



## THE MISESIAN PARADOX: INTERVENTIONISM IS NOT SUSTAINABLE

*The Austrian economist [Ludwig von Mises](#) (1881-1973) developed the theory of "interventionism" during the 1920s to describe the hybrid economic system which had emerged after World War 1 which was neither fully free nor fully centrally planned (as the Soviet Union was attempting to do). In a book written during World War 2, [Interventionism: An Economic Analysis \(1940\)](#), he gathered his thoughts together in a more coherent work. His claim was that an economy based upon interventionism was not stable in the long run since each act of intervention in the economy caused problems which could only be solved either by the repeal of that act of intervention and a return to a fully free economy, or further acts of intervention which would ultimately lead to fully-fledged socialism. Sanford Ikeda, professor of economics at Purchase College SUNY, returns to the original problem posed by Mises in 1940 to examine it in the light of the work done in Austrian economic theory since then. He is joined in the discussion by Christopher Coyne, associate professor of economics at George Mason University, Robert Higgs, Senior Fellow in Political Economy at the Independent Institute, and Jeremy Shearmur, Emeritus Fellow in the School of Philosophy, Australian National University.*

### THE MISESIAN PARADOX: INTERVENTIONISM IS NOT SUSTAINABLE

by Sanford Ikeda

There is a paradox in Ludwig von Mises's critique of interventionism. According to Mises,

it may be said that limited intervention is illogical and unsuitable, that the economic system that works through such interventions is unworkable and unsuitable, and that it contradicts economic logic.[\[1\]](#)

The middle system of property that is hampered, guided, and regulated by government is in itself contradictory and illogical. Any attempt to introduce it in earnest must lead to a crisis from which either socialism or capitalism alone can emerge.[\[2\]](#)

From this he concludes:

[Yet the age of interventionism is reaching its end.](#)

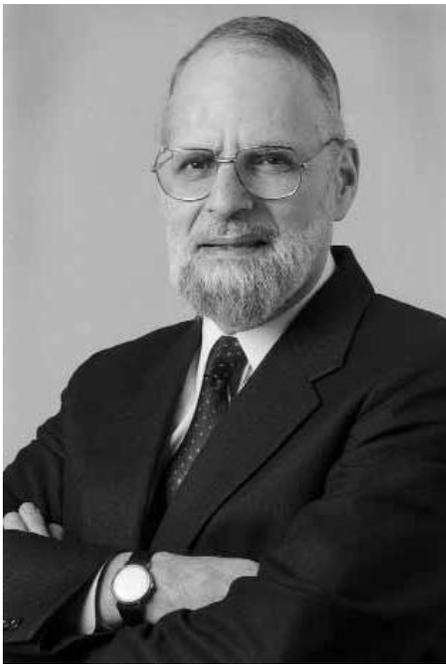
Interventionism has exhausted all its potentialities and must disappear.[\[3\]](#)

Almost 70 years later, however, the age of interventionism seems far from over. So while it would be hard to argue that Mises got the timing right, on the issue of the inevitable collapse of interventionism, there are strong arguments in Mises's favor.



*Ludwig von Mises*

Yet how, if interventionism is “contradictory and illogical” and “unworkable and unsuitable” and “contradicts economic logic,” has it apparently endured around the world for so long? I have termed this the “Misesian Paradox.”<sup>[4]</sup> Resolving that paradox means explaining why a sustainable or “tolerable” level of intervention, either in theory or practice, is impossible. I would like to offer an outline of such an explanation here, one that I updated and revised in 1997. It was necessary to do so to answer important questions the Misesian critique raised but left open, especially regarding the Misesian Paradox, and in so doing I drew especially from the work of F.A. Hayek and Israel Kirzner.



*Israel Kirzner*

### **But First, Some Clarifications**

The demise of a country – whether or not it retains its territorial boundaries or its government – is different from the demise of a system. My argument pertains to a set of policies based on the doctrine of interventionism, not to countries, so that the sustainability of a country’s borders or its basic governance structure does not weigh against the unsustainability of the system that operates within it. Of course, a war that results directly from economically interventionist policies may indeed significantly change how a country looks on a map.

I’m also putting aside until later what I consider to be Public Choice explanations of government failure, not because Mises and modern Austrian political economy (APE) eschew them but because I want to focus first on the singular aspects of APE.

For present purposes I will define “sustainable in theory” as internally consistent, coherent, and free from logical contradictions; and “sustainable in practice” as able to avoid a large-scale systemic crisis that results in radical policy and ideological changes. (As Mises implies, the two are closely related.) So an interventionist mixed economy that continually encounters systemic crises and major policy shifts, yet whose governance structure remains mainly intact, is not considered sustainable in practice.

To defend Mises’s critique of interventionism, and to appreciate the continuing explanatory power of the singular aspects of that critique, I’ll first flesh out some particulars of the “dynamics of interventionism.” The value of Mises’s legacy here hinges on the correctness of those dynamics.

### **Interventionist Dynamics**

Elsewhere,<sup>[5]</sup> and in much greater detail than I can provide here, I have identified two kinds of interventionist dynamics that operate in the mixed economy: Regulatory Dynamics (RD) and Transfer Dynamics (TD). To varying degrees both RD and TD are steered by ideology as well as influence ideology.

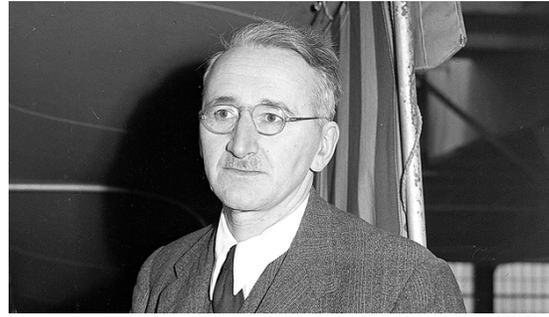
RD flow from interventions that primarily target relative prices and costs of production and consumption – e.g., controls on prices, quantity, and quality; health and safety regulations; and the New Paternalism – as is typical of regulatory-state capitalism. (Of course, there is always a redistributive aspect to such regulations, but the primary impact here is on prices, etc.) As Mises describes in his analysis of price ceilings, an intervention generates consequences at odds with the intent of public choosers, who then respond with further intervention, and so on.

Mises does not fully explain why failed interventions provoke rational public choosers, despite their frustrated intentions and the negative unintended consequences, to

expand rather than retrench interventions. Israel Kirzner's concept of "sheer ignorance" can offer part of the answer: in a dynamic system the consequences of each intervention are hard to see and to tie directly to the interventions that cause it. F.A. Hayek's explanation of how freely adjusting relative prices enable people to utilize local knowledge and to minimize the "knowledge problem" may provide the other part: each intervention cumulatively distorts the knowledge-conveying and plan-coordinating capabilities of the price system, compounding the sheer ignorance that public choosers must cope with. Eventually, planning among both private individuals and public choosers becomes too cumbersome to maintain the level of complex, dynamic coordination needed to sustain a progressive economy. The system breaks down. Systemic breakdown, however, might be what's needed to make public choosers aware that the source of the systemic problems is the interventionist doctrine and practice of piecemeal planning itself. Such a realization can then foster a radical doctrinal/policy shift either toward freer markets or toward collectivism.

The redistributive policies under pure welfare-state capitalism generate a slightly different form of interventionist dynamics.

TD result from welfare-state policies that primarily target income distribution and wealth. Indeed, Mises argues that the "[essence of the interventionist policy is to take from one group and to give to another.](#)"<sup>[6]</sup> But all interventions also impinge on relative prices, and under pure, welfare-state capitalism those prices and values relate mainly to the trade-off between work and leisure. Pure transfer dynamics – e.g., income taxes, welfare subsidies, nationalized health care – tend to have less of an impact on the structure of relative prices than RD under a regime of pure regulatory-state capitalism. That in turn means that transfer dynamics exacerbate Kirznerian sheer ignorance and the Hayekian knowledge problem to a lesser degree.



*Friedrich von Hayek*

### **Welfare State More Sustainable**

I include monetary policy as part of regulatory dynamics (although it too of course has its redistributive aspect) because changes in the purchasing power of money eventually influence all relative prices, and I believe this relative-price effect is even more disruptive to the market process than its inflationary effect. It's possible then to rank the various categories of intervention in terms of their disruptive consequences as follows:

1. Monetary policy
2. Price controls
3. Redistribution

(Nonprice regulation and fiscal policy lie somewhere between 2 and 3.)

One pattern prediction then is that the closer a system comes to pure welfare-state capitalism, in which transfer dynamics predominate, the more sustainable it will be than systems characterized mainly by RD. A recent commentary on Denmark perhaps provides an example. Will Wilkinson writes:<sup>[7]</sup>

[Denmark shows us](#) that a much larger public sector and a much more robust social-insurance system need not come at the expense of a dynamic market economy. In other words, Denmark shows us that capitalism and a large welfare state are perfectly compatible and possibly complementary.

While I would obviously disagree with the implication that Danish interventionism is permanently sustainable, the relation Wilkinson describes is worth further

investigation; and it is, as I suggest, consistent with my pattern prediction. Other examples of systemic crises that arise largely from interventionism may be the former Soviet Union in the 1980s, the People's Republic of China in the 1970s, the United Kingdom just before Thatcher in the 1970s, New Zealand in the early 1980s, South Korea in the late 1990s, Sweden in the 1990s and 2010s, and the United States in 1930 and in 2008. Of course in some cases political instability also played a role.

### Reasons for Unsustainability

First, the doctrine of interventionism is theoretically incoherent and, as Mises argues, it contradicts economic logic.

Regarding incoherence: There is no theory of the mixed economy. The best mainstream microeconomics can do in a systematic way is to posit the inefficiency of chronic imperfections – e.g., market power, information asymmetry, externalities, public goods, behavioral proclivities – without investigating their consequences for the system as a whole or asking whether interventions can interact consistently with one another over time. (The “theory of the second best” may do so in a very limited, static way.) And traditional macroeconomics, although it takes a systemic approach to identifying and trying to fix economic problems, largely ignores how fiscal and monetary policy actually align with the incentives of the people they try to manipulate and with the networks and chains of plan coordination – of which the capital structure of the economy is a significant part – at the micro-level. In short, “Interventionism is an unworkable and incoherent system because in the strict sense of the word it is not a system at all. Strictly speaking there can be no such thing as a theory of the mixed economy – only a theory of why it systematically fails.”<sup>[8]</sup>

In contrast, an economic theory of the market does try to explain how voluntary exchange among countless people – within a framework of private property, norms of fair dealing, and enforcement mechanisms – results in prices and competitive price adjustments that tend to coordinate individual plans across the economy. I believe a theory of socialism can also do so with its main

operating principle of central planning, even though I also believe the theory is unrealistic. But the economics of interventionism and “market failure” offers no coherent view, no principled way to explain how competitive spontaneity and the constraints of government planning are supposed to harmoniously interact systemwide over time.

