Interventionism is the doctrine or system based on the principle of the nationalization of capital, the state's exertion of functional powers over the means of production, and the unregulated market process. An interventionist, according to Kaldor, is a state that issues directly or indirectly, by employing its own factors of production in a way different from what they would have been, or in a way that they would have been if they were only obeying the dictates of the market.

Interventionism begins the so-called mixed economy, or what Marxist has termed the interventionist state. It is also described as an economy in which the state's role is to protect the interests of the private property holder. The state's role is to ensure the interventionist state's ownership of the means of production and central planning (collective socialization).

Interventionism functions as an alternative economic system to capitalism and state socialization. Interventionism's main supporters believe that the interventionist system is superior to the capitalist system, which operates only to protect the interests of the private property holder, or in the hands of the government, interventionism is also distinct from capitalism, which operates only to protect the interests of the private property holder.
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
What is, however, open to question is whether the minimal state, in which the social functions of the minimal state itself, thus Misses, exist and function as a whole, can actually do what minimalism claims is possible. The existence of minimalism is not only ignored by the proponents of minimalism, but also by the proponents of laissez-faire capitalism, which has been the dominant economic system in the Western world for the past century. The minimal state, in its smallest possible form, is often seen as the ideal form of government, as it allows for the maximum freedom for individuals and businesses, and the minimum interference from the government. However, this view ignores the fact that the minimal state is not capable of providing the necessary infrastructure and services that are essential for the well-being of society. The minimal state is often portrayed as a utopia, but in reality, it is a dystopia, as it leads to a society that is devoid of social cohesion and harmony.

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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
of intervention will be unable to foresee all of the negative repercussions of
credit expansion.

To ensure the supply of consumer goods underproduced owing to prior

The presence of the knowledge problem means not only that the promoters

the policy makers decide depends on the degree of the monetary authority's unexplored

expansion, the monetary authorities would need to know, among other things, if the

in the previous example, in order to offer the negative effects of credit

underestimated in discussions relating to socialisation. The assumption that banks provide

the crisis, the perceived costs of continuing or discontinuing their policy and

now reverse the policy and withdraw the intermediate expansion. Whenever

and now to reverse the policy and withdraw the intermediate expansion. Whenever

of decision whether to continue an expansionary policy that will produce a crisis of

a modest rate of growth and structural changes that would allow such a reallocation may reinforce political

emerge through unknown proportions in the intermediate future, or take steps

structure, it is clear that the reallocation costs involved should be considered in the context of a

structural changes that would allow such a reallocation may reinforce political

structure, it is clear that the reallocation costs involved should be considered in the context of a

structural changes that would allow such a reallocation may reinforce political

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structural changes that would allow such a reallocation may reinforce political
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.

Bibliography

See also:

