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The Western State as a Paradigm: Learning from History

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If one decides to write on what to learn from the history of Western states, one must be convinced that there *is* something to be learned; and if one holds this to be the case, then one must reject two alternative views: the so-called Whig theory of history and historicism.¹

According to the Whig theory of history, mankind marches continuously forward. Human history is the record of progress. Better ideas replace worse ones; still better ideas come along later; and so on, forever. If this is the case, nothing can be learned from history. All one can do is first identify the most progressive society and then imitate its rules and institutions. Pursuant to the Whig theory, the people of Eastern Europe and the Third World can do no better than to imitate the Western European and U.S. democratic welfare states. There is no need for anyone to study the distant past because, *by assumption*, no mistakes have ever occurred in history. Whatever happened later was an improvement on what occurred earlier; hence, there is never any reason to study anything but the most progressive society's recent past, the most progressive of all ages.

According to historicism, there is no such thing as a moral "right" or "wrong," and all ethical judgements are subjective. Moreover, with the possible exception of the laws of logic, mathematics, and the natural sciences, no universal positive laws exist. Economics and sociology are only history, a chronicle of past actions and events, with no more to be learned from it than that "this is the way it was."

Both of these views, the Whig theory of history and historicism, are unacceptable. In their stead, I assume that both ethical truths and nonhypothetically true positive laws of economics and sociology exist. These assumptions make it possible to identify some fundamentally wrong turns in the history of the Western state.

¹ See also R. Nisbet, *History of the Idea of Progress* (New York: Basic Books, 1980); L. v. Mises, *Theory and History* (Auburn: Ludwig von Mises Institute, 1985); M. N. Rothbard, *Economic Thought*

Lesson One: Against Centralization

A state is a territorial monopolist of force. It is an agency that may engage in continual, institutionalized property rights violations and the exploitation—through expropriation, taxation, and regulation—of private property owners.² Assuming no more than self-interest on the part of governmental agents, every state (government) can be expected to make use of its monopoly and thus exhibit a tendency toward *increased* exploitation. On the one hand, this means increased internal exploitation (and not only via taxation); on the other hand, it means territorial expansion. States will always try to enlarge their opportunities for exploitation. In doing so, they will come into conflict with other, competing states. The competition between states, *qua* territorial monopolists of compulsion, is by its very nature an eliminative contest. That is, there can only be one monopolist of exploitation in any given area; thus, competition between states can be expected to promote a tendency toward increased political centralization and ultimately one, single, world state.

A glance at Western history suffices to illustrate the validity of this conclusion. At the beginning of this millennium, for instance, Europe consisted of thousands of independent political units. Now, only several dozen such units remain. To be sure, decentralizing forces also operated. There was the progressive disintegration of the Ottoman Empire from the sixteenth century until after World War I and the establishment of modern Turkey. The ethnically heterogeneous Habsburg Empire was gradually dismembered from the time of its greatest expansion under Charles V, until it disappeared and modern Austria was founded in 1918. And only recently, before our very eyes, the former Soviet Empire disintegrated. However, the overriding tendency has been in the opposite direction. For instance, during the second half of the seventeenth century, Germany consisted of some 234 countries, 51 free cities, and 1,500 independent knightly manors. By the early nineteenth century, the total number of the three had fallen to below 50, and by 1871 unification had been achieved. The scenario in Italy was similar. Even small states have a history of expansion and centralization. Switzerland began in 1291 as a confederation of three independent cantonal states. By 1848, it was a single (federal) state with some two dozen cantonal provinces.

Moreover, from a global perspective, mankind has come closer than ever before to the establishment of a world government. Even before the dissolution of the Soviet Union, the United States had attained hegemonic status over Western Europe (most notably West Germany) and the Pacific rim countries (most notably Japan). Several indications of the U.S. position are: the presence of American troops and military bases; the NATO and SEATO pacts; the roles of the American dollar as the ultimate international reserve currency and of the U.S. Federal Reserve System as the “liquidity provider” of last resort for the entire Western banking system; and American-dominated institutions such as the International Monetary Fund (IMF), the World Bank, and the recently established World Trade Organization (WTO). In addition,

² On the theory of the state, see M. N. Rothbard, *For A New Liberty* (New York: Macmillan, 1978); idem, *The Ethics of Liberty* (Atlantic Highlands, N.J.: Humanities Press, 1982); idem, *Power and Market* (Kansas City, Kans.: Sheed, Andrews, and McMeel, 1977); H. H. Hoppe, *Eigentum, Anarchie und Staat* (Opladen: Westdeutscher Verlag, 1987); idem, *A Theory of Socialism and Capitalism* (Boston: Kluwer, 1989); idem, *The Economics and Ethics of Private Property* (Boston: Kluwer, 1993); also A. J. Nock, *Our Enemy the State* (Delewan: Hallberg Publishing, 1983); F. Oppenheimer, *The State* (New York: Vanguard Press, 1914); idem, *System der Soziologie 2: Der Staat* (Stuttgart: G. Fischer, 1964).

American hegemony has steadily fostered the political integration of Western Europe. With the establishment of a European Central Bank and a European Currency Unit (ECU), the European Community will likely be complete before the turn of the century. At the same time, with the North American Free Trade Agreement (NAFTA), a significant step toward the political integration of the American continent has been taken. In the absence of the Soviet Empire and its military threat, the U.S. has emerged as the world's sole and undisputed military superpower and its "top cop."

According to the orthodox view, centralization is generally a "good" and progressive movement, whereas disintegration and secession, even if sometimes unavoidable, are anachronistic. It is assumed that larger political units—and, ultimately, a single world government—imply wider markets and, hence, increased wealth. Putative evidence for this is that economic prosperity has increased dramatically in the wake of centralization. However, rather than reflecting any truth, this orthodox view is more illustrative of the fact that history is typically written by its victors. Neither correlation nor temporal coincidence proves causation. In fact, the relationship between economic prosperity and centralization is very different from and, indeed, almost the opposite of what orthodoxy alleges.³

Political integration (centralization) and economic (market) integration are two completely different phenomena. Political integration involves the territorial expansion of a state's power of taxation and property regulation. Economic integration is the extension of the interpersonal and interregional division of labor and market participation. In principle, in taxing and regulating private property owners and market income earners, all governments are counterproductive. They *reduce* market participation and the formation of wealth. Once the existence of a government has been assumed, however, no direct relationship between territorial size and economic integration exists. Centralization can go hand in hand with either economic progress or retrogression. Progress results whenever a less taxing and regulating government expands its territory at the expense of a more exploitative one. If the reverse occurs, centralization implies economic disintegration and retrogression.

Yet, a highly important indirect relationship exists between size and economic integration. A central government ruling over large-scale territories cannot come into existence *ab ovo*. Instead, all institutions with the power to tax and regulate owners of private property must start out small. Smallness contributes to moderation, however. A small government has many close competitors, and if it taxes and regulates its subjects visibly more than its competitors do theirs, it is bound to suffer from the emigration of labor and capital and a corresponding loss of future tax revenue.⁴

³ On the political economy of centralization and decentralization, see also J. Baechler, *The Origins of Capitalism* (New York: St. Martin's, 1976), esp. chap. 7; H. H. Hoppe, "Against Centralization," *Salisbury Review* (June 1993); idem, "Migrazione, centralismo e secessione nell'Europa contemporanea," *biblioteca della liberta* no. 118 (1992).

⁴ Political competition is a far more effective device for limiting a government's natural desire to expand its exploitative powers than are internal constitutional limitations. Indeed, the attempts of some public choice theorists and of "constitutional economics" to design model liberal constitutions must strike one as hopelessly naive. For constitutional courts are part and parcel of the government apparatus whose powers they are supposed to limit. Why in the world should they want to constrain the power of the very organization that provides them with jobs, money, and prestige? To assume so is theoretically inconsistent, that is, incompatible with the assumption of self-interest. The naive constitutional approach is equally without historical foundation. Despite the explicit limitation of the power of the central government contained in the Tenth Amendment of the U.S. Constitution, the U.S. Supreme Court has rendered the amendment essentially null and void.

Contrary to orthodoxy, then, it is precisely the fact that Europe possessed a highly decentralized power structure composed of numerous independent political units that explains the origin of capitalism in the Western world. It is not by accident that capitalism first flourished under conditions of extreme political decentralization: in the northern Italian city states, in southern Germany, and in the secessionist Low Countries (Netherlands).

The competition among small states for taxable subjects brings them into conflict with each other. As a result of interstate conflicts, drawn out over the course of centuries, a few states succeed in expanding their territories, while others are eliminated or incorporated. Which states win in this process depends on many factors, but, in the long run, the decisive factor is the relative amount of economic resources at a government's disposal. In taxing and regulating, governments do not positively contribute to the creation of economic wealth. Instead, they parasitically draw on existing wealth. However, they can influence the amount of existing wealth negatively.

Other things being equal, the lower the tax and regulation burden imposed by a government on its domestic economy, the larger its population tends to grow (due to internal reasons as well as immigration), and the larger the amount of domestically produced wealth on which it can draw in its conflicts with neighboring competitors. For this reason, centralization is frequently progressive. Liberal states that tax and regulate their domestic economies little tend to defeat and expand their territories at the expense of nonliberal ones. This accounts for the outbreak of the Industrial Revolution in centralized England and France. It explains why, in the course of the nineteenth century, Western Europe came to dominate the rest of the world, and why this colonialism was generally progressive. Furthermore, it explains the rise of the U.S. to the rank of superpower in the course of the twentieth century.

