

'Interventionism' is the doctrine or system based on the principle of the limited use of government's discretionary powers (intervention) to address problems identified with the private ownership of the means of production and the unregulated market process. An 'intervention', according to Ludwig von Mises (1966, pp. 718-19)

is a decree, issued directly or indirectly, by the authority in charge of society's administrative apparatus of coercion and compulsion which forces the entrepreneurs and capitalists to employ some of their factors of production in a way different from what they would have resorted to if they were only obeying the dictates of the market.

Interventionism begets the so-called 'mixed economy' or what Mises has termed the 'hampered market order'.

Because interventionism assigns to government discretionary powers to intercede in the market process, it is distinct from a system in which the state operates only to protect the integrity of the private property, market order (laissez-faire capitalism). However, because it does set some limits on the use of these discretionary powers, interventionism is also distinct from complete state ownership of the means of production and central planning (pure socialism).

To its supporters, interventionism stands for an alternative economic system that lies between the extremes of laissez-faire capitalism and pure socialism — an ideal blend of both systems that manages to avoid the worst aspects of each. They contend that laissez-faire capitalism, or 'the free market', performs certain desirable tasks ineffectively or produces certain undesirable outcomes. Yet, because they find aspects of pure socialism equally unattractive, and the failures of capitalism sufficiently small in number and scope, they advocate the judicious use of limited intervention to preserve capitalism's best features, such as the effective adjustment in the use of resources to changing economic conditions, while achieving the best features of socialism, such as social justice and equity. However, three presumptions underlie the concept of interventionism: (1) that interventionism is a logically consistent and intellectually defensible alternative economic system; (2) that the state is able to identify 'capitalist failures', determine the relative importance

of these failures, and construct a coherent program of limited intervention that will, from the point of view of its sponsors, achieve an outcome more desirable than the problems that it was intended to solve; and (3) that the state is free from the influence of redistributive coalitions and the self-interested behavior of its own agents.

An exhaustive Austrian critique would scrutinize every facet of interventionism, including the soundness of the arguments leveled against *laissez-faire* capitalism and the reality of the benefits of socialism. Since other essays included in this volume address these issues, however, the next section will confine itself to the Austrian response to the above three presumptions.

The Austrian critique of interventionism: Mises's contribution

An important role of standard economic analysis has always been to trace the effects of particular public policies on private market decisions and to point out their often obscure and unexpected repercussions. The unique Austrian contribution to the analysis of the mixed economy, and that of Ludwig von Mises in particular, is a general critique of the doctrine of interventionism itself, centered on an examination of the dynamics of an interventionist economy. The following passage conveys the nature of Mises's (1977, 37–8) critique: 'The middle system of property that is hampered, guided, and regulated by government is in itself contradictory and illogical. Any attempt to introduce it in earnest must lead to a crisis from which either socialism or capitalism alone can emerge'. Thus Mises criticized interventionism for its logical inconsistency (the first presumption) and the undesirability of its effects (the latter part of the second presumption). Mises argued that interventionism, unlike either socialism or capitalism, is untenable as a doctrine and inherently unstable as a system because it is at odds with fundamental economic forces. Profit-seeking actors in both the market and political processes tend to respond to particular interventions in ways that frustrate or circumvent these interventions and that the authorities, for whatever reason, fail to anticipate. Because of these responses, there is a tendency for interventionism to 'bring about a state of affairs, which – from the viewpoint of its advocates themselves – is much more undesirable than the previous state they were intended to alter' (Mises, 1977). The accumulated problems of piecemeal intervention must inevitably lead policy makers to choose between more coherent, thoroughgoing government planning (socialism) or minimal interference with the market process (capitalism). In this sense interventionism as a system is 'self-defeating'. (The next section outlines the process by which this occurs.)

Mises was well aware that the influence of distributive coalitions and narrowly self-interested public agents could pervert the political process (the third presumption). One of the strengths of Mises's contribution, however, is

that it manages to explain how the interventionist state tends to expand in the direction of complete central planning even when government officials are well intentioned, act only as public servants and do not deliberately aim for central planning. Nevertheless, most Austrians today share a sense of intellectual kinship with the public choice approach to political economy, which applies a form of praxeological reasoning to political processes and institutions. To Austrians, one of public choice's most important contributions to the overall critique of interventionism is its penetrating analysis of the pernicious effects of narrowly self-interested behavior in the political process, the waste associated with the use of coercion and compulsion to redistribute wealth, and the forces that influence the size of government. Although the method most of its practitioners use at present is equilibrium-oriented, Austrians can appreciate public choice's fundamental insight that purposeful behavior in the context of the political process can produce unintended consequences for the system as a whole.

