The Disinterventionist Spiral

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Ludwig von Mises' theory of interventionism can be employed fruitfully to the COVID-19 crisis. Interventionism gained a strong foothold in the public health sector and spiraled during the COVID-19 crisis into other areas such as monetary policy, fiscal policy, regulation of transportation, and social gatherings. The health interventionist spiral has been burying civil liberties in the wake of the COVID-19 mass hysteria (Bagus et al., 2021). While the functioning of the interventionist spiral is well known to the Austrian economist, the opposite way is less well studied. Therefore, in this chapter I want to employ Mises' theory of interventionism to develop

Huerta de Soto is the most generous mentor imaginable. His support goes from helping me with publications, promoting my academic career, paid projects such as translations of his works to first-class opera tickets and praising me over the moon. (He likes to tell people that at our first meeting I said I wanted to be the best professor in Europe. I had only said that I wanted to be a professor of economics). Thank you very much for everything, Herr Professor.

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D. Howden, P. Bagus (eds.), *The Emergence of a Tradition: Essays in Honor of Jesús Huerta de Soto, Volume I*,
https://doi.org/10.1007/978-3-031-17414-8_4

a theory of de-interventionism, a theory of de-spiraling. First, I portray Mises' theory of interventionism and how Mises modified it over time. Second, I outline a theory of de-interventionism. Third, I illustrate this theory with the specific example of the reform of a pension system. Lastly, I conclude with some implications for libertarian reformers.

Mises' Theory of Interventionism

Ludwig von Mises pointed already in his 1929 book *Critique of Interventionism* to the unviability of a third way of interventionism: "Either capitalism or socialism, there is no middle of the road." ([1929] 1996, p. 8). Interventionism is unstable because interventions lead to effects that are contrary to the intentions of the advocates of them. The politicians that advocated the intervention then have the option either to get rid of the new intervention or to follow up with another intervention. However, a second intervention will cause other unwelcome side effects that are bad from the point of view of the interventionists ([1929] 1996, p. 8). Thus, pressure amounts to continue the interventionist path adding further interventions, until the interventionist avalanche buries the market economy which turns into a planned economy or socialism, in which production is directed by the state as the de facto owner of the means of production.

Mises illustrates his analysis with the example of price controls. If the government sets maximum prices below market prices in order to benefit consumers, there will be a shortage because production becomes unprofitable at the regulated price and demand increases. The reduction of production and the unsatisfied consumer demand can be considered to be an adverse effect from the point of view of the interventionists themselves. In order to stimulate production by making it profitable again, the government may then regulate the input prices of the good in question. These additional price ceilings constitute the next step in the cumulative interventionist process. As a further consequence, the production of the input factors becomes unprofitable, and the next interventionist step is to impose of price ceiling on the inputs' input factors and so on until all prices in the economy are regulated. As Mises points out, "[i]f government is not inclined to alleviate the situation through removing its limited interventions and lifting its price control its first step must be followed by others." ([1929] 1996, p. 8; Mises comes to the same conclusion in *Human Action* [1949] 1998, p. 857).

His disciple Murray Rothbard argues in the same manner "that every coercive intervention in human affairs brings about further problems that call for the choice; repeal the initial intervention or add another one. It is the feature that makes any 'mixed economy' inherently unstable, tending always toward one or the other polar opposite—pure freedom or total statism" (1976, p. 264).

The end of the interventionist spiral is socialism (Mises [1940] 1998, p. 88). Three comments on Mises' theory of interventionism are in order.

The first comment is that Mises claims that the effects of the interventions are undesirable from the point of view of the advocates of the interventions which creates pressure to introduce follow-up interventions: "[consequences]…which after all are contrary to its [the government's] own intention." (Mises [1929] (1996), p. 8). However, this is not necessarily so for four main reasons.

First, when referring to the point of view of the interventionists Mises deals with subjective valuations which cannot be known with certainty by an outside observer. It is perfectly conceivable that a statist welcomes the effects of the intervention because they give him a justification for further interventions. He may be perfectly aware that he starts rolling an interventionist spiral leading to socialism being his ultimate goal. In this case, the effects of the initial interventions are not undesired but very much desired. Sometimes, for instance, in the European debt crisis, the COVID-19 crisis or in the cases of causing unemployment or mass immigration that increases votes to a certain party or power to the state, this possibility does not seem too far-fetched. Mises could have improved his argument by slightly changing his wording to say that the effects of the intervention are detrimental from the point of view that the interventionists officially defend or pretend to defend.