However, the further the process of more liberal governments defeating less liberal ones proceeds—that is, the larger the territories, the fewer and more distant the remaining competitors, and the more costly international migration—the lower becomes a government's incentive to continue its domestic liberalism. As one approaches the limit of a One World state, all possibilities of voting with one's feet against a government disappear. Wherever one goes, the same tax and regulation structure applies. Relief from the threat of emigration removes a fundamental rein on the expansion of governmental power. This explains developments of the twentieth century: with World War I, and even more so with World War II, the U.S. attained hegemony over Western Europe and became heir to its vast colonial empires. A decisive step in the direction of global unification was taken with the establishment of a *pax Americana*. Indeed, throughout the entire period, the U.S., Western Europe, and most of the rest of the world have suffered from a steady and dramatic growth of government power, taxation, and regulatory expropriation.⁵

In light of social and economic theory and history, then, a first lesson follows: a plea for secession. Initially, secession is nothing more than a shifting of control over nationalized wealth from a larger, central government to a smaller, regional one. Whether this will lead to more or less economic integration and prosperity depends largely on the new regional government's policies. However, the sole fact of secession has a positive impact on production insofar as it reduces or eliminates "forced integration."

⁵ On this theme, see P. Johnson, *Modern Times* (New York: Harper & Row, 1983); R. Nisbet, *The Present Age* (New York: Harper & Row, 1988).

As a result of centuries of centralization, hundreds of distinct cultures have been extirpated. The process of centralization has also led to the economic exploitation and cultural domination of one ethnic, linguistic, religious, or cultural group by another, for example, of the Irish, Scots, and Welsh by the English; the Slovenes and Croats by the Serbs; and the Estonians, Lithuanians, and Latvians by the Russians. Forced integration, as illustrated by measures such as busing, affirmative action, and antidiscrimination laws, invariably creates tension, hatred, and conflict. In contrast, voluntary separation leads to social harmony and peace. Under forced integration, any mistake can be blamed on a "foreign" group or culture and all success claimed as one's own; hence, there is little or no reason for any culture to learn from another. Under a regime of "separate but equal," one must face up to the realities of cultural diversity and of visibly different ranks of cultural advancement. If a secessionist people wishes to improve or maintain its position vis-à-vis a competing one, nothing but discriminative learning will help. It must imitate, assimilate, and, if possible, improve upon the skills, traits, practices, and rules characteristic of more advanced cultures, and it must avoid those characteristic of less advanced societies. Rather than promoting a downward leveling of cultures as under forced integration, secession stimulates a cooperative process of cultural selection and advancement.

In particular, secession can also eliminate the immigration problem increasingly plaguing the countries of Western Europe as well as the U.S. Now, whenever a central government permits immigration, it allows foreigners to proceed—literally on government-owned roads—to any of its residents' doorsteps, regardless of whether these residents desire such proximity to foreigners. "Free immigration" is, to a large extent, forced integration. Secession solves this problem by letting smaller territories have their own admission standards to determine independently with whom they will associate at close range and with whom they prefer to cooperate from a distance.⁶

Moreover, while everything else depends on the new regional government's domestic policies and no direct relationship between size and economic integration exists, there is an important indirect connection. Just as political centralization ultimately tends to promote economic disintegration, so secession tends to advance integration and economic development. Secession always involves increased opportunities for interregional migration, so a secessionist government is immediately confronted with the specter of emigration. To avoid the loss of its most productive subjects, it comes under increased pressure to adopt comparatively liberal domestic policies by allowing more private property and imposing a lower tax and regulation burden than its neighbors. Ultimately, with as many territories as separate households, villages, or towns, the opportunities for economically motivated emigration is maximized, and government power over a domestic economy minimized.

Moreover, the smaller the country, the greater will be the pressure to opt for free trade rather than protectionism. All government interference with foreign trade forcibly limits the range of mutually beneficial interterritorial exchanges and thus leads to relative impoverishment, at home as well as abroad. But the smaller a territory and its internal markets, the more dramatic this effect will be. A country the size of the U.S., for instance, might attain comparatively high standards of living even if it renounced

⁶On the problem of immigration, see M. N. Rothbard, "Nations by Consent: Decomposing the Nation-State," *Journal of Libertarian Studies* 11, no. 1 (1994); H. H. Hoppe, "Free Immigration or Forced Integration?" *Chronicles* (June 1995).

all foreign trade, provided it possessed an unrestricted internal capital and consumer goods market. In contrast, consider a single household as the conceivably smallest secessionist unit. By engaging in unrestricted free trade, even the smallest territory can be fully integrated into the world market and partake of every advantage of the division of labor; its owners could well become the wealthiest people on earth. The existence of a single wealthy individual anywhere is living proof of this. On the other hand, if the same household owners were to forego all interterritorial trade, abject poverty or death would result. Accordingly, the smaller a territory and its internal markets, the more likely it is that it will opt for free trade.

Secession also promotes *monetary* integration. The process of centralization has resulted in the formation of an international cartel, dominated by the American government, of managed trade and migration, ever more invasive and burdensome governments, globalized welfare-warfare statism, and stagnant or even declining standards of living. It has also resulted in monetary disintegration: the destruction of the former international commodity (gold) money standard and its replacement with a dollar-dominated system of freely fluctuating government paper monies, that is, a global, U.S.-led, governmental counterfeiting cartel. This system of freely fluctuating paper currencies is no monetary system at all.⁷ It is a system of partial *barter*; it is detrimental to the purpose of money, to facilitate exchange. This becomes obvious once it is recognized that there is no special economic significance attached to the way national borders are drawn. And, if one imagines a proliferation of ever smaller national territories, ultimately to the point where each household forms its own country, fiat paper currency stands revealed for the outright absurdity it is. For if every household were to issue its own paper currency, the world would be right back at barter. No one would accept anyone else's paper, economic calculation would be impossible, and trade would come to a virtual standstill. From this theoretical insight it follows that secession, provided it proceeds far enough, will actually promote monetary integration. In a world of hundreds of thousands of Monacos, Andorras, San Marinos, Liechtenstein, Singapores, and Hong Kongs, each country would have to abandon fiat money, which has been responsible for the greatest global inflation in human history, and once again adopt an international commodity money system such as the gold standard.

Lesson Two: Against Democratization

Besides the tendency toward political centralization, the history of the Western states, and indeed of all states, has been characterized by another fundamental structural change: the transition from monarchical to democratic rule. In accordance with the rule that history is typically written by its victors, this change, too, is generally presented as a progressive development. However, in light of elementary economic theory, this interpretation also turns out to be largely unfounded, and the tendency toward democratization must indeed be interpreted as *reinforcing* the tendency toward increased exploitation caused by political centralization.⁸

⁷ See M. N. Rothbard, *The Case for a 100 Percent Gold Dollar* (Auburn: Ludwig von Mises Institute, 1991); idem, *The Case Against the Fed* (Auburn: Ludwig von Mises Institute, 1995); H. H. Hoppe, "How is Fiat Money Possible?—or, The Devolution of Money and Credit," *Review of Austrian Economics* 7, no. 2 (1994).

⁸ On the following, see H. H. Hoppe, "Time Preference, Government, and the Process of De-Civilization. From Monarchy to Democracy," *Journal des Economistes et des Etudes Humaines* 5, no. 4 (1994).

For most of its history, mankind, insofar as it was subject to any government control at all, was under monarchical rule. There were exceptions: Athenian democracy, Rome during its republican era until 31 B.C., the republics of Venice, Florence, and Genoa during the Renaissance period, the Swiss cantons since 1291, the United Provinces from 1648 until 1673, and England under Cromwell from 1649 until 1660. These were, however, rare occurrences in a world dominated by monarchies. With the exception of Switzerland, they were short-lived phenomena; and, constrained by monarchical surroundings, all older republics satisfied the open-entry requirement of modern democracies only imperfectly. That is, suffrage and the right to exercise government functions were restricted to extremely small numbers of "nobles." In Athens, for instance, only 15,000 to 20,000 people, out of a population of more than 400,000, possessed the right to vote and participate in government.

The transition from monarchy to democracy did not begin until the French Revolution, and it was only at the end of World War I that mankind truly left the monarchical age. The first assault of republicanism and the idea of popular sovereignty on the dominating monarchical principle was repelled with the military defeat of Napoleon and the restoration of Bourbon rule in France. However, the democratic-republican spirit of the French Revolution left a permanent imprint. From the restoration of the monarchical order in 1815 until the outbreak of World War I in 1914, all across Europe popular political participation and representation was systematically expanded. The franchise was successively widened everywhere, and the powers of popularly elected parliaments were gradually increased.

Although increasingly emasculated, the monarchical principle remained dominant until the cataclysmic events of World War I. Before the war, only two republics existed in Europe: Switzerland and France. And, of all major European monarchies, only the United Kingdom could be classified as a parliamentary system, that is, one where the supreme power was vested in an elected parliament. Only four years later, after the U.S.—where the democratic principle had triumphed with the destruction of the secessionist Confederacy by the centralist Union government—had entered the European war and decisively determined its outcome, monarchies had all but disappeared, and Europeans had turned to democratic republicanism.⁹

In Europe, the defeated Romanovs, Hohenzollerns, and Habsburgs had to abdicate or resign, and Russia, Germany, and Austria became democratic republics with universal adult suffrage and parliamentary governments. Likewise, all of the newly created successor states—Poland, Finland, Estonia, Latvia, Lithuania, Hungary, and Czechoslovakia (with the sole exception of Yugoslavia)—adopted democratic republican constitutions. In Turkey and Greece, the monarchies were overthrown. Even where monarchies remained nominally existent, as in Great Britain, Italy, Spain, Belgium, the Netherlands, and the Scandinavian countries, monarchs no longer exercised any governing power. Universal adult suffrage was introduced, and all government power was invested in parliaments and "public" officials. The democratic-republican age, a new world order under the aegis of a dominating U.S. government, had begun.

