

# The Free Market versus the Interventionist State

BY RICHARD M. EBELING



During the first half of 1926, Austrian economist Ludwig von Mises visited the United States on a three-month lecture tour. After his return to his native Austria, he delivered a talk on “Changes in American Economic Policy” at a meeting of the Vienna Industrial Club. He explained:

The United States has become great and rich under the power of an economic system that has set no limits on the free pursuit of the individual, and has thereby made room for the development of the country’s productive power. America’s unprecedented economic prosperity is not the result of the richness of the American land, but rather of the economic policy that understood how best to take advantage of the opportunities that the land offers. American economic policy has always rejected—and still rejects today—any protection for inferiority and uncompetitiveness over efficiency and competitiveness. The success of this policy has been so great that one would believe the Americans would never change it.

But Mises went on to tell his Viennese audience that new voices were being heard in America, voices that claimed it was necessary and desirable to bring private enterprise under government control and for the state to more directly concern itself with the redistribution of wealth. A strong movement had arisen in the United States among academics and intellectuals, in the media and in the political arena, to push the country in this direction.

Indeed, in the America of 1926, Mises observed, “Both political parties, the Republicans as well as the Demo-

crats, are ready to take radical steps in this direction, in order to retain the votes of the electorate.” He concluded that “the results from such a policy will be no different in America than from those ‘achieved’ in Europe.”

In many parts of Europe the trend toward collectivism in the 1930s and 1940s took the extreme forms of communism, fascism, and Nazism. They represented total rejection of a free economy and individual liberty. In America the collectivist trend never went to such extremes, though Franklin D. Roosevelt’s first New

Deal came very close to the fascist model. (See my column “When the Supreme Court Stopped Economic Fascism in America,” *The Freeman*, October 2005.)

Today communism, fascism, and Nazism are all dead in their twentieth-century forms. They failed miserably, bringing nothing but death and destruction. But while many claim—on both the political left and the right—that in their place capitalism has

triumphed, what prevails around the world is far from what classical-liberal economists like Mises considered a free-market economy.

The following eight points, I suggest, define a genuine free-market economy:

1. All means of production are privately owned.
2. The use of these means of production is under the control of private owners who may be individuals or corporate entities.
3. Consumer demand determines how the means of production will be used.
4. Competitive forces of supply and demand determine the prices for consumer goods and the various factors of production, including labor.

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5. The success or failure of individual and corporate enterprises is determined by the profits or losses these enterprises earn, based on their greater or lesser ability to satisfy consumer demand in competition with their rivals in the marketplace.

6. The market is not confined to domestic transactions and includes freedom of trade and the free movement of people internationally.

7. The monetary system is based on a market-determined commodity (for example, gold or silver), and the banking system is private and competitive, neither controlled nor regulated by government.

8. Government is limited in its activities to the protection of life, liberty, and property.

By this definition neither the United States nor any other country in the world is currently a free-market society. Then what type of economic system do we have? Mises also explained this in his 1929 collection of essays, *Critique of Interventionism*:

Nearly all writers on economic policy and nearly all statesmen and party leaders are seeking an ideal system which, in their belief, is neither capitalistic nor socialistic, is based neither on [unrestricted] private property in the means of production nor on public property. They are searching for a system of private property that is hampered, regulated, and directed through government intervention and other social forces, such as labor unions. We call such an economic policy *interventionism*, the system itself the *hampered market order*.

### An Interventionist Economy

Here are seven points that define an interventionist economy:

1. The private ownership of the means of production is restricted or abridged by the political authority.

2. The use of the means of production by private owners is subject to government prohibition or regulation.

3. The users of the means of production are prevented from being guided solely by consumer demand.

4. Government influences or controls the formation

of prices for consumer goods and/or the factors of production, including labor. Government reduces the impact of supply and demand on the success or failure of various enterprises while increasing its own influence and control over market incomes through such artificial means as pricing and production regulations, limits on freedom of entry into markets, direct and indirect subsidies, and redistribution of wealth.

5. Free entry into the domestic market by potential foreign rivals is discouraged or prevented through import prohibitions, tariffs, or quotas. Freedom of movement is prohibited or abridged.

6. The monetary system is regulated by government for the purpose of influencing what is used as money, the value of money, and the rate at which the quantity of money is increased or decreased. All of these are used as tools for affecting employment, output, and growth in the economy.

7. Government's role is not limited to the protection of life, liberty, and property.

It is important to note that the interventionist system represented by these seven points can only be implemented through violent means. Only the threat or the use of force can

make people follow courses of action that differ from the ones that they would have taken if not for government intervention. Thus while intervention is usually discussed under the heading "public policy," there is nothing "public" about them. They are *coercive* policies carried out by politicians and bureaucrats.

Contrast these policies with the free market, or unhampered economy, as we defined it. What is most striking is the voluntary nature of truly market-based social arrangements. Violence or its threat is reduced to a minimum, and the individual is left at liberty to live his own life and improve his circumstances through free association with others.

We need to share with our fellow citizens a clear and persuasive vision of the free society and the free-market economy. If we succeed, the era of the interventionist state can be replaced with a new epoch of human liberty.

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