Second, the side effects of the intervention may not be strong enough to cause an overwhelming pressure toward more interventions such as occurs with minimum wage laws that cause only insignificant or no unemployment when set very low.

Third, the "adverse" effects could just be accepted by the interventionists as a necessary evil without leading to follow-up interventions. For instance, government redistribution reduces capital accumulation and consequently leads to wages that are lower than they otherwise would have been. Politicians may accept a somewhat lower living standard as long as they believe their egalitarian ends are met. In this case, they may resist the pressure to take away the intervention or follow up with another one.

Fourth, simultaneous to the intervention there may occur overlapping effects that compensate or alleviate the "adverse" side effects. For instance, progress in the international division of labor, capital accumulation or innovations may increase productivity so that minimum wage hikes do not cause unemployment or so that the productivity losses caused by some interventionist measures are compensated for. Consequently, there is no visible pressure for follow-up interventions.

The second comment on Mises's theory of intervention is that the interventionist spiral in the case of price controls may be broken by fiscal means. In the case of the shortage of a good whose price has been controlled, the state could subsidize the production of the good or start to produce it. After this intervention, the pressure to regulate other prices is alleviated. Naturally, higher taxes to finance the subsidies or state production will reduce the willingness to produce, and capital accumulation will be below the amount otherwise attained. Yet, these adverse consequences, as pointed out above, could easily be regarded as acceptable so that the cumulative process comes to a halt at this point or is, at least, slowed down considerably.

The third comment we must make is that Mises slightly modified his theory of interventionism from his first account in 1929 to his treatment in *Human Action* in 1949. In 1929 his definition of interventionism is narrower than in *Human Action*. In his first account he states that an "[i]ntervention is a limited order by a social authority forcing owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would." ([1929] 1996, p. 4) In his later treatment of 1940 (1998, p. 6) we find a similar definition. He emphasizes the difference to his definition of socialism: "Interventionism seeks to retain private property in the means of production, but authoritative commands, especially prohibitions, are to restrict the action of private owners." ([1929] 1996, p. 1; see also Mises [1940] 1998, p. 10).

Mises ([1929] 1996, p. 5) maintains that there are two types of commands, namely those that directly reduce or prevent production and those that regulate prices. However, in 1929 he does not consider nationalizations or the constitution of public enterprises as interventions. Moreover, fiscal measures such as subsidies are not included in interventionism as it is narrowly defined ([1929] 1996, p. 5). Taxation is excluded also because it does not, according to Mises, redirect production itself ([1929] 1996, p. 30, n. 3).

Thus, Mises restricts his definition of interventionism to cases of price controls and prohibition of production which seems somewhat narrow. Subsidies, taxation, government purchases and sales, as well as public companies also lead to an employment of the factors of production different to the one that otherwise would occur.

Later, in *Human Action* Mises employs a broader view of interventionism. First, he offers a familiar definition of intervention by stating:

> The intervention is a decree issues, directly or indirectly by the authority in charge of the administrative apparatus of coercion and compulsion which forces the entrepreneurs and capitalists to employ some of the factors of production in a way different from what would have resulted if they were only obeying the dictates of the market. [1949] (1998, pp. 714–15)

However, later on, Mises broadens the meaning of interventionism in chapter 36, *The Crisis of Interventionism*. In this chapter he includes as interventionist measures such as taxation, fiscal spending, and the action of state enterprises [Mises, 1949] (1998, pp. 851–54). Mises argues that the interventionist logic also applies to these areas leading to more and more socialization of resources with the consequence of capital consumption. To finance the interventionist measures and its own growth, the government is obliged to tax away more and more fortunes. However, private funds are limited [1949] (1998, p. 852).

Mises concludes his analysis of interventionism:

> The interventionist interlude must come to an end because interventionism cannot lead to a permanent system of social organization…All varieties of interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters but bring about a state of affairs which—from the point of view of their authors' and advocates' valuations—is less desirable than the previous state of affairs which they were designed to alter. If one wants to correct their unsuitableness and preposterousness by supplementing the first acts of intervention with more and more of such acts, one must go farther and farther until the market economy has been entirely destroyed and socialism has been substituted for it. [1949] (1998, p. 854)

Two De-interventionist Implications in Mises' Theory of Interventionism

The kernel of Mises' argument is that interventionism is not stable. The interventionist regime will always wander from fewer to more interventions. Sometimes the regime may also wander the opposite direction from more to fewer interventions, though Mises does not emphasize this direction. There always remains the question if an intervention shall be abolished due to its "unintended" side effects or rather be complemented by additional interventions to combat these side effects.

