics? As a native Austrian and student at the University of Vienna he took his place as a representative of the Austrian school of economics. School, in this context, does not refer to an academic institution but to a way of thinking, a technique of analysis, a program of research. The Austrian school of economics was founded by Carl Menger, whose major works were published in 1871 and 1883. The "second generation" consisted of Eugen von Böhm-Bawerk, Friedrich von Wieser, and several others whose most important works were published before the turn of the century. Ludwig von Mises was a student of Böhm-Bawerk, in whose seminar one could find several Austrians of the "third generation," who began publishing during the first two decades of this century. The fourth generation consists chiefly of members of the Mises seminar in Vienna, of whom Friedrich von Hayek, a winner of the Nobel Memorial Prize in Economic Science, is best known. Perhaps one may speak of a fifth generation of Austrian economists, because a few years after Mises moved to the United States another Mises seminar started in New York. Its members became adherents of Austrian economics without being Austrian by either origin or residence; but they shared the major tenets of the school: a strong commitment to methodological individualism and

subjectivism. This means, in a nutshell, that in the explanation of economic phenomena we have to go back to the actions (or inaction) of individuals, since groups or "collectives" cannot act except through the actions of individual members; and that we have to go back to judgments and choices made by individuals on the basis of whatever knowledge they have or believe to have and whatever expectations they entertain regarding external developments and especially the consequences of their own intended actions.

In the United States, the label "Austrian Economics" has come to imply a commitment to the libertarian program. This was not so in the case of all earlier generations of Austrian economists, some of whom were advocates of governmental interventions and interferences which would be ruled out by Mises and his students. If Mises is introduced here as a long-term leader of Austrian Economics, it is important to stress that his mission was above all the attainment and maintenance of individual freedom.

Ludwig von Mises was not a popular economist in any sense of the word. His writing was not in a popular style -- this book is a rare exception -- and his views were unpopular with the majority of the people considered as the intelligentsia. Mises fought interventionism, while almost everybody was in favor of some government actions against the "evil" consequences of laissez-faire, or at least in favor of public measures supporting this or that "deserving" cause. Mises fought inflationism, while a large majority of people were convinced that only ~~a~~ ^{unrestrained} ~~encouraged~~ expansion of money, credit, and governmental budgets could secure prosperity, full employment, and economic growth. Mises fought socialism in all its forms, while most intellectuals had written off capitalism as a decaying system to be replaced, either peacefully or by revolution,

by socialism or communism. Mises fought coercive egalitarianism, while every "high-minded" citizen thought that social justice required redistribution of wealth and/or income. Mises fought violent and government-supported trade-unionism, while progressive professors of political science represented increasing union power as an essential ingredient of democracy. No wonder, then, that interventionists, monetary expansionists, socialists, egalitarians, and laborites have disliked Mises, or even detested him.

The present book fully reflects the author's fundamental positions for which he was, and still is, admired ^(by followers and) ~~or~~ reviled by ^{opponents.} ~~his audience.~~ In this series of six public lectures, delivered in Buenos Aires in 1959, Mises discusses some of the most important problems of our time: the contrasting features of the economic systems of capitalism, socialism, and interventionism; the evils of inflation; the importance of capital formation and foreign investment; and the links between ideas and politics. While each of the lectures can stand alone as an independent essay, the harmony of the series gives an aesthetic pleasure similar to that derived from looking at the architecture of a well-designed edifice.

The first lecture, on "Capitalism," explains the author's notion of consumers' sovereignty, based on the essential freedom of competition under which innovating entrepreneurs are "given the right to serve the masses better and more cheaply," and which leads -- not to increasing misery of the workers, as Marx ^{had} predicted -- to steady improvements of living standards ^{and} to the economic miracles achieved by the free-market economy.

The second lecture, on "Socialism," begins with a discussion of the meaning of economic freedom and the role of the free market in preserving intellectual

and political freedom; and then offers interesting commentaries on slavery, class conflict, and socio-economic status. It proceeds to explain the meaning of planning, with the important distinction ^{between} of central planning and individual planning, and the role of innovators, the "fools" who may get rich, but also may lose their money. Finally, Mises comes to the problem which he had first raised in 1920, the problem of economic calculation in a socialist system. A full exposition of this problem cannot possibly be given in a ^{small} short part of a brief lecture, but some of his observations are most enlightening, for example, when he likens the modern socialists' schemes for "playing market" to children "playing school" or to peacetime generals "playing war."

The third lecture is on "Interventionism." A distinction is made between a mixed economy, in which some enterprises or industries are owned and operated by the government -- often at a loss, with the deficit financed by taxes -- and interventionism, in which the government interferes with market processes. "Intervention means that the government not only fails to protect the smooth functioning of the market economy. but . . . interferes with the various market phenomena: prices, wage rates, interest rates, and profits." Examples are offered to show how governments' attempts to regulate prices have failed, from the Roman Empire to the present. The explanation of how maximum-price regulations ^{are apt to} lead to shortages is so simple that one cannot understand how majorities in the legislatures can be so blind and deaf that they continue to adhere to the policy of interfering with the markets.

The fourth lecture, on "Inflation," places proper emphasis on expansion of the money supply and on excesses in government expenditures,

the two most potent factors in any large and protracted inflation. He also shows, what most economists in our days fail to mention that there is no such thing as a "price level". Instead, there is a sequence of increases of particular prices, some rising faster, others more slowly, and a few perhaps not at all. This distortion of the price structure, although beneficial to the sellers of the goods and services demanded by the first spenders of the newly created money and by the recipients of increased incomes, impoverishes the groups with relatively fixed incomes and, what is even more important, it reduces productivity. The worst consequences of inflation are induced inefficiency, reduced capital formation, bad investments, and wasteful and ultimately ineffective attempts to "slow down" price increases by administrative controls and interferences with the markets. Strangely enough, Mises is more optimistic than one might have expected: he says that "inflation cannot last". In some countries, unfortunately, it has been going on for several decades. Perhaps it will not last forever, but the damage done has been and will be enormous.

In his fifth lecture, on "Foreign Investment", Mises presents some highly instructive lessons from economic history. He recounts how British capital built the railroads on the European continent and established the gas companies which provided the cities of Europe with artificial light. The industrial development of the United States was likewise helped by British capital. The British exchanged industrial equipment for bonds

or stocks of American firms. Mises regards foreign investment as "the greatest historical event of the 19th century," and the examples which he supplies support this view most impressively. Having made this point, he proceeds to show how the present policies make foreign investment less and less attractive: developed countries penalize saving and restrict capital exports; developing countries threaten nationalization and confiscation of foreign-owned assets and restrict the transfer of dividends to the foreign investors. Again, Mises is optimistic regarding the economic growth of the less developed countries, but it is a guarded optimism: it is conditional upon the adoption of policies that promote formation of domestic capital and import of foreign capital.

The sixth and last lecture is on "Politics and Ideas". As the title indicates, the emphasis is less on economics and more on political and social philosophy. Not that any esoteric philosophical problems are presented; the issues discussed concern the processes of policy making in the large democracies, with their party systems, pressure groups, political coalitions, and devotion to interventionism. Mises raises an interesting question in connection with the decline and decay of the Roman Empire that followed the currency inflation (by means of debasement of coins), the consequent price inflation, and the attempts to halt price inflation by means of price controls. He asks whether the nations of our time are doomed to suffer the same consequences--decline, decay, and collapse. His answer, once again, is optimistic. He bases his hopes

on the following argument: In Roman times nobody doubted the government's need to finance its expenditures by the debasement of currency and nobody questioned the government's power to control prices. In our time, however, we have professors and books arguing the pros and cons of economic policy. Our current inflation can be attributed to the persuasive teachings of academic economists, but increasing numbers of economists are recognizing the fallacies of trying to improve economic conditions by creating more money and controlling prices. Better ideas can replace the bad ones, and this, Mises is confident, will be done by the rising generation.

All through his active life as a teacher and scholar, Mises was a prophet of doom. Most of the time, unfortunately, he was right. In this book we meet Mises the optimist, though perhaps an optimist only for a distant future. Let us hope that he will be proved right also in this unusual role.

~~COMMENTARIES~~
~~ON~~
~~ECONOMIC POLICIES~~
~~BY~~
~~LUDWIG VON MISES~~

Since this book was written for a lay audience in South America, it seems to me, as a non economist, much easier to follow than many of Ludwig von Mises more theoretical writings.

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It was at the end of the year 1958 when Ludwig von Mises was invited by Dr. Alberto Benegas-Lynch for a series of lectures at the University of Buenos Aires, and I was asked to accompany him.

Dr. Benegas-Lynch was born 68 years ago in Argentina. After having finished his studies, he managed for thirty-five years the family wine business, which his grandfather had founded. During this time he became acquainted with my husband's books and his goal became to spread the Ludwig von Mises philosophy of freedom in his own country. He lectured all over Argentina, in the United States and other

For the Spanish translation only

countries and he wrote numerous articles about liberty and freedom of the market. He belongs to the Academy of Economic Science and to the MONTPELERIN Society. Since 1958 he has been President of the Center for Studies on Liberty and in that capacity he invited Professor von Mises to Buenos Aires to deliver the lectures that follow in this book.)

The lectures, delivered in English, were given in the enormous lecture hall of the University. In the neighboring two rooms his talks were simultaneously translated into Spanish and the students listened with earphones. Later the English tapes were transcribed by a Spanish speaking secretary and I found the typed manuscript among my husband's posthumous scripts. Reading the notes I remembered the singular enthusiasm with which the audience had responded to those talks. -

We arrived in Argentina some months after Perron had been forced to leave the country. He had governed destructively and completely destroyed its economic foundation. His successor, Eduardo Leonardi, was not much better.

B T
These young people, who listened to my husband, did not know much about freedom of the market or indi-

about this occasion

vidual freedom. As I wrote in my ~~book~~ My YEARS with LUDWIG von MISES " If anyone in those times would have dared to attack communism as my husband did, the police would have come in and taken hold of him immediately, and the assembly would have been broken up."

B

Ludwig von Mises spoke without any restraint about Interventionism, Communism, Foreign Policies and the dangers of dictatorship. The audience reacted as if a window had been opened and fresh air allowed to breeze through the rooms. He spoke without any notes, As always, his thoughts were guided by just a few words, written on a scrap of paper. He knew exactly what he wanted to say and by using comparatively simple terms, he succeeded in communicating his ideas to an audience not familiar with his work, so that they could understand exactly what he was saying.

~~One little event - it has nothing to do with the content of this book - may illustrate the feeling of the audience listening to him.~~

~~My husband lectured every third day. On one of his free days the rector of the University invited us for the opening of an art exhibition by his most~~

gifted students, arranged in one of their beautiful tiled halls. The walls were covered with sketches and paintings; busts and sculptures were placed with great taste on velvet covered stands. The students, among them the young artists, were gathered in the hall, when my husband and the Dean - I between them - entered the room. As we slowly walked through the sun-lit rooms, looking at these talented paintings and sculptures, the students suddenly started to shout " Bravo, Dr. von Mises, bravo" and accompanied their shouts with ^h rhythmic clapping.

I stopped at one of the smaller sketches, a charmingly simple watercolor. A few lonely trees, a green meadow, a small house in the distance, a pale blue sky..... seemed to me to speak of hope and despair and show great promise. After we told the Dean how much we admired him for providing his students with such opportunities for expressing themselves, we left, accompanied by the sound of the continuing applause.

The next morning the deskporter called us on our room telephone and asked whether we would see a visitor. A knock at the door revealed the young student who had painted that little sketch which I had ^{adm}ired so much.

Politely, in the fashion of all educated South Americans, he addressed himself to my husband and asked, whether he would allow him to present that little sketch to me as a souvenir of Buenos Aires. Smilingly my husband agreed. The student bowed and gave me a carefully wrapped package, containing the charming little picture. I thought it was very moving.., my husband's words had touched something in these young people and this young man's response was the gift of something dear to him. Today the picture still hangs in our living room, as a remembrance of Buenos Aires.....

Although my husband himself never visualized these speeches as a book, I felt they contained so much valuable material, so many thoughts important for today and the future, they should not be lost.

My only contribution has been to pull the sentences together and take out the little words one uses when talking informally. I have been very careful to keep intact the meaning of every sentence, to change nothing of the content, to preserve all the expressions my husband often used and which are familiar to his readers. If the attempt to transform a speech into an essay has succeeded, it is only due to the fact that, whenever I wrote a

sentence, I heard his voice, I heard him talk.

He was alive to me, alive in how clearly he demonstrated the evil and danger of too much government; how comprehensibly and lucidly he described the differences between dictatorship and interventionism; with how much wit he talked about important historic personalities, (f. i. Madame de Pompadour, page 000); with how few remarks he succeeded in making bygone times come alive (see England and the Industrial Revolution , page 000.)

I want to use this opportunity to thank my good friend George Koether for reading the manuscript for me. His editorial experience and his understanding of my husband's theories were a great help to this book.

I hope, these lectures will not only be read by scholars and by my husband's many admirers among non-Economists, ^{but I would wish!} ~~but that~~ that the book will be made available to younger audiences, in particular High School and College students.

New York, March 1978

Margit von Mises.

First Lecture

THE EMERGENCE OF THE CAPITALISTIC SYSTEM

Capitalism

Descriptive terms which people use are often quite misleading. In talking about the modern captains of industry and leaders of big business, for instance, they call a man a "chocolate king" or a "cotton king" or an "automobile king." Their use of such terminology implies that they see practically no difference between the modern heads of industry and those feudal kings, dukes or lords of earlier days. But the difference is in fact very great, for a chocolate king does not rule at all, he serves. He does not reign over conquered territory, independent of the market, independent of his customers. The chocolate king--or the steel king or the automobile king or any other king of modern industry--depends on the industry he operates and on the customers he serves. This "king" must stay in the good graces of his subjects, the consumers; he loses his "kingdom" as soon as he is no longer in a position to give his customers better service and provide it at lower cost than others with whom he must compete.

Two hundred years ago, before the advent of capitalism, a man's social status was fixed from the beginning to the end of his life; he inherited it from his ancestors, and it never changed. If he was born poor, he always remained poor, and if he was born rich--a lord or a duke--he kept his dukedom and the property that went with it for the rest of his life. As for

many factories
industry, the primitive processing industries of those days existed almost exclusively for the benefit of the wealthy; *since most* most of the people *which* in Europe, ~~this~~ included ninety percent or more

of the population worked the land and did not come in contact with the city-oriented processing industries. This rigid system of feudal society prevailed in the most developed areas of Europe for many hundreds of years.

However, as the rural population expanded, there developed a surplus of people on the land. For this surplus of population without inherited land or estates, there was not enough to do, nor was it possible for them to work in the processing industries: the kings of the cities denied them access. The numbers of these "outcasts" continued to grow, and still no one knew what to do with them. They were, in the full sense of the word, "proletarians," outcasts whom the government could only put into the workhouse or the poorhouse. In some sections of Europe, especially in the Netherlands and in England, they became so numerous that, by the eighteenth century, they were a real menace to the preservation of the prevailing social system.

Today, in discussing similar conditions in places like India or other developing countries, we must not forget that, in eighteenth-century England, conditions were much worse. At that time, England had a population of six or seven million people, but of those six or seven million people more than one million, probably two million, were simply poor outcasts for whom the existing social system made no provision.

then ~~also~~ developed a surplus of people on the land.

-2-

of the population worked the land and did not come in contact with the city-oriented processing industries.

P. However, As the rural population expanded, ~~the numbers of people engaged in agriculture within~~ this rigid system of feudal society, ~~which had prevailed in the most developed areas of Europe for many hundreds of years,~~ ~~became too great.~~ For

this surplus of population ~~these too-plentiful~~ people, without inherited land or estates, there was not enough to do, nor was it possible ^{for them} to work in the processing industries: the kings of the cities denied them access. The numbers of these "outcasts" continued to grow, and still no one knew what to do with them. They were, in the full sense of the word, "proletarians," outcasts whom the government could only put into the workhouse or the poorhouse. In some sections of Europe, especially in the Netherlands and in England, they became so numerous that, by the eighteenth century, they were a real menace to the preservation of the ~~ruling~~ *prevailing* social system.

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9 9
That was one of the great problems of eighteenth century Eng-
land: what to do with these outcasts? Another great problem
was the lack of raw materials. The British, very seriously,
had to ask themselves this question: what are we going to do,
in the future, when our forests will no longer give us the wood
we need for ^{our industries} ~~industry~~ and for heating our houses? For the rul-
ing classes it was a desperate ^{situation} ~~condition~~. The statesmen did
not know what to do, and the ruling gentry was absolutely with-

idea of how to improve conditions.
remedy.

out any ~~ideas about how to remedy conditions.~~

A Out of this serious social situation emerged the first beginnings of modern capitalism. There were some persons among those outcasts, among these poor people, who tried to organize others to set up small shops which could produce something. This was an innovation. These innovators did not produce expensive goods, suitable only for the upper classes; They produced cheaper products, ~~suitable~~ for everyone's needs. And this was the origin of capitalism as it operates today, ~~the~~ It was the beginning of mass production, the fundamental principle of capitalistic industry. Whereas the old processing industries serving the rich people in the cities had existed almost exclusively for the demands of the upper ~~classes~~ ^{wealthy}, the new capitalist industries began to produce ~~cheap~~ things that could be ~~bought~~ ^{purchased} by the general population. It was mass production to satisfy the needs of the masses.

A This is the fundamental principle of capitalism as it exists today in all of those countries in which there is a highly developed ^{system of} mass production: Big business ^{is} the target of the most fanatic attacks by the so-called leftists ^{who} produces almost exclusively to satisfy the wants of the masses. ~~These~~ enterprises ~~which are~~ producing luxury goods ^{solely} for the well-to-do can never attain the ^{magnitude} ~~size~~ of big business. ^{And today, it is the people who work} ~~Today, workers employed in~~ ⁱⁿ large factories ^{who} are the main consumers of the products made in those factories. This is the fundamental difference between the ^{capitalistic} ~~economic~~ principles of ^{production} capitalism and the feudal ^{istic} principles of the preceding ages, ~~of production.~~

When people assume, or claim, that there is a difference between the producers and the consumers of the products of big business, they are badly mistaken. ^{In} At American department stores you hear the slogan "the customer is always right." And this customer is the same man who produces in the factory those things which are sold in the department stores. The people who think that the power of big business is enormous are mistaken, ^{also} since big business depends entirely on the patronage of those who ^{buy} ~~are buying~~ its products: the biggest enterprise loses its power ~~and~~ and ~~loses~~ its influence when it loses its customers.

^{it was said,}
 Fifty or sixty years ago ~~one used to hear people say~~ in almost all capitalist countries, "the railroad companies are too big and too powerful, they have ^a monopoly, it is impossible to compete with them." It was alleged that, in the field of transportation, capitalism had already reached a stage ^{at} in which it had destroyed itself, for it had eliminated competition. What people overlooked was the fact that the power of the railroads depended ~~entirely~~ on their ability to serve people better than any other method of transportation. Of course, it would have been ridiculous to compete with one of these big ⁶ railroad companies by building another ~~line~~ ⁶ parallel to the old line, since the old line was sufficient to serve ~~the~~ existing needs. But very soon there came other competitors. Freedom of competition does not mean that you can succeed simply by imitating or copying precisely what someone else has done. ~~Freedom of literature,~~ freedom of the press does not mean that you have the right to copy what another man has written and thus ^{to} ¹ acquire the success which this other man has duly merited on account of his achievements. It

railroad

Suggested editor's note *(see page 6)*

In other books, Ludwig von Mises has pointed out the harmful effects of other factors on the railroads: i.e. "feather-bedding" restrictions ^{by} ~~of~~ labor unions and government subsidies to ~~competitor~~ truckers and air lines, *the competitors of the railroads.*

Mr. Barrett:

My point here is that Mises would not have wanted people to assume that he was unaware of these other factors in respect to the problems of the railroads, factors which he did, indeed stress very often. No doubt he omitted them in his spoken remarks for purposes of brevity and simplicity. There were, for example, the government subsidies paid to truckers and air lines which favored their rise against the railroads. Mises was well aware of all of those factors.

means that you have the right to write some thing different.
 Freedom of competition concerning railroads, ^(for example) ^s ~~mean~~ that you ^{are} ~~are~~
 free to invent something, to do something, which will
 challenge the railroads and place them in a very precarious
 competitive situation.

In the United States, ~~that has happened~~ the competition
 to the railroads--in the form of buses, automobiles, trucks,
 and airplanes--has caused the railroads to suffer and to be
 almost completely defeated, as far as passenger transportation
 is concerned.*

* Editor's footnote here?
 see note to Barrett

unprecedented

A The development of capitalism consists in ~~the fact that every-~~
 one ^{is having} has the right to serve the customer better or ^{at lower costs} ~~cheaper~~ ^{or}
 better ^{at lower cost.} ~~and cheaper.~~ And this method, this principle, has ⁱⁿ with-
 in a comparatively short time ^{in world} transformed the whole world. It
 has made possible the increase of population ~~from~~ ^{to an}
~~unprecedented height.~~ ^{size (dimension?)}

A In England ⁱⁿ where, in the eighteenth century, the land could
 only support six million people on a very low standard of liv-
 ing ⁱⁿ today more than fifty million people enjoy a much higher
 standard of living than even the rich enjoyed during the eight-
 eenth century. And today's ^{had not} standard of living in England would
 probably be still higher ~~if~~ a great deal of the energy of the
 British ~~had not~~ been wasted in what were, from various points
 of view, avoidable political and military "adventures."