Regarding economic logic: Interventionist means, as a rule, conflict with the ends sought or with other interventionist means. Significant increases in the minimum wage clash with interventions intended to raise the prospects of the least-skilled and least well-off; land-use regulation (e.g., maximum-density restrictions) intended to promote more livable conditions in cities disproportionately increase the cost of living of the low-income families that other interventions (e.g., housing subsidies) aim to help; monetary and fiscal policy often exacerbate or even initiate the booms and busts (which strain state-subsidized unemployment benefits) they are intended to eliminate. Again, there is no “theory of interventionism” to tell us how piecemeal interventions can or even should work together or avoid generating negative unintended consequences.

Second, interventionism is unsustainable in practice because it results in the kind of cumulative interventions – the “dynamics of intervention” – that Mises describes. The knowledge problem, exacerbated by distortions in relative prices, blind even well-meaning public choosers to the sources of the economic and social problems that accompany policy failures and disruptions. In the absence of a coherent interventionist framework or an understanding of basic economic logic, ideology and political expediency tends to guide their decisions. Although some interventions may sometimes achieve their goals, especially if their costs are not considered (e.g., Social Security), but the “broken-clock” principle is hardly a sound basis for public policy.

As Mises and APE generally argue, these cumulative interventions lead to systemic crises and, if we apply the concept to the subsystems, also to micro-crises in particular regions (e.g., California, Arizona, Texas, and Florida in the housing collapse) and in particular



a Great Stagnation, in which the forces of bloated and pernicious government have finally overcome the efficiency and innovativeness of the market. Is that a sufficient explanation of the Misesian Paradox? Do the TD of APE add anything important to such an explanation? (Perhaps see the “eight pattern predictions” I refer to earlier.)

- Is the pattern prediction presented here, on the relative sustainability of pure welfare-state capitalism, validly derived and is it, as well as any of the seven others offered elsewhere, [12] worth investigating?

### Endnotes

[1.] Ludwig von Mises, *A Critique of Interventionism*, trans Hans Sennholz. (New Rochelle, NY: Arlington House, 1977 [1929].) Page 8 of Ludwig von Mises, *A Critique of Interventionism*, trans. Hans F. Sennholz (Auburn, AL.: Ludwig von Mises Institute, 2011).

[2.] Ibid., p. 18.

[3.] Ludwig von Mises, *Human Action: A Treatise on Economics*, 3d ed. (Chicago: Regnery, 1966 [1949]). Online version: Ludwig von Mises, *Human Action: A Treatise on Economics, in 4 vols.*, ed. Bettina Bien Greaves (Indianapolis: Liberty Fund, 2007). <</titles/1892>>.

[4.] Sanford Ikeda, *Dynamics of the Mixed Economy: Toward a Theory of Interventionism* (New York: Routledge, (1997).

[5.] Sanford Ikeda, “Dynamics of Interventionism” in *Advances in Austrian Economics* 8 (2005), pp. 21-57; Sanford Ikeda, *Dynamics of the Mixed Economy*; Ludwig von Mises, *A Critique of Interventionism*.

[6.] Mises, *Human Action*, p. 855.

[7.] Will Wilkinson, “Double-Edged Denmark” Niskanen Center, October 15, 2015 <<https://niskanencenter.org/blog/double-edged-denmark/>>.

[8.] Ikeda, “Dynamics of Intervention.”

[9.] Boettke, Peter J. (2011). “Why The Great Stagnation Thesis is the Most Subversive Libertarian Argument of

Our Age.” *The Coordination Problem blog*, <<http://www.coordinationproblem.org/2011/07/why-the-great-stagnation-thesis-is-the-most-subversive-libertarian-argument-of-our-age.html>>.

[10.] Ibid., 2011.

[11.] Tyler Cowen, *The Great Stagnation* (New York: Dutton, 2011).

[12.] For other pattern predictions see Ikeda, *Dynamics of the Mixed Economy*, “Dynamics of Interventionism,” or “Dynamics of Interventionism” in Peter J. Boettke and Christopher J. Coyne, eds. *The Oxford Handbook of Austrian Economics* (Oxford: Oxford University Press, 2015).

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## SOME THOUGHTS ON INTERVENTIONISM

by Christopher J. Coyne

In his lead essay, Sandy Ikeda discusses what he calls the “Misesian Paradox.” This paradox refers to the prevalence of interventionism despite Mises’s claim that it is contradictory and unsustainable. In addition, Sandy makes the distinction between “Regulatory Dynamics” and “Transfer Dynamics” and discusses some implications and pattern predictions related to these concepts. In what follows, I would like to focus three points which I hope will lead to further discussion.

The first two issues deal with the relationship and implications of Sandy’s distinction between Regulatory Dynamics and Transfer Dynamics. I understand the purpose of this distinction and don’t disagree with it conceptually. That said, I am not sure the implications of the distinction are as clear as he suggests. He writes, “TD [Transfer Dynamics] exacerbate Kirznerian sheer ignorance and the Hayekian knowledge problem to a lesser degree [than Regulatory Dynamics].” How do we know this to be true? Sandy’s logic is that Regulatory Dynamics distort relative prices to a greater degree than Transfer Dynamics, but it all depends on the scale and scope of the two types of interventions. One could

imagine a scenario where the perverse impact of a regulatory intervention is potentially small compared to a transfer intervention. Adding another minor step to the business licensing process, an example of a regulatory intervention, may very well be less damaging to the operation of the market process than significantly taxing wealth created through productive entrepreneurship. The broader point is that there is nothing that allows us to make a general *ex ante* claim about the relative magnitude of these two types of interventions without more clarity regarding the specifics of the scale and scope of regulations and transfers.

The same issue applies to Ikeda's ranking of the disruptive consequences of various types of interventions. He writes,

It's possible then to rank the various categories of intervention in terms of their disruptive consequences as follows:

1. Monetary policy
2. Price controls
3. Redistribution

(Nonprice regulation and fiscal policy lie somewhere between 2 and 3.)

However, consider a hypothetical situation where there is a fixed monetary rule that is both predictable and credible. Is this regulatory intervention more or less distortionary than an environment characterized by significant regime uncertainty where private actors suffer from the threat of unpredictable and large-scale transfers by the government? According to Sandy's list, the monetary policy would be more disruptive, but it is unclear that this must necessarily be the case. Without further clarification regarding the type, scale, and scope of intervention, I am unable to subscribe to Sandy's pattern prediction that "the closer a system comes to pure welfare-state capitalism, in which TD predominate, the more *relatively* sustainable over time it will be compared to those that are characterized mainly by RD."

Second, after reading Sandy's essay, I was left wondering how exactly transfers and Transfer Dynamics fit into

Mises's broader critique of interventionism. In his treatments of the dynamics of interventionism, Mises focused mainly, although not exclusively, on government efforts to regulate the market instead of on issues of redistribution. Introducing transfers into the framework raises a host of possibilities but also some important questions and tensions that need to be addressed. For example, which government transfers are subject to the dynamics of interventionism? Is it all government transfers or only a subset of transfers and why? Answering these questions is important for delineating the applicability and limits of the critique of interventionism.



*Ludwig von Mises*

Mises advocated government-induced transfers to fund its basic functions -- e.g., courts, police, defense. He did not see these transfers as being subject to the dynamics of interventionism because the means (taxation) were consistent with the stated ends (the provision of certain services) of policymakers, but things are not that simple. The transfer and provision of these services has a series of unintended consequences which perversely influence certain aspects of the market process and may contribute to failure relative to the stated goal of the policy.

Consider, for example, the government provision of defense and security. To fund these activities the government raises revenue through taxation, but the story doesn't end with the initial transfer. The provision

of defense requires the redirection of scarce resource from the private sector to the public sector. In response to these new profit opportunities, entrepreneurial alertness is redirected from satisfying private consumers to satiating political actors. This all might be fine and well as long as the output meets the stated policy goal of enhancing the public welfare through increased security, but there is evidence that this is often not the case. Much of what falls under the purview of “national defense” benefits a small number of individuals while often generating public bads, including conflict, waste, fraud, and corruption.<sup>[13]</sup> In these specific instances, the means employed do not align with the specified goal of the policy.

This logic can be generalized beyond the provision of defense. In almost all cases, government transfers intended to produce a stated policy outcome fail at least partially, and often significantly. In some instances police protect citizens’ person and property, while in other cases they undermine their rights. Welfare programs help some people in need but are also subject to fraud, waste, and corruption. How do these and similar types of transfers fit into the critique of interventionism?

The final point I would like to raise relates to the Misesian Paradox. Why does interventionism appear to be so sustainable despite Mises’s claim to the contrary? One answer is that, under certain conditions, it *is* sustainable. Sandy hints at this in one line of his essay when he writes, “Capitalism is very resilient. While there is indeed a limit to the amount of interventionist pounding it can absorb, it may have a higher, though not unlimited, tolerance for that sort of thing than Mises estimated.” Mises recognized that interventionism could sustain for at least some period. In *Human Action* he writes that [“interventionism aims at confiscating the ‘surplus’ of one part of the population and at giving it to another part. Once this surplus is exhausted by total confiscation, a further continuation of the policy is impossible.”](#)<sup>[14]</sup>

The surplus, however, is not fixed and static, but, rather, constantly evolving. As long as entrepreneurs have some freedom to act in a productive manner, new profit opportunities emerge that contribute to existing wealth.

This is not to argue that interventions (both regulatory and transfer) do not reduce overall wealth for the general populace below what it would have been absent the interventions. Instead, it is to point out that as long as the wealth created by productive entrepreneurs is greater than the wealth destroyed by interventions, the mixed system can sustain because there will be a sufficient reserve fund to cover the cost of government meddling in the economy.

To provide one example, consider the rise of the sharing economy. The entrepreneurs driving these innovations have found ways to work around and undermine the burden of previous interventions which had limited entry and competition in certain markets. In many markets the introduction of these services has made previous interventions (e.g., taxi medallions) increasingly irrelevant even though they remain officially on the books. Despite these regulations, there was some space for entrepreneurs to discover new means of creating wealth. In some locations these innovations have been met with new regulations, but in others they have not. This provides one illustration of how wealth creation can occur even in the presence of government interventions which harm general welfare.

