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1

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THE WESTERN STATE AS A PARADIGM: LEARNING FROM HISTORY

If one decides to write on what to learn from the history of the Western State, obviously one must be convinced that there is something to be learnt from it; and if one holds this to be the case, then one must reject from the outset two alternative views of history: the so-called Whig theory of history, and historical and social relativism (historicism).¹

According to the Whig theory of history, mankind marches continuously forward. Human history is the history of progress. Better ideas replace worse ideas, are replaced by still better ones, 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. If it is economic prosperity that the people of Eastern Europe and the Third World want, for instance, the best they can do is look to Western Europe and the U.S. and imitate their present

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 Before Adam Smith. An Austrian Perspective on the History of Economic Thought, Vol.I (Aldershot: Edward Elgar, 1995); idem, Classical Economics. An Austrian Perspective on the History of Economic Thought, Vol.II (Aldershot: Edward Elgar, 1995).

democratic welfare state system. There is no need for them to study Western history (or their own history, for that matter), because by assumption no mistakes, no wrong turns, ever occur in history. Whatever happens later is an improvement on what occurred earlier; hence, there is never any reason to study anything but the most recent past, as 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 arbitrary subjective tastes. Moreover, with the possible exception of the laws of logic, mathematics, and the natural sciences, no universal positive laws exist. Economics and sociology in particular are only history, a chronicle of the sequence of past actions and events, with no more to be learnt from it than that "this is the way it was".

Both of these views - the Whig theory of history as well as historicism - are considered false here with no further ado, except to note that from the outset they do not appear plausible, and that the topic of relativism in particular will be taken up again at the conclusion of the following discussion. Instead, it will be assumed that not only ethical truths exist, but also non-hypothetically true positive laws of economics and sociology, and that it is possible, in light of such ethical and economic theory, to identify some fundamentally wrong turns in the history of the Western State.

Lesson One: Against Centralization

A state is a territorial monopolist of compulsion - an agency which may engage in continual, institutionalized property rights violations and the exploitation - in the form of expropriation, taxation, and regulation - of private property owners.² Assuming no more than self-interest on the part of government agents, all states (governments) can be expected to make use of this monopoly and thus exhibit a tendency toward increased exploitation. On the one hand, this means increased domestic exploitation (and internal taxation). On the other hand, and it is this aspect in particular that will be of interest in the following, it means territorial expansionism. States will always try to enlarge their exploitation and tax base. In doing so, however, they will come into conflicts with other, competing states. The competition between states qua territorial monopolists of compulsion is by its very nature an eliminative competition. That is, there can only be one monopolist of exploitation and taxation in any given area; thus, the competition between different states can be

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: Humanities Press, 1982); idem, Power and Market (Kansas City: Sheed, Andrews & 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 (Delevan: Hallberg Publishing, 1983); F.Oppenheimer, The State (New York: Vanguard Press, 1914); idem, System der Soziologie. Vol.2: Der Staat (Stuttgart: G.Fischer, 1964).

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 millenium, for instance, Europe consisted of thousands of independent political units. Now, only several dozen such units remain. To be sure, decentralizing forces also existed. There was the progressive disintegration of the Ottoman Empire from the 16th century until after World War I and the establishment of modern Turkey. The discontiguous 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 was in the opposite direction. For instance, during the second half of the 17th century, Germany consisted of some 234 countries, 51 free cities, and 1,500 independent knightly manors. By the early 19th 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 the 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 hegemonical status over Western Europe (most notably over West Germany) and the Pacific rim countries (most notably over Japan) - as indicated by the presence of American troops and military bases, by the NATO and SEATO pacts, by the role of the American dollar as the ultimate international reserve currency and of the U.S. Federal Reserve System as the "lender" or "liquidity provider" of last resort for the entire Western banking system, and by institutions such as the International Monetary Fund (IMF), the World Bank, and the recently established World Trade Organization (WTO). In addition, under American hegemony the political integration of Western Europe has steadily advanced. 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 United States 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, represent an anachronism. It is assumed that larger political units - and ultimately a single world government - imply wider markets and hence increased wealth. As evidence of this, it is pointed out that economic prosperity has increased dramatically with

increased centralization. However, rather than reflecting any truth, this orthodox view is more illustrative of the fact that history is typically written by its victors. Correlation or temporal coincidence do not prove 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 (expropriation). 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 economic 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

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

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 - much less a single world government - 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 own subjects visibly more than its competitors, it is bound to suffer from the emigration of labor and capital and a corresponding loss of future tax revenue.⁴

⁴ Political competition, then, is a far more effective device of limiting a government's natural desire of expanding its exploitative powers than are internal constitutional limitations. Indeed, the attempts of some public choice theorists and of "constitutional economics" to design liberal model constitutions must strike one as hopelessly naive. For constitutional courts, and supreme court judges, 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 not only theoretically inconsistent, i.e., incompatible with the assumption of self-interest. The assumption is also without any historical foundation. Despite the explicit limitation of the power of the central government contained in the 10th amendment of the U.S. constitution, for instance, it has been the interpretation by the U.S. supreme court, which has rendered the amendment essentially null and void. Similarly, despite the constitutional guarantee of private property by the (West) German constitution, for instance, the German supreme court, after the German reunification in 1990, declared all communist expropriations prior to the founding of the East German state in 1949 "valid". Thus, more than 50% of former East Germany's land used for agriculture were appropriated by the (West) German state (rather than being returned to the original private owners, as required by a literal interpretation of the constitution).