A These are the facts about capitalism. Thus, if an Englishman ⁱⁿ
 or, for that matter, any other man in any country of the world ⁱⁿ

9 The famous old story, repeated hundreds of times, that the factories employed women and children and that these women and children, before they were working in factories, had lived under very satisfactory conditions, is one of the greatest falsehoods of history. The mothers who worked in the factories had nothing to cook with; they did not leave their homes and their kitchens to go into the factories, they went into factories because they had no kitchens, and if they had a kitchen they had no food to cook in those kitchens. And the children did not come from comfortable nurseries ~~they were~~ ^{really} ~~dying~~ ^{and dying} in the ~~fullest~~ ^{truest} sense of the word, ~~they were~~ starving. And all this talk about the so-called unspeakable horror of early capitalism can be refuted by ^{a single} ~~one~~ statistic: ~~Precisely~~ in these years in which British capitalism developed, precisely in the age ~~which is~~ called the Industrial Revolution in England, in the years from 1760 to 1830, precisely in those years the population of England doubled, which means that hundreds or thousands of children ^{who would} have died under the mortality rates of the preceding time ^{survived} and grew to become men and women. ^{TR} There is no doubt that the conditions of the preceding times were very unsatisfactory, but it was precisely capitalist business that improved them. It was precisely ~~the fact that~~ those early factories ^{that provided} ~~produced either~~ ^{either directly or--indirectly--} ~~directly~~ for the needs of their workers, ~~or indirectly~~ by exporting their products and importing food and raw materials from overseas ^{countries}. Again and again, the early historians of capitalism have ^U ~~one~~ ^M can hardly use a milder word ^M falsified history.

9 One anecdote they used to tell, quite possibly invented, involved

Benjamin Franklin. According to the story, Ben Franklin visited a cotton mill in England and the owner of the mill told him, full of pride: "Look, here are cotton goods for Hungary". Benjamin Franklin, looking around, seeing that the workers were shabbily dressed, said: "Why don't you produce also for your own workers?"

A But these exports of which the owner of the mill spoke really meant that he did produce for his own workers, because England had to import all its raw materials. There was no cotton in Europe, neither in England nor in Continental Europe. There was a shortage of food in England and it had to be imported from Poland, from Russia, from Hungary, and these exports were the payment for the imports of the food which made the survival of the British population possible. *Examples from* Many ~~instances~~ *show* in the history of these ages will ~~prove~~ *show* the ~~anger~~ *ice attitude* of the gentry and the aristocracy; I only want to quote *cite* two examples. One is the famous British "seed and land" system. This was the system according to which the British government paid all workers who did not get the minimum wage (determined by the government) the difference between the wages they received and this minimum wage; *this* ~~This was done in order to save~~ *saved* the landed aristocracy the trouble of paying higher wages. *The gentry* would pay the traditional low agricultural wage *and* because the government *would* supplement it, ~~the wage rate and thus~~ *keeping* workers from leaving rural occupations to seek urban factory employment.

A Eighty years later, after capitalism's expansion from England to continental Europe, the landed aristocracy again

reacted against the new production system. In Germany the Prussian Junkers, having lost many workers to the higher-paying capitalistic industries, invented a special term for the problem: "flight from the countryside" — (Landflucht), and in the German Parliament, they discussed what might be done against this evil, ^{it was} as seen from the point of view of the landed aristocracy. Prince Bismarck, the famous Chancellor of the German Reich, in a speech one day said: "I met a man in Berlin who once had worked on my estate and I asked this man: 'Why did you leave the ^{es-} estate, why did you go away from the country, why are you now living in Berlin?'"

A And, according to Bismarck, this man answered, "You don't have such a nice Bier Garten in the village as we have here in Berlin, where you can sit, drink beer, and listen to music." This is, of course, a story told ^{from} with the point of view of Prince Bismarck, the employer. It was not the point of view of all his employees. They went into industry because industry paid them higher wages and raised their standard of living to an unprecedented degree.

A Today, in the capitalist countries, there is relatively little difference between the basic life of the so-called ^{higher} ~~upper~~ and lower classes; Both have food, clothing, and shelter. But in the eighteenth century and ^{earlier,} ~~before,~~ the difference between the man of the middle class and the man of the lower class was that the man of the middle class had shoes and the man of the lower class did not have shoes. In the United States today the difference between a rich man and a poor man means very often

only the difference between a Cadillac and a Chevrolet. The Chevrolet may be bought secondhand, but basically it renders the same services to its owner: he, too, can drive from one point to another. More than fifty^{percent} of the ~~population~~^{people in} of the United States ~~is~~^{are} living in houses and apartments they own themselves. ~~The attacks against capitalism~~^{with respect to the higher} especially ~~considering the height of~~ wage rates^{start} start from the false assumption that wages are ultimately paid by people who ~~are~~^{are} different from those who are ~~working~~^{employed} in the factories. Now it is ~~all right~~^{all right} for the economists and for the students of economic theories to distinguish between the worker and ~~the~~^{the} consumer and to ~~make~~^{make} a distinction between them. But the fact is that every consumer must, in some way or the other, earn the money ~~which~~ he spends, and the immense majority of the consumers are precisely the same people who ~~work,~~^{work,} as employees, ~~and~~ ~~workers,~~^{produce} ~~are working~~ in the productive enterprises that ~~are producing~~ the things which they consume. Wage rates under capitalism are not ~~paid~~^{set} by a class of people different from the class of people who ~~are earning~~^{earn} the wages: they are the same people. It is not the Hollywood film corporation that pays the wages of a movie star, it is the people who pay admission to the movies. And it is not the entrepreneur of a boxing match who pays the enormous ~~salaries~~^{demands} of the prize fighters, it is the people who pay admission to the fight. Through ~~the~~^{the} distinction between the employer and the employe, a distinction is ~~made~~^{drawn} in economic theory, but it is not a distinction in real life; here, the employer and the employe ultimately ~~are~~^{one and} the same ~~people~~^{person.}

There are ~~for instance~~^{for instance,} people in many countries who consider it

very unjust that a man who has to support a family with several children will ~~get~~ ^{receive} the same salary ~~or wages received by~~ as a man who only has (to take care of himself). But the question *is not:* ~~should not be whether~~ ^(Should) the employers ~~were alone responsible for~~ ^{should} bear greater responsibility.

The question ~~which~~ ^{we must} we have to ask in this case is: Are you prepared ^{as an} you as an individual, to pay more for something, let us say, a loaf of bread, if you are ^{told} informed that the man who produced this loaf of bread has six children? ~~and~~ the honest man will certainly answer in the negative and ~~will~~ say:

"In principle I would, ~~be prepared~~, but in fact I would rather ~~prefer to buy~~ the bread produced by ^{a man without any} ~~people without~~ children."

The fact is that, if the buyers do not pay the employer enough ^{to enable} for him ^{to pay his workers,} ~~to pay wages~~ ~~xxxxxxxxxxxxxxxxxxxx~~ it becomes impossible for the employer to ^{remain in} ~~keep on running~~ his business.

The capitalist ^{was termed} system ~~has been called~~ "capitalism" not by a friend of the system, but by an individual who considered ~~this system as~~ ^{it to be} the worst of all historical systems, ^{the greatest} ~~as the worst of~~ all evil that ^{had ever befallen} ~~ever befallen~~ mankind. ^{That} This man was Karl Marx.

Nevertheless, there is no reason to reject ^{Marx's} ~~this~~ term, because

it describes clearly the source of the great social improvements ^{by} ~~which~~ capitalism brought about. ^{Those improvements are the result of} ~~They came from~~ capital accumulation; they are based on the fact that people, as a rule, do not consume everything they have produced, that they ^{and invest} ~~save~~ a part of it. ~~in order to invest it.~~ There is a great deal of misunderstanding

about this problem and--in the course of these six lectures--I will have the opportunity to deal with the most fundamental misapprehensions which people have concerning the accumulation of capital, the use of capital,

for the size of a worker's family.

and the universal advantages ^{to be gained} ~~derived~~ ^{such} from ~~the~~ use. I will deal with capitalism particularly in my lectures about foreign investment and about that most critical problem of present-day politics, inflation. You know, of course, that inflation exists not only in this country, ^{it} but is a ^{problem all over} ~~ubiquitous fact~~ of the world today.

A An often unrealized fact about capitalism is this: savings mean ^{for} benefits ~~to~~ all those who are anxious to ^{produce or to} earn wages. When a man has accrued a certain amount of money--let us say, one thousand dollars--and, instead of spending it, entrusts these dollars to a savings bank or an insurance company, the money goes into the hands of an entrepreneur, a businessman, enabling him to go out and ~~purchase those goods which the~~ ^{sense,} ~~saver might have bought but did not buy. In a larger view, the saver~~ made it possible for the businessman to ^{been} embark ~~today~~ on a project which ~~could not have~~ ^{been} embarked on yesterday, because the required capital was unavailable.

A What will the businessman do now with the additional capital? The first thing he ^{must} ~~will~~ do, the first use he ~~will~~ ^{will} make of this additional capital, is to ^{go out and} hire workers and buy raw materials ^{in turn causing} ~~causing~~ a further demand for workers and raw materials to develop, as well as a tendency toward higher wages and higher prices for raw materials. Long before the saver or the entrepreneur obtain any profit from ^{all of} ~~this~~, the unemployed worker, the producer of raw materials, the farmer, and the wage-earner are all sharing in the benefits ^{of the additional} ~~which the~~ savings, ~~gave rise to:~~

Mr. Barrett:

I strongly recommend elimination of this sentence because the phrase "unions can have some temporary success" implies that monopoly wage rates can be permanently and successfully imposed on the economy. In fact as Mises often stated, labor unions cannot permanently raise wages above market levels, they can only impose non-economic wage rates for some workers at the expense of other workers and create unemployment for a part of the total work force. The subject is far too complex to be covered in the framework of his discussion here about Marx and capital. Its inclusion in this sentence will only confuse the reader and its elimination does not harm, but helps, comprehension of the main point Mises is making in this paragraph. The next paragraph suffices to cover the error of Marx.

higher prices of raw materials. Long before the businessman who expands his business, long before the savers are getting something out of these savings, the wage-earners and employees and the producers of raw materials and the farmers are already benefiting by the additional savings.

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Whether the entrepreneur will get something out of the project depends on the future state of the market and on his ability to anticipate correctly the future state of the market. But the workers as well as the producers of raw materials get the benefits immediately. Much ^{was} ~~has been~~ said, thirty or forty years ago, about the "wage policy" as they called it, of Mr. Henry Ford, ~~the first~~ ^{accomplishments} One of the great ~~achievements~~ of Mr.

Ford was that he paid higher wages than did other industrialists or factories. His wage policy was described as an "invention," yet it is not enough to say that this new ^{"invented"} policy was the result,

~~say~~, of the liberality of Mr. Ford. A new branch of business, or a new factory in an already existing branch of business, has to ^{attract} ~~withdraw~~ workers from other employments, from other parts of the country, even from other countries. And the only way to do this is to ^{offer} ~~pay~~ the workers higher wages for their work.

~~forever~~ ^{is what} This took place in the early days of capitalism, and it ^{what is still happening} ~~is still taking place~~ today.) When the manufacturers in Great

A

stet Britain first began to produce cotton goods, they ~~paid their~~ ^{workers} ~~people~~ more than ~~they~~ ~~people~~ had earned before. Of course, a great percentage of these new workers had earned nothing ^{at all before that} ~~before~~ and were prepared to take anything they were offered. But after a short time ^{when more}

and more capital was accumulated and more and more new enterprises ^{were} developed ^M the wage rates went up, and the result was the unprecedented increase in British population which I have ~~previously~~ ^{spoke of} ~~described~~ earlier.

A ^{depiction of capitalism}
 The scornful ~~characterization of the capitalistic system~~ by some people as ^{a system designed to make the rich become} ~~the rich getting~~ richer and the poor ~~become~~ ^{wrong} poorer is ~~mistaken~~ from beginning to ~~the~~ end. ~~The~~ ^{regarding} ~~Marx~~ fundamental thesis of ~~Karl Marx~~ about the coming of socialism was based on the assumption that workers ^{were} getting poorer, that the masses ^{were becoming more destitute,} ~~are getting poorer~~ and that finally all the wealth of a country ^{would} be concentrated in a few hands or in the hands of one man only. And then the masses of ~~the~~ impoverished workers ^{would rebel,} ~~will finally~~ make a revolution, and expropriate the riches of the wealthy proprietors. According to ~~the~~ ^{can be} doctrine of Karl Marx, there ~~is~~ no opportunity, no possibility within the capitalist system for any improvement of the conditions of the workers: ~~According to Marx, the unions can temporarily~~ ^{temporary} have some success but, in the long run, ~~it is useless to try to~~ ^{humane efforts to} improve the conditions of the workers ~~by human efforts~~ ^{are useless.}

A ^{speaking before}
 In 1865, ~~Karl Marx~~ ^{Marx said} addressed the International Workingmen's Association in England, ~~stating that~~ the belief that labor unions could improve conditions for the working population was "absolutely erroneous." ~~And Marx called~~ the union policy of asking for higher wage rates and shorter work hours ^{he called} ~~conservatism~~ ^{conservative} ~~policy~~. ^{conservatism being of course} ~~To Marx, of course, conservatism was~~ the most ^{condemnatory} ~~damning~~ ^{set themselves} term ~~he~~ could use. ~~And he suggested that the unions substitute~~

deb to see my note

* see my note attached

a new, revolutionary goal: that they "do away with the wage system altogether," that they substitute "socialism"--government ownership of the means of production--for the system of private ownership.

A If we look upon the history of the world, and especially upon the history of England since 1865, we ~~will~~ realize that Marx was wrong in every respect. There is no western, capitalistic country in which the conditions of the masses have not improved in an unprecedented way. All these improvements of the last eighty or ninety years were made in spite of the prognostications^s of Karl Marx. For the Marxian socialists believed that the conditions of the workers could never be ameliorated. They followed a false theory, the famous "iron law of wages"--the law which stated that a worker's wages, under capitalism, would not exceed the amount he needed to sustain his life for service to the enterprise.

The Marxians formulated their theory in this way: if the ~~the workers~~ ^{wages} workers' wage rates go up, raising ~~them~~ ^{to the} above the subsistence level, they will have more children; and these children, when they enter the labor force, will increase the number of workers to the point where the wage rates will drop, bringing the workers once more down to the subsistence level--to that minimal sustenance level which will just barely prevent the working population from dying out. ^(It refers to the wages)

But this idea of Marx, and of many other socialists, is a concept of the working man precisely like ~~the concept~~ that which biologists use--and rightly so--in studying the life of animals. ~~Of~~ mice, for instance.

Mr. Barrett:

Use of the term "wage rates" in line 6 on this page is probably a slip on the part of the stenographer who transcribed the tapes. Mises would never have made an error like this: It is possible to have an increase in wage rates without an improvement in the standard of living. A heightened wage rate does not necessarily produce a higher wage income. If the hours worked are lessened or if the cost of living goes (as now in inflation) the higher wage rate does not necessarily improve the average standard of living.

What Mises meant (if he did not actually say it) was that increased wage incomes (i.e. total real wages) result in an increase in living standard. Hence my change in this word.

*Perhaps you should use the term
real wages rather than
wage incomes*

A If you increase the quantity of food available for animal organisms ^{for} of ~~for~~ microbes, then more of them will survive. And if you restrict their food, then ^m you will restrict their numbers. But man is different. Even the worker ^M in spite of the fact that Marxists do not acknowledge it ^M has human wants other than food and reproduction of his species. An increase in ^{real} ~~wage rates~~ results not only in an increase in population, it results also, and first of all, in an improvement in the average standard of living. That is why today we have a higher standard of living in Western Europe and in the United States than ⁱⁿ ~~the~~ ^{developing} underdeveloped nations of, say, Africa. *like, those in*

A We must realize that this higher standard of living depends, however, on the supply of capital. This explains the difference between conditions in the United States and, ~~let us say,~~ conditions in India; modern methods of fighting contagious diseases have been introduced in India--at least, to some extent--and the effect has been an unprecedented increase in population but, since this increase in population ~~is not accompanied by an~~ increase in the amount of capital invested, the result has been an increase in poverty. A country becomes more prosperous in proportion to the rise in the invested capital per unit of its population.

I hope that in my other lectures I will have the opportunity to deal in greater detail with these problems and will be able to clarify them, because some terms--such as "the capital invested per capita"--require a rather detailed explanation.

But you have to remember that, in economic policies, there are no miracles. ^{You have read, in} Recently, ~~in~~ many newspapers and speeches,

~~you have read~~ about ^{the} so-called German economic miracle--the
recovery of Germany after its ~~unequivocal defeat in~~ ^{defeat and destruction in the Second} World War.
But this was no miracle. It was the application of the principles
of the free market economy, of the methods of capitalism, even
though they were not applied completely in ~~every~~ ^{all} respect^s.
Every country can experience the same "miracle" of economic
recovery, although I must insist that economic recovery does not
come from a miracle; it comes from the adoption of--and is the
result of--sound economic policies.

Second LectureSOCIALISM AND THE MARKET ECONOMY

A I am here in Buenos Aires as a guest of the Instituto For la Economía Libre. What is Economía Libre? What does this system of economic freedom mean? The answer is simple: It is the market economy, it is the system in which the cooperation of individuals in the social division of labor is achieved by the market. This market ~~means~~ ^{is} not a place; it is a process, it is the way in which, by selling and buying, by producing and consuming, the individuals contribute to the ^{total workings} ~~whole work~~ of society.

A In dealing with this system of economic organization--the market economy--we employ the term "economic freedom." Very often, people misunderstand what it means, believing that economic freedom is something quite apart from other freedoms, and that these other freedoms--which they hold to be more important--can be preserved even in the absence of economic freedom. The meaning of economic freedom is this: it means that the individual is in a position to choose the way in which he wants to integrate himself into the totality of society. The individual is able to choose his career, he is free to do what he wants to do.

This is of course not meant in the sense which so many people attach to the word freedom today; it is meant rather in the sense that, through economic freedom, man is freed from natural conditions. In nature, there is nothing that can be termed freedom, there is only the regularity of the laws of nature, which man must obey if he wants to attain something. In using the term freedom, we think

as applied to human beings,

only
 think of the freedom within society. *Get, today,* ~~And these~~ ^{social} freedoms are considered by many people to be independent ^{of each} ~~from one~~ another.

~~Those~~ Those who call themselves "liberals" today are asking ~~pre-~~ ^{precisely} ~~cisely~~ for policies which are the opposite of those policies ^{which} ~~which~~ the liberals of the nineteenth century advocated in their liberal program. ^{The} ~~These~~ so-called liberals of today have the very popular idea that freedom of speech, of thought, of the press, freedom ~~of~~ of religion, freedom from imprisonment without trial ^{is called} ~~that~~ all these freedoms can be preserved in the absence of what ~~they call~~ economic freedom. They do not realize that, in a system where there is no market, where the government directs everything, ~~all those other freedoms~~ all those other freedoms are illusory, even if they are ^{made} ~~enacted~~ into laws and ^{written up in} ~~constitutions~~ ~~ions~~.

A Let us take one freedom, the freedom of the press. If the government owns all the printing presses, it will determine what is to be printed and what is not to be printed. And if the government owns all the printing presses and determines what shall or shall not be printed, then the possibility of printing any kind of opposing arguments against the ideas of the government becomes practically nonexistent. Freedom of the press disappears. And it is the same with all the other freedoms.

A In a market economy, the individual has the freedom to choose whatever career he wishes to pursue, to choose his own way of integrating himself into society. But in a socialist system, that is not so: his career is decided by decree of the government. ~~If it decides to do so,~~ ^{order} the government can ~~send~~ people whom it dislikes, whom it does not want to ^{live}.

~~have~~ ^{to move} in certain regions, into other regions and to other places. And the government is always in a position to justify and to explain such procedure by declaring that the governmental plan requires the presence of this eminent citizen five thousand miles away from the place in which he could be disagreeable to those in power.

A It is true that the freedom a man may ^{have} ~~achieve~~ in the market economy is not a perfect freedom, from the metaphysical point of view. But there is no such a thing as perfect freedom. Freedom ~~can~~ ^{only} mean something within the ^{framework} ~~frame~~ of society. The eighteenth-century authors of "natural law" ^{are} ~~is~~ above all, Jean Jacques Rousseau ^{is} ~~was~~ believed that once, in the remote past, men enjoyed something called "natural" freedom. But ^{in that} ~~in~~ those remote ages, individuals were not free, they were at the mercy of everyone who was stronger than they were. The famous words of Rousseau: "Man is born free and everywhere he is in chains" may sound good, but man is in fact not born free.

Man is born ~~as~~ a very weak suckling. Without the protection of his parents, without the protection given to his parents by society, he would not be ^{able} ~~in position~~ to preserve his life.

A Freedom in society means that a man depends as much upon other people as other people depend upon him. Society under the market economy, under the conditions of "economia libre," means a state of affairs in which everybody serves his fellow citizens and is served in return by them. People believe that there are in the market economy bosses ^{who} ~~whom~~ are independent of the good will and support of other people. They believe that the

captains of industry, the businessmen, the entrepreneurs are the real bosses in the economic system. But this is an illusion. The real bosses in the economic system are the consumers. And if the consumers stop patronizing a branch of business, these businessmen are either forced to abandon their eminent position in the economic system or to adjust their actions to the wishes and to the orders of the consumers.

