# HUMAN ACTION

by Ludwig von Mises, 4th edition (1996)

## PART SIX

## THE HAMPERED MARKET ECONOMY
## XXXII. CONFISCATION AND REDISTRIBUTION

### 1. The Philosophy of Confiscation

Interventionism is guided by the idea that interfering with property rights does not affect the size of production. The most naive manifestation of this fallacy is presented by confiscatory interventionism. The yield of production activities is considered a given magnitude independent of the merely accidental arrangements of society's social order. The task of the government is seen as the "fair" distribution of this national income among the various members of society.

The interventionists and the socialists contend that all commodities are turned out by a social process of production. When this process comes to an end and its fruits ripen, a second social process, that of distribution of the yield, follows and allots a share to each. The characteristic feature of the capitalist order is that the shares allotted are unequal. Some people--the entrepreneurs, the capitalists, and the landowners--appropriate to themselves more than they should. Accordingly, the portions of other people are curtailed. Government should by rights expropriate the surplus of the privileged and distribute it among the underprivileged.

Now in the market economy this alleged dualism of two independent processes, that of production and that of distribution, does not exist. There is only one process going on. Goods are not first produced and then distributed. There is no such thing as an appropriation of portions out of a stock of ownerless goods. The products come into existence as somebody's property. If one wants to distribute them, one must first confiscate them. It is certainly very easy for the governmental apparatus of compulsion and coercion to embark upon confiscation and expropriation. But this does not prove that a durable system of economic affairs can be built upon such confiscation and expropriation.

When the Vikings turned their backs upon a community of autarkic peasants whom they had plundered, the surviving victims began to work, to till the soil, and to build again. When the pirates returned after some years, they again found things to seize. But capitalism cannot stand such reiterated predatory raids. Its capital accumulation and investments are founded upon the expectation that no such expropriation will occur. If this expectation is absent, people will prefer to consume their capital instead of safeguarding it for the expropriators. This is the inherent error of all plans that aim at combining private ownership and reiterated expropriation.

### 2. Land Reform

The social reformers of older days aimed at the establishment of a community of autarkic farmers only. The shares of land allotted to each member were to be equal. In the imagination of these utopians there is no room for division of labor and specialization in processing trades. It is a serious mistake to call such a social order agrarian socialism. It is merely a juxtaposition of economically self-sufficient households.

In the market economy the soil is a means of production like any other material factor of production. Plans aiming at a more or less equal distribution of the soil among the farming population are, under the conditions of the market economy, merely plans for granting privileges to a group of less efficient producers at the expense of the immense majority of consumers. The operation of the market tends to eliminate all those farmers whose cost of production is higher than the marginal costs needed for the production of that amount of farm products the consumers are ready to buy. It determines the size of the farms as well as the methods of production applied. If the government interferes in order to make a different arrangement of the conditions of farming prevail, it raises the average price of farm products. If under competitive conditions m farmers, each of them operating a 1,000-acre farm, produce all those farm products the consumers are ready to acquire, and the government interferes in order to substitute 5 m farmers, each of them operating a 200-acre farm, for m, the previous numbers of farmers, the consumers foot the bill.

It is vain to justify such land reforms by referring to natural law and other metaphysical ideas. The simple truth is that they enhance the price of agricultural products and that they also impair nonagricultural production. As more manpower is needed to turn out a unit of farm produce, more people are employed in farming and less are left for the processing industries. The total amount of commodities available for consumption drops and a certain group of people is favored at the expense of the majority.

### 3. Confiscatory Taxation

Today the main instrument of confiscatory interventionism is taxation. It does not matter whether the objective of estate and income taxation is the allegedly social motive of equalizing wealth and income or whether the primary motive is that of revenue. What alone counts is the resulting effect.

The average man looks at the problems involved with unveiled envy. Why should anybody be richer than he himself is? The lofty moralist conceals his resentment in philosophical disquisitions. He argues that a man who owns ten millions cannot be made happier by an increment of ninety millions more. Inversely, a man who owns a hundred millions does not feel any impairment of happiness if his wealth is reduced to a bare ten millions only. The same reasoning holds good for excessive incomes.

To judge in this way means to judge from an individualistic point of view. The yardstick applied is the supposed sentiments of individuals. Yet the problems involved are social problems; they must be appraised with regard to their social consequences. What matters is neither the happiness of any Croesus nor his personal merits or demerits; it is society and the productivity of human effort.

A law that prohibits any individual from accumulating more than ten millions or from making more than one million a year restricts the activities of precisely those entrepreneurs who are most successful in filling the wants of consumers. If such a law had been enacted in the United States fifty years ago, many who are multimillionaires today would live in more modest circumstances. But all those new branches of industry which supply the masses with articles unheard of before would operate, if at all, on a much smaller scale, and their products would be beyond the reach of the common man. It is manifestly contrary to the interest of the consumers to prevent the most efficient entrepreneurs from expanding the sphere of their activities up to the limit to which the public approves of their conduct of business by buying their products. Here again the issue is who should by supreme, the consumers or the government? In the unhampered market the behavior of consumers, their buying or abstention from buying, ultimately determines each individual's income and wealth. Should one vest in the government the power to overrule the consumers' choices?

