

## A Future of Peace and Capitalism

di Murray N. Rothbard

In order to discuss the “future of capitalism,” we must first decide what the meaning of the term “capitalism” really is. Unfortunately, the term “capitalism” was coined by its greatest and most famous enemy, Karl Marx. We really can’t rely upon him for correct and subtle usage. And, in fact, what Marx and later writers have done is to lump together two extremely different and even contradictory concepts and actions under the same portmanteau term. These two contradictory concepts are what I would call “free-market capitalism” on the one hand, and “state capitalism” on the other.

The difference between free-market capitalism and state capitalism is precisely the difference between, on the one hand, peaceful, voluntary exchange, and on the other, violent expropriation. An example of a free-market exchange is my purchase of a newspaper on the corner for a dime; here is a peaceful, voluntary exchange beneficial to both parties. I buy the newspaper because I value the newspaper more highly than the dime that I give up in exchange; and the newsdealer sells me the paper because, he, in turn, values the dime more highly than the newspaper. Both parties to the exchange benefit. And what we are both doing in the exchange is the swapping of *titles of ownership*: I relinquish the ownership of my dime in exchange for the paper, and the newsdealer performs the exact opposite change of title. This simple exchange of a dime for a newspaper is an example of a unit free-market act; it is the market at work.

In contrast to this peaceful act, there is the method of violent expropriation. Violent expropriation occurs when I go to the news-dealer and seize his newspapers or his money at the point of a gun. In this case, of course, there is no *mutual* benefit; I gain *at the expense of* the victimized newsdealer. Yet the difference between these two transactions--between voluntary mutual exchange, and the holdup at gunpoint--is precisely the difference between free market capitalism and state capitalism. In both cases we obtain something--whether it be money or newspapers- but we obtain them in completely different ways, ways with completely different moral attributes and social consequences.

Here I can’t resist the temptation of pointing out that I have an entirely different interpretation of Jefferson and Hamilton from that of Professor Averitt. I don’t regard Jefferson as some sort of early Franz Boas--type, an early Left-Wing anthropologist. He wasn’t. My reading of Jefferson is completely different; on my reading, Jefferson was very precisely in favor of *laissez-faire*, or free-market, capitalism. And that was the real argument between them. It wasn’t really that Jefferson was against factories or industries *per se*; what he was against was *coerced* development, that is, taxing the farmers through tariffs and subsidies to build up industry artificially, which was essentially the Hamilton program.

Jefferson, incidentally, along with other statesmen of his time, was a very learned person. He read Adam Smith, he read Ricardo, he was very familiar with *laissez-faire* classical economics. And so his economic program, far from being the expression of bucolic agrarian nostalgia, was a very sophisticated application of classical economics to the American scene. We must not forget that *laissez-faire* classicists were *also* against tariffs, subsidies, and coerced economic development.

Furthermore, the term “equality,” as used by Jefferson and Jeffersonians, was employed in the same sense as Jefferson’s friend and colleague George Mason used when he framed the Virginia Declaration of Rights shortly before Jefferson wrote the Declaration of Independence:

“that all men are by nature equally free and independent.” In other words, “equality” did not then mean what we often mean by equality now: equality of condition or uniformity. “Equality” meant that each person has the right to be equally free and independent, to enjoy the right to “equal liberty,” as Herbert Spencer would phrase it a century later. In other words, again what I am saying is that the *Jeffersonian* wing of the Founding Fathers was essentially free-market, *laissez-faire* capitalists.

To return to the market: the free-market is really a vast network, a latticework, of these little, unit exchanges which I mentioned before: such as exchanging a dime for a newspaper. At each step of the way, there are two people, or two groups of people, and these two people or groups exchange two commodities, usually money and another commodity; at each step, each benefits by the exchange, otherwise they wouldn't be making it in the first place. If it turns out that they were mistaken in thinking that the exchange would benefit them then they quickly stop, and they don't make the exchange again.

Another common example of a free market is the universal practice of children swapping baseball cards — the sort of thing where you swap “two Hank Aaron[s]” for “one Willie Mays.” The “prices” of the various cards, and the exchanges that took place, were based on the relative importance that the kids attached to each baseball player. As one way of annoying liberals we might put the case this way: liberals are supposed to be in favor of any voluntary actions performed, as the famous cliché goes, by “two consenting adults.” Yet it is peculiar that while liberals are in favor of any sexual activity engaged in by two consenting adults, when these consenting adults engage in trade or exchange, the liberals step in to harass, cripple, restrict, or prohibit that trade. And yet both the consenting sexual activity and the trade are similar expressions of liberty in action. Both should be favored by any consistent libertarian. But the government, especially a liberal government, habitually steps in to regulate and restrict such trade.