Contrary to orthodoxy, then, it is precisely the fact that Europe possessed a highly decentralized power structure composed of countless independent political units which explains the origin of capitalism - the expansion of market participation and of economic growth - 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, historically 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 of eliminative competition depends on many factors, of course, 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 factors), 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. States which tax and regulate their domestic economies little - liberal states - 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 19th century Western Europe came to dominate the rest of the world (rather than the other way around), 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 20th century.

However, the further the process of more liberal governments defeating less liberal ones proceeds - i.e., the larger the territories, the fewer and more distant the remaining competitors, and thus the more costly international migration - the lower a government's incentive to continue in its domestic liberalism will be. 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. Thus relieved of the problem of emigration, a fundamental rein on the expansion of governmental power is gone. This explains developments of the 20th 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 the 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".

As a result of centuries of centralization, hundreds of distinct cultures have been literally wiped out. The process of centralization has also led to the superstratification - economic exploitation and cultural domination - of one ethnic, linguistic, religious, or cultural group by another: of the Irish, Scots and Welsh by the English, the Slovenes and Croats by the Serbs, the Estonians, Lithuanians and Latvians by the Russians, for example. Forced integration, as also illustrated by measures such as busing, affirmative action, and antidiscrimination laws, invariably creates tension, hatred, and conflict. In contrast,

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

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 reality not only of cultural diversity but in particular of visibly different ranks of cultural advancement. If a secessionist people wishes to improve or maintain its position vis-a-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 thus to a large extent forced integration. Secession solves this problem by letting smaller territories have their own admission standards and determine independently with whom they will associate on their own territory and with whom they prefer to cooperate from a

distance.⁵

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. First, secession always involves increased opportunities for interregional migration, so a secessionist government is immediately confronted with the specter of emigration. To avoid the loss in particular 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.

Secondly, 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

⁵ On the problem of immigration see also M.N.Rothbard, "Nations by Consent: Decomposing the Nation-State", Journal of Libertarian Studies, Vol. 11, No.1, 1994; H.H.Hoppe, "Free Immigration or Forced Integration?", Chronicles, June 1995.

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 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, and its owners may 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 decided 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.

Lastly, secession also promotes monetary integration. The process of centralization has resulted in the formation of an international, American-dominated government cartel of managed trade and migration, ever more invasive and burdensome governments, globalized welfare-warfare statism, and finally economic stagnation 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, i.e., a global, U.S.-led government counterfeiting cartel. However, a system of freely fluctuating

paper currencies - the Friedmanite-monetarist ideal - is strictly speaking no monetary system at all.⁷ It is a system of partial barter - dysfunctional of the very purpose of money of facilitating rather than complicating exchange. This becomes obvious once it is recognized that from the point of view of economic theory, there is no special significance attached to the way national borders are drawn. Yet if one then imagines a proliferation of ever smaller national territories, ultimately to the point where each household forms its own country, Friedman's proposal is revealed for what it is - an outright absurdity. 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. It is only due to centuries of political centralization and the fact that only a relatively small number of countries and national currencies remains, and hence that the disintegrative consequences and calculational difficulties are far less severe, that this could have been overlooked. 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, Liechtensteins, Singapores, and

⁷ See also 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, Vol.7, No.2, 1994.

Hong Kongs, each country would have to abandon the current fiat money system, which has been responsible for the greatest, world-wide inflation in all of 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 State, 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 is generally presented as a progressive development, too. 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.⁵

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

⁵ On the following see also H.H.Hoppe, "Time Preference, Government, and the Process of De-Civilization. From Monarchy to Democracy", Journal des Economistes et des Etudes Humaines, Vol.V, No.4, 1994.

during the Renaissance period, the Swiss cantons since 1291, the United Provinces from 1648 until 1673, and England under Cromwell from 1649 until 1660. Yet these were 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.

Nonetheless, although increasingly emasculated, the

monarchical principle remained dominant until the cataclysmic events of WWI. 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 been only recently carried to victory as the result of the destruction of the secessionist Confederacy by the centralist Union government - had entered the European war and decisively determined its outcome, monarchies all but disappeared, and Europe turned to democratic republicanism.⁷

In Europe, the defeated Romanovs, Hohenzollerns, and Habsburgs had to abdicate or resign, and Russia, Germany, and Austria became democratic republics with universal - male and female - 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

⁷ See also G.Ferrero, Peace and War (Freeport: Books for Libraries Press, 1969), ch.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 & J.Colton, A History of the Modern World ((New York: A.Knopf, 1992), esp. chs. XIV, XVIII. D

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. A new world order - the democratic republican age under the egis of a dominating U.S. government - had begun. ✓

Interestingly, neither the proponents of democracy, nor, more surprisingly, the defenders of the "ancien regime" 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. In light of elementary economic theory, the conduct of government and the effects of government policy on civil society can be expected to be systematically different, 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

¹⁰ See M.N. Rothbard, Power and Market, ch.5; also G.Hardin & J.Baden, eds., Managing the Commons (San Francisco: W.H.Freeman, 1977).

present value ('capitalization' of monopoly profit). Most importantly, as private owner of the government estate, the ruler is entitled to pass his possessions onto 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 onto 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 central, interrelated predictions can be deduced: First, a private government owner will tend to have a systematically longer planning horizon, i.e., 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. Secondly, subject to a higher degree of exploitation, the non-governmental 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 predictably 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 thus promotes farsightedness. In the case of private ownership of government, 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 acts of production on the part of the non-governmental public. Accordingly, a private government owner will want to avoid exploiting his subjects so heavily, for instance, that he reduces his future earnings potential to such an extent that the present value of his estate (the country) actually falls. He will use his monopolistic privilege, of course. He will not not exploit. But as the government's private owner, it is in his interest to draw