The incorrigible statolatrist objects. In his opinion what motivates the activities of the great entrepreneur is not the lust for wealth, but the lust for power. Such a "royal merchant" would not restrict his activities if he had to deliver all the surplus earned to the tax collector. His lust for power cannot be weakened by any considerations of mere moneymaking. Let us, for the sake of argument, accept this psychology. But on what else is the power of a businessman founded than on his wealth? How would Rockefeller and Ford have been in a position to acquire "power" if they had been prevented from acquiring wealth? After all, those statolatrists are on comparatively better grounds who want to prohibit the accumulation of wealth precisely because it gives a man economic power.[1]

Taxes are necessary. But the system of discriminatory taxation universally accepted under the misleading name of progressive taxation of income and inheritance is not a mode of taxation. It is rather a mode of disguised expropriation of the successful capitalists and entrepreneurs. Whatever the governments' satellites may advance in its favor, it is incompatible with the preservation of the market economy. It can at best be considered a means of bringing about socialism. Looking backward on the evolution of income tax rates from the beginning of the Federal income tax in 1913 until the present day, one can hardly believe that the tax will not soon absorb 100 per cent of all the surplus above the average height of the common man's wages.

Economics is not concerned with the spurious metaphysical doctrines advanced in favor of tax progression, but with its repercussions on the operation of the market economy. The interventionist authors and politicians look at the problems involved from the angle of their arbitrary notions of what is "socially desirable." As they see it, "the purpose of taxation is never to raise money," since the government "can raise all the money it needs by printing it." The true purpose of taxation is "to leave less in the hands of the taxpayer."[2]

Economists approach the issue from a different angle. They ask first: what are the effects of confiscatory taxation on capital accumulation? The greater part of that portion of the higher incomes which is taxed away would have been used for the

[1] There is no need to emphasize again that the use of the terminology of political rule is entirely inadequate in the treatment of economic problems.
[2] Cf. A.B. Lerner, The Economics of Control, Principles of Welfare Economic (New York, 1944), pp. 307-308.

accumulation of additional capital. If the treasury employs the proceeds for current expenditure, the result is a drop in the amount of capital accumulation. The same is valid, even to a greater extent, for death taxes. They force the heirs to sell a considerable part of the testator's estate. This capital is, of course, not destroyed; it merely changes ownership. But the savings of the purchasers, which are spent for the acquisition of the capital sold by the heirs, would have constituted a net increment in capital available. Thus the accumulation of new capital is slowed down. The realization of technological improvement is impaired; the quota of capital invested per worker employed is reduced; a check is placed upon the rise in the marginal productivity of labor and upon the concomitant rise in real wage rates. It is obvious that the popular belief that this mode of confiscatory taxation harms only the immediate victims, the rich, is false.

If capitalists are faced with the likelihood that the income tax or the estate tax will rise to 100 per cent, they will prefer to consume their capital funds rather than to preserve them for the tax collector.

Confiscatory taxation results in checking economic progress and improvement not only by its effect upon capital accumulation. It brings about a general trend toward stagnation and the preservation of business practices which could not last under the competitive conditions of the unhampered market economy.

It is an inherent feature of capitalism that it is no respecter of vested interests and forces every capitalist and entrepreneur to adjust his conduct of business anew each day to the changing structure of the market. Capitalists and entrepreneurs are never free to relax. As long as they remain in business they are never granted the privilege of quietly enjoying the fruits of their ancestors' and their own achievements and of lapsing into a routine. If they forget that their task is to serve the consumers to the best of their abilities, they will very soon forfeit their eminent position and will be thrown back into the ranks of the common man. Their leadership and their funds are continually challenged by newcomers.

Every ingenious man is free to start new business projects. He may be poor, his funds may be modest and most of them may be borrowed. But if he fills the wants of consumers in the best and cheapest way, he will succeed by means of "excessive" profits. He ploughs back the greater part of his profits into his business, thus making it grow rapidly. It is the activity of such enterprising parvenus that provides the market economy with its "dynamism." These nouveaux riches are the harbingers of economic improvement. Their threatening competition forces the old firms and big corporations either to adjust their conduct to the best possible service of the public or to go out of business.

But today taxes often absorb the greater part of the newcomer's "excessive" profits. He cannot accumulate capital; he cannot expand his own business; he will never become big business and a match for the vested interests. The old firms do not need to fear his competition; they are sheltered by the tax collector. They may with impunity indulge in routine, they may defy the wishes of the public and become conservative. It is true, the income tax prevents them, too, from accumulating new capital. But what is more important for them is that it prevents the dangerous newcomer from accumulating any capital. They are virtually privileged by the tax system. In this sense progressive taxation checks economic progress and makes for rigidity. While under unhampered capitalism the ownership of capital is a liability forcing the owner to serve the consumers, modern methods of taxation transform it into a privilege.