One of the best known propagators of communism was Lady Passfield, under her maiden name Beatrice Potter, and well known under the name of her husband Sydney Webb. This lady was the daughter of a wealthy businessman and, when she was a young adult, she served as her father's secretary. In her ^{memoirs} recollections she writes: "in the business of my father everybody had to obey the orders issued by my father, the boss. He alone had to give orders, but to him nobody gave any orders." This is a very short-sighted view. Orders were given to her father by the consumers, by the buyers. Unfortunately, she could not see these orders; she could not see what goes on in a market economy, because she was interested only in the orders given within her father's office or his factory.

In all economic problems, we must bear in mind ^{titled} the words of the great French economist Frédéric Bastiat, who ~~gave~~ one of his brilliant essays; ~~the title~~ "Ce qu'on voit et ce qu'on ne voit pas" ("What you see and what you do not see"). In order to comprehend the operation of an economic system, we must deal not only with the things that can be seen, but we also have to give our attention to the things which cannot be perceived

smoke too much and who smoke in spite of the fact that it would be better for them not to smoke. This raises a question which goes far beyond economic discussion; ^{it} and shows what ~~the problem~~ of freedom really means. ^{keep} Granted, that it is good to prevent people from hurting themselves by drinking or smoking too much. But ^{once} if you have admitted this, ~~then~~ other people will say: Is the body everything? Is not the mind of man much more important? Is not the mind of man the real human endowment, *the real human* ~~an~~ quality? If you give the government the right to determine the consumption of the human body, to determine whether one should smoke or not smoke, drink or not drink, there is no ^{good} ~~reply~~ you can ^{give} ~~make~~ to people who say: "More important than the body is the mind and the soul, and man hurts himself much more by reading bad books, by listening to bad music and looking at bad movies. Therefore it is the duty of the government to prevent people from committing these faults." ^{as you} And you know ~~that~~, ^{for} during many hundreds of years, ~~the~~ governments and ~~the~~ authorities ~~really~~ ^{really} believed that this ^{was} their duty. Nor did this happen in far distant ages only; Not long ago, there was a government in Germany that considered ^{a governmental} it ~~their~~ duty to distinguish between good and bad paintings ^{at} which of course meant good and bad from the point of view of a man who, in his youth, had failed the entrance examination ~~at~~ the Academy of Art in Vienna; ~~Good~~ and bad from the point of view of a picture-postcard painter. And it ~~was~~ *became* illegal ~~and impossible~~ for people to utter other views about art and paintings than those of the Supreme ~~Führer.~~ ^{Führer.} ~~Führer.~~ Once you begin to admit that it is the duty of the government to control

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A

A

Führer

alcohol, ^{reply}
your consumption of ~~liquids~~, what can you ~~answer~~ to those who say
the control of books and ideas is much more important?

A Freedom really means the freedom to make mistakes. This we have
to realize. We may be highly critical with regard to the way in
which our fellow citizens are spending their money and living
their lives. We may believe that what they are doing is absol-
utely foolish and bad, but in a free society there are many ways
for people to air their opinions on how their fellow citizens
should change their ways of life. They can write books, they can
write articles, they can make speeches, they can even preach at
street corners if they want ^{do} and they are ~~doing~~ this, in many coun-
tries. But they must not try to police other people in order to
prevent them from doing ^{certain things} ~~what they want to do~~ simply because they
themselves do not want these other people to have ^{the} freedom to do it.

A This is the difference between slavery and freedom. The slave must
do what his superior orders him to do, but the free citizen ^M and
this is what freedom means ^M is in a position to choose his own
^{way} way of life. Certainly this ^{capitalistic} system can be abused, and is abused,
by some people. It is certainly possible to do things which ought
not to be done. But if these things are approved by a majority ^{(of the people,}
a disapproving ^{person always has a way to attempt to} ~~person~~ ^{his} fellow citizens:
~~This is to~~ ^{he can} try to persuade them, ~~to try~~ ^{(but he may} to convince them, ~~and~~ not
~~to~~ try to force them by the use of power, of governmental ~~or~~ pol-
ice power. ^A In the market economy, everyone serves his fellow
citizens by serving himself. This is what the liberal authors of
the eighteenth century had in mind when they spoke of the harm-

ony, of the rightly understood interests of all groups and of all individuals of the population. And it was this doctrine of the harmony of interest which the socialists opposed. They spoke of an "irreconcilable conflict of interests" between various groups.

¶ What does this mean? When Karl Marx¹ in the first chapter of the Communist Manifesto, that small pamphlet which inaugurated his socialist movement¹ claimed that there was an irreconcilable conflict between classes, he could not illustrate his thesis by any examples other than those drawn from the conditions of pre-capitalistic society. In pre-capitalistic ages, society was divided into hereditary status groups, which in India are called "castes". In a status society a man was not, ^{(for example, born} ~~born~~ a Frenchman; he was born either as a member of the French aristocracy or of the French burghers, ~~the~~ bourgeoisie or of the French peasantry. In the greater part of the Middle Ages, he ~~was~~ simply a serf. And serfdom, ^{disappear} did not completely ~~disappear~~ in France, until after the American Revolution. In other parts of Europe it disappeared even later. But the worst form in which serfdom existed¹ and ^{continued to exist} ~~stayed~~ on even ^{after the abolition of} ~~later~~ than slavery¹ was in the British colonies abroad. The individual inherited his status quality from his parents, and he retained it ^{throughout} ~~during all~~ his life. He transferred it to his children. Every group had privileges and ^{disadvantages} ~~disabilities~~. The highest groups had only privileges, the lowest groups only ^{disadvantages} ~~disabilities~~. And there was no other way a man could ^{himself} ~~get rid~~ of the legal ^{disadvantages placed upon} ~~disabilities given to~~ him by his status than by fighting a

This repetition of the phrase "noble experiment" (5th line from bottom of page) was very characteristic of Mises speaking style and it should be retained as he delivered it. It also helps to reinforce his point, which is why he repeated it.

policial struggle against the other classes. Under such conditions, you could say that there ^{was} ~~is~~ an "irreconcilable conflict of interests between the slave owners and the slaves," because what the slaves wanted was to ^{be} ~~get~~ rid of their slavery, of their quality of being slaves. ~~But~~ ^{however,} this meant a loss, for the owners. Therefore, there is no question that there had to be this irreconcilable conflict of interests between the members of the various classes.

A One must not forget that in those ages ⁱⁿ which the status societies were predominant in Europe, as well as ^{as} ~~society predominated in Europe and later also~~ in the colonies which the Europeans later founded were founded by Europeans in America ⁱⁿ people did not consider themselves ^{to be} ~~as~~ especially connected ^{in any special way} with the members of other classes of their own nation; ^{they} and felt much more ^{at one} comradeship with the members of ~~the same class~~ ^{as their own} in other countries. That means, a French aristocrat did not ^{look upon} ~~consider~~ other Frenchmen as his fellow citizens; they were ^{the} "rabble", ~~lower classes~~, which he did not like. He regarded only considered the aristocrats of other countries ^{for instance,} ~~those of~~ Italy, England, and Germany ^{as} his equals. And the most visible effect of this state of affairs was the fact that the aristocrats all over Europe used the same language. And this language was French, a language which was not understood, outside France, by other groups of the population. The middle classes ^{the} ~~the~~ bourgeoisie ^{had} their own language, while the lower classes ^{the} ~~the~~ peasantry used local dialects which very often were not understood by other groups of the population. The same was true with regard to the way people dressed. When you travelled in 1750 from one country to another, you ^{found} ~~could find~~ that ~~by and~~ ~~large~~ the upper classes, the aristocrats, were dressed in the same

usually

way all over Europe, and you found that the lower classes dressed differently. When you met someone in the street, you ~~saw~~ ^{could see} immediately ^{from the way he dressed} to which class, to which status he belonged.

It is difficult to ^{imagine} understand how different these conditions were from present-day conditions. When I come from the United States to Argentina and I see a man ^{on} in the street, I cannot ^{know} discover what his status is. I only assume that he is a citizen of Argentina and that he is not a member of some ^{legally restricted} group, ~~which is tainted by legal disabilities~~. This is one thing that capitalism has brought about. Of course, there are also differences within capitalism. There are differences in wealth, ~~and these differences~~ ^{which Marxians mis-} ~~are not~~ takenly consider ~~by the Marxians~~ to be ^{to} the equivalent of the old differences ^{that existed} between men in the status society.

~~But~~ the differences within a capitalist society are not the same as ^{those} ~~the differences~~ in a socialist society. In the Middle Ages, ~~until the beginning of modern capitalism~~ and in many countries even much later ^{possess} a family could be an aristocratic family and of great wealth, ^{it} they could be a family of dukes for hundreds and hundreds of years, whatever ^{its} their qualities, ^{its talents,} ~~their gifts,~~ ^{its} their character or ~~their~~ morals. But, under modern capitalistic conditions, there is what has been technically ^{described} ~~called~~ by sociologists as "social mobility". The operating principle of this social mobility, ^{according to} ~~has been named by~~ the Italian sociologist and economist ^{is "la} ~~Vilfredo Pareto,~~ ^{the} "la circulation des élites" (the Circulation

of the elites). This means that there are always people who are at the top of the social ladder, who are wealthy, who are politically important, ^{but} ~~but~~ these people [^] these elites [^] are continually changing. This is perfectly true in a capitalist society, It was not true for a precapitalistic status society. The families who were considered the great aristocratic families of Europe are still the same families today or, let us say, they are the descendants of families that were foremost in Europe, 800 or 1000 or more years ago. The Capetians of Bourbon--who for a very long time ruled also in this country--were a royal house as early as the tenth century. These kings ruled the territory which is known now as the Ile-de-France, extending their reign from generation to generation. ~~The same is true of many other royal families; as early as the ninth century, the family whose descendants rule today in Great Britain--the famous Kent family, which came to England under the name of the House of Hanover--was one of the leading noble families of Europe.~~ *I prefer the original sentence*
~~Already in the 9th century etc. House of Hanover~~
 But in ^a capitalist society, there is continuous mobility--poor people becoming rich and the descendants of those rich people losing their wealth and becoming poor.

Today I saw in a bookshop in one of the central streets of Buenos Aires the biography of a businessman, who was so eminent, so important, so characteristic ^{of} big business ⁱⁿ of the nineteenth century in Europe that, even in this country, far away from Europe, the bookshop carried copies of his biography. I happen to know the grandson of this man. He has the same name his grandfather

has a right

had, and he ~~is~~ still ~~entitled~~ to wear the title of nobility which his grandfather ^M who started as a blacksmith ^M had received eighty years ago. Today this grandson is a poor photographer in New York. ^{City} ~~And~~ other people, who were poor at the time this photographer's grandfather became one of ~~the~~ biggest industrialists, of ~~Europe~~, are today captains of industry. Everyone is free to change his status. ^{That} ~~This~~ is the difference ^{(the status system and} between the capitalist ~~the~~ ^{system} conditions of economic freedom, in which everyone ^{has} can only ~~blame~~ ^{to blame} himself, if he does not reach the position he wants to reach.

^A The most famous industrialist of the twentieth century up to now is Henry Ford, ~~the first~~. He started with a few hundred dollars, ^{which he had} borrowed from his friends, and within a very short time he developed one of the most important big business firms of the world. And one can discover hundreds ~~and hundreds~~ of such cases every day.

^A Every day, the New York Times prints long obituaries of people who ^{have} died. If you read these biographies, you may ^{come across} find the name of an eminent businessman, ~~who~~ ^{out} who started as a seller of newspapers at street corners in New York. Or he started as an office boy, and at his death he is the president of the same banking firm where he started ^{on} at the lowest ^{rung} point of the ladder. Of course, not all people can attain these positions. Not all people want to attain them. There are people who are more interested in other problems, and, for these people, other ways are open today which were not open in the days of feudal society, in the ages of the status society.

^A The socialist system, however, forbids this fundamental freedom

to choose one's own career. Under socialist conditions, there is only one ^{economic} authority, ^{and it has} with the right to determine all matters concerning production.

A One of the characteristic features of our day is that people use many names for the same thing. One synonym for socialism and communism is "planning". If people speak of "planning" they mean, of course, central planning, ^{which} that means one plan made by the government ^(by anyone except the government) ~~one plan that prevents all other people from planning~~.

A British lady, who also is a member of the Upper House, wrote a book entitled Plan or No Plan, a book which was quite popular around the world. What does the title of her book mean? When she says "plan," she means only the type of plan envisioned by Lenin and Stalin and their successors, the type which governs all the activities of all the people of a nation. Thus, this lady means a central plan which excludes all the personal plans that individuals may have. Her title Plan or No Plan is therefore an illusion, a deception; the alternative is not a central plan or no plan, it is the total plan of a central governmental authority or freedom for individuals to make their own plans, to do their own planning.

The individual plans his ~~own~~ life, every day, changing his daily plans whenever he will. ~~It is well known that governments also sometimes change their plans.~~

The free man plans daily for his needs; he says, for example: "Yesterday I planned to work all my life in Cordoba." Now he learns about better conditions in Buenos Aires and changes his plans, saying: "Instead of

working in Cordoba, I want to go to Buenos Aires^m. And that is what freedom means. It may be that he is mistaken, it may be that his going to Buenos Aires will turn out to have been a mistake. Conditions may have been better for him in Cordoba, but he himself made his plans. ^A Under government planning, he is like a soldier in an army. The soldier in the army does not have the right to choose his ^{garrison,} ~~garrison,~~ to choose the place where he ^{will} ~~has to~~ serve. He has to obey orders. And the socialist system ^m ~~is~~ as Karl Marx, Lenin, and all socialist leaders knew and admitted ^m ~~is~~ the transfer of ~~the~~ army rule to the whole production system. Marx spoke of ~~the~~ "industrial armies," and Lenin called for "the organisation of everything ^m ~~of~~ the postoffice, the factory, and other industries, according to the model of the army". ^A Therefore, in the socialist system everything depends on the wisdom, the talents, and the gifts of those people who form the supreme authority. ^A That which ^m ~~What~~ the supreme dictator ^m ~~or~~ the committee ^m ~~is~~ ~~the supreme dictat-~~ ~~or~~ ~~to~~ ~~not~~ ~~know,~~ ^{But} is not taken into account. ^A The knowledge which mankind has accumulated in its long history, ~~this knowledge~~ ^{accumulated} is not acquired by everyone; ^A we have such an enormous amount of scientific and technological knowledge ~~accumulated~~ over the centuries, that it is ^{humanly} ~~simply humanly~~ impossible for one individual to know all these things, even ^{though he be a} ~~for the~~ most gifted man. ^{may} ^A And people are different, they are unequal. They always will be. There are some people who are more gifted ⁱⁿ for one subject and less ⁱⁿ for another one. And there are people who have the gift to find new paths, to change the trend of knowledge. In the capitalist ^{societies,} ~~societies,~~ technological progress and economic progress ~~are~~ ^{are}

gained through such people. If a man has an idea, he will try to find a few people who are clever enough to realize the value of his idea. Some capitalists, who ^{dare to look into} see the future, who realize ^(possible) the consequences of ^(such an) his idea, will start to put it to work. Other people, ^{at first,} may say: "they are fools"; but ^{these critics} they will stop saying ~~so~~ ^{that} so when they discover that ~~the result of~~ this enterprise, which they called foolish, is that people are happy to ^{buy} ~~get~~ its products.

A Under the Marxian system, on the other hand, the supreme body must first be convinced of the value of such an idea, before it can be pursued and developed. This can be a very difficult thing to do, for only the ^{group of} ~~group of~~ people who are at the head--or the supreme dictator himself--^{has} ~~have~~ the power to make decisions. And if these people--because of laziness or old age, or because they are not very bright and learned--are unable to grasp the importance of the new idea, then the new project will not be undertaken.

A We can think of examples from military history. Napoleon was certainly a genius in military affairs; he had one serious problem, however, and his inability to solve that problem culminated, finally, in his defeat and exile to the loneliness of St. Helena. Napoleon's problem was: "How to conquer England?" In order to do that, he needed a navy to cross the English Channel, and there were people who told him they had a way to accomplish that crossing, people who--in an age of sailing ships--had come up with the new idea of steam ships. But Napoleon did not understand their proposal.

A Then, there was Germany's famous Generalstab. Before the First

World War, the German General Staff was universally considered to be unsurpassed in military wisdom, ^{PA} a similar reputation was held by the staff of General Foch in France. But neither the Germans nor the French--who, under the leadership of General Foch, later defeated the Germans--realized the importance of aviation for military purposes. The German General staff said:

"Aviation is merely for pleasure, flying is good for idle people.

From a military point of view, only the ^{Zeppelins} are important, and the French General staff was of the same opinion. ^(Zeppelin is @ name)

²
³
A Later, ^{during} ~~in~~ the ~~interwar~~ period, ^{between World War I and World War II} there was a general in the United States who was convinced that aviation would be very important in the next war. But all other experts in the United States were against him. He could not convince them. If you have to convince a group of people who are not directly dependent on the solution of a problem, you will ~~never~~ ^{never} succeed. ^{This is true also of} ~~And this is the same with~~ ~~non~~ economic problems.

A There ~~were~~ ^{have been} painters, poets, writers, composers, who complained that the public did not acknowledge ^{their work and caused them to remain} ~~them and so they remained~~ poor. The public ^{may} ~~certainly~~ ^{have} had poor judgment, But when these artists said: "The government ought to support great artists, painters, and writers," ^{very much in the wrong.} they were ~~badly mistaken~~. Whom should the government entrust ^{the task of} ~~with~~ deciding whether a newcomer ^{is} ~~was~~ really a great painter or not? ^{It} ~~The government~~ would have to ~~entrust~~ ^{rely on the} ~~to~~ ^{judgment of the} critics, and ~~to~~ ^{the} professors of history of art who are always looking back into the past ^{yet who} ~~and have~~ very rarely ^{have} shown the talent to discover ^{new} genius. This is the great difference between

a system of "planning" and a system in which everyone can plan and act for himself. [^] It is true, of course, that great painters and great writers have often had to endure great hardships. They ^{might have} ~~could~~ ^{ed} succeed in their art, but they ~~did~~ not always ~~succeed~~ in getting money. Van Gogh was certainly a great painter. He had to suffer unbearable hardship and, finally, when he was thirty-seven years old, he committed suicide. In all his life he ~~only~~ ^{only} sold one painting, and the buyer of it was his cousin. Apart from this [^] ^(one sale) he lived from the money of his brother, who was not an artist or a painter. But Van Gogh's brother understood a painter's needs. Today you cannot buy a Van Gogh ^{for} with less than ~~hundred-~~ ^{a hundred or two hundred thousand dollars.}

Under a socialist system, Van Gogh's fate might have been different. Some government official would have asked some well known painters (whom Van Gogh certainly would not have ^{regarded} ~~considered~~ as artists at all) whether this young man, half or completely crazy, was really a painter worthy to be supported. And they ^{without a doubt} ~~certainly~~ would have answered: "No... he is not a painter, he is not an artist, he is just a man who wastes paint," and they would have sent him into a milk factory or into a home for ^{the insane.} ~~insane people~~. Therefore all this enthusiasm in favor of socialism by the rising generation of painters, poets, musicians, journalists, actors, is based on an illusion. I mention this because these groups ^{are} ~~belong~~ ^{among} to the most fanatical supporters of the socialist idea.

The problem is somewhat different. ^{When it comes to choosing} ~~if we have to choose~~ between socialism and capitalism as an economic system, ^{what} ~~the~~ ^{authors of} ~~social-~~

ism

~~the writers have~~ never suspected that modern industry, and all the operations of modern business, are based on calculation. Engineers are by no means the only ones who make plans on the basis of calculations, businessmen also must do so. And businessmen's calculations are all based on the fact that, in the market economy, ~~(in market)~~ the prices of goods inform not only the consumer, they also provide vital information to businessmen about the factors of production, the main function of the market being not merely to determine the *cost* of the last part of the process of production and transfer of goods to the hands of the consumer, but *the cost of those steps* ~~the parts leading up to the last one as we~~ *sit.*

The whole market system is bound up with the fact that there is a mentally calculated ~~clear~~ division of labor between the various businessmen who vie with each other in bidding for the factors of production--the raw materials; the machines, the instruments--and for the human factor of production: the wages paid to labor. This sort of calculation by the businessman cannot be accomplished in the absence of prices supplied by the market.

money

of the

At the very instant you abolish the market--a principal objective of socialism--you render useless all the computations and calculations of the engineers and technologists;

At the very instant you abolish the market *(which is what the socialists would like to do)* ~~a principal objective of socialism~~ you render useless all the computations and calculations of the engineers and technologists; The technologists can give you a great number of projects which, from the point of view of the natural sciences, ~~from the purely scientific view~~, are equally feasible, but it takes the market-based calculations of the businessman to make ~~it~~ clear which of those projects is the most advantageous, from the economic point of view.

Q1 The problem with which I am dealing here is the fundamental issue capitalistic of economic calculation as opposed to socialism. The fact is that

economic calculation, and therefore all technological planning, is only possible if there are money prices, not only for consumer goods but also for the factors of production. ^{This} ~~That~~ means there has to be a market for all raw materials, for all half-finished goods, for all tools and machines, and for all kinds of human labor and human services.