¹¹ On the theory of time preference see in particular L.v. Mises, Human Action (Chicago: H. Regnery, 1966), chs. XVIII, XIX; also W. St. Jevons, Theory of Political Economy (New York: A. Kelley, 1965); E. v. Boehm-Bawerk, Capital and Interest, 3 vols. (South Holland: Libertarian Press, 1959); F. Fetter, Capital, Interest, and Rent (Kansas City: Sheed, Andrews & McMeel, 1977); M. N. Rothbard, Man, Economy, and State (Los Angeles: Nash, 1970), chs. 5-7.

parasitically on a growing, increasingly productive and prosperous economy as this would effortlessly also increase his own wealth and prosperity. The degree of exploitation would thus tend to be low.

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 the 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 non-governmental public and promotes the opposition and resistance to any expansion of the government's exploitative power. Confronted with an almost insurmountable barrier to upward mobility, the 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 current income (regardless, and at the expense, of capital values). Instead of maintaining or even enhancing the value of the government estate, a government's temporary caretaker will quickly use up as much of the government's 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 - the resulting higher capital value of the government estate - cannot be reaped privately, while the advantage of the opposite policy of increased exploitation - a higher current income - can be so reaped. To a caretaker, unlike to a private owner, moderation has only disadvantages and no advantages.

In addition, with a ~~publicly owned~~ government anyone in principle can 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 with a public government no one is ruled by anyone, but 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 two-fold impact on individual time preference. On the one hand, like crime, all government interference with private property rights reduces 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 preference 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 reduced all-around; 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 if the government is publicly owned than if it is owned privately.

In light of these theoretical considerations, the end of WWI

¹² See M.N. Rothbard, Power and Market, ch. 4; A.T. Smith, Time and Public Policy (Knoxville: University of Tennessee Press, 1988); H.H. Hoppe, "Time Preference, Government, and the Process of De-Civilization. From Monarchy to Democracy."

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 exploitation - government growth - and rising degrees of social time preference - present-orientedness - could be expected to take off. Indeed, such has been the grand, underlying theme of post WWI Western history: With some forebodings in the last third of the 19th century in conjunction with an increased emasculation of the 'ancien regimes', from 1918 onward practically all indicators of governmental exploitation and of rising time preferences have exhibited a systematic upward tendency.

Regarding indicators of exploitation, there is no doubt that the amount of taxes imposed on civil society increased during the monarchical age. However, throughout the entire period, the share of government revenue remained remarkably stable and low. Economic historian Carlo M. Cipolla summarizes, "it is difficult to imagine that, apart from particular times 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 19th century.¹³ Even at the time of the outbreak of WWI, total government expenditure as a percentage of Gross Domestic Product (GDP) typically had not risen above 10 percent and only

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

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

There is also no doubt that total government employment increased during the monarchical age, but until the very end of the 19th century, government employment 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 inspection 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 hard as they tried, monarchical rulers did not succeed in establishing lasting monopolies of pure fiat currencies, i.e., of irredeemable government paper monies, which can be created virtually out of thin air, at practically no cost. Accordingly, during the monarchical age the 'level' of prices had generally fallen and the purchasing power of money increased, except during

¹⁴ See P. Flora, State, Economy and Society in Western Europe, Vol.1, pp.258-259.

¹⁵ Ibid, ch.8.

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; and in 1860 they were lower than they had been in 1760. Similarly, during the more than 70 years between 1845 and the end of WWI in 1918, the British money supply only increased about six-fold. Connected by an international gold standard, the development in other countries was similar.¹⁶

In distinct contrast, after 1918, under conditions of democratic republicanism, the gold standard was first replaced by a pseudo gold standard - the gold exchange standard; and in 1971 even this last remnant of the former gold standard was abolished. 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 70 years

¹⁶ See B.R. Mitchell, Abstract of British Historical Statistics (Cambridge: Cambridge University Press, 1962), pp.468ff; idem, European Historical Statistics 1750-1970 (New York: Columbia University Press, 1978), pp.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 & L.Lehrmann, The Case For Gold. A Minority Report to the U.S. Gold Commission (Washington D.C.: Cato Institute, 1982).

inflation }

since 1918, the U.S. money supply, in a development that was by and large paralleled worldwide, has increased more than sixty-fold.¹⁸

In addition to taxation and inflation (counterfeiting), a government can resort to debt in order to finance its current expenditures. As predicted, in this area kings also showed more moderation than democratic republican caretakers. Throughout the monarchical age, government debts were essentially war debts, and while the total debt thereby tended to increase over time, during peace time at least monarchs typically reduced their debts. In striking contrast, since the onset of the democratic republican age government debts typically increased in war and in peace, and since the fateful events of 1971, under a pure fiat money regime which facilitates the monetization of government debt, they have literally skyrocketed.¹⁹

Finally, the same tendency toward increased exploitation also emerges upon examination of government legislation and regulation. During the monarchical age, with a clear-cut distinction between the ruler and the ruled, the king and his

¹⁸ See M.Friedman & A.Schwartz, A Monetary History of the United States, 1867-1960 (Princeton: Princeton University Press, 1963), pp.702-722; Economic Report of the President (Washington D.C.: Government Printing Office, 1992).