⁹ See G. Ferrero, *Peace and War* (Freeport: Books for Libraries Press, 1969), chap. 3; idem, *Macht* (Bern: A. Francke, 1944); B. de Jouvenel, *On Power* (New York: Viking, 1949); E. v. Kuehnelt-Leddihn, *Leftism Revisited* (Washington D.C.: H. Regnery, 1990); R. Bendix, *Kings or People* (Berkeley: University of California Press, 1978); R. R. Palmer and J. Colton, *A History of the Modern World* (New York: A. Knopf, 1992), esp. chaps. XIV, XVIII.

Interestingly, neither the proponents of democracy nor, more surprisingly, the defenders of the *ancien régime* recognized the fundamental *economic* implications of this change. From the point of view of economics, the transition from monarchy to democracy was essentially a change from a system of privately owned government to one of "publicly" owned government. Elementary economic theory leads one to suspect that the conduct of government and the effects of government policy on civil society will differ systematically depending on whether the government apparatus is owned privately or publicly.¹⁰

The defining characteristic of private government ownership, as exemplified by a monarchy, is that the expropriated resources and the monopoly privilege of future expropriation are individually *owned*. The appropriated resources are added to the ruler's private estate and treated as if they were a part of it, and the monopoly privilege of future expropriation is attached as a title to this estate and leads to an instant increase in its present value. Most importantly, as private owner of the government estate, the ruler is entitled to pass his possessions on to his personal heir, and he may personally employ or dismiss every administrator and employee of his estate.

In contrast, with a publicly owned government, as exemplified by a democracy, the control over the government apparatus lies in the hands of a trustee or caretaker. The caretaker may use the apparatus to his personal advantage, but he does not own it. He cannot sell government resources and privately pocket the receipts, nor can he pass government possessions on to his personal heir. He owns the *current use* of government resources, but not their capital value. Moreover, while entrance into the position of a private owner of government is restricted by the owner's personal discretion, entrance into the position of a caretaker-ruler is open. Anyone, in principle, can become the government's caretaker.

From this, two interrelated predictions can be made. First, a private government owner will tend to have a systematically longer planning horizon, that is, his degree of time preference will be lower. Accordingly, his degree of economic exploitation will tend to be less than that of a government caretaker. Second, subject to a higher degree of exploitation, the nongovernmental public will also be comparatively more present-oriented under a system of publicly owned government than under a regime of private government ownership.¹¹

A private government owner will try to maximize his total wealth (the present value of his estate *and* his current income). He will *not* want to increase his current income at the expense of a more than proportional drop in the present value of his assets, and, since acts of current income acquisition invariably have repercussions on present asset values (reflecting the value of all anticipated asset earnings discounted by the rate of time preference), private ownership in and of itself leads to economic calculation and promotes farsightedness. This implies a distinct moderation with respect to the ruler's incentive to exploit his monopoly privilege of expropriation, for acts of expropriation are, by their very nature, parasitic upon prior

¹⁰ See Rothbard, *Power and Market*, chap. 5; G. Hardin and J. Baden, eds., *Managing the Commons* (San Francisco: W. H. Freeman, 1977).

¹¹ On the theory of time preference, see in particular L. v. Mises, *Human Action* (Chicago: H. Regnery, 1966), chaps. XVIII, XIX; also W. St. Jevons, *Theory of Political Economy* (New York: A. Kelley, 1965); E. v. Boehm-Bawerk, *Capital and Interest* (South Holland: Libertarian Press, 1959); F. Fetter, *Capital Interest, and Rent* (Kansas City, Kans.: Sheed, Andrews, and McMeel, 1977); M. N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash, 1970), chaps. 5-7.

acts of production on the part of the nongovernmental public. Accordingly, a private government owner will want to avoid exploiting his subjects so heavily that he reduces his future earnings potential to such an extent that the present value of his estate (the country) actually falls. He will, of course, use his monopolistic privilege; he will not *not* exploit. As the government's private owner, he realizes that it may be in his interest to draw moderately from a growing, increasingly productive and prosperous economy.

Private ownership of government implies moderation and farsightedness for yet another reason. All private property is, by definition, exclusive property. He who owns property is entitled to exclude everyone else from its use and enjoyment. Only the king and, to a minor extent, his friends, employees, and business partners share in the enjoyment of expropriated resources and can thus lead a parasitic life. Because of these restrictions regarding entrance into government, private government ownership stimulates the development of a clear class consciousness on the part of the nongovernmental public and promotes opposition and resistance to any expansion of the government's exploitative power. There being an almost insurmountable barrier to upward mobility, solidarity among the ruled is strengthened, and the risk to the king of losing his legitimacy as the result of increased exploitation is heightened.

In distinct contrast, the caretaker of a publicly owned government will not try to maximize total government wealth (capital values and current income), but will rather raise current income (regardless, and at the expense, of capital values). Instead of maintaining or even enhancing the value of the government estate, its temporary caretaker will quickly use up as much of its resources as possible, for what he does not consume *now*, he may *never* be able to consume. A caretaker, as distinct from a king, has no interest in maintaining his country. For why should he *not* want to increase his exploitation, if the advantage of a policy of moderation cannot be reaped privately, while the advantage of the opposite policy of increased exploitation can be so reaped? To a caretaker, unlike to a private owner, moderation has only disadvantages and no advantages.

With a publicly owned government, anyone can aspire to become a member of the ruling class or even the supreme power. The distinction between the rulers and the ruled as well as the class consciousness of the ruled become blurred. The illusion even arises that the distinction no longer exists, that no one is ruled by anyone while everyone rules himself. Accordingly, public resistance against government power is systematically weakened. While exploitation before might have appeared plainly oppressive to the public, it seems much less so once anyone may freely enter the ranks of those who are at the receiving end.

Regarding the effect of government conduct on civil society, governmental violations of private property rights, whether in the form of taxation, inflation (counterfeiting), or regulation, have a twofold impact on individual time preferences. On the one hand, like crime, all government interference with private property rights reduce someone else's supply of present goods and thus raises his effective time preference rate. On the other hand, government offenses, unlike crime, simultaneously raise the time preference *degree* of actual and potential victims because they also imply a reduction in the supply of *future* goods (a reduced rate of return on investment). Because governmental property rights violations are continual, the actual and potential victims respond by associating a permanently higher risk with all future production and systematically adjusting their expectations concerning the rate of return on all future investment downward. Therefore, by simultaneously reducing the supply of

present *and* expected future goods, governmental property rights violations not only raise time preference *rates* (with given schedules) but also time preferences *schedules*. Because private owner-producers are, and see themselves as, defenseless against future victimization by government agents, their expected rate of return on productive, future-oriented actions is uniformly reduced; accordingly, all actual and potential victims tend to become more present-oriented.¹² Furthermore, because the degree of exploitation is comparatively higher under a publicly owned government, this tendency toward present orientation will be significantly more pronounced than if government were privately owned.

In light of these theoretical considerations, the end of World War I can be identified as the point in time at which private government ownership was completely replaced by public government ownership, and whence a systematic tendency toward increased governmental exploitation and rising degrees of social present-orientedness could be expected to take off. Indeed, such has been the grand, underlying theme of Western history since 1918.

Regarding indicators of exploitation, there is no doubt that the taxes imposed on civil society increased during the monarchical age. However, throughout the entire period, the share of government revenue remained remarkably low. Economic historian Carlo M. Cipolla observes that "it is difficult to imagine that, apart from particular time and places [such as wars], the public power ever managed to draw more than 5 to 8 percent of national product." He goes on to note that this portion was not systematically exceeded until the second half of the nineteenth century.¹³ Even at the outbreak of World War I, total government expenditure as a percentage of Gross Domestic Product (GDP) typically had not risen above 10 percent and only rarely, as in the case of Germany, exceeded 15 percent. In striking contrast, with the onset of the democratic-republican age, total government expenditure as a percentage of GDP typically increased to between 20 and 30 percent in the course of the 1920s and 1930s, and, by the mid-1970s, had generally reached 50 percent.¹⁴ Although total government employment increased during the monarchical age, until the very end of the nineteenth century, it rarely exceeded 3 percent of the total labor force. In contrast, by the mid-1970s, government employment as a percentage of the total labor force had typically grown to close to 20 percent.¹⁵

The same pattern emerges from an examination of inflation and data on the money supply. The monarchical world was generally characterized by the existence of a commodity money, typically gold or silver. A commodity money standard makes it difficult, if not impossible, for a government to inflate the money supply; and monarchical rulers, hard as they tried, did not succeed in establishing lasting monopolies of pure fiat currencies, that is, of irredeemable government paper monies. Accordingly, during the monarchical age the "level" of prices generally fell and the purchasing

¹² See Rothbard, *Power and Market*, chap. 4; A. T. Smith, *Time and Public Policy* (Knoxville: University of Tennessee Press, 1988); Hoppe, "Time Preference, Government, and the Process of Decivilization. From Monarchy to Democracy."

¹³ C. M. Cipolla, *Before the Industrial Revolution. European Society and Economy, 1000-1700* (New York: W.W. Norton, 1980), 48.

¹⁴ See P. Flora, *State, Economy and Society in Western Europe 1* (Campus: Frankfurt, 1983): 258-59.