In the same way that interventions lead to pressure toward more interventions, an abolishment of interventions also leads to pressure to abolish further interventions or to reinstitute them. This is so because the abolishment of an intervention eliminates its side effects but makes more noticeable the "negative" consequences of the interventions still in place. The crux of free-market reforms is that they produce pressures to abolish them. This implies that de-interventionism or piecemeal free-market reform is a complicated, daring, and risky endeavor. The endeavor is unstable, fragile, and difficult from a political point of view.

Let us go back to Mises' example of maximum prices. In his account, maximum price caps by way of ceilings lead to the additional intervention of regulating the prices of the input factors in order to make the production of the good profitable again. This additional regulation in turn has the "adverse" effect of making the production of these input factor unprofitable, causing a shortage of the input factors. If there is deregulation and the price regulation of the input factor is abolished, we are back at the point where the production of the good with the maximum price is unprofitable, resulting in a shortage. As this shortage is "undesirable" there is pressure to also abolish the initial regulation of the maximum price. In other words, in the same way that interventions may cause an interventionist spiral, reforms or the abolishment of interventions may lead to a reform spiral. Both can at any point be broken by either removing interventions in the former case or initiating the interventionist process again in the latter case.

This insight derived from the theory of interventionism has implications for free-market reforms. Isolated or piecemeal reforms lead to problems in execution and sustainability resulting from the remaining state interventions. These problems can be exploited by statists as a main argument against the reform and in favor of its abolishment.

The crux of the spiral of de-interventionism is that a reform may lead to adverse side effects or problems from the point of view of the very advocates of the reform (and their opponents, of course). The advocates are then confronted with three choices. First, they can abolish the reform as demanded by its opponents. Second, advocates may introduce complementary interventions to deal with the undesired effects kicking off a new spiral. An example is the Hartz-IV reforms in Germany during the early 2000s that deregulated the labor market. These labor-market reforms culminated with the introduction of a minimum wage in 2015. Third, they may follow through with the dynamics of de-interventionism abolishing further interventions, which in turn may cause additional "undesired" consequences. Free-market reform proposals, therefore, suffer from the problem that they themselves are unstable because they are only partial liberalizations. Successful reforms should be accompanied with deregulations in other fields. A famous example of such an endeavor is the successful monetary and economic reform in Germany in 1948. At the time the price controls of the national socialist regime were still in place. The national socialist regime used inflation to finance the war effort. As a consequence, many goods were only available on the black market. The monetary reform aimed to eliminate the excess money supply created during the war.

However, the monetary reform alone, that is, without the end of price controls, would not have established a functioning market economy dependent on free prices. Similarly, the end of price controls without a monetary reform that eliminated the excess money supply could have caused hyperinflation and the loss of confidence in the new currency.

Hence, Ludwig Erhard, director of economics of the Bizonal Economic Council, later minister of economics and German chancellor, accompanied the monetary reform with a successive and encompassing abolishment of price controls. The combined reforms were a stunning success and the foundation of the post-war German economic miracle.

One can deduce from Mises' standpoint that only a complete abolition of the interferences or interventions in the market economy at one stroke ("immediate abolition," according to Mises [1929] 1996, p. 15) would avoid these problems and establish a free-market economy which is a stable and viable alternative of social cooperation. "I'd push the button," as Leonard Read would say (1946).

Here we see another radical implication of Mises' theory. It should be noted the implications of Mises' theory sometimes are more radical than he seems to be aware of. A similar case is Mises' defense of the minimum state and of the unlimited right of secession up to the individual level (1985, pp. 109–110). As Hans-Hermann Hoppe (2020) has pointed out, unlimited secession makes the membership within a state voluntary and allows for anarcho-capitalism. Mises does not seem to be aware of the radical implications of his defense of unlimited secession.

Similar to the case of secession, there is a radical idea implied in Mises' theory of interventionism which puts Mises close to Murray Rothbard's view on state interventions. Following Leonard Read, Rothbard maintains that a libertarian should be in favor of abolishing all government interferences at one stroke. Rothbard's argument, however, is based not only on economic and political theory but also on natural law ethics. Rothbard argues that if there would be a button that would abolish the state altogether, the libertarian should press it (1998, p. 259). Mises' theory of interventionism seems to give support to this approach from the point of view of economic theory. The Misesian, who is asked to establish a stable and viable form of social cooperation to evade the chaos of socialism, would follow his libertarian companion and press Read's and Rothbard's button—at least so it seems.