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

parliament were held to be under the law.²⁰ They applied pre-existing law as judge or jury. They did not make law. To be sure, due to the monopolization of law administration by the king, the price of law increased and the quality decreased. But as late as the beginning of the 20th century, A.V. Dicey could still maintain that as for Great Britain, for instance, legislative law - public law - as distinct from pre-existing law - private 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 substitution of government paper money for private commodity money and the resulting inflation and increased financial uncertainty - 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

²⁰ See B.de Jouvenel, Sovereignty (Chicago: University of Chicago Press, 1957); also B.Kern, Kingship and Law in the Middle Ages (London, 1939), esp. p.151; B.Rehfeld, Die Wurzeln des Rechts (Berlin, 1951), esp. p.67.

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, Vol.1, (Chicago: University of Chicago Press, 1973), chs. 4 & 6; B.Leoni, Freedom of the Law (Indianapolis: Liberty Fund, 1991).

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

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 a more "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

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

characterizes mankind's suprasecular trend of development. In 13th century Europe, the lowest interest rates on 'safe' long-term loans were 8 percent. In the 14th century they came down to about 5 percent. In the 15th century they fell to 4 percent. In the 17th century they went down to 3 percent. And at the end of the 19th century minimum interest rates had further declined to less than 2.5 percent.²⁴ This trend was by no means smooth. It has been 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 over-all progress - its advance from barbarism to civilization. Before this historical backdrop and in accordance with economic theory, it should be expected that 20th-century interest rates would have to be still lower than 19th-century rates. Indeed, only two possible explanations exist why this should not be the case. The first possibility is that 20th-century real incomes did not exceed 19th-century incomes. 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, the time preference schedule must have shifted upward, i.e., people on the average must have become more present-oriented. Indeed, this appears to be the case.

²⁴ See S.Homer & R.Sylla, History of Interest Rates, pp.557-558.

An inspection of the lowest decennial average interest rates for the Western world shows that during the entire post-WWI era interest rates were never as low or lower than they had been during the second half of the 19th century. Instead, 20th-century rates were universally higher than 19th-century rates, and if anything they have exhibited a rising tendency. This conclusion does not change, even when it is taken 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 interest rates still appear to be significantly higher than they were 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 - that is, above the interest rates of 17th-century Europe and as high or higher than 15th-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 (dysfunctional families) have exhibited a systematic increase.

Until the end of the 19th century, the bulk of government spending went to financing the military. Welfare spending played almost no role. Insurance was considered to be in the province of individual responsibility, and poverty relief seen as the task of

²⁵ S.Homer & R.Sylla, History of Interest Rates, pp.554-555; C.Cipolla, Before the Industrial Revolution, p.39.

voluntary charity. In contrast, as a reflection of the egalitarianism inherent in democracy, with the beginning of democratization in the late 19th century came the collectivization of individual responsibility, and currently the bulk of public spending is eaten up by welfare expenditures: by compulsory government 'insurances' 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 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. Thus, since the onset of the democratic-republican age, the number of children has declined: 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-

²⁶ See C.Cipolla, Before the Industrial Revolution, pp.54-55; P.Flora, State, Economy and Society in Western Europe, ch. 8 and p.454.

²⁷ See R.B.Mitchell, European Historical Statistics 1750-1970, pp.16ff.

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 rate of crimes of a serious nature, such as murder, assault, robbery, and theft, has likewise shown a systematic upward tendency.

In the 'normal' course of 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, during the second half of the 20th century, when 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

²⁸ See A.C. Carlson, Family Questions (New Brunswick: Transaction Publishers, 1992); idem, The Swedish Experiment (New Brunswick: Transaction Publishers, 1993); idem, "What Has Government Done to Our Families?", Essays in Political Economy, no.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), ch.14.

²⁹ See J.Q. Wilson & R.J. Herrnstein, Crime and Human Nature (New York: Simon & Schuster, 1985), pp.408-409; on the magnitude of the increase in criminal activity brought about by democratic republicanism and welfarism in the course of the last 100 years see also R.D. McGrath, Gunfighters, Highwaymen, and Vigilantes (Berkeley: University of California Press, 1984), esp. ch.13.

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. Accordingly, changes in the composition of the sexes, age groups, races, and the degree of urbanization can be expected to have a systematic impact on crime. However, all of these factors have remained relatively stable and thus cannot account for any systematic change in the long-term downward trend of crime rates. Moreover, it is also admitted that 'high time preference' is by no means equivalent to 'crime'. A high time preference can also find expression in such perfectly lawful activities as unreliability, laziness, consumerism or hedonism. Nonetheless, a systematic relationship between high time preference and crime exists, for in order to earn a market income a certain minimum of planning, patience and sacrifice is required. One must first work for a while before one gets paid. In contrast, most serious criminal activities such as murder, assault, rape, robbery, theft, and burglary require no such discipline. The reward for the aggressor is immediate and tangible, whereas the sacrifice - possible punishment - lies in the future and is uncertain. Consequently, if the social degree of time preference increased, it could be expected that the frequency in particular of these forms of aggressive behavior would rise - as they in fact have risen.³⁰

³⁰ On the relationship between high time preference and crime see also E.C. Banfield, The Unheavenly City Revisted (Boston: Little, Brown & Company, 1974), esp. chs. 3 & 8; idem, "Present-Orientedness and Crime", in: R.E. Barnett & J. Hagel, eds., Assessing the Criminal (Cambridge: Ballinger, 1977);

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 regime", of course. 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 contribute to present-orientedness as well. Rather, the idea of democratic republicanism must be rendered equally if not more laughable than that of monarchical rule, not in the least by identifying it as the source of steadily increased government exploitation and present-orientedness. More importantly, however, at the same time a positive alternative to monarchy and democracy - the idea of a natural order - must be spelled out and understood, and a strategy of how to reach this goal must be outlined. ³¹

On the one hand, and simply enough, 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 non-exploitative social order, i.e., private property anarchy, the idea of majoritarianism

J.Q.Wilson & R.J.Herrnstein, Crime and Human Nature, pp.414-424.