It is quite possible that at some point interventions will become so burdensome that the cumulative negative effects will trump the wealth created by productive entrepreneurship. When this occurs the Mises-Ikeda critique will come into its own and interventionism will be unable to continue once the surplus of existing wealth is exhausted. However, until this happens -- it cannot be predicted *ex ante* -- the mixed economy can sustain as long as the wealth generated from productive activities outpaces the costs associated with existing interventions and the implementation of new interventions.

It is important to note that this line of reasoning does not take issue with the logical cohesion (whether the means are suitable for achieving the stated ends) of the mixed economy but, instead, the practical sustainability of the system. Recognizing that the system can persist is different from claiming that interventions advance the general welfare, which they do not for the reasons that

Mises and Ikeda highlight in their work. That is, interventionism can be logically incoherent yet sustainable due to the wealth created by productive entrepreneurs, which buffers the costs of interventions.

### Endnotes

[13.] See Thomas K. Duncan and Christopher J. Coyne, “The Overlooked Costs of the Permanent War Economy,” *The Review of Austrian Economics* 26(4) 2013: 413-31; Christopher J. Coyne, “Lobotomizing the Defense Brain,” *The Review of Austrian Economics* 28(4) 2015: 371-96; and Christopher J. Coyne, Courtney Michaluk, and Rachel Reese, “Unproductive Entrepreneurship in U.S. Military Contracting,” *Mimeo*, 2016.

[14.] Ludwig von Mises, *Human Action: A Treatise on Economics*, in 4 vols., ed. Bettina Bien Greaves (Indianapolis, IN: Liberty Fund, 2007), vol. 3, p. 585. </titles/1895>.

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## INTERVENTIONISM IS NOW THE ONLY SUSTAINABLE POLITICO-ECONOMIC ORDER

by Robert Higgs

The title of my comment might well be read as an announcement that I intend to reject completely Sanford Ikeda’s argument in regard to what he calls “the Misesian Paradox.” But such is not the case. Indeed, I agree with pretty much everything that Ikeda says. Yet I draw an opposite conclusion about the historical sustainability of interventionism because even though the logic of the Misesian argument seems to be unimpeachable, I find that the conditions under which the argument is made are so restrictive that the argument has little “oomph” (to borrow Deirdre McCloskey’s felicitous term) in explaining the nature and destiny of the interventionist order that now prevails in nearly every country -- and

soon will, I expect, prevail everywhere, in each country in a form tailored to suit local conditions.



*Deirdre McCloskey*

### How Mises’s Argument Is Framed

To understand why Mises was both right (in regard to the logic of his argument) and wrong (in regard to the argument’s relevance in explaining the nature and destiny of the real-world interventionist system), we must recall how he framed his argument.

First, Mises fully credited the interventionists’ sincerity. If they said that they wished to bring about a certain change, say, an increase in the supply of low-income housing, and that they believed a certain intervention in the market order would bring about this increase, he took them at their word. He then showed why the policy would not, indeed could not, result in the attainment of the interventionists’ stated goal.

Second, Mises argued that when a particular intervention gave rise, as it must, to unanticipated problems in the relevant policy area or elsewhere in the economy, the policy’s proponents and implementers would resort to further interventions in order to deal with these problems, whereupon they would produce still further

unanticipated problems, to be met with further interventions, and so forth on and on until they had produced a tangled, ineffective mass of futile attempts to fix the initially stated problem and the multitude of others they had created in the course of the interventionist dynamics.

Third, Mises worked out the logic of his argument in a strictly economic context. He made no attempt to integrate political or ideological feedback effects into his vision of the systemic dynamics.

Fourth, Mises posed the questions in his analysis as pertaining to the type of overarching economic order that would prevail. In doing so, he personally reflected the great contest that was playing out in many countries during his lifetime between socialism and capitalism, a contest of one pure system versus a completely different pure system. He viewed people's preferred system as a decision variable in the political contests, rather than seeing any prevailing system as a societal artifact, a product of human action, but not necessarily of human design.

Fifth -- and perhaps most important -- he worked out the logic of his argument in the context of a country at peace with other countries, so that war gave rise to no economic disturbances and imposed no political logic of its own on the interventionist process as he analyzed it.

When one ponders the foregoing restrictions on the Misesian model of interventionist dynamics, one sees that however powerfully it fleshes out the corpus of Austrian economic reasoning, it leaves out so many factors of critical importance in any particular empirical setting that its force in such a context may well be severely limited or even wholly overwhelmed by events and decisions that have no place at all in the Misesian analytical structure. For the economic or policy historian, the Misesian logic contributes a valuable insight, to be sure, yet the historian must necessarily attend not merely to praxeology, but also, indeed, mainly to what Mises called thymology -- the specific configuration of interacting scientific, technical, organizational, political, ideological, and valuational factors at play in a particular empirical situation. Mises never suggested that such factors be ignored in historical

analysis; indeed, he urged that they be studied carefully in order to apply the logic of praxeology properly to the specific historical conditions under investigation.

### **Ideological Constraints in the Modern World**

The paradox, as Ikeda well describes it, is that even though Mises argued that interventionism (the "middle way") was "impossible" as a workable system and "unsuited" to the attainment of the interventionists' stated goals, still interventionism remains -- as indeed it has remained for centuries -- pretty much the only sustainable game in town. Plenty of time surely has elapsed for actually existing interventionism to reveal that it contains the seeds of its own destruction. Yet it thrives as never before. Whenever a certain interventionist system suffers or dies as a result of its own decision makers' actions and their consequences, it is replaced -- *mirabile dictu* -- not by full-fledged socialism or full-fledged capitalism, as Mises insisted it would be, but by a new form of interventionism. And that seemingly perverse course of events is precisely what we should expect under currently prevailing ideological and political conditions.



*Ludwig von Mises*

In today's world, only a small minority either among the elites or the general public seeks full-fledged socialism with total state ownership and management of the major

means of production cum central planning of all major resource and income flows. On the opposite end of the ideological spectrum, only a tiny minority seeks a full-fledged free-market order with complete private ownership of all major means of production, totally decentralized, private planning of resource use, complete absence of government intervention in the determination of prices and incomes, and no significant government involvement beyond that of the night-watchman state -- that is, definition and enforcement of private property rights and enforcement of private contracts and other voluntary cooperative arrangements, protecting all parties equally against fraud and unlawful force and violence whether the perpetrators be domestic or foreign. Why are both ends of the systemic spectrum -- the two alternatives that Mises declared to be the only sustainable possibilities -- almost equally rejected by people all over the world?

In regard to the socialist option, nearly everyone now recognizes that full-fledged socialism is a recipe for societal poverty and stagnation, if not economic retrogression. The experiments in Communist China, North Korea, Cuba, Vietnam, the USSR and its satellite countries, and elsewhere have shown as clearly as anything can be shown by historical experience that socialism "doesn't work." Most people want much more prosperity and economic progress than socialism can deliver -- and a great many people now recognize socialism's incapacity to deliver the goods. However, relatively few recognize that the inherent incapacities of piecemeal intervention are essentially the same as those of full-fledged socialism, only somewhat more limited in their reach and hence in their capacity for wreaking economic destruction.

**[SOCIALISM]**

On the free-market end of the systemic spectrum, relatively few people are prepared, and even fewer are eager, to accept the degree of individual responsibility for one's own economic well-being that must be accepted if a full-fledged free-market order is to operate successfully. Nearly everyone believes that the free market is wonderful, but in certain areas it "fails" or brings about unacceptable outcomes (for example, too unequal distributions of income and wealth) and therefore should not be left unhampered. In practice, the number of such "market failure" or "unacceptable outcome" exceptions has long since become extremely large, so large that when seized by opportunistic state actors and their principal cronies the entire free-market system has been transformed into the rampant interventionism that Mises and F. A. Hayek recognized as economic chaos.

So, with the great majority of people in today's world unwilling to bear the individual burdens and responsibilities of living in a situation of "creative destruction" -- emphasis in their minds being laid on the "destruction" part -- and so many prepared to simultaneously reject full-fledged socialism and embrace piecemeal interventionism, any particular country's political process has no place to go but the great middle, the very venue that Mises insisted would not and could not support a successful economic order. How does it manage to do so?

The genius of modern participatory fascism -- my preferred name (borrowed long ago from Charlotte Twilight) for the dominant interventionist system in today's world -- is its kingpins' recognition that it is unwise for them to kill all the geese that lay the golden eggs. So, despite their rampant, ad hoc, opportunistic interventions, the political and governmental leaders do not attempt to take over ownership and control of all major resources. They do not attempt to wipe out all private property rights. Indeed, they leave enough substance in the structure of private property rights that entrepreneurs still find it possible to get rich in a great variety of ways. Therefore the entrepreneurs' ongoing innovation keeps the level of living from falling and in many places propels it to all-time highs. In the world as a

whole, people have become much better off in recent decades on average, owing to the somewhat greater latitude permitted to private entrepreneurs in certain countries, especially in the most heavily populated, previously very poor countries China and India.

### Where We Stand

Of course, the world would be immensely more prosperous if the interventionists simply gave up their ships. They are not going to do so, however. The rent-seekers never sleep. The ideologically misguided rarely learn any sound economics. And the way in which major states engaged in huge wars during the past century allowed opportunists both inside and outside the state apparatus to gain many personal prizes of power and pelf and to entrench themselves at strategic positions in the politico-economic order. At the same time, as I have argued and documented at great length during the past 30 years, these crisis-driven historical dynamics altered the dominant ideology in the direction of much greater support for participatory fascism. Most people want creature comforts, ceaseless entertainment, and the illusion of state-provided security -- both against foreign devils and against economic and health-related vagaries -- and the interventionist state has shown that it can give the masses enough of these things to placate them while enriching the rent-seekers and opportunists with undreamed of wealth at public expense. Meanwhile the system leaves private entrepreneurs enough room to maneuver for them to innovate, invest, and thereby elevate the general level of living. Such a system, though lamentable on many grounds, is plenty sustainable. Indeed, under current ideological and political conditions, it is impossible for me to imagine how any alternative politico-economic order stands much chance as a competitor.

## MISES, IKEDA AND INTERVENTIONISM

by Jeremy Shearmur

### Introduction

Ludwig von Mises played a key role in the history of classical liberalism in the 20th century. Consider his early work in economics and on the philosophy of social science, the impact made by his Private Seminar, and by his argument about the problems of economic calculation under socialism.

“WHAT IS MUCH MORE  
CONTROVERSIAL IS HIS WORK ON  
INTERVENTIONISM.”