Reform of the Pension System as an Illustration of a De-interventionist Spiral

An example of such a de-interventionist spiral is a reform of the public pay-as-you-go pension system and a transition toward a capital-based pension system as defended by Huerta de Soto (2007). A transition toward a capital-based free-market system comes with the problem that people close to or at the age of retirement may not have saved sufficiently in the past and must rely on the public pay-as-you-go system. In the transition period, the young working population would have to pay public pensions for the retired and save for their own retirement. Of course, the retired could simply be supported directly by their children during the transition making the pay-as-you-go payments voluntary. Yet, not every retiree has children willing to do so and birth rates have fallen. So, there is an "undesired" consequence of the reform, namely that the life of the retired during the transition period may become more difficult. Note that this is essentially the situation following the market reforms in the Soviet Union in the 1990s and the reason why nostalgic elderly wanted to return to socialism.

There are several ways that further deregulation may help to make pension reform a (political) success. One way to support the retired are private donations; private charities may fill the gap. In order to increase the willingness for private donations, a tax cut would be helpful. The tax cut is a reversion or abolition of a state interference as a response to problems caused by the initial reform.

Another revision to alleviate the “adverse” effects of the reform is to make the labor market more flexible and facilitate the creation of jobs specifically for the elderly, for instance, by reducing social security contributions or by permitting workers to continue working past retirement age. Of course, this implies also the abolition or reduction of further interventions.

The transition to and acceptance of a capital-based pension system is also exacerbated by other interventions, most notably in the monetary field. In times of financial repression, savings end up financing the state. Insurance, pensions funds, or banks are forced to invest part of the savings in low or even negative yielding government bonds. The yield of short-term savings is artificially reduced. Financial interventions make it more difficult to get a positive real yield on savings to provide for retirement. A capital-based private pension system is further threatened by the possibility and uncertainty of future state interventions in the monetary field.

Thus, the end of a negative interest rate policy, financial deregulation or monetary reform could facilitate the acceptance and success of a reform of the pension system. Yet, these further reforms and de-interventions would cause other consequences that some people would consider to be detrimental. One direct consequence of a less interventionist monetary policy, or even a complete monetary reform, would be that the financing of the state would be reduced. Real government spending would fall. The state’s role in the economy would be reduced thereby leading to problems for those that depend on the state. Further deregulation would facilitate the reincorporation of these people into productive activities.

Moreover, a deregulation of financial markets, for instance, by way of the abolishment of the Basel regulations, would make further monetary reforms necessary, because some of these regulations restrict the capacity of banks to create new money through credit expansion. A fully backed commodity money as defended by Huerta de Soto (2020) and others would solve this problem. The introduction of a fully backed commodity money such as a pure gold standard is a form of de-intervention because the privilege of banks to hold fractional reserves is eliminated and the grant of this privilege was an intervention. A monetary system that complies with the principles of private law, that is, that obliges them to hold 100 percent reserves on demand deposits, would have the additional advantage of establishing an economy where there would be a tendency of the purchasing power of money to increase when productivity increases outstrip gold production. The increase in the purchasing power of money facilitates procuring capital for retirement. Hence, the introduction of a full commodity money would alleviate the problems stemming from the pension reform and facilitate the transition.

Yet, further problems amount from such a monetary reform following the logic of the de-interventionist spiral. Such a reform would require downward price flexibility as the purchasing power of money would likely increase in the long run. In order to prevent the unemployment of resources, regulations that cause price rigidities should be abolished. Labor market deregulations are especially important in this regard, as privileges for labor unions and minimum wage laws make wages rigid.

Another problem with such a monetary reform would be the possible default of companies that have adjusted their business model to today's inflationary environment and depend on its ongoing existence by relying on high levels of debt. Thus, the tendency toward an increase in the purchasing power of money stemming from the new monetary system poses problems to these companies. Flexibility of other markets (a de-intervention) becomes even more pertinent. Increases in flexibility facilitate the transfer of factors of production from the overindebted failed companies into new, more profitable projects and reduces the length of unemployment.

Conclusion

As we can observe, there is not only an interventionist spiral but there is also an analogous de-interventionist spiral. Reforms collide with still existing interventions leading to problems from the (official) point of view of reformers and non-reformers alike. There is pressure to abolish further interventions and reduce the role of the state. When further interferences are abolished, there arise new tensions with still existing ones. The reform path is unstable. Either the path is followed through toward anarcho-capitalism or reforms are eventually undone by accumulating interventions anew. There is no third way.

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