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

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. While it is possible that one hundred parasites may lead a comfortable life on the products of one thousand hosts, one thousand parasites cannot live off of one hundred hosts. Based on the recognition of this fact, it would appear possible to persuade a majority of the voters that it is adding insult to injury to let those living off of other peoples' taxes have a say in how high these taxes are, and to thus 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 government contractors.

Moreover, in conjunction with this strategy it is necessary to once again 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 principle of democracy and majoritarianism. Provided that the process of secession proceeds far enough (to the level of small regions, villages, towns, and city districts), it becomes possible for a few individuals, based on the popular recognition of their economic independence, outstanding professional achievement, morally impeccable personal life, superior judgement and taste, and courage, to rise to the rank of natural, voluntarily acknowledged authorities and lend legitimacy to the idea of a natural order of competing (non-monopolistic) judges and

overlapping jurisdictions as exists even now in the arena of international trade and travel - a pure private law society - 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 or 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.

There is little doubt that the history of the West, and the outstanding role of the Western world in human history, is indebted to two uniquely Western intellectual contributions: to Greek rationalism and Christianity; first to their mutual transformation and intellectual integration over the course of several hundred years, and then, as a result of Renaissance, Reformation, Counterreformation, Enlightenment and Romanticism,

to the successive disintegration and devolution of the Graeco-(Aristotelian-) -Christian synthesis as it was accomplished in Thomistic and Scholastic philosophy from the 13th through the 17th centuries, to the present ideology of Secular Relativism (Positivism).

Classical Greece, 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 inevitable 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 the 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 Greek high regard for rationality and the firm belief in the intelligibility of nature and man and the possibility of human

³² See M.N.Rothbard, Economic Thought Before Adam Smith, ch.1.

progress.³³ Mainstream Christianity contributed in several important respects. As compared to Greek paganism, Christian monotheism put an even stronger 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 his own image by the same God, the Greek idea of natural law took a decisively individualistic turn. Natural human rights in particular became individual human rights, which applied equally to every human being and united all of mankind in a single oecumene.³⁴

Moreover, mainstream Christianity had rid itself gradually of its largely cultish 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. Rather, influenced by its long contact with Rome and the Roman family and kinship system, mainstream Christianity accepted the individual

³³ Contrary to widespread myths, the Renaissance of the 14th and 15th century contributed little to science. The centers of scientific and scholarly advancement, from the 12th century onward, were in fact the Scholastic universities. See H. Butterfield, The Origins of Modern Science, 1300-1800 (Bell, 1957); also R. Nisbet, Prejudices (Cambridge: Harvard University Press, 1982), pp. 40ff; 261ff.

³⁴ While slavery was practiced from time immemorial throughout the world, it was only in the West, due to the Christian doctrine of the equality of all man before God, that the institution of slavery was first systematically opposed, and at last voluntarily abolished. See also Th. Sowell, Race and Culture (New York: Basic Books, 1994), ch.7.

On the Stoic influence on the Christian idea of equality see E. Cassirer, The Myth of the State (New Haven: Yale University Press, 1946), ch.VIII; M.N. Rothbard, The Ethics of Liberty (Atlantic Highlands: Humanities Press, 1982), pp.17ff.

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 a 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 quasi-familial (feudal) hierarchy of freeholders, knights, vassals, lords, and feudal kings, tied together by an elaborate system of kinship relations. And as in a family, of the two layers of authority the earthly power of parents, lords and kings was held to be subordinate and subject to the ultimate, spiritual-intellectual authority of fathers, priests, bishops, popes, and ultimately God.

In effect, this combination of individualism, universalism (oecumenism), family and kinship orientation, the acknowledgement of a multi-layered social rank order and the recognition of the supremacy of the universal - supraterritorial - Church over any particular - territorial - Lord or King shaped Christianity into a powerful ideological weapon against the growth of State power.³⁵ However, the Christian doctrine as embodied in Scholastic philosophy suffered from an inescapable internal

³⁵ See also Lord Acton, Essays in the History of Liberty (Indianapolis: Liberty Fund, 1985), ch.2; M.N.Rothbard, Economic Thought Before Adam Smith, chs. 2-4; R.Nisbet, Prejudices, pp. 110ff, 125ff.

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.³⁶ As a result of a series of ideological challenges, the Scholastic system slowly disintegrated, and the ideological bullwark which 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. As well, 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.³⁷

In ideological reaction to these 'decadent' tendencies, which had also affected the mainstream Church, the Reformation brought

³⁶ See also L.v. Mises, Theory and History (Auburn, Al.: Ludwig von Mises Institute, 1985), pp.44ff; E. Cassirer, The Myth of the State (New Haven: Yale University Press) ch.VII.

³⁷ See A. Ruestow, Freedom and Domination. A Historical Critique of Civilization (Princeton: Princeton University Press, 1980), pp.256-267; R.Nisbet, Prejudices, pp. 261ff; M.N.Rothbard, Economic Thought Before Adam Smith, ch.6; Q.Skinner, The Foundations of Modern Political Thought, Vol.1 (Cambridge: Cambridge University Press, 1978).

a sharp return to religion. However, the new Protestant religiosity was decidedly reactionary: anti-rationalist and egalitarian. Faith, and salvation by faith alone, were 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 (oriental) Augustinian doctrine of human predestination was revived, and the fate of each person 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 'inner' religious conscience; and the formerly established distinction between a secular (civil) 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.³⁸

As a result of anti-rationalism, 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 rank order, i.e., with the democratization of religious authority, the

³⁸ See A. Ruestow, Freedom and Domination, pp.267-287.