What is much more controversial is his work on interventionism. Mises’s most dramatic claim here was that there was no stable alternative to capitalism and socialism. Mises refers, in material in the Mises archive,[\[15\]](#) to discussions in English in his *Omnipotent Government*,[\[16\]](#) *Human Action*,[\[17\]](#) and *Planning for Freedom*.[\[18\]](#) (*Critique of Interventionism*[\[19\]](#) was not available in English at the time). Mises’s claims are important – not least because he was suggesting a case against governmental intervention that stands independently of Public Choice theory or moral arguments. What he had to say did not attract much attention from mainstream writers. (But compare Lavoie[\[20\]](#) and Kurrild-Klitgaard,[\[21\]](#) as well as the pieces by Ikeda cited in his contribution.) It is for this reason that Sandy Ikeda’s review and reconstruction of Mises’s argument is much to be welcomed.

At the center of Ikeda’s analysis he poses what he calls the “Misesian Paradox”: “how, if interventionism is ‘contradictory and illogical,’ ‘unworkable and unsuitable,’ and ‘contradicts economic logic’ has it seemed to endure around the world for so long?” In Ikeda’s paper, this leads to his careful analysis and reconstruction of Mises’s argument. My response is much simpler: in broad terms,

while Mises's discussion contains many interesting contributions, it is simply incorrect.

### Some Analysis of Mises

To start with, Mises's argument is rather more complicated than it seems. His main contention is indeed that interventionism is unstable, and Ikeda's reconstruction of his argument here is most useful. But Mises does not only argue in these terms.

First, he also argues by saying that interventionists share with others certain aims, which their methods cannot achieve. Mises develops this argument by saying that there is an aim with which all people agree -- the desirability of "[those ends which all people consider as the ultimate aim of activities commonly called economic](#), viz., the best possible supply of useful commodities and services."[\[22\]](#) But this is incorrect. We are all familiar with people who take the view that, for example, some sacrifice of the best possible use of commodities and services would be acceptable if some other goal were achieved; e.g., a reduction in social inequality. In addition, Mises was himself familiar with work by Alexander Rüstow and Wilhelm Röpke, in which they made out a case for intervention for the sake of certain kinds of social stability. (I should stress that this is not an argument for the values to which I have referred, simply an argument against Mises's assumption that his ideas about our goals are shared by all.)

Is, however, Mises right that if one shared the goals to which he refers, then interventionism is clearly incorrect? It seems to me that there is more of a case to answer than Mises's writings would suggest.

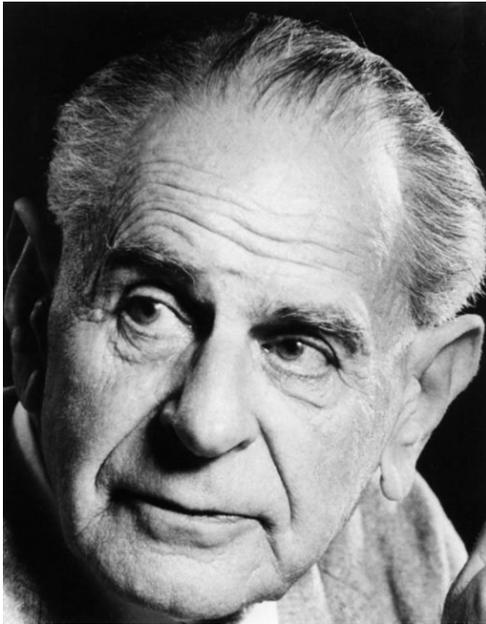
The first is the argument, which has been pressed by Manuel Castells in his detailed survey of the literature on East Asian development,[\[23\]](#) that a positive economic role was played by governmental intervention. I can't evaluate the factual claims that Castells surveys, but if his account is correct, I am, as a classical liberal, concerned by it and would wish to investigate how such a performance could be bettered under conditions of freedom. But in the face of such claims, we surely can't simply repeat Mises's case uncritically.

Next, Mises's argument depends on there not being macroeconomic problems that require intervention in order to restore normal market behavior. Here, there are competing research programs on which detailed argument work is needed on an ongoing basis. It is worth noting that Lionel Robbins, who not only elaborated an "Austrian" view in his *Great Depression*,[\[24\]](#) but defended it doggedly in person against Keynes, in the end moved over to a Keynesian perspective. I am not saying that an interventionist perspective is incorrect (and clearly the need here for intervention would be worrying, both from a Public Choice perspective and also because of possible threats to our freedom), but there is again a case to answer, and it is not an issue to be settled by knockdown argument.

Finally, here, if we take account of the limitations of people's knowledge, the role of tradition and custom, and also the disruptive effects of innovation in a market economy, we may find that things are sometimes rather messier than Mises's arguments present them as being. I would suggest that we need to make use of historical evidence alongside abstract, idealizing argument, to make a telling case that the issues which Mises raises hold good in an imperfect world.

A second line of argument in Mises is presented when, in his *Critique of Interventionism*,[\[25\]](#) he discusses tariffs. Mises argues that these typically have unanticipated consequences. I have already discussed the fact that the outcomes which result might be favored even if they do not lead to the best use of resources, because they realize other values. In addition, Public Choice issues may be relevant here. Governments may look at, say, issues relating to housing supply largely in terms of political advantage rather than what makes for good market-oriented policy. In addition, it is worth bearing in mind that if intervention produces problematic unintended consequences, it is in principle possible that these could be addressed through further policy measures with learning by trial and error. (Compare Karl Popper's *The Open Society and Its Enemies*.[\[26\]](#)) While one might be skeptical about how government will in fact perform, it is worth bearing in mind that problems of this

kind occur routinely and are addressed within both commercial and noncommercial organizations.



**Karl Popper**

But what of Mises's main line of argument? May not those in government be stupid enough to try to control prices, imagining that the result will be both lower prices and adequate supply. When this does not eventuate, may they not hey impose further controls – leading, in the end and against their initial intentions, to political control of the entire economy. This is a possibility. But is it a path that anyone has followed? Given Mises's and F. A. Hayek's arguments about the problems of economic calculation under socialism, I'd have thought that, if any country initially followed this path, it would fairly soon retreat in order that its economy functioned at all.

### **A Concluding Problem**

Hayek was also a critic of interventionism. But Hayek was himself in some ways an interventionist (including in his *The Road to Serfdom* (1944), which in other respects could be read as offering his main, and telling, argument against interventionism). That there was a tension here was noted by reviewers of *The Road to Serfdom*, and also by Keynes.<sup>[27]</sup> Hayek responded by arguing that, if the government's actions complied with a *Rechtsstaat* understanding of the rule of law, then while they would not necessarily be wise, they would not call

the character of a market economy, and people's freedom, into question. It is a matter of controversy whether or not Hayek's resolution of the problem is successful. But on the face of it, *some* way of resolving the problem is needed by all liberals – Mises included – who accord a role to the state. For it, after all, has to raise money by taxation and to make decisions as to just what goods and services it will purchase (e.g., when employing police and armed forces). It would thus seem to be engaged in exactly the activity concerning which Ikeda quotes Mises's description: the "essence of the interventionist policy is to take from one group and to give to another."

### **Endnotes**

[15.] Mises Archive, Grove City College, Main Sequence, Box 8, General Files "F."

[16.] Ludwig von Mises, *Omnipotent Government* (New Haven: Yale University Press, 1944), pp. 58-66. Online version: Ludwig von Mises, *Omnipotent Government: The Rise of the Total State and Total War*, edited with a Foreword by Bettina Bien Greaves (Indianapolis: Liberty Fund, 2011). Part II: Nationalism. III: Etatism. 1.The New Mentality  
</titles/2399#Mises\_OmnipotentGovt1579\_204>.

[17.] Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), pp. 712-857. Online version: Ludwig von Mises, *Human Action: A Treatise on Economics*, in 4 vols., ed. Bettina Bien Greaves (Indianapolis: Liberty Fund, 2007). Vol. 3, PART 6: The Hampered Market Economy </titles/mises-human-action-a-treatise-on-economics-vol-3-1f-ed#1f3843-03\_label\_320>.

[18.] Ludwig von Mises, *Planning for Freedom* (South Holland, IL: Libertarian Press, 1952), pp.1-35). Online version: Ludwig von Mises, *Planning for Freedom: Let the Market System Work. A Collection of Essays and Addresses*, edited with a Foreword by Bettina Bien Greaves (Indianapolis: Liberty Fund, 2008). PART 1: The Free Market Economy versus Government Planning </titles/mises-planning-for-freedom-let-the-market-system-work-a-collection-of-essays-and-addresses#1f1459\_label\_025>.

[19.] Ludwig von Mises, *Critique of Interventionism* (New Rochelle, NY: Arlington House, 1977 [1929]).

[20.] Don Lavoie, “The Development of the Misesian Theory of Interventionism” (with comment by Murray N. Rothbard), in *Method, Process, and Austrian Economics: Essays in Honor of Ludwig von Mises*, ed. Israel M. Kirzner (Lexington, MA: Lexington Books, 1982), pp.169–83.

[21.] Peter Kurrild-Klitgaard, ed., *Intervention, Regulation and Redistribution in the Mixed Economy* (Amsterdam, etc.: Elsevier, 2005).

[22.] Mises, *Planning for Freedom*, p. 20.

[23.] Manuel Castells, *The Rise of the Network Society*, 2d ed. (London: Wiley-Blackwell, 2009), pp. 163-215).

[24.] Lionel Robbins, *The Great Depression* (London: Macmillan, 1934).

[25.] Pp. 5-6.

[26.] Karl Popper, *The Open Society and Its Enemies* (London: Routledge, 1945).

[27.] See Jeremy Shearmur, “Hayek, Keynes and the State,” *History of Economics Review*, no. 26, Winter/Summer 1997, pp. 68-82, available at <<http://www.hetsa.org.au/pdf-back/26-A-6.pdf>>.

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## RESPONSE TO COYNE, HIGGS, AND SHEARMER

by Sanford Ikeda

I wish to thank the three scholars who have each made the effort to comment on my essay. While I may take issue with some of their criticisms, responding to them has deepened my understanding and clarified my thinking on Mises and interventionism. Unfortunately, space prevents me from addressing in full all of the interesting points they raise.

Everyone, including me, appears to agree that Mises was wrong to suggest that *only* laissez faire or socialism would emerge after the numerous collapses of interventionist regimes, or that once defeated, an interventionist regime

would somehow “disappear.” Coyne, Higgs, and I agree on the usefulness of Mises’s logic, while Shearmer apparently does not. However, each commenter takes issue in different ways with its empirical relevance.