¹⁵ Flora, *State, Economy and Society in Western Europe*, chap. 8.

power of money increased, except during times of war or new gold discoveries. Various price indices for Britain, for instance, indicate that prices were substantially lower in 1760 than they had been a hundred years earlier; they were still lower in 1860 than they had been in 1760. Similarly, during the more than seventy years between 1845 and the end of World War I, the British money supply increased only about sixfold. Connected by an international gold standard, the development in other countries was similar.¹⁶

After 1918, under conditions of democratic republicanism, the gold standard was first replaced by a spurious gold standard, the so-called gold exchange standard, which survived until 1971. Since then, for the first time in history, the entire world has adopted a pure fiat money system of freely fluctuating government paper currencies. Accordingly, rather than a gradual increase in the purchasing power of money, a seemingly permanent secular tendency toward inflation and currency depreciation has come into existence.¹⁷ The "level" of prices has practically always moved upward, especially since 1971, and, in the more than seventy years since 1918, the U.S. money supply, in a development with parallels throughout the world, has increased more than sixtyfold.¹⁸

In addition to taxation and inflation (counterfeiting), a government can resort to debt in order to finance its current expenditures. As predicted by theory, kings were more moderate borrowers than were democratic-republican caretakers. Throughout the monarchical age, government debts were essentially war debts, and, while the total debt tended to increase over time, monarchs typically reduced their debts during peacetime. In striking contrast, since the beginning of the democratic-republican age, government debts typically increased in war *and* in peace, and, since the fateful events of 1971 when a pure fiat money regime facilitating the monetization of government debt came into being, they have literally skyrocketed.¹⁹

The same tendency toward increased exploitation also becomes apparent from examining government legislation and regulation. During the monarchical age, with a clear-cut distinction between the ruler and the ruled, the king and his parliament were held to be *under* the law.²⁰ They applied preexisting law as judge or jury. They did not make law. To be sure, due to the king's monopoly of administering the law, the price of law increased and its quality decreased. But as late as the beginning of the twenti-

¹⁶ See B. R. Mitchell, *Abstract of British Historical Statistics* (Cambridge: Cambridge University Press, 1962), 468ff; idem, *European Historical Statistics 1750-1970* (New York: Columbia University Press, 1978), 388ff.

¹⁷ See M. N. Rothbard, *What Has Government Done to Our Money* (Auburn: Ludwig von Mises Institute, 1990); idem, *The Mystery of Banking* (New York: Richardson & Snyder, 1983); idem, *The Case Against the Fed*; R. Paul and L. Lehrmann, *The Case for Gold: A Minority Report to the U.S. Gold Commission* (Washington, D.C.: Cato Institute, 1982).

¹⁸ See M. Friedman and A. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963), 702-22; *Economic Report of the President* (Washington D.C.: Government Printing Office, 1992).

¹⁹ See S. Homer and R. Sylla, *A History of Interest Rates* (New Brunswick, N.J.: Rutgers University Press, 1991), 188, 437; J. Hughes, *American Economic History* (Glenview: Scott, Foresman, 1990), 432, 498, 589.

²⁰ See B. de Jouvenel, *Sovereignty* (Chicago: University of Chicago Press, 1957); also F. Kern, *Kingship and Law in the Middle Ages* (Greenwich and New York: Greenwood Press, 1985); B. Rehfeld, *Die Wurzeln des Rechts* (Berlin, 1951).

eth century, A. V. Dicey could still maintain that in Great Britain legislated law, as distinct from pre-existing law, did not exist.²¹

In striking contrast, under democracy, with the exercise of power shrouded in anonymity, presidents and parliaments quickly came to rise *above* the law. They became not only judge but legislator, the creator of "new" law.²² In a development similar to the democratization of money, the democratization of law and law administration has led to a steadily growing flood of legislation. Presently, the number of legislative acts and regulations passed by parliaments in the course of a single year is in the tens of thousands, filling hundreds of thousands of pages, affecting all aspects of civil and commercial life, and resulting in a steady depreciation of all law and heightened legal uncertainty. As a typical example, the 1994 edition of the *Code of Federal Regulations*, the annual compendium of all U.S. Federal Government regulations currently in effect, consists of a total of 201 books, occupying about 26 feet of library shelf space. The Code's index alone is 754 pages.²³

Regarding indicators of rising social time preference (present orientedness), history reveals an equally clear pattern. The most direct indicator of social time preference is the rate of interest. The interest rate is the ratio of the valuation of present goods as compared to future goods. A high interest rate implies more "present orientedness" and a low rate of interest implies more of a "future orientation." Under normal conditions, that is, under the assumption of increasing standards of living and real-money incomes, the interest rate can be expected to fall and ultimately approach, yet never quite reach, zero, for with rising real incomes, the marginal utility of present money falls relative to that of future money. Hence under the *ceteris paribus* assumption of a given time preference schedule, the interest rate must fall.

In fact, a tendency toward falling interest rates characterizes mankind's suprasecular trend of development. In thirteenth-century Europe, the lowest interest rate on "safe" long-term loans was 8 percent. In the fourteenth century, rates came down to about 5 percent. In the fifteenth century, they fell to 4 percent. In the seventeenth century they went down to 3 percent. And at the end of the nineteenth century, minimum interest rates had further declined to less than 2.5 percent.²⁴ This trend was by no means smooth. It was frequently interrupted, during times of wars and revolutions, by periods of rising interest rates. But the overriding tendency toward lower interest rates reflects mankind's overall advance from barbarism to civilization. Against this historical backdrop and in accordance with economic theory, it should be expected that twentieth-century interest rates would have to be still lower than nineteenth-century rates. Only two possible explanations exist why this should not be the case. The first possibility is that twentieth-century real incomes did not exceed nineteenth-century income. This explanation can be safely ruled out on empirical grounds. Only the second explanation remains. If real incomes are in fact higher but interest rates are not lower, then the *ceteris paribus* clause can no longer be assumed true. Rather,

²¹ See A. V. Dicey, *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century* (London: Macmillan, 1903); also F. A. Hayek, *Law Legislation, and Liberty* 1 (Chicago: University of Chicago Press, 1973), chaps. 4 and 6; B. Leoni, *Freedom and the Law* (Indianapolis, Ind.: Liberty Fund, 1991).

²² See also R. Nisbet, *Community and Power* (New York: Oxford University Press, 1962), chap. 5.

²³ See D. Boudreaux, "The World's Biggest Government," *Free Market* (November 1994).

²⁴ See Homer and Sylla, *History of Interest Rates*, 557-58.

the time preference schedule must have shifted upward, that is, people on the average must have become more present oriented, which appears to be the case.

An inspection of the lowest decennial average interest rates for the Western world shows that interest rates during the entire post-World War I era were never as low or lower than they had been during the second half of the nineteenth century. This conclusion does not change, even if one takes into account that modern interest rates, in particular since the 1970s, include a systematic inflation premium. After adjusting recent nominal interest rates for inflation in order to yield an estimate of real interest rates, contemporary rates still appear to be significantly higher than those of 100 years ago. On the average, minimum long-term interest rates in Europe and the U.S. nowadays seem to be well above 4 percent, and possibly as high as 5 percent, or above the interest rates of seventeenth-century Europe and as high or higher than fifteenth-century rates.²⁵

Parallel to this development and reflecting a more specific aspect of the same underlying phenomenon of high or rising social time preferences, indicators of family disintegration have exhibited a systematic increase. Until the end of the nineteenth century, the bulk of government spending went into financing the military. Welfare spending played almost no role. Insurance was considered to be in the province of individual responsibility, and poverty relief was seen as the task of voluntary charity. In contrast, as a reflection of the egalitarianism inherent in democracy, the late nineteenth century saw the beginning of the collectivization of individual responsibility. This has proceeded so far that the bulk of public spending nowadays is eaten up by welfare expenditures: by compulsory government "insurance" against illness, occupational injuries, old age, unemployment, and an ever-expanding list of other "disabilities."²⁶ Consequently, by increasingly relieving individuals of the responsibility of having to provide for their own health, safety, and old age, the range and the temporal horizon of private provisionary action have been systematically reduced. In particular, the value of marriage, family, and children have fallen because they are less needed when one can fall back on "public" assistance. Since the onset of the democratic-republican age, the birth rate in Western countries fell from 30 to 40 per 1,000 population to about 15 to 20.²⁷ At the same time, the rates of divorce, illegitimacy, single parenting, singledom, and abortion have steadily increased, while personal savings rates have begun to stagnate or even fall rather than rise proportional or over-proportional to rising incomes.²⁸

Moreover, as a consequence of the depreciation of law resulting from an unabating flood of legislation and the collectivization of responsibility effected by welfare policies, the rates of crimes of a serious nature, such as murder, assault, robbery, and theft, have likewise shown a systematic upward tendency. In the "normal" course of

²⁵ Ibid., 554-55; Cipolla, *Before the Industrial Revolution*, 39.

²⁶ Cipolla, *Before the Industrial Revolution*, 54-55; Flora, *State Economy and Society in Western Europe*, chap. 8 and 454.

²⁷ See Mitchell, *European Historical Statistics 1750-1970*, 16ff.

²⁸ See A. C. Carlson, *Family Questions* (New Brunswick, N.J.: Transaction Publishers, 1992); idem, *The Swedish Experiment* (New Brunswick, N.J.: Transaction Publishers, 1993); idem, "What Has Government Done to Our Families?" *Essays in Political Economy* 13 (Auburn: Ludwig von Mises Institute, 1991); Ch. Murray, *Losing Ground* (New York: Basic Books, 1984); also J. A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper, 1942), chap. 14.

events, that is, with rising standards of living, it can be expected that the protection against social disasters such as crime will undergo continual improvement, just as one would expect the protection against natural disasters to become progressively better. Indeed, throughout the Western world, this appears to have been the case by and large until recently when, during the second half of the twentieth century, crime rates began to climb steadily upward.²⁹

To be sure, there are a number of factors other than increased irresponsibility and shortsightedness brought on by legislation and public welfare that may contribute to crime. Men commit more crimes than women, the young more than the old, blacks more than whites, and city dwellers more than villagers. There is, however, a systematic relationship between high time preference and crime. Consequently, if the social degrees of time preference increases, the frequency of serious crime should rise, as in fact has happened.³⁰

From the vantage point of elementary economic theory and in light of historical evidence, then, a second lesson follows: a plea for de-democratization.

