

The Economic Causes of War

by Ludwig von Mises

War is a primitive human institution. From time immemorial men were eager to fight, to kill, and to rob one another. However, the acknowledgment of this fact does not lead to the conclusion that war is an indispensable form of interpersonal relations and that the endeavors to abolish war are against nature and therefore doomed to failure.

We may, for the sake of argument, admit the militarist thesis that man is endowed with an innate instinct to fight and to destroy. However, it is not these instincts and primitive impulses that are the characteristic features of man. Man's eminence lies in his reason and in the power to think, which distinguishes him from all other living creatures. And man's reason teaches him that peaceful cooperation and collaboration under the division of labor is a more beneficial way to live than violent strife.

I do not want to dwell on the history of warfare. It is enough to mention that in the eighteenth century, on the eve of modern capitalism, the nature of war was very different from what it had been in the age of barbarism. People no longer fought one another with the aim of exterminating or

enslaving the defeated. Wars were a tool of the political rulers and were fought with comparatively small armies of professional soldiers, mostly made up of mercenaries. The objective of warfare was to determine which dynasty should rule a country or a province. The greatest European wars of the eighteenth century were wars of royal succession, for example, the wars of the Spanish, Polish, Austrian, and finally the Bavarian successions. Ordinary people were more or less indifferent about the outcomes of these conflicts. They were not much concerned about the question whether their ruling prince was a Habsburg or a Bourbon.

Nevertheless, these continuous struggles placed a heavy burden upon mankind. They were a serious obstacle to the attempts to bring about greater prosperity. As a result, the philosophers and economists of the time turned their attention to the study of the causes of war. The result of their investigation was the following:

Under a system of private ownership of the means of production and free enterprise, with the only function of government being to protect individuals against violent or fraudulent attacks on their lives, health or property, it is immaterial for the citizens of any nation where the frontiers of their country are drawn. It is of no concern for anyone whether his country is big or small, and whether it conquers a province or not. The individual citizens do not derive any profit from the conquest of a territory.

Ludwig von Mises (1881–1973) was the foremost Austrian economist of the twentieth century, an adviser to FEE from the time of its founding in 1946, and the author of Human Action, Socialism, and The Theory of Money and Credit. This is the major part of a lecture delivered in Orange County, California, in October 1944.

It is different with the princes or ruling aristocracies. They can increase their power and their tax revenues by expanding the size of their realms. They can profit from conquest. They are bellicose, while the citizenry is peace-loving.

Hence, the old liberals concluded there would be no more wars under a system of economic laissez faire and popular government. Wars would become obsolete because the causes for war would disappear. Since these eighteenth- and nineteenth-century classical liberals were fully convinced that nothing could stop the movement toward economic freedom and political democracy, they were certain that mankind was on the eve of an age of undisturbed peace.

What was needed to make the world safe for peace, they argued, was to implement economic freedom, free trade and goodwill among the nations, and popular government. I want to stress the importance of both of these requirements: free trade at home and in international relations, and democracy. The fateful error of our age has consisted in the fact that it dropped the first of these requirements, namely free trade, and emphasized only the second one, political democracy. In doing so, people ignored the fact that democracy cannot be permanently maintained when free enterprise, free trade, and economic freedom do not exist.

President Woodrow Wilson was fully convinced that what was needed to make the world safe for peace was to make it safe for democracy. During the first world war it was believed that if only the German royal house of the Hohenzollern and the privileged German landed aristocracy, the *Junkers*, could be removed from power, a durable peace could be achieved. What President Wilson did not see was that within a world of growing government omnipotence this would not be enough. In such a world of growing government power, there exist economic causes of war.

Does the Citizen Profit from Conquest?

The eminent British pacifist, Sir Norman Angell, repeats again and again that the indi-

vidual citizen cannot derive any profit from the conquest of a province by his own nation. No German citizen, says Sir Norman, profited through his nation's annexation of Alsace-Lorraine as a result of the Franco-Prussian War of 1870–1871. This is quite correct. But that was in the days of classical liberalism and free enterprise. It is another thing in our day of government interference with business.

Let us take an example. The governments of the rubber-producing countries have entered into a cartel arrangement in order to monopolize the market for natural rubber. They have forced the planters to restrict production in order to raise the price of rubber far above the level it would have attained on a free market. This is not an exceptional case. Many vital and essential foodstuffs and raw materials have been subject to similar policies implemented by governments around the world. They have imposed compulsory cartelization on numerous industries, as a result of which their control was shifted away from private entrepreneurs to the hands of government. Some of these schemes, it is true, have failed. But the governments concerned have not abandoned their plans. They are eager to improve the methods applied and are confident that they will be more successful after the present second world war.