### **Coyne: Measure Relative Harms**

Chris Coyne focuses on a core issue of my revision of Misesian interventionism. He asks how we can know whether transfer dynamics result in greater relative sustainability than regulatory dynamics, and that is a fair point. He wonders, for example, whether a “fixed monetary rule that is both predictable and credible” might not be less disruptive to the market process than the regime uncertainty that “unpredictable and large-scale transfers” would pose. Indeed, it is hard to argue that the latter would not be more disruptive than the former.

The theoretical question, I suggest, would probably be: which has greater disruptive *potential* -- a central bank or a legislature’s redistributive policies? But the other part of Coyne’s critique is that much of this boils down to empirics: do the facts fit the theory? To my knowledge no one has looked. I wish someone would.

I fully endorse Coyne’s point about the relative rates of addition and depletion of the “reserve fund,” which is a point I make in my book (1997) and elsewhere, keeping in mind that the reserve fund may become inaccessible long before it actually “runs out” owing to knowledge problems or to the ability of producers to hide their wealth and so on. And I agree that the mixed economy can “sustain” itself in this fashion until it can’t, but certainly not in the long term.

Again, let’s distinguish between the sustainability of a regime of interventionist policies within the framework of an existing state and the persistence, typically over a greater length of time, of that state, itself. This I think is more than a semantic point, but it also colors Higgs’s critique.

### **Higgs: Ideology and War Need to Be Accounted for**

I am truly gratified that Bob Higgs agrees with “with pretty much everything” that I say, but his charge that my

argument “is made are so restrictive that the argument has little ‘oomph’” is a serious one.

In his fourth point Bob observes that Mises was making his argument during a time – the 1920s to the 1950s – when “the great contest that was playing out in many countries during his lifetime between socialism and capitalism” (which is a point relevant to one of Jeremy Shearmer’s criticisms). But while the debate among intellectuals in that era may have been between capitalism and socialism, the interventionist dynamic Mises analyzed does not depend on public choosers deliberately aiming for either pole of the politico-economic spectrum. Mises was careful to say that interventionists wanted to preserve the “good” properties of capitalism and not throw the capitalist baby out with the bathwater. For Mises, the drift toward socialism is an unintended consequence.

Bob’s main criticism of Mises’s critique, however, is that “it leaves out so many factors of critical importance” – specifically ideology and war. Yes, Mises and I both do.

As I have tried to explain in my other work and very briefly in my essay, the interventionist dynamic relies on public choosers making policy decisions at various “nodal points,” but Mises doesn’t really address why they might choose to go in the direction of more or less collectivism. That is partly a function of ideology, which I try to integrate into my own formulation.

Regarding war, it might indeed appear to be a damaging omission on Mises’s (and my) part. Now, Bob is an excellent economic historian, and that means that in the explanation of historical phenomena he must approach his subject-matter thematically and examine factors beyond the conventionally economic. Bad economic-policy decisions could contribute to war, but when war is the result of ambitious thugs seeking to dominate the world, it is outside the realm of economic theory – too far evidently for Mises.

But ideology and war, especially war, each exacerbate the destabilizing forces Mises describes, do they not? And wasn’t Mises simply providing the bones of an analytic framework, the purely economic part, which by itself is sufficient to show that interventionism is unsustainable?

And when Bob argues that “The experiments in Communist China, North Korea, Cuba, Vietnam, the USSR and its satellite countries, and elsewhere have shown as clearly as anything can be shown by historical experience that socialism ‘doesn’t work,’” does this not in fact support Mises’s point about unsustainability? These examples are not socialist economies but mixed economies. The interventionist regimes within these countries collapsed before they could achieve full-blown socialism. Thus, as Peter Boettke demonstrates,[\[28\]](#) the USSR was a “mixed economy,” and so were they all. In my essay I cite these as examples of the unsustainability of interventionism, along with New Zealand and Sweden.

Bob maintains that the idea of interventionism is ancient, dominant, and probably ineradicable. Interventionism, as a doctrine and as a policy, will pick itself up time and time again. But that does not mean that it will not fail again and again in practice. Now, Mises may have been overly optimistic to think that subsequent generations of public choosers would eventually tire of all this, but he was not wrong about the inevitability of the collapse of any given interventionist regime. Actual systems *did* plunge headlong into collectivism or radically retrench back to relatively free markets. It happened!

### **Shearmer: Not So Simple? Not So Fast!**

Jeremy Shearmer dismisses Mises as “simply incorrect.” The trouble is that his dismissal is itself too simple.

When he warns that “we surely can’t simply repeat Mises’s case uncritically,” it makes me wonder to whom is he referring. Surely not to the contributors in Kurrild-Klitgaard (2005) (which includes Bob Higgs and me), which he cites in his comment?

Indeed, much of what Jeremy’s critique amounts to is either an assertion that “Things aren’t as simple as Mises presents them” or a question: “Yes, but how do we know [that the interventionist dynamic works that way]?” Such broad criticisms are frankly not very helpful and so are difficult to address, but I will do my best.

He argues that we “need to make use of historical evidence alongside abstract argument, to make a telling

case that the issues which Mises raises hold good in an imperfect world.” But is this not what the historical research of Boettke,[\[29\]](#) Robert L. Bradley,[\[30\]](#) and Higgs,[\[31\]](#) to name just a few, have done? If Jeremy is aware of this research, at whom is he aiming his criticism? Of course reality is messy, and we do need even more historical investigation, as Coyne also recommends in his comment. Mises, I think, would not disagree. And to see where “abstract theorizing” can still take us, Jeremy would profit from a look at the recent conceptual work of Higgs[\[32\]](#) and also of Richard Wagner[\[33\]](#) on the political economy of “entanglement.”

Similarly he suggests that in macroeconomics there are “competing research programs” against Mises (by which I assume he means the Mises-Hayek business-cycle theory) as if unaware of the significant progress in Austrian macroeconomics in the past 20 years. Again, to name just a few, there is Roger Garrison,[\[34\]](#) Peter Lewin,[\[35\]](#) and Steven Horwitz.[\[36\]](#)

I agree with Jeremy that if Manuel Castells’s account of East Asian development (which I find interesting) is correct then it might pose a challenge to my economic analysis (whether or not I’m a “classical liberal”). But the remark is frankly too off the cuff to warrant much attention at this time, except to refer back to the empirical and historical work I have cited.

Two final points. First, Jeremy asserts that “it is worth bearing in mind that if intervention produces problematic unintended consequences, it is in principle possible that these could be addressed through further policy measures with learning by trial and error.”

It struck me as odd that he would offer trial and error as a way of avoiding the interventionist dynamic when my argument is precisely that incentive and knowledge problems generated by interventionism itself throw the feedback mechanism, on which trial and error depend, out of whack. This comes very close to claiming to “solve” a problem by assuming its solution (an old economist’s trick). And as Public Choice has shown, the feedback from the political process also works pretty poorly.

Second, Jeremy feels compelled to remind me that “if we take account of the limitations of people’s knowledge ... we may find that things are sometimes rather messier than Mises’s arguments present them as being.” Of course, I have great sympathy with that view, since imperfect knowledge, error, and entrepreneurship are central to my analysis. Again, whom is he addressing?

### Endnotes

[\[28.\]](#) Peter J. Boettke, *The Political Economy of Soviet Socialism: The Formative Years* (Norwell, MA: Kluwer, 1990).

[\[29.\]](#) Ibid.

[\[30.\]](#) Robert L. Bradley, *Capitalism at Work: Business, Government, and Energy* (Salem, MA: M & M Scrivener Press, 2009).

[\[31.\]](#) Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987).

[\[32.\]](#) Peter Kurrild-Klitgaard, ed, *Intervention, Regulation and Redistribution in the Mixed Economy* (Amsterdam: Elsevier, 2005).

[\[33.\]](#) For example, Meg Patrick and Richard E. Wagner, “From Mixed Economy to Entangled Political Economy: A Paretian Social-Theoretic Orientation,” *Public Choice*, 164(1) 2015: 103-16.

[\[34.\]](#) Roger W. Garrison, *Time and Money: The Macroeconomics of Capital Structure* (New York: Routledge, 2000).

[\[35.\]](#) Peter Lewin, *Capital in Disequilibrium* (New York: Routledge, 1999).

[\[36.\]](#) Steven Horwitz, *Microfoundations of Macroeconomics: An Austrian Perspective* (New York: Routledge, 2000).

## A MORE PIECEMEAL CASE AGAINST INTERVENTION

by Jeremy Shearmur

At the heart of our disagreement is a methodological issue. Let me explain how I see the matter – from which it should then become clear why I wrote as I did in some aspects of my criticism of Sandy to which he takes exception. (Other points will require a separate response.)



*Friedrich von Hayek*

In both the social and the natural sciences, there are some claims about which we can usefully argue in a purely theoretical way, because they are related to the necessary characteristics of structures. We are familiar with these in the context of Mises's and Hayek's arguments about the role of prices in a large-scale economy with an extended division of labor. Clearly there are empirical issues here (i.e., does the description being given of the characteristics of the economy apply?). But once one has agreement about that, the argument can be purely theoretical. One finds similar issues in aspects of physics. (Compare, say, Karl Popper's discussion of an issue of a similar kind exemplified by Leibniz's criticism of Descartes's theory of the atom: Popper offers a useful brief description of this in his "Philosophy and Physics," in his *The Myth of the Framework*, London: Routledge, 1995.)

By contrast, there are other issues which involve us in both theoretical and empirical argument. To argue effectively here, one needs to put forward claims concerning some phenomenon, where these need to be able to withstand theoretical criticism, and also to show that they can offer good explanations of actual empirical

and historical phenomena. What we produce here will typically be guided by a "paradigm" or (better, because this way of describing things stresses that rational argument can take place about it), a "research program," of which Austrian economics is one example.

What is needed here is: (i) to offer theoretical explanations which will, in themselves, withstand criticism and (ii) to be able to offer explanations of empirical and historical phenomena which do better than the alternatives. Here, the ability to account for what has taken place and to make predictions of things which we would not otherwise expect to occur, which are then confirmed, are widely regarded as important.

It is in the light of this that my earlier comments should be understood.

It seems to me that Mises himself presents his arguments against intervention as if they had the same purely theoretical status as do his arguments about economic calculation. But this is surely not the case. There is nothing offered which has any inevitability to it – other than the unlikely case in which a government pursues some goal by way of an economic intervention and then progressively takes over control of everything that prevents its goal from being realized. While there may be examples which illustrate the early stages of this, just because of its problematic economic consequences, it is unlikely that governments would go all the way. (It is something of a cliché from studies of pluralistic systems of political science that governments typically accord weight to lobbying from industry because their popularity depends on good economic performance.) More typically, inept intervention seems simply to stick with the production of a limited range of problematic consequences which governments judge that they can handle politically – as in the case of rent control. In addition there are the claims – which both Sandy and I agree give rise to concern for the classical liberal – about East Asian governments being able to intervene in ways which have been productive of economic growth.