Such a plea is not one for a return to the *ancien régime*. The legitimacy of monarchical rule appears to have been irretrievably lost. Nor would such a return be a genuine solution, for monarchies, whatever their relative merits, do exploit and do squander the earnings of their subjects. Rather, the idea of democratic republicanism must be rendered laughable by identifying it as the source of steadily increased government exploitation and waste. More importantly, however, the idea of the positive alternative of a natural order must be spelled out and a strategy of how to actualize it must be outlined.³¹

On the one hand, this involves the insight that it is not exploitation, either monarchical or democratic, but private property, production, and voluntary exchange that are the ultimate sources of human civilization. On the other hand, in order to approach the goal of a nonexploitative social order, which we may call private property anarchy, the idea of majoritarianism should be turned against democratic rule itself. Under any form of government, even under democracy, the ruling class makes up only a small proportion of the total population. Given this fact, it would appear possible to persuade a majority of the voters that it is adding insult to injury to let those living from other peoples' taxes have a say in how high these taxes are. The majority of voters could decide, democratically, to take the right to vote away from all government employees and everyone who receives government benefits, whether they are welfare recipients or professors at state-funded universities.

Moreover, in conjunction with this strategy, it is necessary to recognize the overriding importance of secession. Secession always involves the breaking away of a smaller from a larger population. It is thus a vote against the consolidating tendency

²⁹ See J. Q. Wilson and R. J. Herrnstein, *Crime and Human Nature* (New York: Simon & Schuster, 1985), 408–09; on the magnitude of the increase in criminal activity brought about by democratic republicanism and welfarism in the course of the last 100 years, R. D. McGrath, *Gunfighters, Highwaymen, and Vigilantes* (Berkeley: University of California Press, 1984), esp. chap. 13.

³⁰ On the relationship between high time preference and crime, see E. C. Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown & Company, 1974), esp. chaps. 3 and 8; idem, "Present-Orientedness and Crime," *Assessing the Criminal*, ed. R. E. Barnett and J. Hagel (Cambridge: Ballinger, 1977); Wilson and Herrnstein, *Crime and Human Nature*, 414–24.

³¹ See H. H. Hoppe, "The Political Economy of Monarchy and Democracy and the Idea of a Natural Order," *Journal of Libertarian Studies* 11, no. 2 (1995).

of democracy and majoritarianism. Provided that the process of secession results in small enough political units, it becomes possible for a few individuals, based on the popular recognition of their economic independence, outstanding professional achievement, morally impeccable personal life, superior judgment and taste, and courage, to rise to the rank of natural, voluntarily acknowledged authorities who lend legitimacy to the idea of a natural order of competing (nonmonopolistic) judges and overlapping jurisdictions. Such a pattern exists even now in the arena of international trade and travel, which is a pure private-law society, and could be instituted more pervasively as the answer to monarchy *and* democracy.

Lesson Three: Against Relativism (Positivism)

There are no immutable laws of history. The events of the past were neither inevitable, nor is our future written in stone. Rather, history as well the future course of events has been and will be determined by ideas, both true and false. The formation of states, the tendency toward political centralization, the transition from monarchical to democratic rule, as well as the resistance to governmental exploitation, the peaceful or violent overthrow of governments, secessionist movements, and the continued existence of a system of anarchical relations within the sphere of international politics and trade (the absence of a world government) were and are the result of changing and conflicting ideas, and the relative distribution and strength of these ideas in the minds of individuals.

The history of the West, and the outstanding role of the Western world in human history, is intertwined with two uniquely Western intellectual contributions: Greek rationalism and Christianity. The West has come to incorporate Greek and Christian ideas, and then, as a result of Renaissance, Reformation, Counterreformation, Enlightenment, and Romanticism, the successive disintegration and devolution of their synthesis into the present ideology of Secular Relativism (Positivism).

Classical Greek thought, culminating in the work of Aristotle, contributed a thorough rationalist attitude to the West: the view of man as a *rational* animal, the highest respect for logic and logical reasoning, a strong belief in the existence of natural law and the intelligibility of nature and man, and a firm realism and "this-worldliness." However, as the by-product of rationalism, Greece also produced Sophism, Skepticism, and Relativism.³²

Mainstream Christianity, after confused beginnings and numerous abortive schisms stemming from major inconsistencies and contradictions in the system of the Holy Scriptures, adopted Greek this-worldliness (if only as a temporal, and transitory end); it affirmed the *Genesis* passage "Be fruitful, and multiply, and replenish the earth, and subdue it; and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth"; and it adopted the Greeks' high regard for rationality and a firm belief in the intelligibility of nature and man and in the possibility of human progress. Mainstream Christianity made several other unique contributions. Even more than Greek paganism, Christian monotheism placed emphasis on logical consistency and on the idea of the universality of law and the unity of thought. In addition, in viewing each man as created in the divine image, Christianity gave the Greek idea of natural law a decisively individualistic turn. Natural

³² See Rothbard, *Economic Thought Before Adam Smith*, chap. 1.

human rights in particular became *individual* human rights, which applied equally to every human being and united all of mankind in a single oecumene.

Moreover, mainstream Christianity gradually freed itself of its largely cultist beginnings when the basic Christian unit was a sect, based on communal or even communist property ownership and controlled by a cult leader or hierarchy of leaders. Influenced by its long contact with Rome and the Roman family and kinship system, mainstream Christianity accepted the individual family and the private household as the basic unit of civil life (and communal ownership was relegated to monasteries and monastic life). Furthermore, the family provided the model of the Christian social order. Just as a hierarchical order existed in each family, so there was a hierarchical order within the Christian community of children, parents, priests, bishops, archbishops, cardinals, the Pope, and finally the transcendent God as the Father in heaven. Likewise, regarding earthly affairs, society was viewed as a quasifamilial hierarchy of free holders, knights, vassals, lords, and feudal kings, tied together by an elaborate system of kinship relations. And analogous to the supremacy of spiritual values in the family, the earthly power of lords and kings was held to be subordinate and subject to the ultimate, spiritual-intellectual authority of priests, bishops, the pope, and ultimately, God.

In effect, this combination of individualism, universalism, the family and kinship orientation, the acknowledgement of a multilayered social rank order and the recognition of the supremacy of the universal—supraterritorial—Church over any particular lord or king shaped Christianity into a powerful ideological weapon against the growth of state power.³³ However, Christian doctrine as embodied in Scholastic philosophy suffered from an inescapable internal contradiction. Scholasticism did not succeed in bridging the gulf between belief and revealed dogma, on the one hand, and knowledge and intelligibility, on the other. Hence, its acceptance of rationalism was ultimately only conditional.³⁴ As a result of a series of ideological challenges, the Scholastic system slowly disintegrated, and the ideological bulwark that it once provided against the encroachment of state power gradually eroded.

With the Renaissance, Greek paganism and secularism returned to the ideological scene. Moral relativism spread, and ideologues of unlimited state power such as Machiavelli rose to prominence, preparing the intellectual ground for numerous local tyrants and despots. Attention shifted away from the sciences. Mysticism flourished. Increased emphasis was placed on the arts, and, as a reflection of the newly found “freedom from” religious and moral constraints, the arts became increasingly profane and sensual, as in the erotic paintings of Correggio and the writings of Boccaccio and Rabelais.³⁵

In ideological reaction to these “decadent” tendencies, which had also affected the mainstream Church, the Reformation brought a sharp return to religion. However,

³³ See Lord Action, *Essays in the History of Liberty* (Indianapolis: Liberty Fund, 1985), chap. 2; Rothbard, *Economic Thought Before Adam Smith*, chaps. 2–4; R. Nisbet, *Prejudices* (Cambridge: Harvard University Press, 1982), 110ff.

³⁴ See L. v. Mises, *Theory and History* (Auburn, Ala.: Ludwig von Mises Institute, 1985), 44ff.; E. Cassirer, *The Myth of the State* (New Haven: Yale University Press), chap. VII.

³⁵ See A. Ruestow, *Freedom and Domination. A Historical Critique of Civilization* (Princeton, N.J.: Princeton University Press, 1980), 256–67; Nisbet, *Prejudices*, 261ff.; Rothbard, *Economic Thought Before Adam Smith*, chap. 6; Q. Skinner, *The Foundations of Modern Political Thought* 1 (Cambridge: Cambridge University Press, 1978).

the new Protestant religiosity was decidedly reactionary: antirationalist and egalitarian. Faith, held to be the sole path to salvation, was viewed as the foundation of Christianity, whereas that "harlot reason," as Luther called it, was held in contempt. God's will was considered unintelligible and irrational; the Augustinian doctrine of human predestination was revived; the fate of each person was held to be dependent upon the grace of God and His unfathomable decree. At the same time, the Bible was elevated to the rank of the highest religious authority, and the idea of a "universal priesthood," based on everyone's personal Bible reading and unmediated through the spiritual hierarchy of the Church, was promoted. Each person came to be viewed as an independent and equal religious authority, subject only to his own conscience. The formerly established distinction between a secular life and an institutionally separate religious life of priests and monks was erased, and all of life was viewed as an exercise in Christian faith.³⁶

As a result of antirationalism, the development of the sciences suffered, and literature and the arts declined. Even more momentous, however, were the effects of Protestant egalitarianism. Not only did it lead to the destruction of the unity of the Church, but without any recognizable spiritual ranks, that is, with the democratization of religious authority, the Protestant movement quickly disintegrated into numerous branches. Long submerged strands of early Christianity, such as Millenarianism, Anabaptism, and Communism, resurfaced. The proliferation of religious confessions, cults, and sects, incompatible with each another but each grounded in the Holy Scripture as the highest authority and hermetically shielded from all rational inquiry, promoted social disintegration, mutual hostility, and finally warfare on a scale and of a brutality unsurpassed in the West until the late nineteenth and the twentieth centuries.³⁷ Moreover, in breaking up the unity of the Catholic Church and undermining the idea of a spiritual rank order, the Protestant revolution isolated and weakened the individual vis-à-vis earthly rulers. The rulers, relieved of the countervailing authority of a universal Church and its hierarchy, eagerly exploited this opportunity for an expansion of state power by establishing numerous territorial Churches and by merging the secular and the ecclesiastic powers in their own hands.

