

The Supremacy of the Market

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IN THE MARKET ECONOMY the consumers are supreme. Their buying and their abstention from buying ultimately determines what the entrepreneurs produce and in what quantity and quality. It determines directly the prices of the consumers' goods and indirectly the prices of all producers' goods, viz., labor and material factors of production. It determines the emergence of profits and losses and the formation of the rate of interest. It determines every individual's income. The focal point of the market economy is the market, i.e., the process of the formation of commodity prices, wage rates and interest rates and their derivatives, profits and losses. It

makes all men in their capacity as producers responsible to the consumers. This dependence is direct with entrepreneurs, capitalists, farmers and professional men, and indirect with people working for salaries and wages. The market adjusts the efforts of all those engaged in supplying the needs of the consumers to the wishes of those for whom they produce, the consumers. It subjects production to consumption.

The market is a democracy in which every penny gives a right to vote. It is true that the various individuals have not the same power to vote. The richer man casts more ballots than the poorer fellow. But to be rich and to earn a higher income is, in the market economy, already the outcome of a previous election. The only means to acquire wealth and to preserve

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it, in a market economy not adulterated by government-made privileges and restrictions, is to serve the consumers in the best and cheapest way. Capitalists and landowners who fail in this regard suffer losses. If they do not change their procedure, they lose their wealth and become poor. It is the consumers who make poor people rich and rich people poor. It is the consumers who fix the wages of a movie star and an opera singer at a higher level than those of a welder or an accountant.

Every individual is free to disagree with the outcome of an election campaign or of the market process. But in a democracy he has no other means to alter things than persuasion. If a man were to say: "I do not like the mayor elected by majority vote; therefore I ask the government to replace him by the man I prefer," one would hardly call him a democrat. But if the same claims are raised with regard to the market, most people are too dull to discover the dictatorial aspirations involved.

Second-Guessing the Customer

The consumers have made their choices and determined the income of the shoe manufacturer, the movie star and the welder. Who is Professor X to arrogate to himself the privilege of overthrowing their decision? If he were not a

potential dictator, he would not ask the government to interfere. He would try to persuade his fellow-citizens to increase their demand for the products of the welders and to reduce their demand for shoes and pictures.

The consumers are not prepared to pay for cotton prices which would render the marginal farms, i.e., those producing under the least favorable conditions, profitable. This is very unfortunate indeed for the farmers concerned; they must discontinue growing cotton and try to integrate themselves in another way into the whole of production.

But what shall we think of the statesman who interferes by compulsion in order to raise the price of cotton above the level it would reach on the free market? What the interventionist aims at is the substitution of police pressure for the choice of the consumers. All this talk: the state should do this or that, ultimately means: the police should force consumers to behave otherwise than they would behave spontaneously. In such proposals as: let *us* raise farm prices, let *us* raise wage rates, let *us* lower profits, let *us* curtail the salaries of executives, the *us* ultimately refers to the police. Yet, the authors of these projects protest that they are planning for freedom and industrial democracy.

Privileged Labor Unions

In most non-socialist countries the labor unions are granted special rights. They are permitted to prevent non-members from working. They are allowed to call a strike and, when on strike, are virtually free to employ violence against all those who are prepared to continue working, viz., the strikebreakers. This system assigns an unlimited privilege to those engaged in vital branches of industry. Those workers whose strike cuts off the supply of water, light, food and other necessities are in a position to obtain all they want at the expense of the rest of the population. It is true that in the United States their unions have up to now exercised some moderation in taking advantage of this opportunity. Other American unions and the European unions have been less cautious. They are intent upon enforcing wage increases without bothering about the disaster inevitably resulting.

The interventionists are not shrewd enough to realize that labor union pressure and compulsion are absolutely incompatible with any system of social organization. The union problem has no reference whatsoever to the right of citizens to associate with one another in assemblies and associations; no democratic country de-

nies its citizens this right. Neither does anybody dispute a man's right to stop work and to go on strike. The only question is whether or not the unions should be granted the privilege of resorting with impunity to violence. This privilege is no less incompatible with socialism than with capitalism. No social cooperation

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under the division of labor is possible when some people or unions of people are granted the right to prevent by violence and the threat of violence other people from working. When enforced by violence, a strike in vital branches of production or a general strike are tantamount to a revolutionary destruction of society.

A government abdicates if it tolerates any non-governmental agency's use of violence. If the government forsakes its monopoly of coercion and compulsion, anarchic conditions result. If it were true that a democratic system of government is unfit to protect unconditionally every individual's right to work in defiance of the orders of a union, democracy would be doomed. Then dictatorship would be the only means to preserve the division of labor and to avoid anarchy. What generated dictatorship in Russia and Germany was precisely the fact that the mentality of these nations made suppression of union violence unfeasible under democratic conditions. The dictators abolished strikes and thus broke the spine of labor unionism. There is no question of strikes in the Soviet empire.

Arbitration No Solution

It is illusory to believe that arbitration of labor disputes could bring the unions into the framework of the market economy and make their functioning compatible with the preservation of domestic peace. Judicial settlement of controversies is feasible if there is a set of rules available, according to which individual cases can be judged. But if such a code is valid and its provisions are applied to the determination of the height of

wage rates, it is no longer the market which fixes them, but the code and those who legislate with regard to it. Then the government is supreme and no longer the consumers buying and selling on the market. If no such code exists, a standard according to which a controversy between employers and employees could be decided is lacking. It is vain to speak of "fair" wages in the absence of such a code. The notion of fairness is nonsensical if not related to an established standard. In practice, if the employers do not yield to the threats of the unions, arbitration is tantamount to the determination of wage rates by the government-appointed arbitrator. Peremptory authoritarian decision is substituted for the market price. The issue is always the same: the government *or* the market. There is no third solution. . . .

Men must choose between the market economy and socialism. The state can preserve the market economy in protecting life, health and private property against violent or fraudulent aggression; or it can itself control the conduct of all production activities. Some agency must determine what should be produced. If it is not the consumers by means of demand and supply on the market, it must be the government by compulsion. ◆

LEONARD E. READ

MEN OF PREY

THE NEWEST and the most radical idea in political history has as its premise, "that all men . . . are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness." And then the idea's implementation: "*that to secure these rights, Governments are instituted among men. . .*"

Government's purpose, in other words, is to curb the oppression, the plundering — exploitation in the sense of being preyed upon — of man by man. These actions which are abusive of man's rights are to be codified and then posted for all to see (the law); these are the forbidden acts which government must restrain, inhibit, penalize. Let government stand guard against oppression, that is, against violence and/or fraud, and otherwise leave all citizens free to act creatively as they please. This

is the American ideal expressed in the Declaration of Independence.

But this inspired ideal has come a cropper. Oppression occurs on an enormous scale, and grows apace. And, contrary to most expectations, the greatest oppressor of all turns out to be the very agency designed to curb oppression! Among the reasons for society's protector turning predator is a faulty understanding of government's essential nature.

Woodrow Wilson put his finger on the nature of government: "The essential characteristic of all government, whatever its form, is authority. . . . *Government, in its last analysis, is organized force.*"¹ (Italics mine.)

Observe the distinction between

¹ See *The State: Elements of Historical and Practical Politics* by Woodrow Wilson. D. C. Heath & Co., 1898, revised ed., p. 572.