It was this that stood behind the rather general claims that I made, to the effect that if one was going to set out to reconstruct and defend Mises's arguments about the

problems of intervention, one would need to do so in a way that treated them not as claims of pure theory, but as theoretical claims the correctness of which as explanations would have to be argued in terms of empirical and historical phenomena. As I suggested above, if one is advancing a theory in this context, one needs to defend its cogency in general terms, as well as to show that it really delivers the goods – and, crucially, performs better than competitors – in specific cases.

It is in the context of the general cogency of Mises's theory that I raised two points: first, that it would seem as if what Mises allows for, in terms of the limited role that he accords to government, involves things that, in the course of his discussion of interventionism, he would rule out (see my initial paper); second, that it would have to be the case that the economy itself can function without intervention, in which context I mention Robbins's abandonment of his earlier Austrian position.

Now in response to this last point, and to my argument that the case had to be made on empirical and historical grounds, Sandy pointed to the fact that work has been done in the tradition of Austrian trade-cycle theory, and applications have been made of Mises's ideas elsewhere. To this my response is: it is good, and important, that such work is taking place. But what needs to be done to vindicate a Misesian position is to argue that it offers better explanations than alternative views. It is not clear to me that this has been done, and it would clearly require work of a different kind from what Sandy was able to do in his interesting paper.

All told, it would seem to me that all of Sandy's commentators agree that there are problems about Mises's argument. In saying this, and also that I am not an admirer of this aspect of Mises's work, I am not saying that I am a proponent of governmental intervention -- only that the case against it, it seems to me, would have to be more piecemeal, making use of rational-choice arguments (which can allow for a range of different motives), institutional arguments, and also moral arguments.

## ON THE IMPORTANCE OF THE DYNAMICS OF INTERVENTIONISM

by Christopher J. Coyne

All of the commentators in this symposium, including me, have identified various issues and tensions with the Mises-Ikeda (and one could also add Rothbard<sup>[37]</sup> and Kirzner<sup>[38]</sup>) rendering of the dynamics of interventionism. I believe all of the points raised are important and, hopefully, will lead to further discussion. But I also think it is important not to forget the power of the dynamics of interventionism as an analytical framework.



*Murray N. Rothbard*

The theory of the market process<sup>[39]</sup> is one of the defining contributions of those working in the Austrian tradition. This theory offers insight into how economic actors, guided by prices and profit and loss, coordinate their actions. The theory assumes some established conditions, such as well-defined and well-enforced property rights. Within this framework, certain pattern predictions emerge regarding the tendencies of the market and the allocation of resources. What happens when the unhampered market becomes hampered?

Exploring the answer to this question is why the dynamics of interventionism are so important.

The dynamics of interventionism provide a means of tracing the series of adjustments resulting from some initial intervention into the market. In doing so it focuses on both the direct and indirect effects of interventions into markets. Of course, those working in the Austrian tradition are not the only ones to recognize these dual effects. Textbook discussions of rent controls, for instance, discuss both the direct effects—shortage—and indirect effects—less investment in upkeep and new housing—of price controls. But the dynamics of interventionism add more meat to the bones of these discussions of unintended consequences by providing a means of studying the step-by-step effects of interventions on the broader market process.

At the core of this discussion is how interventions warp the ability of actors to engage in economic calculation. By distorting prices and profit/loss, economic actors receive signals that do not reflect the true underlying conditions that would be signaled absent the intervention. This is important because interventions do not just affect the allocation of resources in the immediate area of intervention, but also throughout the broader structure of production. If one appreciates the theory of the market process, then one should likewise appreciate the dynamics of interventionism since the two are related.

The dynamics of interventionism also bring to the forefront many of the, often implicit, assumptions of intervention. For example, interventionism assumes that interveners know what the desired outcome should be. It also assumes that interveners can design interventions to achieve that end. Finally, it assumes that interveners know the opportunity cost of scarce resources—that is, what would have been produced and how. These insights are relevant for claims such as: government intervention X caused economic development. Economic growth requires reallocating scarce resources to new and better uses. Claiming that government intervention can cause development requires certain assumptions about the economic knowledge possessed by interveners. The dynamics of interventionism shed light on the

assumptions being made while also emphasizing the importance of subsequent distortions due to the initial intervention.

As I noted in my initial response to Sandy's lead essay, among other issues, I believe that the claim that interventionism is unstable is too strong absent further clarification of specific conditions. Some of the other commentators in this symposium have raised this same point. My purpose here is to note that we should not lose sight of the importance of the dynamics of interventionism for understanding the consequences of government intervention into market. This understanding is empirical in nature and requires one to explore the specific conditions under which interventions are designed and implemented. These conditions will influence the trajectory of interventions and their overall effect on economic activity.

For the most part, I don't view this as being at odds with what the previous commentators have noted. Mises may have overstated the inevitability claim, but, in pointing this out, we need to be sure not to understate the relevance and importance of the dynamics of interventionism for understanding the effects of government intervention on the market process.

### Endnotes

[37.] Murray N. Rothbard, *Power and Market: Government and the Economy*. Fourth Edition (Auburn, Alabama: Ludwig von Mises Institute, 2006). <<https://mises.org/library/power-and-market-government-and-economy>>.

[38.] Israel M. Kirzner, "The Perils of Regulation: A Market-Process Approach," [1979] in *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985) pp. 119-149. <<http://fff.org/explore-freedom/reading-list/perils-regulation-marketprocess-approach-1979/>>.

[39.] Israel M. Kirzner, "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach," *Journal of Economic Literature*, vol. 35, no. 1 (March 1997), pp. 60-85.

<<http://econfaculty.gmu.edu/pboettke/summer/summer%20docs/kirzner1997.pdf>>.

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## STILL MISSING THE TARGET

by Sanford Ikeda

Jeremy Shearmur bases his response to my rebuttal on the following: “It seems to me that Mises himself presents his arguments against intervention as if they had the same purely theoretical status as do his arguments about economic calculation.”

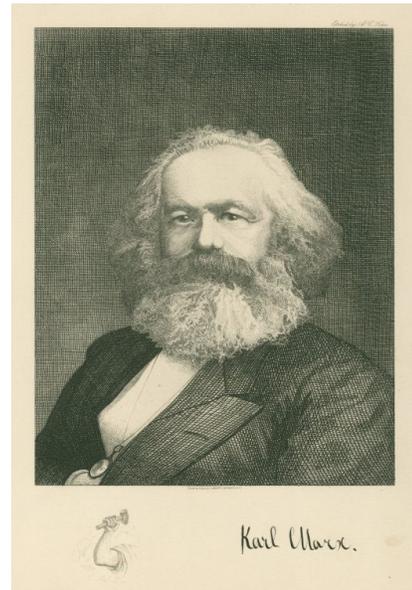
That may be true of Mises, but it certainly isn’t true of me. Again, Jeremy’s target doesn’t seem to be my analysis so much as what he thinks Mises’s is. In truth, however, I’m pretty sure even Mises himself didn’t hold the position Jeremy attributes to him. Why else would Mises take pains to explain, in almost every significant piece on interventionism that he wrote, and as anyone familiar with his argument would recognize, that at each nodal point (my term) in the process at which negative unintended consequences arise, public choosers may decide to abandon interventionism or not.

[If the authority is not willing to remedy the evils](#) caused by such isolated intervention, by cancelling the price control measure, then it has to follow up this first step with further measures.[\[40\]](#)

This is a point that I state very clearly in my book and subsequent essays on intervention, where I lay out the nondeterministic nature of the interventionist dynamic. Here’s just one example:

The process of ideological change that I outline here departs somewhat from standard methodology in that it makes ideological change partly endogenous. Only partly so, however, because it also includes a crucial role for the indeterminacy of (exogenous) genuine choice, especially at what I will later call the “nodal points” of the interventionist process.[\[41\]](#)

Which is why, of course, I am (and believe Mises was as well) very open to empirical and historical investigation. It’s just that, empirically, interventionism has led to failure so often – as the pieces I cited in my previous response document – that cases such as those suggested by Castells, which I did say were interesting “if true” (to quote Jeremy’s original qualifier), don’t worry me as much as they seem to worry Jeremy. I’m not that concerned that that broken clock still tells the correct time once or twice a day. And being a classical liberal isn’t really the point. Indeed, if you’re looking for extreme criticisms of interventionism, ones that do indeed appear to rise to the level of the “pure theory” Jeremy is so critical of, you need look no further than the leftist critiques of interventionism of Juergen Habermas, Claus Offe, and indeed Karl Marx.



***Karl Marx***

So I’m afraid Jeremy’s impression is incorrect, and thus the criticisms he bases on that misinterpretation are thus also incorrect.

If the critique of interventionism is not theoretically airtight, however, then that goes many times for any proposed “theory of interventionism.” The subtitle of my book, as I’ve noted before, is unfortunate since, as I said in my original essay for this forum, “[T]here is indeed no ‘theory of interventionism’ to tell us how piecemeal interventions can or even should work together or avoid

generating negative unintended consequences.” Interventionism doesn’t have a theoretical backbone of any kind, save perhaps for Keynes’s macroeconomics (and I’m not bothered by Robbins’s bailing from the Austrian camp; it happens the other way, too), so Jeremy’s willingness to put so much weight on “trial and error” in a distorted mixed economy remains unexplained and so still baffling to me. It ignores even the most basic lesson of Mises’s critique, of which Chris Coyne reminds us in his latest response.

### Endnotes

[40.] Ludwig von Mises, *Interventionism: An Economic Analysis* (Irvington-on-Hudson, NY: Foundation for Economic Education, (1998 [1940]). Online version <[/titles/2394](#)>.

[41.] See for example Sanford Ikeda, *Dynamics of the Mixed Economy: Toward a Theory of Interventionism* (New York: Routledge, 1997), p. 115.

historical instances where it has been or might have been applied.



*Ludwig von Mises*

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## WHAT SORT OF ANALYTICAL CONTRIBUTION IS THE AUSTRIAN THEORY OF INTERVENTIONIST DYNAMICS, AND HOW HELPFUL CAN IT BE?

by Robert Higgs

The discussion so far has touched on a variety of issues related to the Austrian Theory of Interventionist Dynamics (ATID). Sandy Ikeda and each of the discussants have raised questions about the theory as originally formulated by Ludwig von Mises and later amended and extended by Ikeda and others. Perhaps the major question that has arisen again and again pertains to the explanatory power of the theory (if indeed it is a theory, properly speaking) in application to specific

The Misesian Paradox, as Ikeda calls it, recognizes that interventionism, though “unsuitable” and “impossible” in a Misesian sense, has always been and remains the only sustainable (or, if not sustainable, then repeatedly reconstructed) “system” in practice, and I have maintained that indeed it is the gravity well into which most countries’ politico-economic systems have already been sucked and into which the remaining countries’ systems will probably be sucked sooner or later.