The Counterreformation duplicated within the remaining Catholic world what the Reformation had accomplished for the Protestant world. Everywhere, formerly weak feudal kings became mighty, absolute monarchs.³⁸ In reaction to Reformation and Counterreformation, then, the seventeenth- and eighteenth-century Enlightenment brought a decisive return of rationalism. But the rationalism of the Enlightenment suffered—and ultimately succumbed—because of two fundamental flaws. On the one hand, in reaction to the religious fervor stirred by the Reformation and the Counterreformation, the rationalism of the Enlightenment was significantly *anti-clerical* and even *anti-Christian*. On the other hand, influenced by the Protestantism, it was a decisively *egalitarian* rationalism.³⁹

The recognition of the supremacy and autonomy of reason and a renewed interest in both Stoic philosophy and late Scholasticism (Molina, Suarez, Mariana) led to the development of a new secular, purely rational natural rights doctrine centered on the notions of self-ownership, private property, and contract: to Althusius, Grotius,

³⁶ See Ruestow, *Freedom and Domination*, 267–87.

³⁷ See J. F. C. Fuller, *The Conduct of War* (New York: Da Capo, 1992), chap. 1.

³⁸ See Rothbard, *Economic Thought Before Adam Smith*, chap. 5.

³⁹ See Ruestow, *Freedom and Domination*, 301–26; Cassirer, *The Myth of the State*, chap. XIV.

Pufendorf, Locke, Thomasius, and Wolff. The earthly ruler was seen as subject to the same universal and eternal principles of justice as everyone else, and a state either would derive its justification from a "contract" between private property owners or it could not be justified.⁴⁰ There remained significant differences as regards the precise meaning of "contract" (Did it bind only the original signers? Could it be revoked?), but there can be little doubt that, under the growing ideological influence of the natural rights doctrine, the power of kings became increasingly constrained.⁴¹

However, owing to its anti-clericalism (as in Voltaire, for instance) and its egalitarianism, which went as far as to deny all innate differences among human beings and believed all men to be equally capable of rational thought (as in Helvetius and, under empiricist auspices, Locke, for instance), Enlightenment rationalism committed a fatal sociological error. It was blind to the fact that, in the real world, where men are *not* equal, its ideal of a purely contractual society based on the institution of private property could be maintained and defended against internal or external assault and invasion only if a society possessed a distinctly hierarchical structure, that is, a voluntarily acknowledged rank order of horizontally and vertically interconnected intermediary institutions and authorities; and that Christianity and the hierarchy of the Church would have to function as one of the more important of these intermediary authorities.⁴² Misled by its anticlericalism and egalitarianism, Enlightenment rationalism furthered the tendency, begun with the Protestant Revolution, of isolating the individual vis-à-vis worldly rulers: of eliminating all intermediate authorities and subjecting each individual equally and directly to the sole authority of the state, thereby promoting the centralization of state power.

The fundamental sociological error of this view was revealed by the events of the French Revolution. When the absolute monarchy finally collapsed to the applause of almost all Enlightenment philosophers, nothing was left to fill the existing power vacuum. The authority and economic independence of the Church was ruined, and all formerly existing feudal bonds and institutions were destroyed. Consequently, to the consternation of most of the Enlightenment, the Revolution quickly degenerated into chaos, mob rule, terror, dictatorship, nationalist aggression, and, finally, the restoration of the *ancien régime*.

As a result, the Enlightenment's rationalist philosophy was thoroughly discredited. In reaction to the French Revolution and the Enlightenment, and inspired by prerevolutionary writers such as Jean-Jacques Rousseau, Romanticism came to hold sway.⁴³ Natural law theory was thrown out. According to the Romantic world view, no absolutely and universally true human rights and social laws existed. History, rather than theory, became the center of attention. Each individual, each tribe, and each people was viewed as having its own unique history; and because no absolute standards of right and wrong existed, each history was held to be of equal worth (historical relativism). History was studied neither to pass judgment on the past nor to learn anything for the future, but solely to reveal the diversity of mankind and

⁴⁰ See Cassirer, *The Myth of the State*, chap. XIII; Ruestow, *Freedom and Domination*, 301-26.

⁴¹ See also J. Tuck, *Natural Rights Theories* (Cambridge: Cambridge University Press, 1979); Rothbard, *Economic Thought Before Adam Smith*, esp. 369ff.

⁴² See W. Roepke, *Die Gesellschaftskrisis der Gegenwart* (Erlenbach: E. Rentsch, 4942), chap. 4, esp. 74ff.; also Mises, *Theory and History*, 47f.

⁴³ See Ruestow, *Freedom and Domination*, 343-6ff.; Cassirer, *The Myth of the State*, chap. XIV; Mises, *Theory and History*, chap. 40.

human tradition (multiculturalism). Devoid of any theory, history possessed no practical purpose or implication. It was studied for its own sake, with the sole purpose of "inner" intellectual enrichment. Likewise, each religion was seen to possess a right of its own: mysticism, Platonism, Buddhism, paganism, and deism no less than Christianity; and religiosity, too, was viewed as an entirely private affair, as a matter of "inner" choice without any practical implications. Instead of viewing knowledge and beliefs as tools of action, Romanticism considered them instruments of aesthetic or poetic expression, and the Romantic attitude toward the external world of physical events was one of passive contemplation, quietism, withdrawal, resignation, or even fatalism. The outside world was held to be unintelligible, driven by irrational or mystic forces, and ultimately of no concern. The only matter of genuine importance was each person's "inner" freedom of thought and imagination.

Not surprisingly, the power of the state grew with the influence of Romanticism.⁴⁴ If history is viewed as the source and origin of "right," then any state is undoubtedly "just"; and if state power increases, it cannot do so except by "historical right." Accordingly, the state and the growth of state power should always be met with a contemplative attitude of resigned acceptance. What better message could a ruler want to hear? Due to a gaping hole within the Romantic world view, however, its influence soon faded into the background, to be complemented and finally overshadowed by Positivism, the dominant philosophical paradigm of our age.

The romantic outlook suffered from the obvious defect that, even if one accepted it as plausible for the social world, it still could not account for the existence of the natural sciences and technology. Clearly, these did not derive their justification from history, and the study of nature and technology (unlike that of society) was not disinterested and undertaken for its own sake. Rather, the natural sciences and technology apparently derived their justification from their *present practical success*. Within this realm at least, identifiable progress existed, and it was definitely *not* the case that each historical era or episode could be regarded as equally right and worthy. Positivism offered an attractive way out of these ideological difficulties.

Influenced by eighteenth-century empiricism, in particular by Hume, nineteenth- and twentieth-century Positivism shared most of its antirationalist assumptions with the Romantics. Like the Romantics, but in sharp contrast to rationalist Enlightenment, the Positivists rejected the idea of a rational ethic and a natural rights theory. Value judgments were viewed as arbitrary, a matter of personal taste, and incapable of rational justification. Reason was not the master, but the slave of the passions. Natural rights theory in particular was nothing but nonsensical metaphysics. Indeed, insofar as any difference existed between Romanticism and Positivism, it consisted of the fact that the moral relativism of the Positivists was apparently even more extreme and far-reaching. Whereas the Romantics relativized religion, they still recognized the value of *some* religion; and, while the Romantics denied the existence of absolute values, they still valued history and tradition. In contrast, the Positivism, in this respect very much like Enlightenment rationalism, was decidedly secularist (religion was held to be merely hocus-pocus) and unhistorical (the past possessed no special value).

Positivism shared with Romanticism the relativistic view that reason is incapable of recognizing any necessarily universal and immutable positive (causal) laws. Indeed, the denial of the very possibility of, in Kantian terminology, true synthetic a

⁴⁴ See L. v. Mises, *Socialism* (Indianapolis: Liberty Fund, 1981), esp. 419ff.; M. N. Rothbard, *Freedom, Inequality, Primitivism, and the Division of Labor* (Auburn: Ludwig von Mises Institute, 1991).

a priori propositions is one of the cornerstones of Positivism.⁴⁵ According to Positivism, no such thing as nonhypothetically true positive (empirical) laws exists. In other words, nothing about reality can be known to be true *a priori*. Rather, all empirical knowledge is hypothetical knowledge, and all nonhypothetical knowledge is analytical knowledge which contains no empirical information whatsoever but consists merely of arbitrary symbolic conventions and definitions. The only difference between the Positivist and the Romantic relativisms was a psychological one. The Romantic's relativism was that of an artist, that is, a poet, novelist, or historian, whose subject matter was the inner world of meaning, purpose, expression, and emotion. Accordingly, he tended to view individuals as *different* (unique), and he approached his subject matter in a *passive* mode to develop his private appreciation, empathy, or sympathy. In contrast, the Positivist's relativism was that of an engineer, an experimental physicist, or a chemist. His subject matter was the external physical world of sensory data, and he tended to view individuals as *identical* (equal). He approached his subject matter with an *activist* attitude, one of physical manipulation and interference.

In fact, as can be seen from the Positivists' conception of logic, it cannot be claimed that Positivist relativism is even *less* relativistic. While the Romantics viewed logic and deductive reasoning as on a par with intuition and mythical revelation, the Positivists considered it as empty of all empirical content. However, due to its activist (experimental) attitude, Positivistic philosophy at least appeared to make room for the idea of a *posteriori* law—of trial and error, hypothetical conjecture, confirmation and refutation—and, hence, of the possibility of scientific progress (as manifested in the field of the natural sciences).⁴⁶

If the contemplative relativism of the Romantics had been good for the health of the state and the growth of state power, the growing influence of the activist relativism of the Positivists proved to be even better. According to Positivism, ethics is not a cognitive discipline. No normative statement has any better foundation than any other such statement. But then, what is wrong with everyone trying to enforce and impose on others whatever one wishes? Surely nothing; everything goes. Ethics is reduced to the problem of what one "can get away with" doing. What better message could there be for those in power? It is precisely what they want to hear: might is and makes right!