The interventionists complain that big business is getting rigid and bureaucratic and that it is no longer possible for competent newcomers to challenge the vested interests of the old rich families. However, as far as their complaints are justified, they complain about things which are merely the result of their own policies.

Profits are the driving force of the market economy. The greater the profits, the better the needs of the consumers are supplied. For profits can only be reaped by removing discrepancies between the demands of the consumers and the previous state of production activities. He who serves the public best, makes the highest profits. In fighting profits governments deliberately sabotage the operation of the market economy.

## Confiscatory Taxation and Risk-Taking

A popular fallacy considers entrepreneurial profit a reward for risk-taking. It looks upon the entrepreneur as a gambler who invests in a lottery after having weighed the favorable chances of winning a prize against the unfavorable chances of losing his stake. This opinion manifests itself most clearly in the description of stock-exchange transactions as a sort of gambling. From the point of view of this widespread fable, the evil caused by confiscatory taxation is that it disarranges the ratio between the favorable and the unfavorable chances in the lottery. The prizes are cut down, while the unfavorable hazards remain unchanged. Thus capitalists and entrepreneurs are discouraged from embarking upon risky ventures.

Every word in this reasoning is false. The owner of capital does not choose between more risky, less risky, and safe investments. He is forced, by the very operation of the market economy, to invest his funds in such a way as to supply the most urgent needs of the consumers to the best possible extent. If the methods of taxation resorted to by the government bring about capital consumption or restrict the accumulation of new capital, the capital required for marginal employments is lacking and an expansion of investment which would have been effected in the absence of these taxes is prevented. The wants of the consumers are satisfied to a lesser extent only. But this outcome is not caused by a reluctance of capitalists to take risks; it is caused by a drop in capital supply.

There is no such thing as a safe investment. If capitalists were to behave in the way the risk fable describes and were to strive after what they consider to be the safest investment, their conduct would render this lone of investment unsafe and they would certainly lose their input. For the capitalist there is no means of evading the law of the market that makes it imperative for the investor to comply with the wishes of the consumers and to produce all that can be produced under the given state of capital supply, technological knowledge, and the valuations of the consumers. A capitalist never chooses that investment in which, according to his understanding of the future, the danger of losing his input is smallest. He chooses that investment in which he expects to make the highest possible profit.

Those capitalists who are aware of their own lack of ability to judge correctly for themselves the trend of the market do not invest in equity capital, but lend their funds to the owners of such venture capital. They thus enter into sort of partnership with those on whose better ability to appraise the conditions of the market they rely. It is customary to call venture capital risk capital. However, as has been pointed out, the success or failure of the investment in preferred stock, bonds, debentures, mortgages, and other loans depends ultimately also on the same factors that determine success or failure of the venture capital invested.[3] There is no such thing as independence of the vicissitudes of the market.

If taxation were to strengthen the supply of loan capital at the expense of the supply of venture capital, it would make the gross market rate of interest drop and at the same time, by increasing the share of borrowed capital as against the share of equity capital in the capital structure of the firms and corporations, render the investment in loans more uncertain. The process would therefore be self-liquidating.

The fact that a capitalist as a rule does not concentrate his investments, both in common stock and in loans, in one enterprise or one branch of business, but prefers to spread out his funds among various classes of investment, does not suggest that he wants to reduce his "gambling risk." He wants to improve his chances of earning profits.

Nobody embarks upon any investment if he does not expect to make a good investment. Nobody deliberately chooses a malinvestment. It is only the emergence of conditions not properly anticipated by the investor that turns an investment into a malinvestment.

As has been pointed out, there cannot be such a thing as noninvested capital.[4] The capitalist is not free to choose between investment and noninvestment. Neither is he free to deviate in the choice of his investments in capital goods from the lines determined by the most urgent among the still-unsatisfied wants of the consumers. He must try to anticipate these future wants correctly. Taxes may reduce the amount of capital goods available by bringing about consumption of capital. But they do not restrict the employment of all capital goods available.[5]

With an excessive height of the income and estate tax rates for the very rich, a capitalist may consider it the most advisable thing to keep all his funds in cash or in bank balances not bearing any interest. He consumes part of his capital, pays no income tax and reduces the inheritance tax which his heirs will have to pay. But even if people really behave this way, their conduct does not affect the employment of the capital available. It affects prices. But no capital good remains uninvested on account of it. And the operation of the market pushes investment into those lines in which it is expected to satisfy the most urgent not yet satisfied demand of the buying public.

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[3] Cf. above, pp. 539-540.
[4] Cf. above, pp. 521-523.
[5] In using the term "capital goods available," due consideration should be given to the problem of convertibility.