There is a lot of talk nowadays about the necessity for international planning. However, no planning, whether it be national or international, is required to make planters grow rubber, coffee, and any other commodity. They embark upon the production of these commodities because it is the most advantageous way for them to make a living. Planning in this connection always means government actions for the restraint of output and the establishment of monopoly prices.

Under such conditions it is no longer true that a nation may not appear to derive a tangible profit from a victorious war. If the nations dependent on the importation of rubber, coffee, tin, cocoa, and other commodities could force the governments of the producing countries to abandon their

monopolistic practices, they would improve the economic welfare of their citizens.

To mention this state of affairs does not imply a justification for aggression and conquest. It only demonstrates how utterly mistaken are pacifists like Sir Norman Angell, who base their arguments in favor of peace on the unstated assumption that all nations are still committed to the principles of free enterprise.

Sir Norman Angell is a member of the British Labour Party. This party stands for the outright socialization of business. But the members of the Labour Party are too dull to realize what must be the economic and political consequences of the socialization of business.

The Case of Germany

I want to explain these consequences by referring, first of all, to the situation in Germany.

Like all other European nations, Germany is poor in natural resources. It can neither feed nor clothe its population out of its own available domestic resources. Germans must import huge quantities of raw materials and foodstuffs, and must pay for these badly needed imports by exporting manufactures, most of which are produced out of those imported raw materials. Under free enterprise, Germany brilliantly adjusted itself to this circumstance. Sixty or seventy years ago, in the 1870s and 1880s, Germany was one of the world's most prosperous nations. Its entrepreneurs succeeded extremely well in building up very efficient manufacturing plants. Germany's industry was foremost on the European continent. Its products triumphantly swept the world market. The Germans—all classes of the German population—became more prosperous from year to year. There was no reason to alter the structure of German business.

But most of the German ideologists and political writers, the government-appointed professors and the socialist party leaders, as well as the government bureaucrats, did not like the free-market system. They disparaged it as capitalist, plutocratic, bourgeois, and as

Western and Jewish. They lamented the fact that the free-enterprise system had incorporated Germany into the international division of labor.

All these groups and political parties wanted to substitute government management of business for free enterprise. They wanted to do away with the profit motive. They wanted to nationalize business and to subordinate it to the commands of the government. This is a comparatively simple thing in a country that by and large can live in economic self-sufficiency. Russia, occupying one-sixth of the earth's surface, can do without almost any imports from abroad. But it is different with Germany. Germany cannot eschew imports and consequently must export manufactures. This is precisely what a government bureaucracy can never achieve. Bureaucrats are only able to flourish in sheltered domestic markets. They are not fit to compete on foreign markets.

Most people in Nazi Germany today want the government to control business. But the fact is that government control of business and foreign trade are incompatible. A socialist commonwealth must aim at autarky. This is where aggressive nationalism—once referred to as Pan-Germanism, and today called National Socialism—comes into the picture. We are a powerful nation, the National Socialists say; we are strong enough to crush all other nations. We must conquer all those countries whose resources are essential for our own economic well-being. We need autarky and therefore we must fight. We need *Lebensraum* (living space) and *Nahrungs freiheit* (freedom from a scarcity of food).

Both terms mean the same thing, the conquest of a territory so large and rich in natural resources that the Germans could live without any foreign trade at a standard of living not lower than that of any other nation. The term *Lebensraum* is fairly well-known abroad. But the term *Nahrungs freiheit* is not. *Freiheit* means freedom; *Nahrungs freiheit* means freedom from a state of affairs under which Germany must import foodstuffs. It is the only "freedom" that matters in the eyes of the Nazis.

Both the Communists and the Nazis agree that the essence of what *they* mean by democracy, liberty, and popular government lies in the establishment of full government control of business. Whether one calls this system socialism or communism or planning is immaterial. Regardless of what it is called, this system requires economic self-sufficiency. But while Russia can, by and large, live in economic self-sufficiency, Germany cannot. Therefore a socialist Germany is committed to a policy of *Lebensraum* or *Nahrungs freiheit*, that is, to a policy of aggression.

The pursuit of a program of government control of business must finally result in a rejection of the international division of labor. From the viewpoint of Nazi philosophy, the only proper mode of international relations is war. Their most eminent men take pride in referring to a dictum of Tacitus. This Roman historian, almost two thousand years ago, said that the Germans consider it shameful to acquire by hard work what could be acquired by bloodshed. It was not a slip of the tongue when Kaiser Wilhelm II, in 1900, raised the Huns as a model for his soldiers. It was the encapsulation of a conscious policy.

Dependent on Imports

Germany is not the only European country depending on foreign imports. Europe—excluding Russia—has a population of about 400 million people, more than three times the population of the continental United States. But Europe does not produce cotton, rubber, copra, coffee, tea, jute, and many essential metals. And it has a quite insufficient production of wool, fodder, cattle, meat, hides, and of many cereals.