Similarly, they will be thrilled about the message of Positivism as regards the social sciences. In the realm of the natural sciences, the Positivist doctrine is relatively harmless. It has not, nor could it have, fundamentally changed the course of the natural sciences. However, the same cannot be said about the social sciences. Under the growing influence of Positivism, economics in particular has been destroyed beyond recognition, and this once powerful ideological fortress against the encroachment of state power has been removed.⁴⁷

⁴⁵ See L. Kolakowski, *Die Philosophie des Positivismus* (Muenchen: Piper, 1971); H. H. Hoppe, *Kritik der kausalwissenschaftlichen Sozialforschung* (Opladen: Westdeutscher Verlag, 1983); idem, *The Economics and Ethics of Private Property*, pt. II; Mises, *Theory and History*, chap. 11; idem, *The Ultimate Foundation of Economic Science* (Kansas City, Kans.: Sheed, Andrews & McMeel, 1978); B. Blanshard, *Reason and Analysis* (LaSalle: Open Court, 1964).

⁴⁶ Strictly speaking, even this impression is fallacious. For how can it be possible to see two or more observational experiences as *falsifying* or *confirming* each other rather than as mere isolated experiences?

⁴⁷ See H. H. Hoppe, "Austrian Rationalism in the Age of the Decline of Positivism," *Journal des Economistes et des Etudes Humaines* 2, no. 2/3 (1991).

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From the Christian Middle Ages through Spanish Scholasticism to the seventeenth and eighteenth centuries of Enlightenment, parallel to and intertwined with the development of "normative" natural rights theory, a systematic body of economic theory developed, culminating in the writings of Cantillon and Turgot. According to this intellectual tradition—carried on in the nineteenth century by Say, Senior, Cairnes, Menger, and Boehm-Bawerk, and in the twentieth century by Mises, Robbins, and Rothbard—economics was viewed as a "logic of action." Starting with self-evident propositions and combining these with a few empirical and empirically testable assumptions, economics was conceived as an axiomatic-deductive science and economic theorems as propositions which were at the same time realistic and nonhypothetically or *a priori* true.⁴⁸ Consider, for instance, the following economic propositions: In every voluntary exchange, both partners must expect to profit, they must evaluate the things to be exchanged as having unequal value, and they must have opposite preference orders. Or: Whenever an exchange is not voluntary, but coerced, such as highway robbery or taxation, one exchange party benefits at the expense of the other. Or: Whenever minimum wage laws are enforced that require wage rates to be higher than existing market wages, involuntary unemployment will result. Or: Whenever the quantity of money is increased while the demand for money remains unchanged, the purchasing power of money will fall. Or: Any supply of money is equally, "optimal," such that no increase in the money supply can raise the overall standard of living (while it can have redistributive effects). Or: Collective ownership of all factors of production makes cost accounting impossible, and hence leads to permanent misallocations. Or: Taxation of income producers, other things remaining the same, raises their effective rate of time preference, and hence leads to a lower output of goods produced. Apparently, these theorems contain knowledge about reality, and yet they do not seem to be hypothetical (empirically falsifiable) proposition but rather true by definition.

According to Positivism, however, this cannot be so. Insofar as these propositions claim to be empirically meaningful, they must be hypotheses, forever subject to empirical confirmation or falsification. One could formulate the very opposite of the above propositions without thereby stating anything can be recognized from the outset, *a priori*, as false and nonsensical. Experience will have to decide the matter. Thus, in assuming the Positivist doctrine, the highway robber, taxman, union official, or chairman of the Federal Reserve Board would act legitimately, from a scientific point of view, in claiming that taxation benefits the taxed and increases productive output, minimum wage laws increase employment, and the creation of paper money generates all-around prosperity. As a good Positivist, one would have to admit that these are merely hypotheses. With the predicted effects being "beneficial," however, they surely should be tested. After all, one would not close one's eyes to new experience, and one would always be willing to react flexibly and open mindedly, contingent upon the outcome of such experience. Yet, if the outcome is not as hypothesized, and the robbed or taxed do not appear to benefit, employment actually decreases, or economic cycles rather than all-around prosperity ensue, one can always take recourse, "scientifically legitimate," to the possibility of "immunizing" one's hypoth-

⁴⁸ See M. N. Rothbard, *Individualism and the Philosophy of the Social Sciences* (San Francisco, Calif.: Cato Institute, 1979); H. H. Hoppe, *Praxeology and Economic Science* (Auburn: Ludwig von Mises Institute, 1988).

eses. For whatever empirical evidence one brings forward against them, as soon as one adopts Positivism, the robber's or the taxman's case is safe from decisive criticism, because any failure can always be ascribed to some as yet uncontrolled intervening variable. Not even the most perfectly conducted experiment could change this situation because it would never be possible to control all variables that might conceivably have some influence on the variable to be explained or the result to be produced. No matter what the charges brought against the robber, the taxman, or the chairman of the Federal Reserve Board, Positivist philosophy will always allow each to preserve and rescue the "hard core" of his "research program." Experience merely informs us that a particular experiment did not reach its goal, but it can never tell us if a slightly different experiment will produce any different results. Why, then, would the robber, the taxman, or the chairman of the Federal Reserve Board *not* want to play down all apparently falsifying experiences as merely accidental, so long as they can personally profit from conducting their robbing, taxing, or money-creating experiments? Why would he *not* want to interpret all apparent falsifications as experiences that were produced by some unfortunately neglected circumstance and that would disappear or turn into their very opposite, revealing the "true" relationship between taxes, minimum wage laws, the creation of money, and prosperity, once these circumstances were controlled?⁴⁹

The attitude toward economics that Positivism fuels is that of a relativist social engineer whose motto is "nothing can be known with certainty to be impossible within the realm of social phenomena and there is nothing that one might not want to try out on one's fellowmen, so long as one keeps an open mind." Not surprisingly, this message was quickly recognized by the powers that be as a mighty ideological weapon in the pursuit of their goal of increasing their control over civil society and of enriching themselves at the expense of others. Accordingly, lavish support was bestowed on the Positivist movement, and this movement returned the favor by destroying ethics and economics as the traditional bastions of social rationalism. It eradicated from public consciousness a vast body of knowledge that had once constituted a seemingly permanent part of the heritage of Western thought and civilization, paving the ideological ground of the twentieth century as the "age of unlimited social experimentation."⁵⁰

In light of the history of Western philosophy, then, a third lesson follows: a plea for a return to rationalism. Such a plea is neither a plea for a return to the Aristotelian-Christian rationalism of Thomistic and Scholastic philosophy, nor a plea for a return to the peculiar rationalism of the Enlightenment. As the legitimacy of monarchical rule has waned, the same may be true for Christianity and the Christian Church. In Nietzsche's words, "Gott ist tot." Nor would a return to the Christian past be desirable, for Christian rationalism was never more than conditional. Instead, it might be possible to embrace the rationalism expounded more than three centuries ago by Grotius. "Even the will of an omnipotent being," wrote Grotius, "cannot change the

⁴⁹ See H. H. Hoppe, *A Theory of Socialism and Capitalism* (Boston: Kluwer, 1989), chap. 6.

⁵⁰ See Mises, *Human Action*, pt. 7; idem, *The Ultimate Foundation of Economic Science*, esp. chaps. 5-8, which conclude with the verdict: "As far as the empiricist principle of logical positivism refers to the experimental methods of the natural sciences, it merely asserts what is not questioned by anybody. As far as it rejects the epistemological principles of the sciences of human action, it is not only entirely wrong. It is also knowingly and intentionally undermining the intellectual foundations of Western civilization" (133).

principles of morality or abrogate those fundamental rights that are guaranteed by natural laws. These laws would maintain their objective validity even if we should assume—*per impossibile*—that there is no God or that he does not care for human affairs.”⁵¹

In contrast to Enlightenment rationalism, the rationalism to be restored will have to be unconditional *and* decidedly *non*-egalitarian. It must be a rationalism that recognizes, as a primordial fact, the existence of fundamental inequalities between human beings. This fact should be celebrated as the foundation of the division of labor and of human civilization. Furthermore, as a result of the diversity of human talents, in every society of any degree of complexity, a few individuals, owing to their superior achievements in terms of wealth, wisdom, bravery, or a combination thereof, will acquire the status of a “natural elite”; and, because of selective mating and marriage and the laws of civil and genetic inheritance, the status as a member of the natural elite will more likely than not be passed on within a relatively few families. It must also be openly acknowledged that the existence of social hierarchies and ranks of authority is not only logically compatible with the idea of the universality of ethical and economic law, but constitutes the sociological presupposition of their very recognition.⁵²

To maintain that no such thing as a rational ethic exists does not imply “tolerance” and “pluralism,” as champions of positivism such as Milton Friedman falsely claim, and moral absolutism does not imply “intolerance” and “dictatorship.”⁵³ To the contrary, without absolute values “tolerance” and “pluralism” are just other arbitrary ideologies, and there is no reason to accept them rather than any others such as cannibalism and slavery. Only if absolute values, such as a human right of self-ownership, exist, that is, only if “pluralism” or “tolerance” are not merely among a multitude of tolerable values, can pluralism and tolerance in fact be safeguarded.⁵⁴

Nor is it true, as Friedman suggests, that the Positivist view regarding all empirical knowledge as merely hypothetical implies intellectual “modesty,” whereas those holding the opposite view are guilty of intellectual “hubris.” It is the other way around. If all nonhypothetical knowledge is empirically meaningless and if analytic knowledge and all empirical knowledge is hypothetical knowledge, then what about the

⁵¹ See Cassirer, *The Myth of the State*, 172; Rothbard, *Economic Thought Before Adam Smith*, 72.