It is very much as [though] I were about to exchange two Hank Aarons for one Willie Mays, and the government, or some other third party, should step in and say: “No, you can't do that; that's evil; it's against the common good. We hereby outlaw this proposed exchange; any exchange of such baseball cards must be one for one, or three for two”--or whatever other terms the government, in its wisdom and greatness, arbitrarily wishes to impose. By what right do they do this? The libertarian claims by no right whatsoever.

In general, government intervention can be classified in two ways: *either* as prohibiting or partially prohibiting an exchange between two people -- between two consenting adults, an exchange beneficial to both parties; *or* forcing someone to make an “exchange” with the government unilaterally, in which the person yields something up to the government under the threat of coercion. The first may include outright prohibition of an exchange, regulating the terms--the price--of the exchange, or preventing certain people from making the exchange. As an example of the last intervention, in order to be a photographer in most states, one must be a duly licensed photographer--proving that one is of “good moral character” and paying a certain amount of moolah to the state apparatus. This in order to have the right to take somebody's picture! The second kind of intervention is a forced “exchange” between us and the government, an “exchange” that benefits only the government and not ourselves. Of course, taxation is the obvious and evident example of that. In contrast to voluntary exchange, taxation is a matter of leaping in and coercively seizing people's property *without* their consent.

It is true that many people seem to believe that taxation is *not* imposed without our consent. They believe, as the great economist Joseph Schumpeter once said, that taxes are something like club dues, where each person voluntarily pays his share of the expenses of the club. But if you really think that, try not paying your taxes sometime and see what happens. No “club” that I know of has the power to come and seize your assets or jail you if you don't pay its dues. In my view, then, taxes are exploitation--taxes are a “zero-sum” game. If there's anything in the world that's a zero-sum game, it's taxation. The government seizes money from one set of people, gives it to another set of people, and in the meanwhile of course lops off a large chunk for its own “handling expenses.” Taxation, then, is purely and pristinely robbery. Period.

As a matter of fact, I challenge any of you to sit down and work out a definition of taxation that would not also be applicable to robbery. As the great libertarian writer H. L. Mencken once pointed out, among the public, even if they are not dedicated libertarians, robbing the government is never considered on the same moral plane as robbing another person. Robbing another person is generally

deplored; but if the *government* is robbed all that happens, as Mencken put it, “is that certain rogues and loafers have less money to play with than they had before.”

The great German sociologist Franz Oppenheimer, who wrote a magnificent little book called *The State*, put the case brilliantly. In essence, he said, there are only two ways for men to acquire wealth. The first method is by producing a good or a service and voluntarily exchanging that good for the product of somebody else. This is the method of exchange, the method of the free market; it’s creative and expands production; it is *not* a zero-sum game because production expands and both parties to the exchange benefit. Oppenheimer called this method the “economic means” for the acquisition of wealth. The second method is seizing another person’s property without his consent, i.e., by robbery, exploitation, looting. When you seize someone’s property without his consent, then you are benefiting *at his expense*, at the expense of the producer; here is truly a zero-sum “game”—not much of a “game,” by the way, from the point of view of the victim. Instead of expanding production, this method of robbery clearly hobbles and restricts production. So in addition to being immoral while peaceful exchange is moral, the method of robbery hobbles production because it is parasitic upon the effort of the producers. With brilliant astuteness, Oppenheimer called this method of obtaining wealth “the political means.” And then he went on to define the state, or government, as “the organization of the political means,” i.e., the regularization, legitimation, and permanent establishment of the political means for the acquisition of wealth.

In other words, the state is organized theft, organized robbery, organized exploitation. And this essential nature of the state is highlighted by the fact that the state ever rests upon the crucial instrument of taxation.