A When this fact was discovered, the socialists did not know how to ^{respond.} ~~answer.~~ ^{150 years} For ~~hundred and fifty years~~ they had said: "All the evils in the world come from the fact that there are markets and market prices. We want to abolish the market and with it, of course, the market economy, and substitute for it a system without ^rprices and without markets." They wanted to abolish, what Marx called the "commodity character" of commodities and of labor.

A When faced with this new problem the ^{authors of socialism, having} ~~socialist authors, knowing~~ no answer, finally said: "We will not abolish the market altogether; we will pretend that a market exists; we will play market, ~~that means we will do~~ like children ~~do~~ who ~~are~~ ^{are} playing school." But everyone knows that when children ~~are~~ ^{are} playing school, they do not learn anything. ~~As the socialists will try to play market, as the army by necessity plays war in peacetime. Having no other method of practicing their art, they organise manoeuvres, but in these mock battles they do not have to make a real decision.~~ It is just an exercise, a ^{game} ~~practice~~, and you can ^{"play"} ~~practice~~ many

A things. [^] This is a very difficult and complicated problem and in order to deal with it in full one needs a little more time than I have here. I ^{have} ~~I~~ explained it in detail in my writings. In six lectures I cannot enter into an ^{analysis of all its aspects,}

*1) See Socialism by Ludwig von Mises.

therefore

~~fore~~ I want to advise you, if you are interested in the fundamental problem of the impossibility of calculation and planning under ~~socialist conditions~~ ^{socialism}, to read my book "Human Action", which is available in an excellent Spanish translation. [^] But read other books, too, like the book of the Norwegian economist Trygve Hoff, who wrote on economic calculation. And if you do not want to be one-sided, I recommend that you read the highly-regarded socialist book on this subject by the eminent Polish economist Oscar Lange, who at one time was a professor at an American university, ^{then become a} ~~but~~ ^{Book Ambassador and} later returned to Poland.

Q You will probably ask me: "What about Russia? How ^{do} ~~can~~ the Russians handle this question?" This ^{changes the} ~~is a different~~ problem. The Russians ~~are~~ operating ^{the} their socialist ^{ic} system within a world in which there are prices for all factors of production, for all raw materials, for everything. And they can therefore employ, for their planning, the ~~foreign~~ ^{market foreign} prices of the world market. And because there are certain differences between ^(the) Russia and ~~the~~ ^{conditions in} those in the United States, the result is very often that the Russians consider something ^{to be} as justified and advisable ^{it} from their economic point of view ^{the Americans would not consider economically justifiable} which ~~would not be advisable, under~~ ~~at all.~~ ~~of the United States but advisable under the conditions of Russia~~

Q "Soviet ~~Russian~~ experiment," as it was called, does not prove anything. It does not ^{tell us} ~~say~~ anything about the fundamental problem of socialism, the problem of calculation. ^{But are we entitled to speak of it a} ~~But, are we entitled~~ ^{believe} to call it an experiment? I do not ~~think that~~ there is such a thing as a scientific experiment in the field of human action and economics. You cannot make ^{scientific} experiments, because ^{a scientific} an experiment requires that

in the field of human action

you do the same thing under ^{various} different conditions, ^{(or that you maintain the same conditions,} changing perhaps
 only one factor. For instance, if ^{you} ~~one~~ injects into a cancerous animal one or the other medication, the result may ^{be} that the cancer ^{will disappear.} ~~disappears.~~ ^{You can test this} ~~This can be established~~ with various animals of the same kind which suffer the same malignancy. If you treat some of them with the new method and do not treat the rest, then you can compare the result. You cannot do this within the field of human *action*. There are no laboratory experiments in human *action*. ^{Soviet} The so-called ~~Russian~~ "experiment" merely shows that the standard of living is incomparably lower in ^{Soviet} Russia than it is in the country that is considered, ^{by} ~~in~~ the whole world, as the paragon of capitalism: ^{by} The United States. Of course, if you tell this to a socialist, he will say: "Things are wonderful in Russia." And you tell him: "They may be wonderful, but the average standard of living is much lower." Then he will answer: "Yes, but remember how ^{terrible} ~~bad~~ it was for the Russians under the ^{tsars} ~~csars~~ and how ^{terrible} ~~bad~~ a war ^{we} they had to fight."

I do not want to enter into discussion of whether this is or is not a correct explanation, but if you deny that the conditions are the same, you deny that it was an experiment. You must then say this (which would be much more correct): "Socialism in Russia has not brought about an improvement in the conditions of the average man which can be compared with the improvement of conditions, during the same period, in the United States."

In the United States you hear of something new, of some improvement, almost every week. These are improvements that business ^{generated} ~~brought about~~, because thousands and thousands of ^{business} people are

trying day and night to find some new product which satisfies the consumer ^{is less expensive to produce,} better or ~~cheaper~~, or better ^{less expensive} and ~~cheaper~~ than the ~~existing~~ ^{older} products. They do not do this out of altruism, they do it because they want to make money. And the effect is that you have an improvement ⁱⁿ of the standard of living in the United States which is almost miraculous, when compared with the conditions that existed fifty or a hundred years ago. But ^{Soviet} in Russia, where you do not have such a system, you do not have ^{a comparable} ~~such an~~ improvement. So those people who tell us that we ought to adopt the ^{Soviet} ~~Russian~~ system are badly mistaken..

There is something else that should be mentioned. The American consumer, the ~~American~~ individual, is both a buyer and a boss. When you leave a store in America, you ~~he leaves a store he~~ may find a sign saying: "Thank you for your patronage. Please come again." But when you go into a shop in a totalitarian country ^{it} be it in present-day Russia, or in Germany as it was under the regime of Hitler--the ~~owner of~~ ^{shopkeeper} ~~the shop~~ tells you: "You have to be thankful to the great leader for giving you this."

In socialist countries, it is not the seller who has to be grateful, it is the buyer. The citizen is not the boss; the boss is the Central Committee, the Central Office. Those ^{socialist} committees and leaders and dictators are supreme, and the people simply have to obey them.

Third LectureINTERVENTIONISM

which
 A famous, very often quoted phrase says: "That government is best, that governs least." I do not believe this to be a correct description of the functions of ^a good government.

Government ought to do all the things for which it is needed and for which it was established. Government ought to protect the individuals within the country against the violent and fraudulent attacks of gangsters, and it should defend the country against foreign enemies. These are the functions of government within a free system, within the system of the market economy.

Under socialism, of course, the government is totalitarian and there is nothing outside its sphere and its jurisdiction. But in the market economy the main task of the government is to protect the smooth functioning of the market economy against fraud or violence ^{within} ~~inside~~ and ^{from} ~~outside~~ the country.

People who do not agree with this definition of the functions of government may say: "This man hates the government." Nothing could be farther from the truth. If I should say that gasoline is a very useful liquid, useful for many purposes, but that, nevertheless, I would not drink gasoline because I think that would not be the right use for it, I am not an enemy of gasoline, and I do not hate gasoline. I only say that gasoline is very useful for certain purposes, but not fit for

other purposes. If I say it is the government's duty to arrest murderers and other criminals, but not its duty to run the railroads or to spend money for useless things, then I do not hate the government by declaring that it is fit to do certain things but not fit to do other things.

It has been said that under present-day conditions we no longer have a free market economy. Under present-day conditions we have something called the "mixed economy". And for evidence of our "mixed economy," people point to the many enterprises which are operated and owned by the government. The economy is mixed, people say, because there are, in many countries, certain institutions like the telephone, telegraph, and railroads which are owned and operated by the government.

The fact that some of these institutions and enterprises are operated by the government is certainly ~~correct~~ ^{true}. But this fact alone does not change the character of our economic system. It does not even mean there is a "little socialism" within the otherwise non-socialist, free market economy. For the government, in operating these enterprises, is subject to the supremacy of the market, ^{which} ~~that~~ ^{it is subject to} means the supremacy of the consumers. The government if it operates, let us say, post offices or railroads has to hire people who have to work in these enterprises. It also has to buy the raw materials and other things that are needed for the conduct of these enterprises. And on the other hand, it "sells" these services or commodities to the public. Yet, even though it operates these institutions using them

using the methods of the free economic system, the result, as a rule, is a deficit. ^{(however,} But the government, ^{is} is in a position to finance such a deficit. ^{At} At least the members of the government and of the ruling party believe so. ^{It} It is certainly different for an individual. The individual's power to operate something with a deficit is very limited. If the deficit is not very soon eliminated, and if the enterprise does not become profitable, (or at least show that no further deficit and losses are being incurred), the individual goes bankrupt and the enterprise ^{must} ~~will~~ come to an end.

But for the government, conditions are different. The government can run at a deficit, because it has the power to tax people. And if the taxpayers are prepared to pay higher taxes in order to make it possible for the government to operate an enterprise at a loss $\frac{1}{M}$ that is, in a less efficient way than it would be done by a private institution $\frac{1}{M}$ and if the public will accept this loss, then of course the enterprise will continue. ^{In} In recent years, governments have increased the number of nationalised institutions and enterprises in most countries to such an extent that the deficits have grown far beyond the amount that could be collected in taxes from the citizens. What happens then, is not the subject of today's lecture. It is inflation, and I shall deal with ^{that} ~~it~~ tomorrow. I mentioned this only because the mixed economy must not be confused with the problem of interventionism, about which I want to talk tonight.

Intervention means

Q What is interventionism? Interventionism means that the government does not restrict its activity to the preservation of order, or ^{as} ~~as~~ people used to say a hundred years ago ^{to} ~~to~~ "the production of security," ~~but~~ that the government wants to do more.

Q It wants to interfere with market phenomena. [^] If one objects and says the government should not interfere with business, ~~one~~ very often ~~hears~~ people answer: "but the government necessarily always interferes." If there are policemen on the street, the government interferes. It interferes with a robber looting a shop or it prevents a man from stealing a car.)

But when dealing with interventionism and defining what is meant ^{by} ~~by~~ interventionism, we ^{are speaking} ~~speak~~ about government interference with

the market phenomenon. (That the government and the police are ^{expected} ~~ready~~ to protect the citizens, which includes businessmen,

and of course their employees, against attacks on the part of domestic or foreign gangsters, ~~this~~ is in fact a necessary ^{normal and} function of ~~the~~ ^{any} government. ^{Such protection} ~~This~~ is not an intervention, for

Expectation

the government's only legitimate function is, precisely, to produce security.)

Q What we have in mind when we talk about interventionism is the government's desire to do more than prevent ^{assaults} ~~force~~ and fraud.

Intervention means that the government not only fails to protect the smooth functioning of the market economy, ~~but~~ it interferes with the various market phenomena; ^{it interferes with} ~~with~~ prices, ^{with} ~~with~~ wage rates, interest rates, and profits.

Q The government wants to interfere in order to force ~~the~~ businessmen to conduct their affairs in a way that is different ^{than} ~~from the way~~ they would have chosen if they had obeyed only

the consumers. Thus, all the measures of interventionism by the government are directed ^{toward} ~~to the purpose of~~ restricting the supremacy of ~~the~~ consumers. The government wants to arrogate to itself the power, or at least a part of the power, which, in the free market economy, is in the hands of the consumers.

of interventionism,

A Let us consider one example, very popular in many countries, ~~which has been~~ ^{and} tried again and again by many governments, especially in times of inflation. I refer to price control.

A Governments usually resort to price control when they have inflated the money supply and people ^{have begun to complain} ~~are complaining~~ about the resulting rise in prices. There are many famous historical examples of price control methods that failed, but I ^{shall} ~~refer~~ ^{refer} ~~referring~~ to only two of ^{them} ~~them~~ because, in both these cases, the governments were really very energetic in enforcing or trying

A to enforce their price controls. The first famous example is the case of the Roman Emperor ^{Diocletian} ~~Diocletian~~, very well-known as the last of those Roman Emperors who persecuted the Christians. The Roman Emperor in the second part of the third century had only one financial method, and this was currency debasement. In these primitive ages, before the invention of the printing press, even inflation was, let us say, primitive. It ^{involved} ~~meant~~ debasement of the coinage, especially the silver coinage. The government mixed more and more copper into the silver until the color of the silver coins was changed and the weight was reduced considerably. The result of this coinage debasement ^{and the associated increase in the quantity of money} was an increase in prices, followed by an edict to control prices. And ~~these~~ Roman Emperors were not very mild when they

enforced a law; They did not consider death ~~was~~ too mild a punishment for a man who ^{had} asked for a higher price. They enforced price control, but they failed to maintain the society. The ~~only~~ result was the disintegration of the Roman empire, ^{and} ~~of~~ the system of the division of labor.

A Then, 1500 years later, the same currency debasement took place during the French revolution. But this time a different method was used. The technology for producing money was considerably improved. It was no longer necessary for the French to resort to debasement of the coinage: They had the printing press. And the printing press was very efficient. Again, the result was an unprecedented rise in prices. But maximum prices in the French Revolution were not enforced by the same method of capital punishment which the Emperor Diocletian had used. There had also been an improvement in the technique of killing citizens. You all remember the famous Doctor J. I. Guillotin (1738-1814), who invented the guillotine. ~~But~~ the French also failed with their laws of maximum price. When Robespierre himself was carted off to the guillotine the people shouted, "There goes the dirty Maximum."

*Despite
their
guillotine*

A I wanted to mention this, because people often say: "what is needed in order to make price control effective and efficient is merely more brutality and more energy." Now certainly, Diocletian was very brutal, and so was the French revolution. Nevertheless, price control measures in both ages failed entirely.

¶ Now let us analyze the reasons for this failure. The government hears people complain that the price of milk has gone up. And milk is certainly very important, especially for the rising generation, for children. Consequently, the government declares a maximum price for milk, a maximum price ~~for milk~~ lower than the potential market price would be. Now the government says: "certainly we have done everything needed in order to make it possible for poor parents to buy as much milk as they need to feed their children." But what happens? On the one hand, the lower price of milk increases the ~~demanded~~ ^{quantity} ~~of this commodity~~; ^{for milk;} People who could not afford to buy milk at a higher price are now able to buy it at the lower price which the government has decreed. And on the other hand some of the producers, those producers of milk who are producing at the highest cost ^{that is,} the marginal producers ^{are} are now suffering losses, because the price which the government has decreed is lower than their costs. This is the important point in the market economy.

¶ The private entrepreneur, the private producer, cannot take losses in the long run. And as he cannot take losses in ^{production} milk, he restricts the ~~product~~ of milk for the market. He may sell some of his cows for the slaughter house, or instead of milk he may sell some products made out of milk, for instance sour cream, butter or cheese.

¶ Thus the government's interference with the price of milk will result in less milk than there was before, and at the same time there will be a greater demand. ~~But~~ some people

who are prepared to pay the government-decreed price cannot buy it. Another result will be that anxious people will hurry to be first at the shops. They have to wait outside. The long lines of people waiting at shops always appears as a familiar phenomenon in a city in which the government has decreed maximum prices for commodities that the government considers as important. This has happened everywhere when the price of milk was controlled. This was always prognosticated by economists. Of course, only by sound economists, and their number is not very great. But what is the result of the government's price control? The government is disappointed. It wanted to increase the satisfaction of the milk drinkers. But actually it has dissatisfied them. Before the government interfered, milk was expensive, but people could buy it. Now there is only an insufficient quantity of milk available. Therefore, ^{the} total consumption of milk drops. The children are getting less milk, not more. The ~~first~~ ^{next} measure to which the government now resorts, is rationing. But rationing only means that certain people are privileged and are getting milk while other people are not getting any at all. Who gets milk and who does not, of course, is always very arbitrarily determined. One order may determine, for example, that children under four years old should get milk, and that children over four years, or between the age of four and six should get only half the ration which children under four years receive. Whatever the government does, the fact remains, there is only a smaller amount of milk available. Thus people are still more dissatisfied than they were before. Now the government

asks the milk producers (because the government does not have enough imagination to find our for itself): "Why do you not produce the same amount of milk you produced before?" The government gets the answer: "We cannot do it, since the costs of production are higher than the maximum price which the government has established." Now the government studies the costs of the various items of production, and it discovers one of the items is fodder. *A* "Oh", says the government, "the same control ^{we} applied to milk we will now apply to fodder. We will determine a maximum price for fodder, and then you will be able to feed your cows at a lower price, at a lower expenditure. Then everything will be ~~alright~~ ^{all right}, you will be able to produce more milk and you will sell more milk."

But what happens now? The same story repeats itself with fodder, and as you can understand, for the same reasons. The production of fodder drops and the government is again faced with a dilemma. So the government arranges new hearings, to find out what is wrong with fodder production. And it gets an explanation from the producers of fodder precisely like the one it got from the milk producers. So the government must go a step farther, since it does not want to abandon the principle of price control. It determines maximum prices for producers' goods which are necessary for the production of fodder. And the same story happens again.

A The government at the same time starts controlling not only milk, but also eggs, meat, and other necessities. And every time the government gets the same result, everywhere the

consequence is the same. Once the government fixes a maximum price for consumer goods, it has to go farther back to producer^(s) goods, and limit the prices of the producer^(s) goods required for the production of the price-controlled consumer goods. And so the government, having started with only a few price controls, goes farther and farther back in the process of production, fixing maximum prices for all kinds of producer^(s) goods, including of course the price of labor, because without wage control, the government's "cost control" would be meaningless.

A Moreover, the government cannot limit its interference into the market ^{views} (only to) those things which it ~~considers~~ as vital necessities, like milk, butter, eggs, and meat. It must necessarily include luxury goods, because if it ~~would~~ ^{did} not limit their prices, capital and labor would abandon the production of vital necessities and would turn to producing those things which the government considers unnecessary luxury goods. Thus, the isolated interference with one or a few prices of consumer goods always brings about effects $\frac{1}{M}$ and this is important to realize $\frac{1}{M}$ which are even less satisfactory than the conditions that prevailed before: Before the government interfered, milk and eggs were expensive; after the government interference they begin to disappear from the market. The government considered those items ^{to be} so important that it interfered; it wanted to increase the quantity and improve the supply. The result was the opposite: the isolated interference ~~was~~ brought about a condition which $\frac{1}{M}$ from the point of view of the government $\frac{1}{M}$

is even more undesirable than the previous state of affairs which the government wanted to alter. And as the government goes farther and farther, it will finally arrive at a ^{point where} state ~~of affairs in which~~ all prices, all wage rates, all interest rates, in short everything in the whole economic system is determined by the government. And this, clearly, is socialism.

A What I have told you here, this schematic and theoretical explanation, is precisely what happened in those countries which tried to enforce ^{a price} maximum control, ~~over prices~~, where governments were stubborn enough to go step by step until they came to the end. This happened in the First World War, in Germany and England.

A Let us analyze the situation in both countries. Both countries ~~inflated~~ ^{experienced inflation.} Prices went up, and the two governments imposed price controls. Starting with a few prices, starting with only milk and eggs, they had to go farther and farther. The longer the war went on, the more inflation was generated. And after three years of war, the Germans ^{then} systematically as always ^{then} elaborated a great plan. They called it the Hindenburg Plan: everything in Germany at that time considered ^{to be} good by the government ^{was} named after Hindenburg.

A The Hindenburg plan meant that the whole German economic system should be controlled by the government: Prices, wages, profits...everything. And the bureaucracy immediately began to put this into effect. But before they had finished, the debacle came: the German empire broke down, the ~~whole~~ ^{entire} bureau-

cratic apparatus disappeared, the revolution brought its bloody results ^{and} things came to an end.

A In England they started in the same way, but after a time, in the Spring of 1917, the United States entered the war and supplied the British with sufficient quantities of everything. Therefore the road to socialism, the road to serfdom, was interrupted.

A Before Hitler came to power, Chancellor Brüning again introduced price control in Germany for the usual reasons. Hitler enforced it, even before the war started. For, in Hitler's Germany, there was no private enterprise or private initiative. In Hitler's Germany there was a system of socialism which differed from the Russian system only to the extent that the terminology and labels of the free economic system were still retained. There still existed "private enterprises", as they were called. But the owner was no longer an entrepreneur, the owner was called a "shop manager" (Betriebsführer).

A The whole of Germany was organized in a hierarchy of Führers; there was the highest Führer, Hitler of course, and then there were Führers down to the many hierarchies of smaller Führers. And the head of an enterprise was the Betriebsführer. And the workers of the enterprise were named by a word that, in the Middle Ages, had signified the retinue of a feudal lord: the Gefolgschaft. And all of these people had to obey the orders issued by an institution which had a terribly long name: Reichsführerwirtschafts Ministerium, at the head of which was the well-known fat man, named Goering, adorned with jewelry and medals. And from this ^{body of ministers} ministerium with the long name came all the orders to

every enterprise: what to produce, in what quantity, where to get the raw materials and what to pay for them, ~~To~~ whom to sell the products and at what prices to sell them. The workers got the order to work in a definite factory and they received wages which the government decreed. The whole economic system was now regulated in every detail by the govern-

ment. ^A The Betriebsführer did not have the right to take the profits for himself; He received what amounted to a salary, and if he wanted to get more (for example, he would, say: "I am very sick, I need an operation immediately, and the operation will cost 500 Marks," then he had to ask the ^{(Fuehrer of the district} ~~the~~ ^(the Gauführer or Gauleiter) whether he had the right to take out more than the salary which was given to him. The prices were no longer prices, the wages were no longer wages, they were all quantitative terms in a system of socialism.