In 1937, Europe produced only fifty-six million barrels of crude petroleum, as compared with the U.S. production of 1,279 million barrels. Besides, almost all of Europe's petroleum production is located in Romania and in eastern Poland. But as a result of the present war, these areas will come under the control of Russia. Manufacturing and exporting manufactures are the essentials of Europe's economic life. However, exporting

manufactures is almost impossible under government control of business.

Such is the stark reality which no socialist rhetoric can conjure away. If the Europeans want to live they must cling to the well-tryed methods of free enterprise. The alternative is war and conquest. The Germans have tried it twice and failed both times.

However, the politically most influential groups in Europe are far from realizing the indispensability of economic freedom. In Great Britain and France, in Italy and in some smaller countries there is a powerful agitation for full government control of business. The case for economic freedom is almost a hopeless cause with the governments of these countries. The British Labour Party and those British politicians who wrongly still call their party the Liberal Party look upon this war not only as a fight for their nation's independence, but no less as a revolution for the establishment of government control of business. The third British party, the Conservative Party, by and large sympathizes with these endeavors. The British want to defeat Hitler, but they are eager to adopt his economic methods for their own country. They do not suspect that state socialism in Great Britain spells the doom of the British masses. Britain must export manufactures in order to buy raw materials and foodstuffs from abroad. Any drop in British exports lowers the standard of living of the British masses.

Conditions in France and Italy and in most other European countries are similar to those in Great Britain.

In supplying the domestic consumer with various necessities a socialist government is sovereign. The citizen must take what the government gives him. But it is different with any export trade. The foreign consumer buys only if both the quality and the price of the commodity offered for sale are attractive to him. In this international arena of serving foreign consumers, capitalism has shown its greater efficiency and adaptability. The high level of prewar Europe's economic well-being and civilization was not the outcome of the activities of government bureaus and agencies. It was an achievement of free enter-

prise. Those German cameras and chemicals, those British textiles, those Paris dresses, hats and perfumes, those Swiss watches, and Vienna leather fancy goods were not the product of government-controlled factories. They were the products of entrepreneurs indefatigably intent upon improving the quality and lowering the price of their merchandise. Nobody is bold enough to assume that a government agency could successfully replace the private entrepreneurs in this function.

Privately conducted foreign trade is the private affair between private firms of various countries. If some disagreements result, they are the conflicts between private firms. They do not create conflicts in the political relations between nations. They concern a Mr. Meier and a Mr. Smith. But if foreign trade is a matter of government, such conflicts are transformed into political issues.

Suppose the Dutch government prefers to buy coal from Great Britain rather than from the German Ruhr. Then the German nationalists may think, Why tolerate such behavior on the part of a small nation? It took the Third Reich precisely four days to smash the armed forces of the Netherlands in 1940. Let us try it again! Then we will enjoy all the products of the Netherlands, but without having to pay for them.

“Fair” Distribution of Resources

Let us analyze the frequently expressed demand of the Nazi and Fascist aggressors for a new and fair distribution of the natural resources around the globe. In a world of free enterprise, a man who wants to drink coffee and is not himself a coffee planter must pay for it. Whether it is a German or an Italian or a citizen of the Republic of Colombia, he must render some services to his fellowmen, earn a money income and spend part of it on coffee he desires. In the case of a country that does not produce coffee within its own borders, this means exporting goods or resources to pay for the coffee that is imported. But Messrs. Hitler and Mussolini do not imagine such a solution to the problem. What they would want is to annex

a coffee-producing country. But since the citizens of Colombia or Brazil are not enthusiastic about becoming the slaves of either the German Nazis or the Italian Fascists, this means war.

Another striking example is provided by the case of the cotton industry. For more than a hundred years, one of the main industries of all European countries was the spinning of cotton and the manufacture of cotton goods. Europe does not grow any cotton. Its climate is unfavorable. But the supply was always sufficient, with the only exception being the years during the American Civil War in the 1860s, when the conflict interrupted the supply of cotton from the Southern States. The European industrial countries acquired enough cotton not only for the needs of their own domestic consumption, but no less for undertaking a considerable export trade in cotton goods.

But in the years just preceding the start of the second world war, conditions changed. There was still an ample supply of raw cotton on the world market. But the system of foreign exchange controls that was adopted by most European countries prevented private businessmen from buying all the cotton they needed for their production processes. Hitler's contribution to the decline of the German cotton-goods industry consisted in restricting their production and making them discharge a large part of their workforce. Hitler did not worry much about the fate of these discharged workers. He sent them to work, instead, in the munitions factories.