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 19th and the 20th century.³⁹ Moreover, in breaking up the unity of the Catholic Church and undermining the idea of a spiritual rank order, the Protestant revolution in effect isolated and weakened the individual vis-a-vis the 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 power 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.⁴⁰

³⁹ See J.F.C.Fuller, The Conduct of War (New York: Da Capo, 1992), ch.1.

⁴⁰ See M.N.Rothbard, Economic Thought Before Adam Smith, ch.5.

In reaction to Reformation and Counterreformation, then, the 17th and 18th-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 or even anti-Christian. On the other hand, influenced by the Protestant Spirit, it was a decisively egalitarian rationalism.⁴¹

The recognition of the supremacy and autonomy of reason and a renewed interest in Stoic philosophy, and, even if generally unacknowledged, in late (Spanish) 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, Pufendorf, Locke, Thomasius, and Wolff, among others. The earthly ruler was seen as subject to the same universal and eternal principles of justice as anyone else, and a State could either derive its justification from a "contract" between private property owners, or it could not be justified.⁴² There remained significant differences as regards the precise meaning of "contract" (did it bind only the original signers?, could it be

⁴¹ See A. Ruestow, Freedom and Domination, pp.301-326; E. Cassirer, The Myth of the State, ch.XIV.

⁴² See E. Cassirer, The Myth of the State, ch.XIII; A. Ruestow, Freedom and Domination, pp.301-326.

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.⁴³

However, owing to its anti-clericalism (as in Voltaire, for instance) and its egalitarianism which went as far as to deny all innate differences between 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 - 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 an important - if not the most important - of these intermediary authorities.⁴⁴ Misled by its anti-clericalism and egalitarianism, Enlightenment rationalism furthered instead the tendency, begun with the Protestant Revolution, of isolating the

⁴³ See also J.Tuck, Natural Rights Theories (Cambridge: Cambridge University Press, 1979); M.N.Rothbard, Economic Thought Before Adam Smith, esp. pp.369ff.

⁴⁴ See W.Roepke, Die Gesellschaftskrisis der Gegenwart (Erlenbach: E. Rentsch, 1942), ch.1, esp. pp.71ff; also L.v.Mises, Theory and History, pp.47f.

individual vis-a-vis the 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 regime.

As a result, the Enlightenment was thoroughly discredited - and with it all of rationalist philosophy. In reaction to the French Revolution and the Enlightenment, and inspired by pre-revolutionary writers such as Vico, Rousseau, and Hamann, Romanticism came to hold sway.⁴⁵ 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

⁴⁵ See A. Ruestow, Freedom and Domination, pp.343-368; E. Cassirer, The Myth of the State, ch.XIV; L.v.Mises, Theory and History, ch.10.

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 judgement on the past nor to learn anything for the future, but solely to reveal the diversity of mankind and human tradition (multi-culturalism). 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 possessed a right of its own: mysticism, Platonism, Buddhism, paganism, and deism no less so 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 (praxis), 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.

Unsurprisingly, with the influence of Romanticism the power of the State also grew.⁴⁶ If history is viewed as the source and

⁴⁶ See L.v.Mises, Socialism (Indianapolis: Liberty Fund, 1981), esp. pp.419ff; M.N. Rothbard, Freedom, Inequality, Primitivism, and the Division of Labor (Auburn: Ludwig von Mises Institute, 1991).

origin of 'right', then a 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 - as 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 18th-century empiricism, in particular by Hume, 19th- and 20th-century Positivism shared most of its anti-rationalist 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 ('bad') 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, 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).

Furthermore, Positivism shared with Romanticism the relativistic view that reason is incapable of recognizing any necessary universal and immutable positive (causal) laws. Indeed, the denial of the very possibility of - in Kantian terminology - true synthetic a priori propositions is one of the cornerstones of Positivism.⁴⁷ According to Positivism no such thing as non-hypothetically true positive (empirical) laws exist. In other

⁴⁷ See also 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, part II; L.v.Mises, Theory and History, ch. 11; idem, The Ultimate Foundation of Economic Science (Kansas City: Sheed, Andrews & McMeel, 1978); B.Blanshard, Reason and Analysis (LaSalle: Open Court, 1964).

words, nothing about reality can be known to be true a priori. Rather, all empirical knowledge is hypothetical knowledge, and all non-hypothetical knowledge is analytical knowledge which contains no empirical information whatsoever but is merely arbitrary symbolic conventions and definitions (tautologies). The only difference between the positivist and the romantic relativism was a psychological one. The romantic's relativism was that of an artist - a poet, novelist, or historian. His 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, as the object of physically detached appreciation, empathy, or sympathy. In contrast, the positivist 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, as the object of physical manipulation and interference.