Now let me tell you how that system broke down. One day, after years of fighting, the foreign armies arrived in Germany. They tried to preserve this government-directed economic system, but the brutality of Hitler would have been necessary to preserve it and, without this, it did not work.

And while this was going on in Germany, Great Britain ⁱⁿ ~~in~~ ^{during the} Second World War ⁱⁿ ~~in~~ did precisely what Germany did: starting with the price control of some commodities only, the British government ^{began} ~~proceeded~~ in the same way Hitler had done in peace time, even before ^{start of the war} ~~the war started~~ ^{step by step} ~~at the end~~ ^{by the time the} ~~the~~ war ended, ^{had} ~~of the war~~ they reached something that was almost pure socialism.

simply

Great Britain was not brought to socialism by the Labor^u Government which was established in 1945. Great Britain became socialist during the war, through the government of which Sir Winston Churchill was the Prime Minister. The Labor^u Government ~~only~~ ~~retained~~ ~~the~~ ~~system~~ ~~of~~ ~~socialism~~ which the government of Sir Winston Churchill had already introduced. And this in spite of great resistance by the people.

Stet

The nationalizations in Great Britain did not mean very much; the nationalization of the Bank of England was merely nominal, because the Bank of England was already under the complete control of the government. And it was the same with the nationalization of the railroads and the steel industry. The "war socialism," as it was called, ^{meaning} ~~that means~~ the system of interventionism ^{proceeding} ~~preceding~~ step by step ^{step} had already vir-

tually nationalized the system. That the system was operated by people appointed by the government made no great difference, since these people had to obey the government's orders in every respect. As I said before, the system of the German Nazis retained the labels and ~~the~~ terms of the capitalistic free market economy. But they meant something very dif-

ferent; there were now only government decrees. This was also true for the British system. When the conservative party in Britain was returned to power, they ~~removed~~ some of these controls ^(were removed). In Great Britain we now have attempts from one side to retain these controls and from the other side to abolish them. (But one must not forget that, in England, the conditions ~~today~~ are very different from ~~the~~ conditions in Russia.) The same is true for other countries

which depend on the importation of ~~foreign~~ food and raw materials and therefore ^{have to} export manufactured goods. ^{(countries depending heavily on} For ~~the~~ export trade, a system of government control simply does not work.

41 Thus, ~~Therefore,~~ as far as there is economic freedom left (and ^{still} there is) substantial freedom ~~left~~ in some countries, ^{such as} ~~for~~ example, Norway, England, ^{and} Sweden), ^{it} ~~the freedom~~ exists because of the necessity to retain export trade. Earlier, I chose the example of milk, not because I have a special preference for milk, but because practically all ~~the~~ governments ^{or} most of them ^{started}, in recent decades, ~~with~~ ^{have} ~~the~~ regulation ^{ed} of milk, egg or butter prices.

42 I want to refer, in a few words, to another example, and that is rent control. If the government controls rent, one result is that people who ^{otherwise} would have moved from bigger apartments to smaller ones when ^{their} family conditions changed, will no longer do so. For example, consider parents whose children left home when they came into their twenties, married or went into other cities to work. Such parents used to change their apartments and take smaller and cheaper ones. This necessity disappeared when rent controls were imposed. In Vienna, Austria, in the early twenties, where rent control was well-established, the amount of money that the landlord received for an average apartment under rent control was not more than twice the price of a ticket for a ride on the city-owned street cars. You can imagine that people did not have any incentive to change their apartments. And, on

the other hand, there was no construction of new houses. Similar conditions prevailed in the United States after the Second World War, continuing in many cities to this day.

Land all

A One of the main reasons why many cities in the United States are in such great financial difficulties is that they have rent control and a resulting shortage of housing. So the government has spent billions for ^{the} building ^{of} new houses. But why was there such a housing shortage? The housing shortage developed for the same reasons that brought milk shortages when there was milk price control. That means: when the government interferes with the market, it is more and more

A driven towards socialism. And this is the answer to those people who say: "we are not socialists, we do not want the government to control everything. We realize this is bad. But why should not the government interfere a little bit with the market? Why shouldn't the government do away with some things which we do not like?" These people, ~~recommend~~

A ~~certain measures.~~ They talk of a "middle-of-the-road" policy. What they do not see is that the isolated interference, which means the interference with only one small part of the economic system, brings about a situation which the government itself ^{find} and the people who are asking for government interference ^{find} ~~consider~~ worse than the conditions they wanted to abolish: The people who are asking for rent control are very angry when they discover there is a shortage of apartments and a shortage of housing. But this shortage of housing was created precisely by government interference,

by the establishment of

~~establishing~~ rents below the level people would have had to pay in a free market. The idea that there is a third system ^{between} socialism and capitalism, as its supporters say ^{is} a system ~~which is~~ as far away from socialism as it is from capitalism, but retains the advantages ^{and avoids the disadvantages} of each ~~of these systems, and avoids their disadvantages~~ is pure nonsense. People who believe there is such a mythical system can become really poetic when they praise the glories of interventionism. One can only say they are mistaken. The government interference ^{which they praise} ~~they are praising~~ brings about conditions which they themselves do not like.

One of the problems I will deal with later is protectionism.

The government tries to isolate the domestic market from the world market. It introduces tariffs which ^{raise} ~~raise~~ the domestic price of a commodity above the world market price, ^{making} ~~and make~~ it possible for domestic producers to form cartels.

~~The cartels are then attacked by the government, and the government~~ ^{then attacks the cartels} ~~declares:~~ ^{sup} "Under these conditions, anti-cartel

legislation is necessary." This is precisely the situation with most of the European governments. In the United States, there are yet other reasons for anti-trust legislation and the government's campaign against the spectre of monopoly.

It is absurd to see the government ^{which} creates by its own intervention the conditions making possible the emergency of domestic cartels ^{point} its finger at business, saying: "there are cartels, ^{therefore} ~~therefore~~ government interference with business is necessary." It would be much simpler to avoid cartels by ending the government's interference with the

market ^{-- on interference} which makes these cartels possible.

H The ~~this~~ idea of government interference as a "solution" to ~~any~~ economic problem leads, in every country, to conditions which, at the ~~which, at the~~ least, are very unsatisfactory and often quite chaotic. If the government does not stop in time, it will

H bring on socialism. Nevertheless, government interference with business is still very popular. As soon as someone does not like something that happens in the world, he says: "the government ought to ^{do something about it.} ~~interfere~~. What do we have a government for? The government should do it." And this is

a characteristic remnant of ^(thought from) past ages, of ~~the~~ ^{before} ages preceding modern freedom, modern constitutional government, ^{representative} government or modern republicanism.

H For centuries there was the doctrine ^{maintained} and accepted by everyone that a king, an anointed king, ^{was} the messenger of God; he has ^d more wisdom than his subjects, and he has ^d supernatural powers. As ^{recently} late as the beginning of the ^{nineteenth} century, people suffering from certain diseases expected to be cured by the royal touch, by the hand of the king. Doctors ^{were} ~~are~~

H usually better, nevertheless they had their patients try the king. This doctrine of the superiority of a ^{paternal} government, of the supernatural and superhuman powers of the hereditary kings ^{gradually} disappeared ^{or} at least we thought ^{so.} ~~that it did.~~ But it came back again, ^{and} there was a German professor named Werner Sombart ^t (I knew him personally very well), who was known the world over, who was an honorary doctor of many universities and an honorary member of the American Economic Association. ^{That professor} ~~He~~ wrote a book, ^{which} ~~and this book is a~~

available in an English translation, published by the Princeton University Press. It is available also in a French language translation, and probably also in Spanish language translation. At least I hope it is available, because then you can check what I am saying. In this book, published in our century, not in ~~one of~~ the ^Dark ^Ages, "Sir" Werner Sombart, a professor of economics, simply says: "The Führer, our Führer" ^{he means, of course,} Hitler ^{gets his orders} directly from God, ^{the Führer of the Universe."} I spoke of this hierarchy of the ^{fuehrers earlier,} ~~Fuehrers~~, and in this hierarchy, ^{I mentioned} of the Fuehrers, Hitler ^{as} the "supreme ^{fuehrer".... But,} ~~Fuehrer~~, ^{is} according to ^t Werner Sombart, ^{fuehrer,} a still higher ~~Fuehrer~~, God, the ^{he wrote,} ~~Fuehrer~~ of the Universe. And God, ^t gives his orders directly to Hitler. Of course, Professor Sombart ^t said very modestly: "We do not know how God communicates with the Führer. But the fact cannot be denied."

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Now, if you hear that such a book can be published in the German language, the language of a nation which was once ^{you see} hailed ^{as} called "the nation of philosophers and poets," and if ~~it~~ ^{it} be translated into English and French, then you will not be astonished at the fact that ^{even,} a little bureaucrat considers himself ~~as~~ wiser and better than the citizens and wants to interfere with everything, ^{(even though he} ~~is~~ ^{and} is only a poor little bureaucrat, ^t ~~He is~~ not the famous Professor Werner Sombart, Honorary member of everything. ^{power of the} Is there a remedy against such happenings? I would say, yes, there is a remedy. And this remedy is the ^{citizens;} they have to prevent the establishment of such an autocratic regime that arrogates to itself

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that of
a higher wisdom than the average citizen, ~~was~~. This is the
fundamental difference between freedom and serfdom. [^] The
socialist nations have arrogated to themselves the term
democracy. The Russians call their own system a People's
Democracy; they probably maintain that the people are
represented in the person of the dictator. I think that
one dictator, here in Argentina, was given a good answer.
Let us hope that all other dictators, in other nations, will
be accorded a similar response.

ST

61

Fourth Lecture

INFLATION: ITS SIGNIFICANCE AND EFFECT

If the supply of caviar were as plentiful as the supply of potatoes, the price of caviar $\frac{1}{M}$ that is, the exchange ratio between caviar and money or caviar and other commodities $\frac{1}{M}$ would change considerably. In that case, one could obtain caviar at a much smaller sacrifice than is required today. Likewise, ^{if} the quantity of money is increased, the purchasing power of the monetary unit decreases, and the quantity of goods that can be obtained for one unit of this money decreases also.

A When, in the ^{sixteenth} 16th century, American resources of gold and silver were discovered and exploited, enormous quantities of the precious metals were ^{transported} ~~imported~~ to Europe. The result of this increase in the quantity of money was a general ^{toward} tendency to an upward movement of prices. In the same way, today, when a government increases the quantity of paper money, the result is that the purchasing power of the monetary unit begins to drop, and so prices rise. This is called inflation. Unfortunately, in the United States, as well as in other countries, some people prefer to attribute the cause of inflation not to an increase in the quantity of money, but, rather, to the rise in prices.

A However, there has never been any serious argument against the economic interpretation of the relationship between prices and the quantity of money, or the exchange ratio between money and other goods, commodities, and services. Under present day technological conditions there is nothing

easier than to print pieces of paper upon which certain monetary amounts are printed. In the United States, where all the notes are of the same size, it does not cost the government more to print a bill of a thousand dollars than it does to print a bill of one dollar. It is purely a printing procedure that requires the same quantity of paper and ink.

A

^{eighteenth}
In the 18th century, when the first attempts were made to issue bank notes and to give these bank notes the quality of legal tender ^{that is}, that is, the right to be honored in exchange transactions in the same way that gold and silver pieces were honored ^{the} the governments and nations believed that bankers had some secret knowledge enabling them to produce wealth out of nothing. When the governments of the ^{eighteenth} 18th century were in financial difficulties, they thought all ^{they} that was needed was a clever banker at the head of their financial management in order to get rid of all their difficulties.

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Some years before the French revolution, when the royalty of France was in financial trouble, the King of France ^{sought out such} ~~thought that all he needed to solve his financial problems was to find~~ a clever banker, ^{and appointed him to a high} ~~and so he appointed~~ ^{position.}

This man ^{in every regard,} was the opposite of the people who, up to that time, had ruled France. First of all he was not a Frenchman, he was a foreigner ^a a Genoese. Secondly, he was not a member of the aristocracy, he was a simple commoner. And what counted even more in ^{eighteenth} 18th century France, he was not a Catholic, but a Protestant.

And so Monsieur ^{Necker the} Necker, the father of the famous Madame de Staël ^{finance} Staël, became the minister of ~~France~~ ^{France}, and everyone expected him to solve the financial problems of France. But in spite

the high degree of confidence Monsieur Necker enjoyed, the royal cashbook remained empty -- Necker's greatest mistake having been his attempt to finance aid to the American colonists in their war of independence against England without raising taxes. That was certainly the wrong way to go about solving France's financial troubles.

4 There can be no secret way to the solution of the financial problems of a government; if it needs money, it has to obtain the money by taxing its citizens (or, under special conditions, by borrowing it from people who have the money). But many governments, we can even say most governments, think there is another method for getting the needed money; and that is simply to print it.

9 If the government wants to do something, ~~however~~ beneficial ~~it may be~~ $\frac{1}{M}$ if, for example, it wants to build a hospital $\frac{1}{M}$ ~~then~~ the way to find the needed money ^(for this project) is to tax the citizens and ~~build~~ ^{build} the hospital out of tax revenues. Then no special

"price revolution" will occur, ^{because} ~~because~~ when the government ^{collects} spends money for the construction of the hospital, the citizens ^{($\frac{1}{M}$ having} who have paid the taxes $\frac{1}{M}$ ^(to reduce their spending.) are forced to spend less.

The individual taxpayer is forced to restrict either his consumption, his investments or his savings. The government, ^{appearing} appears on the market as a buyer, ^{replaces} the individual citizen: ~~when~~ the citizens ^{buys} are ^{buying} less, the government ^{is buying} is buying more. The government, of course, does not always buy the same goods which the citizens would have bought; but on the average there occurs no rise in prices ^{due to the} ~~simply~~ ^{government's construction of} ~~because the government has built~~ a hospital.

4 I choose this example of a hospital precisely because people sometimes say: "It makes a difference whether the government uses its money for good or for bad purposes." I want to assume that the government always uses the money which it has printed for the best possible purposes $\frac{1}{M}$ purposes with which we all agree. For it is not the way in which the

money is spent, it is the way in which the government ~~uses~~ obtains ~~this~~ this money that brings about those consequences we call inflation and which most people in the world today do not consider as beneficial.

FF For example, without inflating, the government could use the tax-collected money for hiring new employees or for raising the salaries of those who are already in government service. Then these people, whose salaries have been increased, ^{are} will be in a position to buy more. When the government taxes the citizens and uses this money ^{to increase the salaries} for ~~an increase in~~ the payment of government employees, the taxpayers have less to spend, but the government employees have more. Prices in general will ^{not} increase.

FF But if the government does not use tax money for this purpose, if it uses freshly printed money instead, it means that there will be people who now have more money while all other people still have as much as they had before. So those who received the newly-printed money will be competing with those people who were buyers before. And since there are no more commodities ^{(there were previously} than ~~before~~ but there is more money on the market ¹ and since ~~as a consequence~~ there are now people who can buy more today than they could ^{have bought} buy yesterday ¹ there will be an additional demand for ^{that} the same ^{quantity} amount of goods. Therefore prices will tend to go up. This cannot be avoided, no matter what the use of this newly-issued money will be.

FF And most importantly, this tendency for prices to go up will develop step by step; it is not

a general upward movement of what has been called the "price level".
The ~~This~~ metaphorical expression "price level" must never be used.

When people talk of a "price level", they have in mind the image of a level of a liquid which goes up or down according to the increase or decrease in its quantity, but which, like a liquid in a tank, always rises evenly. But with prices, there is no such thing as a "level". Prices do not change to the same extent at the same time. There are always prices that are changing more rapidly, rising or falling more rapidly than other prices. There is ^a ~~an~~ reason for this.

Consider the case of the government employees ⁶ who received the new money added to the money supply. ^{People} They do not buy today precisely the same commodities ⁱⁿ and the same quantities ^{as they did} ~~which they bought~~ yesterday. The additional money which the government has printed and ^{introduced} inserted into the market is not used for the purchase of all commodities and services. It is used for the purchase of certain commodities, ^{the prices of which will rise,} while other commodities ^{will} still remain at the prices that ^{ed} ~~prevailing~~ before the new money was put ^{on} ~~into~~ the market. Therefore, when inflation starts, ^{different} ~~there are various~~ groups within the population ^{that} who are affected by this inflation, ^{each} in ~~a~~ different way. ~~So~~ ^{those groups who get} ~~There are people to whom~~ the new money ~~comes~~ first, and ~~who there-~~ ^{for that} ~~fore~~ gain a temporary benefit.

~~For example,~~ when the government inflates in order to wage a war, it has to buy munitions, and the first to get the additional money are the munition industries and the workers

within

of these industries. These groups are now in a very favorable position. They have higher profits and higher wages, their business is moving. Why? Because they were the first to receive the additional money. And having now more money at their disposal, they are buying. And they are buying from other people who are manufacturing and selling the commodities that these munition makers want. These other people form a second group. And this second group considers inflation ^{To be} very good for business. Why not? Isn't it wonderful to sell more? For example, the owner of a restaurant in the neighborhood of a munitions factory says: "It is really marvelous! The munition workers have more money, there are many more of them now than before, they are all patronizing my restaurant, I am very happy about it." He does not see any reason to feel otherwise.

The situation is this: those people to whom the money ^{comes} first have now a higher income and they can still buy many commodities and services at prices which correspond to the previous state of the market, to the condition that existed on the eve of inflation. They therefore are in a very favorable position. And thus inflation continues step by step, from one group of the population to another. And all those to whom the additional money comes at the early stage ^{of inflation} are benefited, because they are buying some things at prices still corresponding to the previous stage of the exchange ratio between money and commodities.

But there are other groups in the population to whom this additional money comes much, much later. These people are

in an unfavorable position. Before the additional money comes to them they are forced to pay higher prices than they ^{paid} ~~payed~~ before for some ¹/₄ or practically for ¹/₄ of the commodities they wanted to ^{purchase} ~~consume~~, while their income has remained the same, or has not increased proportionately with prices.

9 Consider for instance a country like the United States during ^{the Second} World War; on the one hand, inflation at that time favored the munitions workers, ~~the munitions workers~~, the munition industries, the manufacturers of guns, while on the other hand it worked against other groups of the population. And the ones who suffered the greatest disadvantages from inflation were the teachers and the ministers.

H As you know, a minister is a very modest person who serves God and must not talk too much about money. Teachers, likewise, are dedicated persons who are supposed to think more about educating the young than about their salaries. Consequently, the teachers and ministers were among those who were most penalized by inflation, for the various schools and churches were the last to realize that they must raise salaries. When the church elders and the school corporations finally discovered that, after all, one should also raise the salaries of these dedicated people, the earlier losses they had suffered still remained.

H For a long time, they had had to buy less than they did before, to cut down their consumption of better and more expensive foods, and to restrict their purchase of clothing--because prices had already adjusted upward, while their income, their salaries, had not yet been raised. (This situation has changed considerably today, at least for teachers.)

A There are therefore always different groups in the popula-

tion being affected differently by inflation. For some of them, inflation is not so bad; they even ask for a continuation of it, because they are the first to profit from it.

the We will see, in the next lecture, ~~what an important role~~ this unevenness ⁱⁿ of the consequences of inflation ~~plays in the~~ *politics* ~~politics~~ that lead towards inflation. *how* *vitaly affects*

¶ Under these changes brought about by inflation, we have groups who are favored, and groups who are directly profiteering. I do not use the term "profiteering" as a reproach to these people, for if there is someone to blame, it is the government that established the inflation. And there are always people who favor inflation, because they realize what is going on sooner than other people do. Their special profits are due to the fact that there will necessarily be unevenness in the process of inflation.

¶ The government may think that inflation ^{is as a} ~~is a better~~ method of raising funds ^{is better} than taxation, which is always unpopular and difficult. In many rich and great nations, legislators have often discussed, for months and months, the various forms of new taxes that were necessary because the Parliament had decided to increase expenditures. Having discussed various methods of getting the money by taxation, they finally decided that perhaps it was better to do it by inflation.

¶ But of course, the word "inflation" ^{was} ~~is~~ not used. The politician in power who proceeds toward inflation does not announce: "I am proceeding towards inflation." The technical methods employed to achieve the inflation are so complicated that the average citizen does not realize inflation has begun.

P^A During one of the biggest inflations in history, in the German Reich after the First World War. the inflation was not so momentous during the war. It was the inflation after the war that brought about the catastrophe, ~~of 1923~~. The government did not say: "We are proceeding towards inflation." The government simply borrowed money very indirectly from the Central Bank. The government did not have to ask how the Central Bank would find and deliver the money. The Central Bank simply printed it.

H

Today the techniques for inflation are complicated by the fact that there is checkbook money. It involves another technique, but the result is the same. With the stroke of a pen, the government creates fiat money, thus increasing the quantity of money and credit. The government simply issues the order, and the fiat money is there.

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The government does not care, at first, that some people will be losers, it does not care that prices will go up. The legislators say: "This is a wonderful system!" But this wonderful system has one fundamental weakness:

It cannot last. If inflation could go on forever, there would be no point in telling governments they should not inflate. But the certain fact about inflation is that, sooner or later, it must come to an end. It is ^a policy that can not last.