As I already point out, there are no economic causes for armed aggression within a world of free trade and free enterprise. In such a world, no individual citizen can possibly derive any advantage from the conquest of a province or a colony. But in a world of totalitarian states, many citizens may come to believe in an improvement of their material well-being from the annexation of a territory rich in resources. The wars of the twentieth century have been, to be sure, economic wars. But they have not been caused by capitalism, as the socialists would have us believe. They are wars caused by governments aiming at complete political

and economic omnipotence, and have been supported by the misguided masses of these countries.

The three main aggressor nations in this war—Nazi Germany, fascist Italy, and Imperial Japan—will not attain their ends. They have been defeated, and they know it already. But they may try it again at a later date, because their counterfeit philosophy—their totalitarian creed—does not know of any other method of trying to improve the material conditions of the people other than war. For the totalitarian, conquest is the only viable political means to attain their economic ends.

Economic Mentality

I do not say that all wars of all nations and in all ages were motivated by economic considerations, that is, by the desire to make the aggressors rich at the expense of the defeated. There is no need for us to investigate the root causes of the crusades or the religious wars of the sixteenth and seventeenth centuries. What I want to say is that in our age the great wars have been the outcome of a specific economic mentality.

The second world war is certainly not a war between the white and the colored races. No racial differences separate the British, Dutch, and the Norwegians from the Germans, or the French from the Italians, or the Chinese from the Japanese. It is not a war between Catholics and Protestants. After all, there are Catholics and Protestants in both belligerent camps. It is not a war between democracy and dictatorship. The claim of several of the United Nations (Soviet Russia in particular) to the appellation “democratic” is rather questionable. On the other hand, Finland (which is allied with Nazi Germany) is a country with a democratically elected government.

My argument that recent wars have been motivated by economic considerations is not meant to be a justification of the aggressor’s policies. Viewed as an economic means for the attainment of certain economic benefits, the policy of aggression and conquest is self-defeating. Even if technically successful in the short run, it would never attain in the long run the ends at which the aggressors are aiming. Under the conditions of modern industrialism, there cannot be any question of a social system such as the Nazis plan under the name of a “New Order.” Slavery is not a method for industrial societies. If the Nazis had conquered their adversaries, they would have destroyed civilization and brought back barbarism. They would certainly not have erected a thousand-year New Order, as Hitler promised.

Thus, the main problem is how to avoid new wars. The answer is not to be found in setting up a better League of Nations; neither is it a question of the establishment of a better World Court, nor even in the implementation of a World Police Force. The real issue is to make all nations, or at least the most populous nations of the world, peace-loving. This can be achieved only by going back to free enterprise.

If we want to abolish war, we must remove the causes of war.

The great idol of our time is the State. The State is a necessary social institution, but it should not be deified. It is not a god; it is a device of mortal men. If we make it an idol, we must sacrifice to it the flower of our youth in coming wars.

What is needed to make a lasting peace is much more than new offices and a new court for the League of Nations in Geneva, or even a new international police force. What is needed is a change in political ideologies, and a return to a sound free-market economic system. □



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A Deficit of Understanding

"Nothing, however, can be more absurd than this whole doctrine of the balance of trade."

—ADAM SMITH

The Wealth of Nations

Here's some sound advice: don't worry about the trade deficit.

The pundits' and politicians' hysteria over the trade deficit is rooted in confusion. The fact is, a trade deficit is unlikely to be a problem. Let's see why all the fuss about it is pointless.

Begin by recognizing that most people who haven't studied international economics don't know what the trade deficit is. The term itself is used on different occasions to refer to two different things. One is trade in merchandise. A country runs a deficit in merchandise trade if the dollar value of the tangible goods that it imports exceeds the dollar value of the tangible goods that it exports. But so what? Despite the fetish that many people have for manufacturing, there's nothing economically special about tangible goods and, hence, nothing meaningful about measurements of imports and exports of merchandise.

Consider two examples.

- Americans import \$1 million of foreign cars and, in exchange, export to foreigners \$1 million worth of software

engineered in Silicon Valley. The software is delivered to foreigners by loading it onto computer diskettes and then shipping these diskettes abroad.

- Americans import \$1 million of foreign cars and, in exchange, export to foreigners \$1 million worth of software engineered in Silicon Valley. The software is delivered to foreigners by having them download it online.

Economically, no relevant difference separates these two examples. In both, foreigners use their dollars to buy American software-engineering services. But while in the first example America's merchandise-trade account is balanced, in the second, America has a merchandise-trade deficit.

A measurement so sensitive to such economically irrelevant factors as the *form* taken by exports and imports is unworthy of serious attention.

A better trade-measurement figure is the current account, which measures trade in goods *and* services. Not incidentally, the current account is balanced in both of the above examples.

Nevertheless, the picture of international trade offered by the current account is incomplete. As its name suggests, it excludes

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