In fact, as can be seen from the positivists' conception of logic, for instance, 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. If anything, the positivist view appears even more relativistic. However, due to its activist (experimental) attitude, positivistic philosophy at least

appeared to make room for the idea of a posteriori laws - 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).⁴⁸

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. Any normative statement is just as well, or rather, ill-founded as any other. But then, what is wrong with everyone trying to enforce and impose on others whatever one

⁴⁸ Strictly speaking even this impression is fallacious, however. For how can it be possible to relate two or more observational experiences as falsifying or confirming each other, rather than merely 'neutrally' record them as one experience here and one experience there, one repetitive of another or not and leaving it at that, ~~unless one~~ presupposed the existence of time-invariantly operating causes? Only if the existence of such time-invariantly operating causes could be assumed would there be any logically compelling reason to regard them as commensurable and as falsifying or confirming each other. However, positivists deny that any such assumption can be given an a priori defense and claim that the causality principle is itself merely hypothetically true. Yet clearly, if the possibility of constantly operating causes as such is only a hypothetical one, then it can hardly be claimed, as positivists do, that any particular predictive hypothesis could ever be falsified or confirmed. For then the falsification (or confirmation) would have to be considered a hypothetical one: any predictive hypothesis would only undergo tests whose status as tests were themselves hypothetical. Only if the causality principle as such could be unconditionally established as true, could any particular causal hypothesis ever be testable, and the outcome of a test provide rational grounds for deciding whether or not to uphold a given hypothesis. See H.H.Hoppe, The Economics and Ethics of Private Property, ch.7; idem, "In Defense of Extreme Rationalism", Review of Austrian Economics, Vol.3, 1989, pp.192ff; p.210.

wishes? Surely nothing. Everything goes. Ethics is reduced to the question "what can I get away with?" 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 positive sciences. In the realm of the natural sciences, the positivist doctrine is relatively harmless. The propositions of logic and mathematics are interpreted by positivists as containing no "real" knowledge at all - as empty formalisms, and this view has helped legitimize and promote the degeneration of parts of logic and mathematics into meaningless symbolic games (of which the general public has remained largely ignorant due to the arcane nature of the subject).⁴⁹ But the influence of positivism 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, as the premiere positive social science, has been destroyed beyond recognition, and a once powerful ideological fortress against the encroachment of State power has been removed.⁵⁰

From the Christian Middle Ages through Spanish Scholasticism to the 17th and 18th centuries of Enlightenment, parallel to and

⁴⁹ See F.Kambartel, Erfahrung und Struktur (Frankfurt/M.: Suhrkamp, 1968), ch.6, esp. pp.236-242.

⁵⁰ See also H.H.Hoppe, "Austrian Rationalism in the Age of the Decline of Positivism", Journal des Economistes et des Etudes Humaines, Vol.2, no.2/3, 1991.

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intertwined with the development of 'normative' natural rights theory a systematic body of positive economic theory developed, culminating in the writings of Cantillon and Turgot. According to this intellectual tradition - carried on in the 19th century by Say, Senior, Cairnes, Menger and Boehm-Bawerk, and in the 20th 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 of as an axiomatic-deductive science and economic theorems as propositions which were at the same time realistic and non-hypothetically or a priori true.⁵¹ 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

⁵¹ See M.N.Rothbard, Individualism and the Philosophy of the Social Sciences (San Francisco: Cato Institute, 1979); H.H.Hoppe, Praxeology and Economic Science (Auburn: Ludwig von Mises Institute, 1988).

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) propositions 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 that could be recognized from the outset, a priori, as false and nonsensical. Experience would 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, too. With the predicted effects being 'beneficial', however, they surely should be tried out. 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 hypotheses. 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 - for the practical reason that this would involve controlling literally all of the universe, and for the theoretical reason that no one even knows what all the variables which make up this universe are. No matter what the charges brought against the robber, the taxman, or the Federal Reserve Board, within the boundaries of the positivist philosophy they will always be able to preserve and rescue the 'hard core' of their '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 Federal Reserve Board not want to

continuously 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' positive relationship between taxes, minimum wage laws, the creation of money, and prosperity, once these circumstances were controlled?³²

The attitude toward positive 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." Unsurprisingly, 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

³² See also H.H.Hoppe, A Theory of Socialism and Capitalism (Boston: Kluwer, 1989), ch.6.

20th century as the 'age of unlimited social experimentation.'⁵³

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, however. As the legitimacy of monarchical rule has apparently been lost, so does that of Christianity and the Christian Church appear to have vanished forever. In Nietzsche's words, "Gott ist tot."⁵⁴ Nor would such a return be desirable, for Christian rationalism was never anything but conditional. Instead, the rationalism to be restored will have to be the unconditional rationalism as championed more than three centuries ago by Grotius, for instance. 'Even the will of an omnipotent being', wrote Grotius, 'cannot change the 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

⁵³ See L.v.Mises, Human Action, part 7; idem, The Ultimate Foundation of Economic Science, esp. chs.5-8, which concludes with this 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." (p.133).

⁵⁴ See M.Heidegger, "Nietzsches Wort 'Gott ist tot'", in: idem, Holzwege (Frankfurt/M.: Klostermann, 1950).

affairs.⁵⁵

In distinct contrast to Enlightenment rationalism, however, the rationalism to be restored will have to be unconditional and decidedly non-egalitarian (and, per implication, also decidedly pro-Christian, and in particular pro-pre-Reformation-Catholicism). It must be a rationalism which recognizes, as a primordial fact, the existence of fundamental inequalities between human beings. Rather than ignoring or decrying this fact, it 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 few - noble - 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 actually constitutes the sociological presupposition of their very recognition.⁵⁶

⁵⁵ See E.Cassirer, The Myth of the State, p.172; M.N.Rothbard, Economic Thought Before Adam Smith, p.72.

⁵⁶ See W.Roepke, Jenseits von Angebot und Nachfrage (Bern: P.Haupt, 1979), pp.191-199; idem, Die Gesellschaftskrise der Gegenwart p.52f; B. de Jouvenel, On Power, ch.17; H.H.Hoppe, "The Political Economy of Monarchy and Democracy and the Idea of a

Most important, however, is the recognition of the destructive and self-contradictory nature of positivist philosophy and the rediscovery of the forgotten tradition of rationalist ethics and economics ('praxeology').