STET
 H In the long run, inflation ~~will~~ ^{comes to an end with the} must lead to a breakdown, to a

of the currency. --

catastrophe, to a situation like ^{the one} ~~that~~ in Germany in 1923. On August 1, 1914, the value of the dollar was four marks and twenty pfennigs. Nine years and three months later, in November 1923, the dollar was pegged at 4.2 billion marks. In other words, the mark was worth nothing. It no longer had any value.

¶ Some years ago, a famous author wrote: "In the long run we are all dead." This is certainly true, I am sorry to say. ~~But~~ But the question is, how short or long will the short run be? In the ^{eighteenth} ~~18th~~ century there was a famous lady, Madame de Pompadour, who is credited with the dictum: "Après nous le déluge" ("After us will come the flood"). Madame de Pompadour was happy enough to die in the short run. But her successor in office, Madame du Barry, outlived the short run and was beheaded in the long run. For many people the "long run" quickly becomes the "short run" $\frac{1}{M}$ and the longer inflation goes on, the sooner the "short run"

~~Did you see~~ ¶ How long can the short run last? How long can a central bank continue an inflation? Probably as long as people are convinced

~~paper as money is that they believe $\frac{1}{M}$ yes, are convinced~~
~~that the~~ government, sooner or later, but certainly not too late, will stop printing money and thereby stop decreasing the value of each unit of money.

¶ When people no longer believe this, when they realize that the government will go on and on without any intention of stopping, then they begin to understand that prices tomorrow will be higher than they are today. Then they begin

buying at any price, ^{causing} ~~Inevitably~~ prices ^{to} go up to such heights that the monetary system breaks down.

¶ I refer to the case of Germany, ^{which} ~~because~~ the whole world was watching ~~what happened there~~. Many books have described the events of that time. (Although I am no German, but an Austrian, I saw everything from the inside: In Austria, conditions were not very different from those in Germany; Nor were they much different in many other European countries.) For several years, the German people believed that their inflation was just a temporary affair, that it would soon come to an end. They believed it for almost nine years, until the summer of 1923. Then, finally, they began to doubt. ^{And as} ~~But~~ the inflation continued, ^{though} ~~even though~~ ~~few people believed that it would go on forever.~~ Therefore people thought it ~~is~~ wiser to buy everything available, instead of keeping money in their pockets. Furthermore, they reasoned that one should not give loans of money, but on the contrary, that it was a very good idea to be a debtor. Thus inflation ^{continued} ~~went on~~ ^{on} feeding itself.

¶ And it went on in Germany (exactly until) August 28, 1923. The masses had believed inflation money to be real money, ~~But~~ then they found out that conditions had changed. At the end of the German inflation, ^{the fall of} in ~~Fall~~ 1923, the German factories paid their workers every morning in advance for the day. And the working man, ^{who} came to the factory with his wife, ~~and~~ handed his wages ¹/_M all the millions he got ¹/_M over to her immediately. And the lady immediately went to a shop to buy something, no matter what. She realized what most

people knew at that time ¹/₁₁ that overnight, from one day to another, the mark lost 50% of its purchasing power. Money, like chocolate on a hot oven, was melting in the pockets of the people. This last phase of ^{German} inflation, ~~of course,~~ ^{did} could not last long; After a few days, the whole nightmare was over: The mark was valueless and a new currency had to be established.

A Lord Keynes, the same man who said that in the long run we are all dead, was one of a long line of inflationist authors of the ^{twentieth} ~~19th~~ century. They all wrote against the gold standard. When Keynes attacked the gold standard, he called it a "barbarous relic." ~~a barbarous relic~~. And most people today consider it ~~ridiculous to speak of a fantastic idea to return to the gold standard.~~ In the United States, for instance, you are considered to be more or less ~~a~~ a dreamer if you say: "Sooner or later, the United States will have to return to the gold standard." ^{Yet} ~~But~~ the gold standard has one tremendous virtue: the quantity of the money supply, under the gold standard, is independent of the policies of governments and political parties. This is its ~~main~~ advantage. It is a protection ^{form of} ~~from~~ ^{against} spendthrift governments. If, under the gold standard, a government is asked to spend money for something new, the Minister of Finance can say: "And where do I get the money? Tell me, first, how I will find the money for this additional expenditure."

A ~~But~~ under an inflationary system, ^{the politicians say,} ~~nothing is simpler than to order the government printing office to provide as much money as ~~is needed.~~~~ ^{for the politicians to do} ~~Under a gold standard, ~~however,~~ sound government is ~~such~~ more powerful,~~ ^{they need for their projects.} ~~has a much better chance;~~

~~because~~ its leaders can say to the people and the politicians: ^(to) "We can't do it ^{unless we increase} ~~without increasing~~ taxes." But under infla-
 tionary conditions, people acquire the habit of looking upon
 the government as an institution ^{with} ~~that has~~ limitless means
 at its disposal: The state, the government, can do anything.
 If, for instance, the nation wants a new highway system,
 the government is expected to build it. But where will ~~they~~ ^{the}
^{government} get the money?

One could say that in the United States today ^{and} and even in
 the past, under McKinley ^{the} the Republican Party was more or
 less in favor of sound money and of the gold standard, and
 the Democratic Party was in favor of inflation. Of course
 not of paper inflation, but of silver inflation.

^{(however,} ~~But~~ it was a Democratic President of the United States,
 President Cleveland, who at the end of the ^{1880s} ~~eighties~~ vetoed
 a decision of Congress, ~~which wanted~~ to give a small sum
^{of} about \$10,000 ^{to} to help a community that had suffered
 some disaster. And President Cleveland justified his veto
 by writing: "While it is the duty of the citizens to sup-
 port the government, it is not the duty of the government
 to support the citizens." This is something which every
 statesman should write on the wall of his office to show
 to people who come asking for money.

I am rather embarrassed by the necessity to simplify these
 problems. There are so many complex problems in the mone-
 tary system and I would not have written volumes about them
 if they were as simple as I am describing them here. But

the fundamentals are precisely these: If you increase the quantity of money, you bring about the lowering of the purchasing power of the monetary unit. This is what people whose private affairs are unfavorably affected do not like. People who do not benefit from inflation are the ones who complain.

Q If inflation is bad and if people realize it, why has it become almost a way of life in all countries? People in this country, in Argentina, believe that inflation is a special disease of the Argentines. Let them travel and they will discover that many other countries, even some of the richest ^{countries} _{that} suffer from the same disease.

The United States today is certainly the richest country in the world, with the highest standard of living. But when you travel in the United States you will discover that there is constant talk about inflation and about the necessity to stop it. But they only talk; they do not act.

A To give you some facts: After the First World War, Great Britain returned to the prewar gold parity of the gold standard. That means it resorted to deflation. We do not have time here to discuss the reasons for this. But the unions in Great Britain were unwilling to accept an adjustment of wage rates to the higher purchasing power of the monetary unit, even though real wages were raised considerably by this monetary measure. Because Great Britain is a predominantly industrial country that has to import its raw materials, half-finished goods, and food stuffs in order to live,

and has to export manufactured goods, this was a serious catastrophe for England. Because of domestic deflation, England could not afford to buy as much food and raw materials as ^{it} she had bought before ^{the revaluation of the pound.} ~~the revaluation of the pound.~~ Since British goods were too expensive on the foreign market, export income declined: Great Britain priced ^{itself} herself out of the world market.

A The unions could not be defeated. You know the power of a union today. It has the right, practically the privilege, to resort to violence. And a union order is therefore, let us say, not less important than a government decree. The government decree is an order for enforcement for which ^{enforcement} the ~~violent~~ apparatus of the government ^(~~in~~ the police ~~is~~) is ready. ~~police~~ You ^{must} ~~have~~ to obey the government decree, otherwise you will ^{have} ~~be~~ in difficulties with the police.

A Unfortunately we have now, in almost all countries all over the world, a second power that is in a position ~~to resort~~ ^{(exercise force:} to ~~violence~~ the labor unions. The labor unions determine wages and the strikes to enforce them in the same way in which the government might decree a minimum wage-rate. I will not discuss the union question now; I shall deal with it later. I only want to establish that it is the union policy to raise wage rates above the level ~~which~~ they would have on an unhampered market. As a result, a considerable part of the potential labor force can only be employed by people or industries ^{that} ~~who~~ are prepared to suffer losses. Obviously, this is unrealistic. So the result is always un-

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employment, because the setting of wage rates above the level they would have on the unhampered market always results in the unemployment of a considerable part of the potential labor force.

④ In Great Britain, the result of high wage rates enforced by the labor unions was lasting unemployment, prolonged year after year. Millions of workers were unemployed, production figures dropped. Even experts were perplexed. In this situation the British government made a move which it considered an indispensable, emergency measure: it devalued its currency.

④ The result was that the purchasing power of the money wages, upon which the unions had insisted, was no longer the same. The real wages, the commodity wages, were reduced. Now the worker could ~~only buy less than he had~~ ^{not buy as much as he had} been able to buy before, even though the nominal wage rates remained the same. In this way, it was thought, real wage rates would return to free market levels and unemployment would disappear.

④ This measure $\frac{1}{M}$ devaluation $\frac{1}{M}$ was adopted by various other countries, by France, the Netherlands, and Belgium. One country even resorted twice to this measure within a period of one year and a half. That country was Czechoslovakia. It was a surreptitious method, let us say, to thwart the power of the unions. You could not call it a real success, however.

④ ~~Sooner or later,~~ after a few years, the people, the workers, even the unions, began to understand what was going on. They came to realize that currency devaluation had reduced

their real wages. The unions had the power to oppose this. In many countries they inserted a clause into wage contracts providing that money wages must go up automatically with an increase in prices. This is called indexing. The unions became index conscious. So, this method of reducing unemployment that the government of Great Britain started in 1931 ¹/_M which was later adopted by almost all important governments ¹/_M this method of "solving unemployment" no longer works today.

A ~~Unfortunately~~, In 1936, ~~Lord Keynes~~, in his General Theory of Employment, Interest and Money, ^{Lord Keynes unfortunately} elevated this method ¹/_M those emergency measures of the period between 1929 and 1933 ¹/_M to a principle, to a fundamental system of policy. And he justified it by saying, in effect; "Unemployment is bad. If you want unemployment to disappear you must inflate the currency." *A* He realized very well that wage-rates can be too high for the market, that is, too high to make it profitable for an employer to increase his work force, thus too high from the point of view of the total working population, ^{(for} With wage rates imposed by unions above the market level, only a part of those anxious to earn wages can obtain jobs. *A* And Keynes said, in effect: "Certainly ^{man} unemployment, ~~mass unemployment~~ prolonged year after year, is a very unsatisfactory condition." But instead of suggesting that wage rates could and should be adjusted to market conditions, he said, in effect: "If one devalues the currency and the workers are not clever enough to realize it, they will not

offer resistance against a drop in real wage rates, as long as nominal wage rates remain the same." In other words, Lord Keynes was saying that if a man gets the same amount of sterling today as he got before the currency was devalued, he will not realize that he is, in fact, now getting less.

4) In old fashioned language, Keynes proposed cheating the workers. Instead of declaring openly that wage rates must be adjusted to the conditions of the market ^{if} because, if they are not, a part of the labor force will inevitably remain unemployed ^{if} ~~instead of saying that~~, he said, in effect: "Full employment can only be reached if you have inflation. Cheat the workers." The most interesting fact, however, is that when his General Theory was published it was no longer possible to cheat, because people had already become index conscious. But the goal of full employment remained.

4) What does "full employment" mean? ^{It has to do with} ~~on~~ the unhampered labor ^a market, which is not manipulated by the unions or by the

government. On this market, wage rates for every type of labor tend to reach a level where everybody who wants a job can get one and every employer can hire as many workers as he needs.

~~as he needs.~~ If there is an increase in the demand for labor, the wages ^{rate} will ^{be} greater, and if fewer workers are needed, the

~~tendency for wage rates to attain levels where everybody who wants a job can get one and where every employer who wants to employ people can hire the workers he needs.~~
^{tend to} ~~for every type of labor~~ ^{to attain levels where everybody who} ~~wants a job can get one and where every employer~~ ^{who} ~~wants to employ people can hire the workers~~ ^{he needs.}

wages will be less. *rate will ~~fall~~ tend to fall*

The only method by which a "full employment" situation can be brought about is ^{by} the maintenance of an unhampered labor market. This is valid for every kind of labor and for every kind of commodity.

What does a businessman do who wants to sell a commodity for five dollars a unit? When he cannot sell it at that price, the technical business expression in the United States is "the inventory does not move." But it must move. He cannot retain things because he must buy something new; fashions are changing. So he sells at a lower price. If he cannot sell the merchandise at five dollars, he must sell it at four. If he cannot sell it at four, he must sell it for three. There is no other choice as long as he stays in business. He may suffer losses, but these losses are due to the fact that his anticipation of the market for his product was wrong.

It is the same with the thousands and thousands of young people who come every day from the agricultural districts into the city, trying to earn money. It happens so in every industrial nation, ~~also here in Argentina.~~ In the United States *they come* to town with the idea that they should get, say, a hundred dollars a week. This may be impossible. So if a man cannot get a job for a hundred dollars a week, he must try to get a job for ninety or eighty dollars, and perhaps even less. But if he were to say $\frac{1}{M}$ as the unions do $\frac{1}{M}$ "one hundred dollars a week or nothing," then ~~some of~~ *he might have to* ~~the people will~~ remain unemployed. (Many do not mind being

The answer is: by maintaining an unhampered-labor market and thus achieving full employment.

unemployed, because the government pays unemployment benefits ^{out} of special taxes levied ^{on} from the employers ^{benefits} which are sometimes ^{nearly} virtually as high as the wages the man ~~refused to accept.~~ ^{would receive if he were employed.})

H ^{a certain group of} Because ^{only} people believes that full employment can ~~only~~ be attained ^{accepted} by inflation, inflation is ~~popular~~ in the United States.

But ^{People} are discussing the question: should we have a sound currency with unemployment, or inflation with full employment? ~~This is in fact a matter of~~ ^{This is in fact a very vicious analysis.} ~~_____~~

H To deal with this problem we must raise the question: How can one improve the condition of the workers and of all other groups of the population? ^{Our} The dilemma is, shall the market determine wage rates or shall they be determined by union pressure and compulsion? ^{The dilemma is not} "shall we have inflation or unemployment?"

I do not think this whole para should be deleted. Some of them say "Now look etc"

H ~~This~~ mistaken analysis of the problem is argued in England, in European industrial countries and even in the United States. And some people say: "Now look, even the United States is inflating. Why should we not do it also."

~~an~~ ^{TP} To these people one should answer first of all: "One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man." And this is the situation of the United States. The financial policy of the United States is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries.

I would prefer not to delete this sentence the way you did. It shows my husband's foresight at that time. I have attached hereto my substitute phrasing.

The fundamental argument in favor of inflation is brought forward in the United States, in England, and in other European industrial countries. Some of them say: "Now look, even the United States is inflating. Why should we not do it also?"

Attached
for reference
only

W. K. Ward


 The most important thing to remember is that inflation is not an act of God, that inflation is not a catastrophe of the elements or a disease that comes like the plague. Inflation is a policy.¹ A deliberate policy of people who resort to inflation because they consider ~~inflation as a~~ ^{it to be a} lesser evil than unemployment. But the fact is that, in the not very long run, inflation does not cure unemployment.


 Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one ^{regards} considers inflation as an evil, ^{then one has to stop inflating. One} ~~and I assume that most people~~ ^{look upon it as such} ~~then there is one thing to be done.~~ One has to stop inflating, one has to balance the budget of the government. Of course, public opinion must support this; the intellectuals must help the people to understand. Given the support of public opinion, it is certainly possible for the people's elected representatives to abandon the ~~detrimental~~ policy of inflation.


 We must remember that, in the long run, we may all be dead and certainly will be dead. But we should arrange our earthly affairs, for the short run in which we have to live, in the best possible way. And one of the measures necessary for this purpose is to abandon inflationary policies.
~~inflation.~~

Fifth Lecture
FOREIGN INVESTMENT

Some people call the program of economic freedom a negative program. They say; "What do you liberals really want? You are against socialism, government intervention, inflation, labor union violence, protective tariffs.... You say 'no' to everything."

A I would call this statement a one-sided and shallow formulation of the problem. For it is possible to formulate a liberal program in a positive way. If a man says: "I am against censorship," he is not negative; He is in favor of authors' having the right to determine what they want to publish without the interference of ~~a~~ government ~~employee~~. This is not negativism, this is precisely freedom. (Of course, when I use the term "liberal" with respect to the conditions of the economic system, I mean liberal in the old classical sense of the word.)

A Today, most people ^{regard} ~~consider as unsatisfactory~~ the considerable differences ^{existing} in the standard of living ⁱⁿ many ^{as unsatisfactory.} countries. Two hundred years ago ~~the~~ conditions in Great Britain were much worse than they are today in India. But the British in 1750 did not call themselves "undeveloped" or "backward" because they were not in a position to compare the conditions of their country with ^{those} ~~the conditions~~ of another country in which ^{economic} conditions were more ^{satisfac-} ~~satisfac-~~ tory. ~~very~~ Today all people who have not attained the average standard of living of the United States believe that there

is something wrong with their own economic situation. Many of these countries call themselves ^{"developing"} ~~"undeveloped"~~ countries and, as such, are asking for aid from the so-called developed countries or even ~~over~~^{over}developed countries.

91 Let me explain the reality of this situation. The standard of living is lower in the so-called ^{developing} ~~"underdeveloped"~~ countries because the average ~~wage~~^{earnings} for the same type of labor is lower in those countries than it is in some countries of Western Europe, Canada, Japan, and especially in the United States. If we try to find the reasons for this difference, we must realize that it is ~~absolutely~~ not due to an inferiority of the workers or other employees. There prevails among some groups of North American workers a ^tendency to believe that they themselves are better than other people ¹/_M that it is through their own merit that they are getting higher wages than other people.

97 It would only be necessary for an American worker to visit another country ¹/_M let us say, Italy, from where many ^{American} workers ¹/_M came ¹/_M in order to discover that it is not his personal qualities but the conditions in the country that make it possible for him to earn higher wages. If a man from Sicily ^{to} migrates into the United States, he can very soon earn the wage rates that are customary in the United States. And if the same man returns to Sicily, he will discover that his visit to the United States did not give him qualities which would permit him to earn higher wages in Sicily than

his fellow countrymen.

*Not a long time it
takes these*

¶ Nor can one explain this economic situation by assuming any inferiority on the part of entrepreneurs outside the United States. ~~It is a fact,~~ that outside of the United States, Canada, ~~and~~ Western Europe, ^{and certain parts of Asia} the equipment of the factories and the technological methods employed are, by and large, inferior to those ^{within} of the United States. But this is not due to the ignorance of the entrepreneurs ⁱⁿ of those ^{undeveloped} other countries. They ^{do} know very well that the factories in the United States and Canada are much better equipped. They themselves know everything they must know about technology, and if they ^{do} would not ~~know it~~ they ~~would~~ have the opportunity to ^{what they must know} learn ~~it~~ from text books and ~~free~~ ^{ical} technological magazines which ^{disseminate} ~~that are spreading~~ this knowledge.

¶ Once again: The difference is not personal inferiority or ignorance. The difference is the supply of capital, the quantity of capital goods available. In other words, the amount of capital invested per ^{unit} head of the population is greater in the so-called advanced nations than in the ~~so-called~~ ^{developing nations} ~~undeveloped nations~~.

A businessman cannot pay a worker more than ^{(the amount added by} the work of his employed ~~sets~~ to the value of the product. He cannot pay him more than the customers are prepared to pay for the additional work of this individual worker. If he pays him more, ^{he will} ~~he will~~ not recover his expenditures from the customers. He incurs losses and, as I have pointed out again and again,

and as everybody knows, a businessman who suffers losses must change his methods of business, or ~~he goes~~^{go} bankrupt.

A. The economists describe this state of affairs by saying "wages are determined by the marginal productivity of labor." This is only another expression for what I have just said before. It is ^a the fact that the scale of wages is determined by the ^{amount} ~~addition~~ a man's work ^{increases} ~~gives to~~ the value of the product. If a man works with better and more efficient tools, then he can perform in one hour much more than a man who works one hour with less efficient instruments. It is obvious that ¹⁰⁰ ~~one hundred~~ men working in an American shoe factory, equipped with the ^{most} ~~most~~ modern tools and machines, ^{produce} ~~are producing~~ much more in the ^{length of} same time than ¹⁰⁰ ~~one hundred~~ shoemakers in India, who ^{have to work} ~~are working~~ with old-fashioned tools in a less sophisticated way.

A The employers in all of these ^{developing} ~~so-called underdeveloped~~ nations know very well that better tools would make their own enterprises more profitable. They would like to build more and better factories. The only thing that prevents them from doing ^{it} is the shortage of capital. The difference between the ^{less developed} ~~so-called underdeveloped~~ nations and the ^{more devel-} ~~so-called overdevel-~~ oped nations is a function of time: The British started to save sooner than all other nations; they also started

to accumulate capital and to invest it in business. Because they started sooner, there was a higher standard of living in Great Britain when, in all other European countries,

there was still a lower standard of living. Gradually, all the other nations began to study British conditions, and it was not difficult for them to discover the reason ^{for} Great Britain's wealth. So they began to imitate the methods of British business.