I must here again comment on Professor Averitt’s statement about “greed.” It’s true: greed has had a very bad press. I frankly don’t see anything wrong with greed. I think that the people who are always attacking greed would be more consistent with their position if they refused their next salary increase. I don’t see even the most Left-Wing scholar in this country scornfully burning his salary check. In other words, “greed” simply means that you are trying to relieve the nature given scarcity that man was born with. Greed will continue until the Garden of Eden arrives, when everything is superabundant, and we don’t have to worry about economics at all. We haven’t of course reached that point yet; we haven’t reached the point where everybody is burning his salary increases, or salary checks in general. So the question then becomes: what *kind* of greed are we going to have, “productive greed,” where people produce and voluntarily exchange their products with others? Or exploitative greed, organized robbery and predation, where you achieve your wealth at the expense of others? These are the two real alternatives.

Returning to the state and taxation, I would point out incidentally that Saint Augustine, who is not famous for being a libertarian, did however set forth an excellent libertarian parable. He wrote that Alexander the Great had seized some pirate, and asked the pirate what he meant by seizing possession of the sea. And the pirate boldly replied: “What you mean by seizing the whole earth; but because I do it with a little ship, I am called a robber, while you, because you do it with a great fleet are called an emperor Here Augustine highlights the fact that the state is simply robbery writ large, on an enormous scale, but robbery legitimated by intellectual opinion.

Take, for another example, the Mafia, which also suffers from a bad press. What the Mafia does on a local scale, the state does on an enormous scale, but the state of course has a much better press.

In contrast to the age-old institution of statism, of the political means, free-market capitalism arrived as a great revolutionary movement in the history of man. For it came into a world previously marked by despotism, by tyranny, by totalitarian control. Emerging first in the Italian city states free market capitalism arrived full scale with the Industrial Revolution in Western Europe, a revolution that brought about a remarkable release of creative energy and productive ability, an enormous increase of production. You can call that “greed” if you wish; you can attack as “greed” the desire of someone on a poverty level who wishes to better his lot.

This reminds me of an interesting point on “greed” that cuts across the usual “Left-Right” continuum. I remember when Russell Kirk first launched the contemporary conservative movement

in this country, in the mid-1950s. One of the leading young conservatives of that era addressed a rally, and opined that the whole trouble with the world, and the reason for the growth of the Left, is that everyone is “greedy,” the masses of Asia are “greedy,” and so on. Here was a person who owned half of Montana, attacking the mass of the world population, who were trying to rise above the subsistence level, to better their lot a bit. And yet they were “greedy.”

At any rate, free-market capitalism, the Industrial Revolution, saw an enormous outpouring of productive energies, an outpouring that constituted a revolution against the mercantilist system of the seventeenth and eighteenth centuries. In fact the mercantilist system is essentially what we’ve got right now. There is very little difference between state monopoly capitalism, or corporate state capitalism, whatever you want to call it, in the United States and Western Europe today, and the mercantilist system of the pre-Industrial Revolution era. There are only two differences; one is that their major activity was commerce and ours is industry. But the essential *modus operandi* of the two systems is exactly the same: monopoly privilege, a complete meshing in what is now called the “partnership of government and industry,” a pervasive system of militarism and war contracts, a drive toward war and imperialism; the whole shebang characterized the seventeenth and eighteenth centuries. The really *key* difference is that they didn’t have a gigantic P.R. apparatus; they didn’t have a fleet of intellectuals trumpeting to all and sundry the wonders of the system: how it promotes the common good and the general welfare, how this is Liberalism In Action. *They* said, “We’re out to shaft the public and we’re doing it!” They were very honest in those days. It’s really refreshing, by the way, to go back and read the material before 1914 and bask in the honesty of the period.

One of the concepts important in this connection is that of Albert Jay Nock, a great libertarian thinker and follower of Franz Oppenheimer. Nock coined two concepts: what he called “social power” on the one hand, and “state power” on the other. Social power is essentially what I have been talking about: the productive energies released by the free market, by voluntary exchanges, people interacting voluntarily and peacefully. “State power” is parasitism, exploitation, and the state apparatus in general--organized taxes, regulation, etc. And Nock saw history as essentially a race between social power and state power. In the Industrial Revolution period, for example, from various circumstances state power was minimal, and this allowed social power to take a tremendous burst upward. And what has happened in the twentieth century is essentially that state power has caught up; they’ve moved in on society and started crippling it once again.