To maintain that no such thing as a rational ethic exists does not imply 'tolerance' and 'pluralism', as champions of positivism such as M. Friedman falsely claim, and moral absolutism does not imply 'intolerance' and 'dictatorship'.⁵⁷ To the contrary, without absolute values 'tolerance' or 'pluralism' are just other arbitrary ideologies, and there is no reason to accept them rather than any other such as cannibalism or slavery, for instance. Only if absolute values such as a human right of self-ownership, for instance, exist, i.e., only if 'pluralism' or 'tolerance' are not merely some of a multitude of tolerable values, can pluralism and tolerance in fact be safeguarded.⁵⁸

Natural Order".

⁵⁷ On Friedman's pronouncements see M. Friedman, "Say No to Intolerance", Liberty, Vol.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, Vol.10 (Greenwood: JAI Press, 1992), esp. pp.100-102; as 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. pp.196-197.

⁵⁸ Interestingly, then, it is M. Friedman, and not the targets of his smear attacks, the "extremist" and "intolerant" Ludwig von Mises and Murray N. Rothbard, who finds himself in the companionship 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

Nor is it true, as Friedman insinuates, that the positivist view regarding all empirical knowledge as merely hypothetical implies intellectual 'modesty', whereas all apriorists are guilty of intellectual 'hubris'. The opposite is true. If all non-hypothetical knowledge is empirically meaningless analytic knowledge and all empirical knowledge is hypothetical knowledge, then what about the 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 - hypothetically - hypothetical knowledge and empirical tests are - hypothetically - 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, non-hypothetically, or a priori true, the positivist doctrine turns out to be self-contradictory nonsense. This is hardly modesty, but outright intellectual permissiveness and promiscuousness!

In contrast, if the existence of non-hypothetical 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

himself his own ideology and to attempt to enforce it with all the energy of which he is capable." [quoted from H.B. Veatch, Rational Man. A Modern Interpretation of Aristotelian Ethics (Bloomington: Indiana University Press, 1962), p.41]

this distinction and the delineation of two kinds of empirical questions and answers is itself a non-hypothetically - categorically - true empirical distinction. Moreover, contrary to the positivistic 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 non-hypothetical empirical knowledge implies basic intellectual modesty. For if non-hypothetical laws exist, such laws should be expected to be "old", long ago discovered truths. "Newly" discovered non-hypothetical 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).⁵³ Most non-hypothetical empirical knowledge can be expected to exist already and only in need of being rediscovered (rather than newly invented). That is, in the realm of the non-hypothetical 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 re-learned or forgotten.

In accordance with this fundamental intellectual humility, the

⁵³ On the intellectual modesty of rationalism see also E. Cassirer, The Myth of the State, ch. XIII.

rationalist answer to the positivistic destruction of ethics (as non-scientific) and economics (as either empirically empty or else hypothetical), while apparently largely forgotten or unlearned, is anything else but "new", and while it has surprisingly radical implications, these can hardly be characterized as "dictatorial" or "extremist".⁴⁰

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 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

⁴⁰ As the two outstanding social rationalists of the 20th century and lonely remnants of a glorious intellectual past see L.v.Mises, Human Action (Chicago: H. Regnery, 1966); idem, Theory and History; and M.N. Rothbard, Man, Economy, and State (Los Angeles: Nash, 1972); idem, The Ethics of Liberty; and idem, Economic Thought Before Adam Smith and Classical Economics.

Self-evident - - - ?

63

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 - non-hypothetically - 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, A 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 - 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 - equally - 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 the collective property of everyone, then no one, at no time and in 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 very 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-own (original appropriation, homesteading). They pass the universalization test - they hold for everyone equally - and they can at the same time assure the survival of mankind. They and only they are therefore non-hyp^othetically (absolutely) true ethical rules (human rights).

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 hence 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 is equally 'Pareto-superior' on demonstrated preference grounds, 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 must also be regarded as a 'Pareto-superior' change, because it can only take place if both parties expect to benefit from it. Furthermore, 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 of avoiding value losses) by means of physically controlled and calculated actions.

In distinct contrast, any deviation from these principles implies a redistribution of property titles away from user-producers and contractors of goods onto non-users-producers and non-contractors. 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 - and hence a lower (Pareto-inferior) 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 - the non-homesteaders, non-producers and non-contractors who are given control (property) over goods homesteaded, produced or voluntarily acquired by others - 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 of current consumption over saving (future consumption) will be systematically strengthened, and the likelihood of misallocations, miscalculations, and economic losses will be permanently heightened.

Once - and only once - these old, rationalist principles of ethics and economics are rediscovered under the positivist rubble, and it is understood again that they are absolutely - non-hypothetically, apodictically, categorically, a priori - true principles can the tendency toward centralization, democratization and the growth of state power be ultimately and lastingly reversed. For in light of these principles, central governments all around the globe cannot but be recognized immediately for what they are: as outlaw organizations and the

single greatest violators and threats to justice and economic efficiency everywhere. Without justice they are, as St. Augustine noted, nothing but a band of robbers. If - and only if - this recognition of states (governments) as fundamentally evil and wasteful returns and prevails in public opinion, will the power of the central state crumble, devolve onto smaller and smaller territories, and ultimately whither away and make room for a system of ordered and self-reinforcing private property anarchy, as required by ethics and economics.

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