4 Since other nations) ^{since}
~~But as they~~ started later and ~~as~~ the British did not stop investing capital, ^{there remained} a large difference between conditions in England and conditions in ^{those} other countries. ^{But something} ~~would have happened which caused the~~ ~~remained forever.~~ The headstart of Great Britain ~~could not to disappear.~~ ~~have disappeared if something had not happened.~~

What happened was the greatest event in the history of the ^{nineteenth} 19th century, and this means not only in the history of an individual country. This great event was the development, of foreign investment in the ^{nineteenth} 19th century, In 1817, the great British economist Ricardo still took it for granted that capital could be invested only within the borders of a country. He took it for granted that capitalists would not try to invest abroad. But a few decades later, capital investment abroad began to play a most important role in world affairs. 4 Without capital investment, it would have been necessary for ^{nations less developed than} ~~the under-developed nations - underde-~~ ~~veloped in comparison with~~ Great Britain to start with the methods and the technology with which the British had started, in the beginning and middle of the ^{eighteenth} 18th century, and slowly, step by step ^{it} always far below the technological level of British economy ^{it} try to imitate what the British had done.

It would have taken many, many decades ~~before~~ ^{for} these countries ~~could~~ ^{to a} attain the standard of technological development which Great Britain had reached a hundred years or more before them. But the great event that helped all these countries was foreign investment. Foreign investment meant that ~~the~~ British capitalists invested British capital in other parts of the world. They first invested it in those European countries which, from the point of view of Great Britain, were short of capital and backward in their development. It is a well known fact that the railroads of most European countries, and also of the United States, were built with the aid of British capital. You know that the same happened in this country, in Argentina.

tina. But what is not so well known is that railroads in a great part of Europe were built, at first, with the aid of British capital and later with capital from other West European countries.

^{also} The gas companies in all ^{the} cities of Europe were British. In ^{the mid 1870s,} ~~the middle of the seventies of the~~ ^{nineteenth} century, a British author and poet criticized his countrymen. He said: "the British have lost their old ^{vigour} ~~vigor~~ and they have no longer any new ideas. They are no longer an important or leading nation in the world." To which Herbert Spencer, the great sociologist, answered: "Look at the European continent. All European capitals have light because a British gas company provides them with gas" (this ^{in what seems to,} ^{"remote"} ^{lighting} was, of course, ^{us as} the age of gas light, which ~~to us appears as a very remote era.~~ And further answering this British

critic,
 critique, Herbert Spencer added: "You say that the Germans are far ahead of Great Britain. But look at Germany. Even Berlin, the capital of the German Reich, the capital of Geist, ~~geist~~ would be in the dark if a British gas company had not invaded the country and lighted the streets."

A In the same way, British capital developed the railroads and many branches of industry in the United States. And of course as long as a country imports capital, its balance of trade is what the non-economists call "unfavorable".
 That means that ~~they have~~ ^{it has} an excess of imports over exports. The reason for the "favorable balance of trade" of Great Britain, was that the British factories sent many types of equipment to the United States, and this equipment was not paid for by anything other than ^{by} shares of American corporations. This period in the history of the United States lasted, by and large, until the ^{1890s,} ~~nineties of the 19th century.~~

A But when the United States, with the aid of British capital ^A and later with the aid of ^{its} their own pro-capitalistic policies ^A developed its own economic system in an unprecedented way, the Americans began to buy back the capital in stocks they had once sold to foreigners. Then the United States ^{had} had a surplus of exports over imports. The difference was paid by the importation ^A by the repatriation, as one called it ^A of American common stock.

A And this period lasted until the First World War. What happened later is another story. It is the story of the American subsidies for the belligerent countries in, between,

and after two world wars: the loans, the investments the United States made in Europe, in addition to lend-lease, foreign aid, the Marshall plan, food that was sent overseas, and other subsidies. I emphasize this because people sometimes believe that it is shameful or degrading to have foreign capital working in their country. You have to realize that, in all countries except England, foreign capital ^{played a considerable part in} ~~foreign investment had contributed considerably to~~ the development of modern industries.

A If I say that foreign investment was the greatest historical event of the ~~19th~~ ^{nineteenth} century, you must think of all those things that would not have come into being if there had not been any foreign investment. All the railroads, the harbors, the factories and mines in Asia, ^{and} the Suez Canal and many other things in the Western hemisphere, ^{have been constructed} ~~would not exist~~ had there ^{no} ~~not~~ been foreign investment.

A Foreign investment is made in the expectation that it will not be expropriated. Nobody would invest anything if he knew in advance that somebody would expropriate his investments. At the time when these foreign investments were made ^{nineteenth} in the ~~19th~~ century, and ^{at the beginning} ~~in the first decades~~ of the ^{twentieth} ~~20th~~ century, there was no question of expropriation. From the beginning, some countries showed a certain hostility toward foreign capital, but ~~by and large most of them~~ realized very well that they derived an enormous advantage from these foreign investments. *for the most part they*

P'

Cases,

In some ~~countries~~ these foreign investments were not made directly ~~by the~~ ^{to} foreign capitalists, but indirectly by ~~lending~~ ^{loans} ~~the money~~ to the ^{foreign} government. Then it was the government that used the money for investments. Such was, for instance, the case in Russia. For purely political reasons, the French invested in Russia, in the two decades preceding the First World War, about twenty billion gold francs, lending them chiefly to the Russian government. All the great enterprises of the Russian government ^M for instance, the railroad that connects Russia from the Ural mountains, through the ice and snow of Siberia, ^{to} with the Pacific ^M were built mostly with foreign capital lent to the Russian government. You will realize that the French did not assume that, one day, there would be a Russian government that would simply declare it would not pay the debts incurred by its predecessor, the ^{Communist} ~~tsarist~~ government.

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Starting with the First World War, there began a period of worldwide open warfare against foreign investments. Since ~~there is no remedy to prevent a government from expropriating~~ ^{invested} ~~there is no remedy against a government expropriating~~ ~~its~~ ~~capital, there is~~ ~~no~~ ~~practical~~ ~~protection~~ for foreign investments in the world today. The capitalists did not foresee this. If the capitalists of the capital exporting countries had realized it, all foreign investments would have come to an end forty or fifty years ago. But the capitalists ^{did} ~~would~~ not believe that any country ^{would} ~~could~~ be so unethical as to ^{renege} ~~renege~~ on a debt, to expropriate and ~~confiscate~~ foreign capital. With these acts, a new chapter

in the economic history of the world, began)

¶ With the end of the great period in the ^{nineteenth} 19th century when foreign capital helped to develop, in all parts of the world, modern methods of transportation, manufacturing, mining, and agriculture, there came a new era in which the governments and the political parties considered the foreign investor as an exploiter who should be expelled from the country.

In this anti-capitalist attitude the Russians were not the only sinners. Remember, for example, the expropriation of the American oil fields in Mexico, and all the things that have happened in this country (Argentina) which I have no need to discuss.

I would retain this - GK

STET

¶ The situation in the world today, created by the system of expropriation of foreign capital, consists either of direct expropriation or of indirect expropriation ^{(through} foreign exchange control ^{tax} or) discrimination). This ^{is mainly a problem of developing} ~~is mainly the problem of the~~ ~~underdeveloped~~ nations.

¶ Take, for instance, the biggest of these nations; India. Under the British system, British capital was ~~invested in~~ India, ^{predominately} British capital, but also capital of other European countries, ^{was invested in India.} And the British exported to India ^{else,} something which also has to be mentioned in this connection; they exported into India ~~some~~ ~~or even~~ ~~cost of the~~ modern methods of fighting contagious diseases. The result was a tremendous increase in the Indian population ~~more Indians survive today in the first years of their lives~~

and a corresponding increase in ~~thereby increasing~~ the country's troubles. Facing such a worsened situation, India turned to expropriation as a means of ~~acquiring~~ ^{dealing} ~~needed capital~~ ^{with its problems.} But it was not always direct expropriation; the government harassed foreign capitalists, hampering them in their investments in such a way that these foreign investors ~~would~~ ^{were} ~~forced~~ ^{forced} to sell out.

India could of course accumulate capital by another method: the domestic accumulation of capital. However, India is as hostile to the domestic accumulation of capital as it is to ~~the~~ foreign capitalists. The Indian government says it wants to industrialize India, but what it really has in mind is to have socialist enterprises. A few years ago the famous statesman ^{Jawaharlal} ~~the~~ Nehru published a ^{collection of his} ~~book of his collective~~ speeches. The book was published with the intention of making foreign investment in India more attractive. The Indian government is not opposed to foreign investment before it is invested. The hostility begins only when it is already invested. In this book ^{Mr.} I am quoting literally from the book ^{Mr.} Mr. Nehru said: "Of course, we want to socialize. But we are not opposed to private enterprise. We want to encourage in every way private enterprise. We want to promise the entrepreneurs who invest in our country, that we will not expropriate them nor socialize them for ten years, ~~perhaps~~ ^{perhaps} even for a longer time." And he thought this was an invitation to come to India!

The problem ^{is} as you know ^{it} is domestic capital accumulation. In all countries today there are very heavy taxes on corporations. In fact, there is double taxation on corporations. First, the profits of ~~the~~ corporation ^{are} taxed very heavily, and ~~when the~~ corporation ^{the dividends which} pays ~~dividends~~ ^{is} to the shareholders, ~~these dividends~~ are taxed again, ~~to the people who receive them.~~ And this is done in a progressive way.

Progressive taxation of income and profits ^{means} ~~mean this~~ that precisely these parts of ^{the} their income which people would have saved and invested are taxed away. Take the example of the United States. A few years ago, there was an "excess-profit" tax, which meant that out of one dollar earned, a corporation retained only ^{eighteen} ~~18~~ cents. When these ^{eighteen} ~~18~~ cents were paid out to the shareholders, those who had a great number of shares had to pay another ^{sixty or eighty} ~~60 or 80~~ or even greater per cent of it in taxes. Out of the dollar of profit they retained about seven cents, and ninety-three cents went to the government. Of this ^{ninety-three percent,} ~~93%~~ the greater part would have been saved and invested. Instead, the government used it for current expenditure. This is the policy of the United States.

I think I have made it clear that the policy of the United States is not an example to be imitated by other countries. This policy of the United States is worse than bad ^{it} ~~it~~ is insane. The only thing I would add is that a rich country can afford more bad policies than a poor country. In the United States, in spite of all these methods of taxation,

there is still some additional accumulation of capital and investment every year, and therefore there is still a trend toward an improvement *of* the standard of living.

¶ But in many other countries the problem is very critical. There is no ~~domestic saving~~^{it} or not sufficient^{it} domestic saving, and capital investment from abroad is seriously reduced by the fact that these countries are openly hostile to foreign investment. How can ~~a country~~^{they} talk about industrialisation, about the necessity to develop new plants, to improve conditions, to raise the standard of living, to have higher wage rates, better means of transportation, if these countries are doing things that will have precisely the opposite effect? What their policies actually accomplish is to prevent or to slow down the accumulation of domestic capital and to put obstacles in the way of foreign capital. The end result is certainly very bad. Such a situation must bring about a loss of confidence, and there is ^{now} more and more distrust in the world, ~~now~~^{of} against foreign investment. Even if the countries concerned were to change their policies ^{immediately} ~~today~~ and were to make all possible promises, it is very doubtful that they could ^{once more inspire} ~~revive the readiness of~~ foreign capitalists to ~~invest in their country.~~
~~invest in their country.~~

¶ There are, of course, some methods to avoid this consequence. One could ^{establish} ~~make~~ some international statutes, not only agreements, that would withdraw the foreign investments from national jurisdiction. This is something the United Nations

could do. But the United Nations is simply a meeting place for useless discussions. Realizing the enormous importance of foreign investment, realizing that foreign investment alone can bring about an improvement in political and economical world conditions, one could try to do something from the point of view of international legislation.

A This is a technical legal problem, which I only mention, because the situation is not hopeless. If the world really wanted to make it possible for the ^{developing} ~~so-called underdeveloped~~ countries to raise their standard of living to the level of the American way of life, then it could be done. It is only necessary to realize how it could be done.

A What is lacking in order to make the ^{developing} ~~so-called underdeveloped~~ countries as prosperous as the United States is only one thing: Capital and, of course, the freedom to employ it under the discipline of the market and not the discipline of the government. These ^{nations} ~~"underdeveloped"~~ countries must accumulate domestic capital, and they must make it possible for foreign capital to come into ^{their} ~~their~~ country. For the development of domestic saving it is necessary to mention again that domestic saving by the masses of the population presupposes a stable monetary unit. ^{This implies} ~~That means~~ the absence of any kind of inflation.

A A great part of the capital at work in ^{American} ~~United States~~ enterprises is owned by the workers themselves and by other people with modest means. Billions and billions of saving deposits,

of bonds, and of insurance policies are operating in these enterprises. On the American money market today it is no longer the banks, it is the insurance companies that are the greatest money lenders. And the money of the insurance company is ^{not} legally, but economically ^{the} property of the insured. And practically everybody in the United States is insured in one way or another.

A The prerequisite for more economic equality in the world is industrialisation. And this is possible only through ^{increased} more capital investment, ^{increased} more capital accumulation. You may be astonished that I have not mentioned a measure which is considered a prime method to industrialize a country. I mean...protectionism. But tariffs and foreign exchange controls are exactly the means to prevent the importations of capital and industrialisation ^{into} the country. The only ^{way to increase} ~~method for~~ industrialisation is to have more capital. Protectionism can only divert ~~the~~ investments from one branch of business to another branch. Protectionism, in itself, does not add ^{anything} ~~a single cent or a single peso~~ to the capital of a country. To start a new factory one needs capital. To improve an already existing factory one needs capital, and not a tariff. I do not want to discuss the whole problem of free trade or protectionismsm. I hope that most of your textbooks on economics represent it in a proper way. Protection does not change the economic situation in a country, ^{for the better.} And what certainly does not change it for the better is labor unionism. If ~~the~~ conditions are unsatisfactory, if wages

I think this part is necessary to understand the second part of the paragraph !!! Yes

are low, if the wage earner in a country looks to the United States and reads ^{(about} what is ^{going} on there, ~~if he sees in the movies how the home of an average American is equipped with all modern comforts,~~ he may be envious. He is perfectly ^(in saying: right) ~~to say~~ "we ought to have the same thing". But the ^{way} ~~only method~~ to obtain it, ^{through an increase in} is ~~more~~ capital.

Stet

A Labor ^{use} ~~The unions are resorting~~ to violence against ~~the~~ entrepreneurs and ^{against} those people ^{whom} they call strike breakers. ^{Despite their} violence, however, unions cannot raise wages ^{continually} permanently for all those ~~who want~~ wage earners. ^{are} ~~to earn wages.~~ ~~And~~ ^{equally} ineffective ~~is~~ government decrees

fixing minimum wage rates. What the unions do bring about (if they succeed in raising wage rates) is permanent, lasting unemployment. ^{unions} But ~~they~~ cannot industrialize the country, they cannot raise the standard of living of the workers.

And this is the decisive point: One must realize that all the policies of a country ^{that} ~~which~~ wants to improve its standard of living must be directed towards an increase ⁱⁿ of the ~~per~~ capital invested per capita. ^{Capita investment of} ~~per capita quota of capital invested.~~ This ~~per capita quota of~~ capital invested is still increasing in the United States, in spite of all of ^{the} ~~its~~ bad policies. ^{there} And the same is true in Canada and in some of the West European countries. But it is unfortunately decreasing in countries like India.

A We read every day in the newspapers that the population of the world is ^{becoming greater,} ~~increasing~~ every year by perhaps 45 millions ^{people} or even ^{it per year.} more. And how will this end? What will the results and the consequences be? Remember what I said about Great

Britain. In 1750 the British people believed that six million ^{constituted} a tremendous overpopulation of the British Isles and that they were headed for famines and plagues. But on the eve of the last ^{world} war, in 1939, fifty million people were living in the British Isles, and the standard of living was incomparably higher than it ^{had been} was in 1750. This was the effect of what is called industrialization ^{is} a rather inadequate term.

Britain's progress was brought about by increasing the ^{investment} ~~per capita~~ capita quota of capital invested. As I said before... there is only one way ^{a nation can achieve} ~~to a nation's~~ prosperity: If you increase capital, you increase the marginal productivity of labor, and the effect will be that ^{real} wages will rise.

In a world without migration barriers, there would ^{prevail} ~~be~~ be a tendency all over the world toward an equalization of ^{wage} ~~wage~~ rates. If there were no migration barriers today, probably twenty million people would try to reach the United States every year, in order to get higher wages. The inflow would reduce wages in the United States, and ~~the migration would~~ ^{them} raise ~~it~~ in the other countries.

I do not have time to deal with this problem of migration barriers. But I do want to say that there is another method toward the equalization of wage rates all over the world. This other method, which operates in the absence of the freedom to migrate, is the migration of capital. Capitalists have the tendency to move towards those countries in which there is plenty of labor available and in which labor is

reasonable. And by the fact that they bring capital into ~~these~~ ^{these} countries, they bring about a trend toward higher ~~wage~~ ^{wage} rates. This has worked in the past, and it will work in the future, in the same way.

¶ When British capital was first invested in, let us say, Austria or Bolivia, wage rates ~~in these countries~~ ^{there} were much, much lower than they were in Great Britain. But this additional investment brought about a trend toward higher ~~wage~~ ^{wage} rates in those countries. And such a tendency prevailed all over the world. It is a very well-known fact that as soon as, for instance, the United Fruit Company moved into Guatemala, the result was a general tendency toward higher wage rates, beginning with the wages which the Fruit Company paid, ~~and then making~~ ^{which made} it necessary for other employers to pay higher ~~wage rates~~ ^{wages} also.)

Therefore, there is no reason at all to be pessimistic in regard to the future ~~of these countries~~ ^(and other such) of "undeveloped" countries.

~~I do not want to call Argentina an underdeveloped country. You will see from my next and last lecture that, on the contrary, from the point of view of natural resources, most industrial countries of the world ought to be called poor countries compared to a country like Argentina that has such enormous opportunities in agriculture, mining and cattle breeding.~~

~~But nevertheless, some people call the country "underdeveloped" and because of that I want to say, there is no reason to be pessimistic. I fully agree with the ultimate goal of every-~~

~~one, even with the~~ communists and ~~with~~ the labor unions, when they say: "What is needed is to raise the standard of living." A short time ago, in a book published in the United States, a professor said: "We now have enough of everything, why should people in the world still work so hard? We have everything already." I do not doubt that this professor has everything. But there are other people in other countries, ^{many people} also in the United States, who want and should have a better standard of living. Outside of the United States ⁱⁿ in Latin America, and still more in Asia and Africa ^{and} ~~and these really undeveloped countries,~~ everyone wishes to see conditions improved in his own country. A higher standard of living also brings ^{about} a higher standard of culture and civilization.

ultimate goal of raising the standard of living everywhere
 A So I fully agree with the ~~goal~~ ^{goal}. But I disagree ~~with regard~~ ^{about} to the measures to be adopted in ~~order to attain~~ ^{attaining} this goal. What ~~are the~~ measures ~~that~~ will attain this end? Not protection, not government interference, not socialism, and certainly not the violence of the labor unions (euphemistically called collective bargaining and which, in fact, is bargaining at the point of a gun).

as I see it,
 A To attain the end, ~~I mean,~~ there is only one way! It is a slow method. Some people may say, it is too slow. But there are no short cuts to an earthly paradise. It takes time and one has to work. But it does not take as much time as people believe, and finally an equalization will come.

the western part of Germany in Swabia and
 A Around 1840, in ~~Western Germany, in the most developed parts~~

~~of Germany, in Swabia and in Württemberg~~, which was one of the most industrialized areas in the world. ^{it} it was said: "We can never attain the level of the British. The English have a head start and they will forever be ahead of us." Thirty years later the British said; "This German competition, we cannot stand it, we have to do something against it." At that time, of course, the German standard was rapidly rising and was, even then, approaching the British standard. And today the German income per capita is not behind that of Great Britain at all.

^{Switzerland,}
 In the center of Europe, there is a small country, ~~probably smaller than any of the states of Argentina, with a population hardly larger than the population of Buenos Aires.~~ This is Switzerland. ~~This is a country~~ which nature has endowed very poorly. It has no coal mines, no minerals, and no natural resources.

But its ~~population, its~~ people, ^{have continuously pursued} continued over the centuries, a capitalistic policy. They have developed the highest standard of living in continental Europe, and ^{their country ranks} ~~they are considered~~ ^{world's} ~~in the world~~ as one of the great centers of civilization.

I do not see why a country such as Argentina--which is much larger than Switzerland both in population and in size--should not attain the same high standard of living after some years of good policies. But--as I pointed out--the policies must be good.

Sixth Lecture
POLITICS AND IDEAS

In the age of enlightenment, in the years in which the North Americans founded their independence, and a few years later, when the Spanish and Portuguese colonies were transformed into independent nations, the prevailing mood in Western civilization was optimistic. At that time all philosophers and statesmen were fully convinced that we were living at the beginning of a new age of prosperity, progress, and freedom. In those days people expected that the new political institutions ^{in the} and constitutional representative governments established in the free nations of Europe and America ⁱⁿ would work in a very beneficial way, and that ~~year to year~~ economic freedom would ^(continuously) improve the material conditions of mankind.

¶ We know very well that some of these expectations were too optimistic. It is certainly true that we have experienced, ^{nineteenth and twentieth} in the ~~19th and 20th~~ centuries, an unprecedented improvement in economic conditions, making it possible for a much larger population to live at a much higher standard of living. But we also know that many of the hopes of the ^{eighteenth} ~~18th~~ century philosophers have been badly shattered ⁱⁿ hopes that there would not be any more wars and that revolutions would become unnecessary.