The ATID has at its core a sort of impossibility theorem: the proposition that intervention cannot “work” in the sense of attaining the intervenors’ ostensible goals and ultimately must lead either to complete socialism or to complete abandonment of the interventions and reversion to a full-fledged free-market politico-economic order.

Yet, apart from the theorem’s apparent failure to be confirmed in practice, a critical difficulty pervades all attempts to formulate a more detailed and successful theorem because the institutional arrangements to which such a theorem would be applied are themselves so amorphous. As Ikeda aptly says, there is no theory of

intervention because, as both Mises and F. A. Hayek observed, the interventions as a whole are simply chaotic. Intervenors do not aim at constructing an edifice with a definite shape and dimensions. They simply intervene here, then there, and then somewhere else, in utter disregard of the second-, third-, and higher order repercussions of each of their immediate actions and in equal disregard of the extent to which each of the interventions works at cross purposes with others.

In order for us to theorize about a system, there must be a system to be theorized about, and interventionism in practice gives rise not a system of any sort, but to a complete mess. It seems unlikely therefore that any theory of interventionism can get us very far. In his extraordinarily careful writing in this area, Ikeda has modestly formulated only a set of pattern predictions. Yet even these, as shown by the foregoing commentaries, may be challenged on various grounds.

Perhaps, then, the best that we can do in this area is to carry out the most thorough thymological research we can, informed by the ATID, to be sure, yet for the most part simply scrutinizing the history of specific instances of intervention in the light of all that we can learn about the social, economic, ideological, political, and other factors that may reasonably be linked to the observed sequence of events. From this sort of historical work it will be hard – perhaps impossible -- to generalize about interventionism in general. Nonetheless, given that the object of our studies is little more than a chaotic mess, this approach may be the best one we can take.

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## TYPES OF INTERVENTIONS

by Christopher J. Coyne

In his original essay Sandy made an important distinction between different types of “interventionist dynamics.” He focused on two broad categories of dynamics—Regulatory Dynamics and Transfer Dynamics. I hope that we can return to discussing the relevance of the dynamics of interventionism framework for understanding different types of interventions. To begin,

let me provide a brief overview of the evolution of the dynamics of interventionism, which included a recognition of the need to consider different types of government interventions.

Mises originally focused on the dynamics of interventionism in the context of price controls, first in the *Theory of Money and Credit* (1912), and later in his article “The Theory of Price Controls” (1923).<sup>[42]</sup> In a subsequent essay, “Interventionism” (1926),<sup>[43]</sup> Mises expanded his notion of interventionism slightly and discussed restrictions on production and interventions which distort the structure of prices. He further broadened his analysis of interventionism in *Human Action* (1949) to include taxation and macroeconomic issues. As Mises’s writings on the topic make clear, the notion of interventionism has a variety of applications, given the many ways that government meddles with markets.

In *Power and Market* (1977), Murray Rothbard expanded on Mises by providing a taxonomy of interventions. Specifically, Rothbard differentiated three types of interventions. An “autistic intervention” is one which restricts a person’s autonomous actions, while a “binary intervention” occurs when the government uses its coercive power to force a person to engage in an exchange. Finally, “triangular intervention” refers to situations where government interferes with a voluntary exchange between two people. While Rothbard’s taxonomy was an advancement in the dynamics of interventionism, there is much work to be done. As Don Lavoie (1982) wrote:

The proliferation of new forms of government interference into the market is certain to present many new challenges for the analyst in the future. Rothbard’s extensive applications of the Misesian theory were far from exhaustive when he wrote them, and numerous interventionist innovations that require further study have since appeared. But I believe all these will prove susceptible to the Misesian critique of interventionism and that this susceptibility is enhanced by the extensions of the scope of the

theory that Mises and Rothbard have made and, in particular, to the inventions by the latter of a general typology into which any interventionist policy can be classified.<sup>[44]</sup>

The opening identified by Lavoie was filled, at least partially, by Sandy's book, *Dynamics of the Mixed Economy* (1997). Sandy's book provides the most complete and developed theory of Misesian interventionism to date. This includes a discussion of the Regulatory Dynamics and Transfer Dynamics that he mentions in his lead essay.

I believe that Lavoie's central point remains relevant today. Government intervention is everywhere, both domestic and international. This presents both an opportunity and a challenge to analysts concerned with the dynamics of interventionism. It is an opportunity because there is a "natural experiment" at every turn. It is a challenge because the broad theory of interventionism must be applied in a way that appreciates the context-specific nuances of government intrusion into the market process.

One promising avenue for thinking about some of these issues is provided by Robert L. Bradley Jr., who, building on Sandy's work, offers his own typology of interventionist dynamics in a working paper, "Typology of Interventionist Dynamics" and the version in *Humane Economics: Essays in Honor of Don Lavoie*, edited by Jack High.<sup>[45]</sup> I cannot do his framework justice in my short comment, and I urge the interested reader to review Bradley's work on this topic in its entirety. That said, his typology offers some examples of key categories for considering different types of regulatory interventions, which I will mention briefly.

One is the distinction between "dormant interventions" and "causal interventions." The former refers to interventions that are irrelevant either because the market already does what the regulation states, or because conditions have changed. The latter refers to situations where the regulation actually influences the actions of market participants. Another important distinction is between "non-initiating interventions" and "initiating interventions." The former, in contrast to the latter,

refers to interventions that do not initiate subsequent government interventions. Bradley also emphasizes the process aspect of the dynamics of interventionism. The full effects of interventions unfold over time and can have expansionary or contractionary—deregulation—elements. In addition, regulations can be revised over time, which will influence their effect on economic activity.

Taken together, I believe that the existing work on the dynamics of interventionism shows how fruitful it is as an avenue for continued research, both theoretically and empirically. In his response to my initial essay, Sandy highlighted one such avenue for further exploration. Specifically, in response to my claim that we cannot, *ex ante*, determine the relative disruptions caused by Regulatory Dynamics versus Transfer Dynamics, Sandy writes: "The theoretical question, I suggest, would probably be: which has greater disruptive *potential* -- a central bank or a legislature's redistributive policies?" What exactly this potential entails and how one goes about determining it, both conceptually and empirically, is an open question worthy of exploration. Among other things, it requires an appreciation for the scope of government action, which refers to the type and range of activities under the control of state actors.

Another interesting, and related, line of inquiry would be to look at the relationship between the dynamics of interventionism and research on "political capitalism," which focuses on the interactions between the political and economic elite. See, for example Randall G. Holcombe's "Political Capitalism" (2015) and "Crony Capitalism: Product of Big Government," (2103)..<sup>[46]</sup> This work is important, among other reasons, because it highlights that some interventions are intended to reward specific vested interests. These interventions are fundamentally different from other, system-wide interventions—e.g., interventions by a central bank—which have broader economic effects.

The issues and tensions identified in previous comments are an indication that the dynamics of interventionism is an open and lively research program. Much work remains to be done in developing and applying the

dynamics of interventionism, and that work is crucial for understanding how government intervention affects the market.

### Endnotes

[42.] Ludwig von Mises, “The Theory of Price Controls” (1923). “Preistaxen: I. Theorie” (Price Controls: I. Theory) *Handwörterbuch der Staatswissenschaften*, 4th ed. (Jena: Gustv Fischer, 1923), vol. 6, pp. 1055-62. Reprinted in *A Critique of Interventionism* (1977).

[43.] Ludwig von Mises, “Interventionismus” (Interventionism), *Archiv für Sozialwissenschaft und Sozialpolitik*, 56, (1926), pp. 610-53. Translated in *A Critique of Interventionism* (1977) by Hans F. Sennholz.

[44.] Don Lavoie, “The Development of the Misesian Theory of Interventionism” (with comment by Murray N. Rothbard), in *Method, Process, and Austrian Economics: Essays in Honor of Ludwig von Mises*, ed. Israel M. Kirzner (Lexington, MA: Lexington Books, 1982), p. 180.

[45.] Robert L. Bradley Jr., “Typology of Interventionist Dynamics” and the version in *Humane Economics: Essays in Honor of Don Lavoie*, edited by Jack High (Edward Elgar, 2006).

[46.] Randall G. Holcombe, “Political Capitalism,” *Cato Journal*, Winter 2015, pp. 41-66 and Randall G. Holcombe, “Crony Capitalism: Product of Big Government,” *Independent Review*, Spring 2013, pp. 541-99.

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## ON THE ROBUSTNESS OF MISES’S CALCULATION ARGUMENT

by Sanford Ikeda

Another way to think about how much we can rely on mere *theorizing* about interventionist dynamics is to ask how robust the Austrian critique of pure collectivism is.

As I noted in an earlier comment, the economic collapse of the USSR and its final dissolution in 1991 does not

vindicate that critique – that occurred back in 1921 – but rather corroborates Mises’s critique of interventionism, because the USSR after 1921 (with perhaps the exception of World War II) was simply a highly interventionist mixed economy.

But think of Mises’s critique of pure collectivism as a kind of impossibility theorem: An economic system in which all means of production are completely collectively controlled would render rational economic calculation impossible, the practical implication of the theorem being that pure collectivism would as a result be both unworkable and unsustainable (though not contradictory the way interventionism is).



*Ludwig von Mises*

If we accept Jeremy’s characterization of Mises’s impossibility theorem as methodologically sound, we might then ask what happens if we relax some of its assumptions: To what *degree* would relaxing *complete* collective control over *all* the means production render Mises’s argument against pure collectivism inapplicable? It seems reasonable to assume that the impossibility theorem becomes weaker the farther the system departs from pure collectivism, and stronger the closer it comes to pure collectivism. Hence, predictions about the highly interventionist USSR (or perhaps contemporary North Korea) are more reliable than predictions about U.S.-style interventionism. The particular shape of the system’s trajectory between laissez-faire capitalism and pure collectivism is of course still the issue.

(Seen in this light, Mises's strong statements about the end of interventionism and so on are perhaps understandable if (1) he detected a strong empirical tendency for public choosers to push relentlessly for ever more intervention and (2) as the mixed economy gets closer to pure collectivism, the forces outlined in his impossibility theorem grow much stronger, and so the less workable and sustainable the system becomes.)