What, then, is my view of the “future of capitalism”--our topic for today? My view of the future is highly optimistic. I really think that free-market capitalism, even though it is supposed to be a reactionary, Neanderthal institution, is the wave of the future. For one thing, it *was* the wave of the future a hundred and two hundred years ago, and what we have now is only a reactionary reversion to the previous system. The present system is not really “progressive” at all.

Second, it was discovered by Ludwig von Mises back in 1920 that socialism--the other polar alternative to our present neo-mercantilism--cannot run an industrial system. An agricultural system can be run indefinitely by almost anyone, as long as you leave the peasants alive. You can have almost any kind of tyrannical system over the peasants. But in an industrial system you need much more than that: you need a market, you need profit-and-loss tests, you can’t run the system haphazardly. And Mises proved that a socialist system cannot calculate economically, because it doesn’t have a price system for capital goods, and therefore socialism will not be able to run an industrial system. All the textbooks say that Mises was quickly refuted by Oskar Lange and others, but he really wasn’t refuted. I haven’t got time to go into the theoretical argument. But *in practice* what has happened is that, in response to industrialization, there has been a tremendous shift in the last fifteen years in the socialist countries of Eastern Europe away from socialism and towards a free market.

For a believer in freedom and the free-market, this shift is one of the most exciting developments of the past two decades. Now there are only two interpretations of this development: *either* you have to say, as the Chinese do, that the Yugoslavs, the Poles, the Czechs, the Slovaks, the Hungarians have all sold out to capitalism--they’ve gone in secret to the American Embassy and received their

pay. Or you have to say that something deeper is happening, that what is essentially happening is that they tried socialism and it didn't work, especially as the economies began to industrialize. They found in practice, pragmatically, without reading Mises (though there's evidence that they've read Mises by this time) and Hayek and others, that socialism can't calculate, they came to that conclusion themselves.

Lenin, indeed, came to that conclusion very early, when "War Communism" was scrapped in 1921. "War Communism" was an attempt, shortly after the Bolshevik Revolution, to leap into full communism, into an economy without money and without prices, in which everyone was supposed to--and in practice was forced to--present his goods to the common heap, and withdraw from that heap to satisfy his needs. The system of War Communism proved to be a total disaster--not because of the Civil War (that rationalization only came much later), but because of the communist system itself.<sup>[1]</sup> Lenin soon realized what was happening, and quickly instituted the New Economic Policy, which was essentially a return to a quasi-free market system. And now the Eastern European countries, especially Yugoslavia, have been moving very rapidly since the 1950s away from socialism and central planning and toward a free-market system.

In Yugoslavia, for example, agriculture, still the main industry, is almost completely private; a flourishing private sector exists in trade and small manufacturing; and the "public sector" has been turned over in fact as well as in law by the state to the ownership of the workers in the various plants--essentially functioning as producers' cooperatives. Furthermore, there is substantially a free market between these producers' co-ops, with a flourishing price system, stern profit and loss tests (when a firm loses enough money, it goes bankrupt). Moreover, the most recent Yugoslav economic reform which began in 1967 and is still underway, saw a tremendous drop in the rate of taxation of their co-ops--a drop from the previous approximately 70 per cent income tax rate to about 20 per cent. This means that, the central Yugoslav government no longer exercises complete control over investment: investment, too, has been decentralized *and* destatized. As a matter of fact, if one reads the Communist economists in Yugoslavia--especially in the relatively industrialized areas of Croatia and Slovenia--they sound very much like Barry Goldwater or Ronald Reagan. "Why should we productive Croats or Slovenes," they ask, "be taxed in order to subsidize those lazy slob down in Montenegro?" And: "why should we build uneconomic ("political") factories? Everyone should stand on their own feet", etc. The next step in Yugoslavia is that the banks--which, incidentally, are largely competitive private co-ops owned by their business clients--are agitating for a stock market in a Communist country, which would have been considered incredible ten or twenty years ago. And what they are proposing to call this system--literally--is "socialist people's capitalism."

On this point, a few years ago I was teaching a course in Comparative Economic Systems. Naturally, I spent the term praising the free market, and attacking socialism and central planning. Finally, I invited an exchange professor from Hungary--an eminent Communist economist--to give a guest lecture, and the kids felt: "Ah, at least we're going to get the other side of the picture." And what did the Hungarian economist do? He spent the entire lecture praising the free market and attacking central planning. He said almost exactly what I had been saying up till then.