These expectations were not realized.

¶ During the ^{nineteenth} ~~19th~~ century there was a period when wars decreased

twentieth

in both number and severity. But the ~~20th~~ century brought a resurgence of the warlike spirit, and we can fairly well say that we may not yet be at the end of the trials through which mankind will have to go. The constitutional system that began at the end of the ~~18th~~ ^{eighteenth} and the beginning of the ~~19th~~ ^{nineteenth} century has disappointed mankind. ~~Dealing with this~~ ^{Most people -- also most authors -- who have dealt with this problem seem} ~~problem most people and also authors, seem~~ to think there ~~has~~ ^{been} no connection between the economic ~~side~~ and the political side of the problem. Thus, they deal ^{in great length} ~~especially~~ with the decay of parliamentarism ⁱⁿ government by the representatives of the people ⁱⁿ as if this phenomenon were completely independent of the economic situation and of the economic ideas that determine the activities of people.

But such an independence does not exist. Man is not a being that, on the one hand, has an economic side and, on the other hand, a political side, with no connection between the two. In fact, what is called the decay of freedom, of constitutional government and representative institutions, is the consequence of the radical change ⁱⁿ of economic and political ideas. The political events are the ^e inevitable consequence of the change in economic policies.

The ideas that guided ^{the} statesmen, philosophers and lawyers who in the ~~18th~~ ^{eighteenth} century and in the early ~~19th~~ ^{nineteenth} century developed the fundamentals of the new political system ~~these~~ ^{within} started from the assumption that, ~~in~~ a nation, all honest citizens have the same ultimate goal. This ultimate goal, to

which all decent men should be dedicated, is the welfare of the whole nation, and also the welfare of other nations ^{these} ~~being~~ ^{moral and political leaders} being fully convinced that a free nation is not interested in conquest. They conceived of party strife as only natural, that it was perfectly normal for ~~them to have~~ ^{there to be} differences of opinion concerning the best way to conduct the affairs of state.

Those people who held similar ideas about a problem cooperated, and this cooperation was called a party. But a party structure was not permanent. It did not depend on the position of the individuals ^{within} ~~in~~ the whole social structure. It could change if people learned that their original position was based on erroneous assumptions, on erroneous ideas. From this point of view, many ^{regarded} ~~considered~~ the discussions in the election campaigns and later in the ^{legislative} ~~parliamentary~~ assemblies as an important political factor. The speeches of members of a ^{legislature} ~~parliament~~ were not ^{morely} ~~considered as pro-~~ ^{to be} ~~pro-~~ nouncements telling the world what a political party wanted. They were ^{regarded as} ~~considered as~~ attempts to convince opposing groups that the speaker's own ideas were more correct, more beneficial to the common weal, than those which they had heard before.

~~Parliamentary~~ and political speeches, editorials in newspapers, pamphlets, and books were written in order to persuade. There was little reason to believe that one could not convince the majority that one's own position was absolutely

correct if one's ideas were sound. It was from this point of view that the constitutional ~~and parliamentary~~ rules were written in the ^{legislative bodies} ~~Parliaments~~ of the early ^{nineteenth} ~~19th~~ century. But this implied that the government would not interfere with the economic conditions of the market. It implied that all citizens had only one political aim: the welfare of the whole country and of the whole nation. And ^{it is precisely this} ~~this is precisely the~~ social and ~~the~~ economic philosophy ^{that} ~~which~~ interventionism has replaced. Interventionism has spawned a very different philosophy.

Under interventionist ideas, it is the duty of the government to support, to subsidize, to give privileges to special groups. The idea of the ^{eighteenth} ~~18th~~ century statesmen was that the ^{legislators} ~~members of parliament~~ had special ideas about the common good. But what we have today, what we see today in the reality of political life, practically without any exceptions, in all the countries of the world where there is not simply communist dictatorship, is a situation where there are no longer real political parties in the old classical sense, ^{merely} ~~but~~ pressure groups.

A pressure group is a group of people who want to attain for themselves a special privilege at the expense of the rest of the nation. This privilege may consist in a tariff ^{on competing imports,} it may consist in a subsidy, it may consist in laws that prevent other people from competing with the members of the pressure group. At any rate, it gives to the members of the pressure group a special position. It gives them

something which is denied or ought to be denied $\frac{1}{M}$ according to the ideas of the pressure group $\frac{1}{M}$ to other groups.

Although the constitutional fundamental laws and institutions remain unchanged - and there are still discussions about political parties that are divided and separated from one another by differences in world views, cultures, religion and philosophy - the reality of life is that there are only pressure groups. These pressure groups determine the results of election campaigns and determine what ~~is done~~ ^{will be done} by governments.

In the United States, the two-party system of the old days is seemingly still preserved. But this is only a camouflage of the real situation. In fact, the political life of the United States $\frac{1}{M}$ as well as the political life of all other countries $\frac{1}{M}$ is determined by the struggle and aspirations of pressure groups. In the United States there is still a Republican Party and a Democratic Party, but in each of these parties there are pressure group representatives. These pressure group representatives are more interested in cooperation with representatives of the same pressure group in the ^{opposing} other party than with the efforts of fellow members in their own party. ~~And in many European countries, the pressure group system has resulted in the proliferation of political parties. France has a great number of them, also, and also in this country (Argentina) there are a great number of political parties. And to give you an example, if you~~

talk to people in the United States who really know the business of Congress, they will tell you: "this man, this member of Congress, represents the interests of the silver groups." Or ^{that another} ~~this~~ man represents the wheat growers. Of course, each of these pressure groups is necessarily a minority.)

In a system based on the division of labor, every special group that aims at privileges has to be ~~necessarily~~ a minority. And minorities never have the chance to attain success, if they do not cooperate with other similar minorities, similar pressure groups. ~~And~~ ^{legislative} in the ~~parliamentary~~ assemblies they try to bring about a coalition between various pressure groups, so that ~~there is a possibility for~~ ^{they might} ~~them~~ to become the majority. But, after a time, this coalition may disintegrate, because there are problems on which it is impossible to reach agreement with other pressure groups, ^{and new pressure group coalitions are formed.} ~~Therefore the cabinet has to be changed again.~~

^{That is what happened} ~~This was the situation~~ in France in 1871, ^{(a situation which} ~~which~~ historians deemed called "the decay of the Third Republic." It was not a decay of the Third Republic; ^{an exemplification of} ~~It was simply~~ the fact that the pressure group system is not a system that can be successfully applied to the government of a big nation. You have, ^{legislatures,} in the ~~Parliaments~~ representatives of wheat, of meat, of silver, and of oil, but first of all of the various unions. Only one thing is not represented in the ^{legislature:} ~~Parliament:~~ the Nation as a whole. There are only a few who ~~would~~ take the

side of the nation as a whole. And all problems, even those of foreign policy, are seen from the point of view of the special pressure group interests.

¶ In the United States, some of the less populated states are interested in the price of silver. But not everybody in these states is interested in it. Nevertheless the United States, for many decades, has spent a considerable sum of money, at the expense of the tax payers, in order to buy silver above its market price. For another example, in the United States ^{only a small proportion} ~~about 15%~~ of the population is ^{employed} working in agriculture; ~~this is a minority. The other 85%~~ ^{the remainder} of the population is made up ^{of} ~~of~~ consumers ^{but not producers} of agricultural products, and ~~not producers.~~ Nevertheless, ^{nevertheless} the United States ^{has} a policy of spending billions and billions in order to keep the prices of agricultural products above ^{the} potential market price.

¶ One cannot say that this is a policy in favor of a ^{small} minority, ~~of 15%~~ because these agricultural interests are not uniform. The dairy farmer is not interested in a high price for cereals; ~~on the contrary,~~ he would prefer a lower price of this product. A chicken farmer wants ^{a lower price for} ~~cheap~~ chicken ^{feed.} ~~feed.~~ There are many incompatible special interests within this group.

¶ ^{And yet,} Nevertheless, clever diplomacy in Congressional politics makes it possible for small minority groups to get privileges at the expense of the majority. ^{One} situation, especially interesting in the United States, concerns sugar. Perhaps only one out of 500 North Americans is interested in a higher

price for sugar. Probably 499 out of 500 want a lower price for sugar. Nevertheless, the policy of the United States is committed, by tariffs and other special measures, to a higher price for sugar. This policy is not only detrimental to the interests of those 499 who are consumers of sugar, it also creates a very severe problem of foreign policy for the United States. The aim of foreign policy is cooperation with all other American republics, some of which are interested in selling sugar to the United States. They would like to sell a greater quantity of it. This illustrates how pressure group interests may determine even the foreign policy of a nation.

A

For years, people throughout the world have been writing about democracy ⁱⁿ about popular, representative government. They have been complaining about its inadequacies, but the democracy they ~~write about~~ ^{criticize} is only that democracy under which interventionism is the governing policy of the country.

Today one might hear people say: "In the early nineteenth century, in the legislatures of France, England, the United States, and other nations, there were speeches about the great problems of mankind. They fought against tyranny, for freedom, for cooperation with all other free nations. But ~~this was empty talk. today~~ ^{now} we are more practical in the legislature!"

Of course we are more practical; people ~~are not talking~~ ^{today do not talk} about freedom: they ~~are talking~~ ^{talk} about a higher price for peanuts. If this is practical, then of course the legislatures

~~ments~~ have changed considerably, but not improved.

A These political changes, brought about by interventionism, have considerably weakened the power of nations and of representatives to resist the aspirations of dictators and the operations of tyrants. The ^{legislative} ~~parliamentary~~ representatives whose only concern is to satisfy the voters who want, for instance, a high price for sugar, milk, and butter, and a low price for wheat (subsidized by the government) can represent the people only in a very weak way; they can never represent all their constituents.

A The voters who are in favor of such privileges, do not realize that there are also opponents who want the opposite thing and who prevent their representatives from achieving full success.

A This system leads also to a constant increase of public expenditures, on the one hand, and, ~~on the other hand,~~ makes it more difficult, ^{(on the other,} to levy taxes. These pressure group representatives want many special privileges for their pressure groups, but, ~~on the other hand,~~ they do not want to burden their supporters with a too-heavy tax load.

A It was not the idea of the eighteenth century founders of modern constitutional government that legislators should represent not the whole nation but only the special interests of the district in which he was elected; that was one of the consequences of interventionism. The original idea was that every member of the legislature should repre-

~~18th century founders of modern constitutional government.~~
~~Their idea was that every member of Parliament should repre-~~
 sent the whole nation. He was elected in a special district
 only because there he ^{was} known and elected by people who ^{had} ~~have~~
 confidence in him. But it was ^{not intended} ~~not their idea~~ that he ~~should~~
 go into ^{government} ~~Parliament~~ in order to ^{procure} ~~ask~~ something special for his
 constituency, that he ask for a new school or a new hospital
 or a new lunatic asylum ^{thereby} ~~for his district~~ causing ^a ~~considerable~~ ^{ruin} ~~in~~
^{government} ~~ably more~~ expenditures within his district. Pressure group poli-
 tics explains why it is almost impossible, for all governments,
 to stop inflation. As soon as the elected officials ^{try} ~~want~~
 to restrict expenditures, to limit spending, those who support
 special interests, who derive advantages from special items in
 the budget, come and declare that this particular project
 cannot be undertaken, or that that one must be done.

A

Dictatorship, of course, is no solution to the problems of
 economics, just as it is not the answer to the problems of
 freedom. A dictator may start out by making promises of every
 sort but, being a dictator, he will not keep his promises. He
 will, instead, suppress free speech immediately, so that the
 newspapers and the legislative speech-makers will
 not be able to point out--days, months or years afterwards--that
 he said something different on the first day of his dictatorship
 than he did later on.

A

The terrible dictatorship which such a big country as Germany
 had to live through in the recent past comes to mind, as we
 look upon the decline of freedom in so many countries today.

A

As a result, people speak now about the decay of freedom and about the decline of our civilization.

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People say that every civilization ~~necessarily~~ must finally fall into ruin and disintegrate. ~~disintegrate and be destroyed.~~ There are eminent ~~harbingers~~ ^{supporters} of this idea. One was a German teacher, Spengler, and another one, much better known, was the English historian Toynbee. They tell us that our civilization is now old. Spengler compared civilization to plants which grow and grow, but ~~finally the life of the plant~~ ^{whose life finally} comes to an end. The same, he says, is true for civilizations. The metaphorical ~~compar-~~ ^{likening} ~~ison~~ ^{To} of a civilization with a plant is completely arbitrary.

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within the history of mankind First of all, it is very difficult to distinguish ~~within the~~ ^{between} ~~history of mankind~~ different, independent civilizations. Civilizations are ~~they were not independent, from one another,~~ ^{(they are interdependent, they constantly influence each other,} ~~one another and~~ one cannot speak of the decline of a ~~definite~~ ^{particular} civilization, ~~in the sense in which~~ ^{therefore,} ~~of a man or the death of a woman.~~ ^{same way that} ~~of a~~ ^{particular plant.}

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But if you refute ~~these~~ ^{even} doctrines of Spengler and Toynbee, there still remains: a very popular comparison ~~the compar-~~ ^{of decaying} ~~ison with the decay of ancient civilizations.~~ It is certainly true that in the second century A.D., the Roman Empire nurtured a very flourishing civilization, that in those parts of Europe, Asia, and Africa in which the Roman Empire ruled, there was a very high civilization. There was also a very high economic civilization, based on a certain degree of division of labor. Although it appears quite primitive when

compared with our conditions today, it certainly was remarkable. It reached the highest degree of the division of labor ever attained before modern capitalism. It is no less true that this civilization disintegrated, especially in the third century. This disintegration ^{(within} ~~in~~ the Roman Empire made it impossible for the Romans to resist ^g aggression from ^{without.} ~~abroad.~~ Although the ^{aggression} ~~aggression~~ was ^{no} ~~not~~ worse than that which the Romans had ^{resisted} ~~defeated~~ again and again in the preceding centuries, they could ^{withstand} ~~defeat~~ it no longer after what ^{had taken place} ~~happened~~ within the Roman Empire.

FF ^{had taken place?} What ~~happened?~~ ^{(that caused the disintegration} What was the problem? What was it ~~that dis-~~ ^{tion of} ~~integrated~~ an empire ^{which,} that in every regard, had attained the highest civilization ever achieved before the eighteenth century? The truth is that what ^{destroyed} ~~finished~~ this ancient civilization was something ~~which is~~ similar, almost identical to the dangers that ^{threaten} ~~are threatening~~ our civilization today:

On the one hand it was interventionism, and on the other hand inflation. The interventionism of the Roman Empire consisted in the fact that the Roman Empire, following the preceding Greek policy, did not abstain from price control. This price control was mild, practically without any consequences, because for centuries it did not try to reduce prices below the market level.

A But when they ^{began} ~~started~~ inflation in the third century, the poor Romans did not yet have our technical means for inflation. ¹/_M they could not print money. They had to debase the

Coinage
~~currency~~, and this was a much inferior system of inflation compared to the ~~ease with which~~ ^{present system, which is through the use of} the modern printing press ^{so easily} ~~can~~ destroy the value of money. But it was efficient enough, and it brought about the same result as price control. For the prices which the authorities tolerated were now below the potential price to which inflation had brought the prices of the various commodities.

H The result, was of course, that the supply of food ⁱⁿ stuffs in the cities declined. The people ~~from~~ the cities were forced to go back to the country and to return to agricultural life. The Romans never realized what was ^{happening} ~~really going on~~. They did not understand it. They had not developed the mental tools to interpret the problems of the division of labor and the consequences of inflation upon market prices. That this currency inflation, currency debasement, was bad, this they knew of course very well.

Why omit?
 A Consequently, the emperors made laws against this movement. There were laws ^{preventing} ~~against~~ the city dweller ^{from moving} ~~who wanted to move~~ to the country, but such laws were ineffective. ^{people} As the ^{city} dweller did not have anything to eat in the city, ^{they were} as he was starving, no law could ^{keep them} ~~prevent him~~ from leaving the city and going back into agriculture. ^{The city dweller} But on the other hand, ~~he~~ could no longer work in the processing industries ^{of} the cities as an artisan. ^{And, with the loss of the markets} The whole population, ^{no one} having ^{lost the markets} ~~the markets~~ in the cities, ^{there anymore.} ~~could no longer buy anything in the cities.~~

Stet

Q Thus we see that, from the third century on, the cities ~~of~~

of the Roman Empire were declining and that the division of labor became less intensive than it ^{had been} ~~was~~ before. Finally, the medieval system of the self-sufficient household, of the "villa", as it was called in later laws, emerged.

Therefore, if people compare our conditions with those of the Roman Empire and say: "We will go the same way," they have some reasons for saying so. They can find some facts which are similar. But there are also enormous differences. These differences are not in the political structure which prevailed in the second part of the third century. Then, on the average of every three years, an emperor was assassinated, and the man who killed him, or ~~was~~ had caused his death became his successor. After three years, on the average, the same happened to ^{the new emperor.} him. When Diocletian, in the year 284, became ~~the~~ Emperor, he tried for some time to oppose the decay, but without ~~any~~ success.

There are enormous differences between ^{present-day} ~~the Roman~~ conditions ^{(and those} that prevailed in Rome, in that ^{caused the disintegration of} ~~and our conditions, since~~ the measures that disintegrated the Roman Empire were not premeditated. ~~I would say,~~ ^{(I would say,} ~~they~~ ^{(reprehensible} were not the result of ~~bad~~ formalized doctrines.

In contrast, however, the interventionist ideas, the socialist ideas, the inflationist ideas of our time, have been concocted and formalized by writers and professors. And they are taught at colleges and universities. You may say: "Today's situation ~~this~~ is much worse". I will answer: "No, it is not worse."

It is better, in my opinion, because ideas can be defeated by other ideas. Nobody doubted, in the age of the Roman Emperors, that the government had the right and that it was a good policy to determine maximum prices. Nobody disputed this.

A But now that we have schools and professors and books that recommend this, we know very well that ^{this} ~~it~~ is a problem for discussion. All these bad ideas from which we suffer today, which have made our policies so harmful, were developed by academic theorists.

A A famous Spanish author spoke about "the revolt of the masses." We have to be very cautious in using this term, because this revolt was not made by the masses: it was made by the intellectuals. And those intellectuals who developed these doctrines were not men from the masses. The Marxian doctrine pretends that it is only the proletarians that have the good ideas and that only the proletarian mind created socialism. All the Socialist authors, without any exception, were bourgeois in the sense in which the socialists use this term. Karl Marx was not a man from the proletariat. He was the son of a lawyer. He did not ^{have to} work to go to the university. He studied at the university in the same way as do the sons of well-to-do people today. Later, ^{and for the rest of} ~~through all~~ his life, he was supported by his friend Friederich Engels, ^{being a manufacturer} who ^{was} the worst type of "bourgeois," according to ~~the~~ socialist ideas, ~~being himself a manufacturer~~. In the language of Marxism,

H he was an exploiter. Everything that happens in the social world in our time is the result of ideas. Good things and bad things. What is needed is to fight bad ideas. We must fight all that we dislike in public life. We must substitute better ideas for wrong ideas. We must refute the doctrines that promote union violence. We must oppose the confiscation of property, the control of prices, inflation, and all those evils from which we suffer.

H Ideas and only ideas can light the darkness. These ideas must be brought to the public in such a way that they persuade people. We must convince them that these ideas are the right ideas and not the wrong ones. The great age of the ^{nineteenth} ~~19th~~ century, the great achievements of capitalism, were the result of the ideas of the classical economists, of Adam Smith and David Ricardo, of Bastiat and others.

H What we need is nothing else than to substitute better ideas for bad ideas. This, I hope and am confident, will be done ^{the rising generation.} by ~~the rising generation.~~ Our civilization is not doomed, as Spengler and Toynbee tell us. Our civilization will not be conquered by the spirit of Moscow. Our civilization will and must survive. And it will survive through better ideas ^{better} than those ^{which now govern} ~~now ruling~~ most of the world today, and these ~~ideas~~

H ideas will be developed by the rising generation. I consider it as a very good sign that, while fifty years ago, practically nobody in the world had the courage to say ^{any} ~~some~~ thing in favor of a free economy, we have now, at least in

as, for example, the

some of the ~~most~~ advanced countries of the world, institutions that are centers for the propagation of a free economy, such a "Centre" in ^{your} ~~this~~ country ^{which} invited me to come to Buenos Aires, to say a few words in this great city, ~~the biggest city, I think, in Latin America.~~ ^{not say much} I could ~~only say~~ a few ~~words~~ about these important matters. Six lectures may be very much for an audience, but they are not enough to develop the whole philosophy of a free economic system, and certainly not enough to refute all ^{the} nonsense that has been written in the last fifty years about ~~all of these~~ ^{the} economic problems with which we are dealing.

~~I am fully convinced that this Centre will develop more and more, that it will grow and that it will not only become the most powerful mental and intellectual force in this country, but that it will have the opportunity to cooperate with similar institutions in all civilized countries of the world.~~

I am very grateful to this Centre for giving me the opportunity to address such a distinguished audience, and I hope that in a few years the number of those who are supporting ideas for freedom in this country, and in other countries, will increase considerably. I myself ~~am~~ have full confidence in the future of freedom, both political and economic.