I argued in my 1997 book and elsewhere that Mises's impossibility theorem (I did not use that term there) is indeed robust in the sense that in a system of, say, 90 percent control over 90 percent of all means of production would still make rational economic calculation impossible and result in a system that is still unworkable and unsustainable. Lenin's grip on the "commanding heights" under his New Economic Policy represented an even more radical departure from the earlier period of collectivist "war communism." How valid are Interventionist Dynamics – which encounter the same kinds of problems as pure collectivism though in less extreme form – under those circumstances?

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## THE CHARACTER OF THE CASE AGAINST INTERVENTIONISM

by Jeremy Shearmur

I earlier tried to explain one issue which Sandy raised about my initial response to him: why I was making a particular kind of point about the need for empirical work. I suggested that there were two kinds of argument that might be offered in this field. The first, relating to the structural characteristics of something, can – like Mises's and Hayek's arguments about economic calculation – be conducted on purely theoretical grounds. Mises, it seems to me, attempted this in his own argument about intervention; it would also seem to be *needed* to sustain the kinds of unconditional claims that he was making about interventionism. The second, in which it seems to me that we are largely involved in this area, would seem to require

theoretical argument, but *also* empirical (or historical) argument that our theoretical claims are true of the specific material with which we were dealing. Sandy refers to Habermas. A good example of my second kind of argument is in fact Habermas's account of "the structural transformation of the public sphere."[\[47\]](#)



*Friedrich von Hayek*

The key issue here is which *kind* of theoretical claim, and form of evaluation, should be used, when Mises claimed what he did about interventionism. (See my initial piece for documentation about this: I had taken it that Sandy's concern was to offer a discussion and reconstruction of Mises's arguments. I can't, for reasons of space, widen the argument to a discussion of Sandy's book.) My argument was that, aside from one particular kind of "dumb" intervention in which a government tries to bring about a particular result, and systematically reacts by controlling more of the economy each time people react in rational ways to what it has undertaken so far, so as to frustrate its aims, it is not clear that we are dealing with the first kind of argument. Accordingly, my claim was that one would have to argue both theoretically and empirically/historically. (About these kinds of arguments, I said something in my initial and subsequent reply). Here, what Castells reports about East Asia is pertinent. As I indicated initially, I'm not in a position to evaluate the empirical claims made in the material to which he refers; and as Coyne has mentioned, one clearly needs to take into account issues about opportunity costs (although this relates to the wisdom of intervention, rather than to claims about its instability). But on the face of it, one has

claims that government has been effective in the fostering of economic growth, of a kind which looks as if it has to be evaluated empirically and historically.

This is also pertinent to the “trial and error” issue, which I was not able to take up in my previous response to Sandy for reasons of space. To invoke this in the face of arguments like those about economic calculation would be futile, and I would agree that this would also be the case for the special example of “dumb” interventionism. But in the context of interventionism in general, trial and error seems to me to have a point. First, *pave* Mises (see my initial discussion), people could have concerns other than economic efficiency and preferences concerning phenomena that emerge from the actions of all of them in the economy, to which they can’t respond at the level of individual action. To this, while there are public-choice problems, a political response might seem reasonable, and it is not clear that Misesian inevitable-instability problems have to occur. We might, say, be concerned that children under 12 years of age should have access to adequate nutrition. A specific tax might be levied on certain kinds of economic activity for this purpose; and different schemes might then be tried out to achieve this specific goal. Now that such a tax is levied will have other economic effects; but there is no special reason why these should be problematic. (After all, it would seem to be identical to the taxes that Mises himself presumably has to agree must be levied to support the limited activities of government he favored.) There would seem, in this example, to be no Misesian reason why intervention would have to escalate. Rather, if initial ideas about how such a tax might be levied proved problematic, they could be rescinded and changed. Similarly, if the specific welfare measures which are tried lead to problematic unintended consequences, we could again rescind the measures and try something else. It is also important to bear in mind, here, that not all forms of government behave in the same way.<sup>[48]</sup> I should also stress that I am not *advocating* this. But the problems would look to me to be of a public-choice rather than of a Misesian kind.

More generally, in the face of Mises’s claims about the *inevitable* instability (or, on occasion, uneconomic

character) of intervention, one can surely also consider Hayek’s rather different claims. The broad argument of his *Road to Serfdom* was that *certain kinds* of intervention, if they were persisted with systematically, would have disastrous consequences for the economy and for people’s freedom. But as he developed his views in the face of criticism (not least concerning the interventionist aspects of his own views), he articulated an account under which certain kinds of interventionism, while not necessarily wise, would not have bad consequences of these kinds. He also argued *for* some specific sorts of intervention – e.g., that the government should provide certain kinds of information services, and that if people wished for it, a nonmarket welfare safety net could be provided in richer countries. In each case, however, the intervention would need to take place on a specific basis.<sup>[49]</sup> It is *not* my argument here that Hayek is correct, or that his ideas can withstand public-choice or moral objections. My point, rather, is that the cogency of his views about intervention, as compared to those of Mises, needs to be assessed by means of both theoretical and empirical/historical argument.

### Endnotes

<sup>[47.]</sup> See Jürgen Habermas, *The Structural Transformation of the Public Sphere* (Cambridge, MA: MIT Press, [1962] 1989), and Craig Calhoun, ed., *Habermas and the Public Sphere* (Cambridge, MA: MIT Press, 1992).

<sup>[48.]</sup> See, in the context of arguments about environmental policy, Albert Weale, “Nature versus the State? Markets, States, and Environmental Protection,” *Critical Review* 6, Issue 2-3, 1992, pp. 153-70.

<sup>[49.]</sup> See, for discussion, my “Hayek, Keynes and the State,” *History of Economics Review* 26, Winter-Summer 1997, pp. 68-82.

## SOME MORE POSITIVE REMARKS ABOUT THE STUDY OF INTERVENTIONISM

by Jeremy Shearmur

My comments so far have been largely concerned with critical methodological argument with Sandy about how we should study interventionism. I would like, here, to turn to some more positive suggestions.

First, while the phenomena focused on by classical liberals who have studied interventionism are important, we may need to refine what we are talking about. For we can ask: with what is intervention being contrasted? Is our background model with which governmental intervention is being contrasted some form of free-market anarchism or a limited state? If it is a limited state, what is its character, and how do we separate the kinds of action that it can legitimately take from those with which we are concerned?

If my earlier arguments against a Misesian approach are accepted, then it seems to me that we are likely to find ourselves engaged in the development of a variety of different approaches and models to address different kinds of situations. However, classical liberals – and also, from a different perspective, Marxists<sup>[50]</sup> – will typically also wish to argue that there are certain kinds of structural constraints imposed by the character of a market order on the kinds of things that can be done without damaging the operations of that order. There will also obviously be opportunity-cost issues raised by actions which don't have this damaging character.

My first positive suggestion, here, is that we should welcome a plurality of different approaches, provided that they make interesting theoretical claims, and testable empirical claims, about the material with which we are dealing. Some writers have argued that we need to adopt a single model concerning human motivation, across both economics and political science.<sup>[51]</sup> But this seems to me incorrect. While it may be possible to offer an

account of all human action as taking place on the basis of people's preferences, once one goes beyond this to specify what those preferences are, there seems to me no reason why we may not accept they may differ in differing situations. In addition, institutions and forms of government may differ significantly, as may the character of the constraints under which people act. It is also worth noting that there may be important commonalities between a classical-liberal perspective and those of other people. Note, in this context, the way in which classical-liberal class theory is paralleled in some important ways by the kind of analysis that Frank Parkin developed drawing on Max Weber, in his *Marxism and Class Theory: A Bourgeois Critique*.<sup>[52]</sup>



*Max Weber*

My second suggestion is that we should not restrict ourselves to work undertaken by economists or more generally within rational choice theory. For example, one really important and interesting study of why government does not achieve what is set out to do was provided by Pressman and Wildavsky's *Implementation: How Great Expectations in Washington Are Dashed in Oakland; Or, Why It's Amazing that Federal Programs Work at All....*<sup>[53]</sup> It would seem to me, more generally, that there is a great deal of important work on which classical liberals could usefully draw in political science, public administration,

sociology, and law – to say nothing of history – both in themselves and as models for other studies. While economic and rational-choice approaches may be fruitful, to restrict ourselves to such work seems to me to pose an unnecessary limitation on ourselves.

Finally, I have written here – and elsewhere in these responses – about a classical-liberal approach. It seems to me that there is no intellectual problem about identifying what we are doing as such. (Although clearly there may be pragmatic reasons against it; e.g., if someone is seeking tenure in a department with people in it who have silly prejudices against classical liberalism.) Essentially, classical liberalism can – along with competing approaches – form the core of a “research program” which can guide work within science in competition with other approaches. Classical liberals can – and need to – engage in argument, of many sorts, about our theoretical ideas, but we also need to show that we can produce better explanatory work than can those with whom we are competing. Such a view may be seen as a competitor to a Kuhnian one, in which people are simply seen as committed to paradigms, about which there can be no fruitful critical discussion. It may also be contrasted with the kind of “justificationist” approach which tried to demonstrate that its assumptions are correct. There is not the space to write more about these issues here, but the references below offer two further discussions of this theme which may be of use for those who wish to take issue with it.<sup>[54]</sup>

### Endnotes

<sup>[50.]</sup> My point here is not to endorse Marxism – although some Marxist analysis of the constraints under which people act, is interesting. It is, rather, to suggest that there are important commonalities between the approach of classical liberalism and Marxism. Compare also Murray Rothbard’s enthusiasm for the historical work of Gabriel Kolko.

<sup>[51.]</sup> See, for example, James Buchanan and Geoffrey Brennan, “The Normative Purpose of Economic Science,” *International Review of Law and Economics*, 1, December 1981, pp. 155-66.

<sup>[52.]</sup> Frank Parkin, *Marxism and Class Theory: A Bourgeois Critique* (London: Tavistock, 1979).

<sup>[53.]</sup> Jeffrey L. Pressman and Aaron Wildavsky, *Implementation: How Great Expectations in Washington Are Dashed in Oakland; Or, Why It's Amazing that Federal Programs Work at All...* (Berkeley: University of California Press, 1973).

<sup>[54.]</sup> Jeremy Shearmur, “Popper, Lakatos and Theoretical Progress in Economics,” in *Appraising Modern Economics: Studies in the Methodology of Scientific Research Programmes*, ed. M. Blaug and N. de Marchi, Aldershot (Cheltenham: Elgar, 1991), pp. 35-52, and “Commitment, Scholarship and Classical Liberalism,” *The Independent Review*, Spring 2003 7, no. 4, pp. 575-85.

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