While Mises's critique represents the logical starting-point for a more general theory of interventionism, it leaves open a number of questions, only some of which have been addressed. First, Mises himself conceived of interventionism in terms of state activity beyond the minimum necessary to promote social cooperation and coordination of the market process. That is, coercion and compulsion in the pursuit of the (minimal) state's proper functions is for Mises not interventionism, yet he overlooked the question of whether problems similar to those that plague intervention beyond the minimal state might also confront the minimal state itself. Thus Mises took it for granted that the minimal state is, in some sense, both stable and optimal. This is, however, open to question.

Second, in his earlier studies (1977, p. 19), Mises excluded partial socialization and nationalization from his concept of interventionism, a position that his later writings have apparently left unchanged (Lavoie, 1982, p. 175). This exclusion is consistent with a view of intervention as a means of industrial regulation, which is distinct from outright ownership of a private business or industry. The state does not 'intervene' with respect to property it owns when it determines the use of that property. However, this means Mises's categories of alternatives economic systems are non-exhaustive, since a system in which the state has nationalized less than total domestic production capacity would be, in his framework, neither interventionism nor socialism, and certainly not capitalism. Argument as well as of Rothbard's categorization, presented next.)

Murray N. Rothbard (1977), using the Misesian analysis as his starting-point, has offered a more complete categorization, which classifies partial socialization or nationalization as a variety of interventionism. He divides interventionist policies into the following three categories:

Autistic intervention: interference into private, non-exchange activities. These include, for example, invasions of private matters such as private religious practices, personal expression, travel and choice of lifestyle.

Binary intervention: forced exchange between an individual and the state; for example, taxation, compulsory consumption of publicly provided goods and the nationalization of industries.

Triangular intervention: forced exchange between individuals. Examples include price control, fiscal and monetary policy, trade and contract restrictions, and environmental, safety, health and civil rights regulations.

Finally, a theory of interventionism should explain why authorities acting in the public interest would continue to embrace interventionism in the face of mounting problems emanating from that policy. The 'self-defeating' nature of interventionism leads one to wonder why such an inherently unstable system is evidently so widespread and tenacious. Mises emphasized the importance of ideology – a statist or anti-capitalist mentality – that induces authorities to opt for more intervention at critical decision points, but he did not directly confront the issue at the very heart of his critique: why the interventionist state consistently fails to foresee the negative side-effects of its decisions. Mises did not explicitly examine the nature of the knowledge constraints that prevent authorities in mixed economies from realizing the existence of problems and correctly identifying their source (the first part of the second presumption) before it is too late. It is possible, however, to use Mises's own insights into the nature of socialist calculation, as extended by Hayek and Lavoie, to fill in this gap in the theory of interventionism. Indeed, while not explicit in his critique, Mises may have simply taken for granted something like the 'knowledge problem' (see below) in exposing the unstable and the self-defeating nature of interventionism. The next section shows how integrating insights from the knowledge problem into Mises' critique of interventionism will also illuminate the dynamics of the resulting process and indicate the direction that a more general theory of interventionism might take.

The interventionist process

Implicit in Mises's critique is the Austrian perspective that further inquiry into the operation of non-equilibrium processes will contribute more to our understanding of real phenomena than continued efforts to characterize equilibrium end states. In the present case, a policy implementing the doctrine of interventionism sets into motion a series of effects that create outcomes which even those who initially favored the policy deem undesirable. Unexpected, intervention-created profit opportunities and eager, opportunity-seeking actors combine to produce these outcomes. The typical response of state authorities is to further expand the scope of state activity, although this is by

The presence of the knowledge problem means not only that the promoters of intervention will be unable to foresee all of the negative repercussions of credit expansion.