In Eastern Europe, then, I think that the prospects for the free market are excellent--I think we're getting free-market capitalism and that its triumph there is almost inevitable. In the United States, the prospects are a little more cloudy, but here too we see the "New Left" picking up a lot of the positions that we "extreme Right-Wingers" used to have. Much of the position that used to be called "extreme Right-Wing" twenty years ago is now considered quite leftist.

As a result, I, with the same position I had then, have been shifted bodily from extreme right to left without any effort on my part at all. Decentralization; community control; attack on Leviathan government, on bureaucracy, on government interference with each person's life; attack on the state-ridden educational system; criticism of unionism, which is tied up with the state; opposition to militarism, war, imperialism, and conscription; all these things that the Left is now beginning to see, is precisely what we "extreme Right-Wingers" have been saying all along. And, as far as

“decentralization” goes, there is nothing that is so decentralized as the free market, and perhaps this too will come to the attention of the public.

And so, I’m very optimistic about the future of free-market capitalism. I’m *not* optimistic about the future of state capitalism--or rather, I *am* optimistic, because I think it will eventually come to an end. State capitalism inevitably creates all sorts of problems which become insoluble; as Mises again has pointed out, one intervention into the system to try to solve problems only creates other problems, which then demand further interventions, etc., and so the whole process keeps snowballing until you have a completely collectivist, totalitarian system. It’s very much like the escalation in Vietnam, by the way; the principle, as we all know by this time, is that government intervention in Vietnam creates problems which demand further escalation, etc. The same thing happens in domestic intervention, the farm program being a splendid example of this process.

Both in Vietnam and in domestic government intervention, each escalating step only creates more problems which confront the public with the choice: either press on further with more interventions, or repeal them--in Vietnam, withdraw from the country. Now in Yugoslavia and the rest of Eastern Europe, they have taken the opposite path: of progressive deescalation, of continuing repeal of one intervention after another, and on toward the free market. In the United States we have so far taken the path of accelerating interventions, of ever greater hobbling of the free market. But it is beginning to become evident that the mixed system is breaking down, that it doesn’t work. It’s beginning to be seen, for example, that the Welfare State does *not* tax the rich and give to the poor; it taxes the poorer to give to the richer, and the poor in essence pay for the Welfare State. It is beginning to be seen that foreign intervention is essentially a method of subsidizing favored American corporations instead of helping out the poor in the undeveloped countries. And it is now becoming evident that the Keynesian policies only succeeded in bringing us to the present impasse of inflation-cum-recession, and that our Olympian economists have no way of getting out of the present mess at all, except to cross their fingers and their econometric models and pray. And, of course, we can look forward to another balance-of-payments crisis in a couple of years, another episode of inflationary crisis in a couple of years, another episode of gold-outflow hysteria.

Thus, we have a lot of crises looming in America, some on their way, others imminent or already here. All of these crises are the products of intervention, and none of them can really be solved by more intervention. Again, I believe that we will eventually reverse our present course--perhaps taking Yugoslavia as our paradigm. Incidentally, Professor Averitt mentioned the Great Depression. The Great Depression has always been considered as the product of free-market capitalism of the 1920s. It was the result of very heavy government intervention in the 1920s, an intervention, by the way, that is very similar to the current intervention. In the 1920s, we had the newly imposed Federal Reserve System, which all the Establishment economists of the day assured us would eliminate all future depressions; the Federal Reserve System would henceforth manipulate prices and the money supply and iron out business cycles forever. Nineteen twenty-nine and the Great Depression were the results of that manipulation guided by the wise hands of Establishment economics--they were not the results of anything like free-market capitalism.

In short, the advent of industrialism and the Industrial Revolution has irreversibly changed the prognosis for freedom and statism. In the pre-industrial era, statism and despotism could peg along indefinitely, content to keep the peasantry at subsistence levels and to live off their surplus. But industrialism has broken the old tables; for it has become evident that socialism cannot run an industrial system, and it is gradually becoming evident that neomercantilism, interventionism, in the long run cannot run an industrial system either. Free-market capitalism, the victory of social power and the economic means, is not only the only moral and by far the most productive system; it has become the only viable system for mankind in the industrial era. Its eventual triumph is therefore virtually inevitable.

## Notes

[\[1\]](#) On War Communism, see the important article by Paul Craig Roberts, “War Communism: A Re-examination,” *Slavic Review* (June 1970), pp. 237-61.