⁵² See W. Roepke, *Jenseits von Angebot und Nachfrage* (Bern: P. Haupt, 1979), 191–99; idem, *Die Gesellschaftskrise der Gegenwart*, 52f.; Jouvenel, *On Power*, chap. 17; Hoppe, “The Political Economy of Monarchy and Democracy and the Idea of Natural Order.”

⁵³ On Friedman’s pronouncements, see M. Friedman, “Say No to Intolerance,” *Liberty* 4, no. 6 (July 1991); also J. D. Hammond, “An Interview with Milton Friedman on Methodology,” *Research in the History of Economic Thought and Methodology* 10 (Greenwood: JAI Press, 1992), esp. 100–02; for another prominent proponent of the same view, see T. W. Hutchison, *The Politics and Philosophy of Economics* (New York: New York University Press, 1981), esp. 196–97.

⁵⁴ It is Milton Friedman, and not the targets of his attacks, the “extremist” and “intolerant” Ludwig von Mises and Murray N. Rothbard, who finds himself in the company of dictators. Thus wrote Benito Mussolini in 1921: “If relativism signifies contempt for fixed categories and men who claim to be the bearers of an objective, immortal truth...then there is nothing more relativistic than Fascist attitudes and activity.... From the fact that all ideologies are of equal value, that all ideologies are mere fictions, the modern relativist infers that everybody has the right to create for himself his own ideology and to attempt to enforce it with all the energy of which he is capable.” Quoted in H. B. Veitch, *Rational Man. A Modern Interpretation of Aristotelian Ethics* (Bloomington: Indiana University Press, 1962), 41.

status of *this* proposition? If it is taken to be analytic, it is nothing but an arbitrary definition without any empirical content. Any other definition would be equally good (and empty). If it is assumed to be empirically meaningful, it is a hypothesis according to which empirical knowledge is hypothetical knowledge and empirical tests are tests of hypothetical knowledge. Any other hypothesis or any other empirical test or inference is then equally possible. Finally, if the proposition is taken to be empirically meaningful and yet apodictically, categorically, nonhypothetically, or *a priori* true, the Positivist doctrine turns out to be self-contradictory nonsense. This is hardly modesty, but outright intellectual permissiveness!

In contrast, if the existence of nonhypothetical empirical knowledge is admitted, this does not imply that *all* or even most empirical knowledge is of this kind but only that one can distinguish between both types of empirical knowledge, and that this distinction and the delineation of two kinds of empirical questions and answers is itself a nonhypothetically true empirical distinction. Moreover, contrary to the Positivist permissiveness of "nothing is certain" and "everything is possible" and its disregard or even contempt for the study of history, to assume the existence of nonhypothetical empirical knowledge implies basic intellectual modesty. For if nonhypothetical laws exist, such laws should be expected to be "old" truths discovered long ago. "Newly" discovered nonhypothetical laws, while obviously not impossible, should be rare intellectual events, and the "newer" they appear, the more "suspect" should they be. Hence, the rationalist attitude is one of intellectual humility and respect for the history of thought (and of philosophy and economics in particular).⁵⁵ Most nonhypothetical empirical knowledge can be expected to already exist and, at worst, stands in need of being rediscovered (rather than newly invented). That is, in the realm of the nonhypothetical empirical sciences such as philosophy, logic, mathematics, ethics, and economics, scientific "progress" must be expected to be extremely slow and painstaking, and the "danger" is not so much that nothing new and better is added to the existing body of knowledge, as that an already existing body of knowledge is only incompletely relearned or forgotten.

In accordance with this fundamental intellectual humility, the rationalist answer to the Positivist destruction of ethics (as nonscientific) and economics (as either empirically empty or else hypothetical), while apparently largely forgotten or unlearned, is anything but "new," and while it has surprisingly radical implications, these can hardly be characterized as "dictatorial" or "extremist."⁵⁶

Every person owns his own body as well as all nature-given goods which he puts to use with the help of his body before anyone else does. This ownership implies the right to employ these resources however one sees fit so long as one does not thereby uninvitedly change the physical integrity of another's property or delimit another's physical control over it without his consent. In particular, once a good has first been appropriated or homesteaded by mixing one's labor with it (this being Locke's phrase), then ownership of it can only be acquired by means of a voluntary (contractual) transfer of its property title from a previous to a later owner. These rights of a person

⁵⁵ On the intellectual modesty of rationalism, see E. Cassirer, *The Myth of the State*, chap. XIII.

⁵⁶ Illustrative of the works of the two outstanding social rationalists of the twentieth century, see Mises, *Human Action* and *Theory and History*; and M. N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash, 1972); *The Ethics of Liberty*; *Economic Thought Before Adam Smith*; and *Classical Economics*.

are absolute. Any person's infringement on them is subject to lawful prosecution by the victim of this infringement or his agent, and it is actionable in accordance with the principles of strict liability and the proportionality of punishment.

These ancient principles are not only intuitively just. Even children and primitives seem to have no trouble recognizing their truth. In fact, is it not plainly absurd to claim that a person should *not* be the owner of his body and those nature-given goods that he had appropriated and produced before anyone else came along? Who else, if not he, should be their owner? Moreover, these principles can be "proven" to be indisputably, that is, nonhypothetically, true and valid. For if a person A were not the owner of his body and all goods originally appropriated, produced, or voluntarily acquired by him, there would only exist two alternatives. Either *another* person, B, must then be regarded as the owner of A and the goods appropriated, produced, or contractually acquired by A, or both parties, B and B, must be regarded as equal co-owners of both bodies and goods. In the first case, A would be B's slave and an object of exploitation. B owns A and the goods originally appropriated, produced, or acquired by A, but A does not own B and the goods homesteaded, produced, or acquired by B. With this rule, two distinct classes of people are created, viz., exploiters (B) and exploited (A), to whom different "law" applies. Hence, this rule fails the "universalization test" and is from the outset disqualified as even a potential human ethic. In order to be able to claim a rule to be a "law," it is necessary that such a rule be universally valid for everyone.

In the second case of universal co-ownership, the requirement of equal rights for everyone is obviously fulfilled. However, this alternative suffers from another, literally fatal flaw, for each activity of a person requires the employment of scarce goods (at least the person's body and its standing room). Yet if all goods were collective property, then no one, at no time and no place, could ever do anything with anything unless he had every other co-owner's prior permission to do what he wanted to do. And how can one give such a permission if one is not even the sole owner of one's own body (and vocal chords)? If one were to follow this rule, mankind would die out instantly. Whatever this is, it is certainly not a *human* ethic. Thus, one is left with the initial principles of self-ownership and first use first ownership (original appropriation, homesteading). They pass the universalization tests, that is, they hold for everyone equally, *and* they can at the same time assure the survival of mankind. They and *only* they are therefore nonhypothetically true ethical rules.

Likewise, the rationalist answer to Positivist economics is old and clear. As long as persons act in accordance with the principles of self-ownership and original appropriation, "social welfare" will invariably be "optimized." A self-owning person's original appropriation of unowned resources increases his welfare (at least *ex ante*), otherwise it would not have been carried out. At the same time, it makes no one worse off, because in appropriating them he takes nothing away from others. Obviously, others could have homesteaded these resources, too, if only they had perceived them as scarce and valuable. Yet, they did not do so, which demonstrates that they attached no value to them whatsoever. Thus, they also cannot be said to have suffered a welfare loss on account of this act. Proceeding from this basis, any further act of production utilizing one's body and homesteaded resources establishes ownership rights to the products created thereby, provided that it does not uninvitedly impair the physical integrity of the body and the resources homesteaded or produced with homesteaded goods by others. The producer gains utility and no one else loses utility. And finally, every voluntary exchange starting from this basis will take place only if both parties

expect to benefit from it. The provision that only the *first* user of a good acquires ownership assures that productive efforts will be as high as possible *at all times*. And the provision that only the *physical* integrity of property is protected (and that a person is liable only for *physical* damage or restrictions upon others' property) guarantees that every owner has a constant incentive to increase the value of his physical property (and to avoid value losses) by means of physically controlled and calculated actions.

Any deviation from these principles implies a redistribution of property titles away from user producers and contractors of goods onto non-users producers and noncontractors. The latter, the exploiters, increase their supply of goods, and thus enhance their welfare, at the expense of a corresponding loss of the wealth and welfare of the exploited. Hence, a lower state of "social welfare" will result. Among the exploited, there will be relatively less original appropriation of resources whose scarcity is recognized, less production of new goods, less maintenance of existing goods, and less mutually beneficial trading and contracting. And among the exploiters, this rule creates a permanent incentive for shortsightedness and wastefulness. For if one group of people is permitted to supplement its future income by means of the expropriation of goods appropriated, produced, or voluntarily acquired by others, its preference for current consumption over saving (future consumption) will be systematically strengthened, and the likelihood of misallocations, miscalculations, and economic losses will be permanently heightened.

Once these old, rationalist principles of ethics and economics are rediscovered under the Positivist rubble, and it is understood again that they are *absolutely*—nonhypothetically, apodictically, categorically, *a priori*—true, the tendencies toward centralization, democratization, and the growth of state power can be critically challenged. For in light of these principles, central governments all around the globe can be recognized for what they are: threats to justice and economic efficiency everywhere. Without justice, these institutions are, as St. Augustine noted, nothing but bands of robbers. If, and *only* if, this recognition of states (governments) as fundamentally unjust and wasteful prevails in the court of public opinion, will the power of the central state devolve on to smaller and smaller territories, and make room for a system of ordered liberty.