but also how the private sector *as well as* all branches of the government, would respond to countervailing interventions. They would need to know such things as how antitrust enforcers and non-subsidized areas of the economy would respond to public spending that might be aimed at specific industries to augment the supply of consumer goods underproduced owing to prior expansion, the monetary authorities would need to know, among other things, In the previous example, in order to offset the negative effects of credit underscored in discussions relating to economic calculation under socialism. of the economy – this is the 'knowledge problem', which Austrians have perceived among anonymous individuals in both the private and public sectors side-effects. In particular, knowledge relevant to the state's decisions is dispersed in creating the conditions that produce interventionism's unexpected role in creating the conditions that produce interventionism's unexpected *rational* ignorance owing to high information costs) plays an indispensable edge, or the existence of at least partial *genuine* ignorance (in contrast to In the analysis of interventionism as a process, lack of complete knowledge, or the existence of at least partial *genuine* ignorance (in contrast to their willingness to abandon the interventionist ideology.

the crisis, the perceived costs of continuing or discontinuing their policy and the policy makers decide depends on their awareness of the nature and scope of now to reverse the policy and weather the more immediate repercussions. What even greater though unknown proportions in the indefinite future, or take steps decide whether to continue an expansionary policy that will produce a crisis of though less than complete, knowledge the state at this critical point must and ideological pressure to continue the credit expansion. With its better, and dislocation that would attend such a readjustment may reinforce political opportunity to reverse the easy-money policy. However, the unemployment surpluses in the future. Monetary authorities realize the extent of the coordination problems only when a financial crisis threatens, at which time they have an intertemporal reallocation of resources generates shortages in the present and and economic activity. The resulting impact on relative intertemporal prices induces producers to increase the future supply of goods relative to future de-nes-Hayek theory of the business cycle. In this theory, the state authorizes a monopolistic central bank to expand credit in order to stimulate short-term factors provide the internal dynamic that drives the mixed economy. equilibrium dynamic process, in which the decisions of partially ignorant activity at these critical points. Thus one can view interventionism as a means inevitable since, however unlikely, it is possible for them to reduce

their policies before embarking upon them, but that a great deal of time may pass before they become aware of these repercussions. In the meantime, the economy could have moved quite far along the path towards collectivism, supported by statist ideological tendencies. One implication of the Misesian analysis is that the inevitable economic crisis that follows the build-up of undiscovered (by authorities) past errors and discoordination creates conditions for a possible radical policy shift back towards laissez-faire capitalism. That is, the emergence of the crisis could reveal its fundamental source to authorities, making plain the radical choice they face: reject interventionism and release markets from control, or 'organize' and 'rationalize' piecemeal interventions by embracing more thoroughgoing collectivist economic planning.

Thus, although Mises did not frame his critique of interventionism explicitly in terms of the informational constraints imposed on the interventionist state, aspects of the 'knowledge problem' originally introduced in the debate over the possibility of economic calculation under complete socialism are applicable to, and indeed indispensable for, a more detailed understanding of more limited forms of state intervention.

Suggestions for further research

A great deal of work remains to be done in this largely undeveloped area of Austrian economics. There are at least two aspects of a research program in the theory of interventionism. The first concerns the 'micro' implications of the theory for particular industries. More specifically, the theory suggests that regulation unintentionally breeds further regulation, until it creates an environment in which deregulatory reform might or might not take place. An analysis of the history of regulation in some industries, airlines for example, can serve to illustrate how a crisis resulting from gradually increasing regulation over time leads relatively suddenly to dramatic deregulatory reforms. In addition, with appropriate adjustments, Mises's critique could provide a framework for analysing the links among social policies pertaining to civil rights, the environment and health and safety issues.

A second area for research concerns the relations among certain 'macro' variables. The theory of interventionism suggests, for example, that the rate of growth in regulation should be inversely related to the rate of productivity growth and the rate of private wealth accumulation. While disaggregation is perhaps more consistent with traditional Austrian fastidiousness, regularities in the overall pattern would be of some interest (although finding and measuring the appropriate empirical values would be problematic). Historical and international comparisons of policy decisions at critical points – for example, the USA in 1929, Weimar Germany in 1932 and Eastern Europe in the late

1980s - could also serve to illustrate the consequences of interventionist processes.

See also: Chapter 22: The Austrian theory of price; Chapter 57: Mergers and the market for corporate control; Chapter 50: The political economy of price controls; Chapter 51: The economics of prohibition

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