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Bureaucracy: A Mises Classic, Part 1 **by Sheldon Richman**

Ludwig von Mises, the great expositor of the Austrian school of economics, left an awesome, even intimidating, body of work. *Human Action* and *Socialism* are among the most important books written in economic and social theory, yet most people with little spare time will probably not try to tackle them. Mises's shorter works in economics, such as *Planning for Freedom*, are excellent for casual students, but they do not attempt to systematically present the Misesian approach to economic thinking. (In political theory, his *Liberalism* is both systematic and accessible to any intelligent reader.)

However, he did leave us one book that is highly accessible, brief (125 pages), and systematic in explaining the virtues of the free economy in contrast to government management: *Bureaucracy*. First published in 1944, it was one of his earliest books written in English. (He came to the United States in 1940 after fleeing war-ravaged Europe.) It has been in print ever since.

In this book Mises is concerned with identifying the essential characteristics of bureaucracy. He begins by noting that "bureaucracy" is not a term of endearment, not only in the United States but elsewhere. "Nobody calls himself a bureaucrat or his own methods of management bureaucratic," he writes. "They always imply a disparaging criticism of persons, institutions, or procedures. Nobody doubts that bureaucracy is thoroughly bad and that it should not exist in a perfect world."

But Mises hastens to add that whatever we may say about bureaucracy, it is not ultimately at fault for its shortcomings.

Those who criticize bureaucracy make the mistake of directing their attacks against a symptom only and not against the seat of evil. It makes no difference whether the innumerable decrees regimenting every aspect of the citizen's economic activities are issued directly by a law, duly passed by Congress, or by a commission or government agency to which power has been given by a law and by the allocation of money. What people are really complaining about is the fact that the government has embarked upon such totalitarian policies, not the technical procedures applied in their establishment.

In other words, the real problem is government's (potentially) violent interference with the individual's freedom, not the precise method of interference. For that reason, the ire often directed at bureaucracy is misplaced. I've long thought that the antagonism reserved for the Internal Revenue Service would be better directed at Congress, which created that monstrosity and could abolish it if it had the will.

That said, it is still worth examining the nature of bureaucracies. As Mises sees it,

Their faults are indicative of the essential defects of any socialist or totalitarian scheme.... Thus the study of bureaucracy is a good approach to a study of both systems of social organization, capitalism and socialism.

Consumer sovereignty and profit

To grasp the nature of bureaucracy one must first grasp the nature of the free market and private enterprises, and so Mises goes on to describe the operation of the unhampered economy in 20 well-written pages. This is perhaps his most succinct treatment of the heart of the free market, the profit-and-loss system. He begins by reminding us that the free economy is ultimately directed by sovereign consumers:

Neither the capitalists nor the entrepreneurs nor the farmers determine what has to be produced. The consumers do that.

This is often forgotten by commentators. Consumers control their own spending. They decide what they wish to buy and from whom they wish to buy it. This puts producers and sellers at their mercy. As Mises writes,

They [consumers] make poor men rich and rich men poor. They are no easy bosses. They are full of whims and fancies, changeable and unpredictable. They do not care a whit for past merit. As soon as something is offered to them that they like better or that is cheaper, they desert their old purveyors. With them nothing counts more than their own satisfaction. They bother neither about the vested interests of capitalists nor about the fate of the workers who lose their jobs if as consumers they no longer buy what they used to buy.

Producers, then, must cater to consumers if they wish to earn profits. They cannot charge whatever they want for their goods and services because they may find themselves without customers. Nor can they assure themselves a profit by simply tacking some amount onto the price.

Consumers will put every product and asking price to a stern test: will the satisfaction rendered by that product exceed the satisfaction rendered by an alternative use of the money? If the answer is no, the capitalist's pleas will fall on deaf ears. On the other hand, if a producer correctly recognizes that he can obtain factors of production that are undervalued relative to what consumers are willing to pay for the final good, he will reap profits — temporarily. The fleeting nature of entrepreneurial profits spurs constant innovation and efficiency.

Knowing this, producers will not pay more for inputs (labor, land, machinery, raw materials) than they expect to recoup with the final product. In other words, the consumer-determined value of products is imputed to the factors of production. Demand at the retail level shapes demand at the earlier levels of production. By doing so, consumer demand (or the capitalists' anticipation of it) moves factors of production in and out of alternate uses. As Mises says, "The captain is the consumer."

At this point he provides in 10 pages a wonderfully clear summary of his economic case against socialism. To put it briefly, if the products that consumers want most urgently are to be produced in the most economical way, we must have a method of calculating costs. But calculation requires a common denominator in which disparate factors of production and consumer products can be expressed. The common denominator is provided by money and the price system. But if prices are to express valid information about consumer preferences and, hence, the value of the factors of production, they must be generated through voluntary exchange in the competitive marketplace. A precondition for the generation of useful prices, therefore, is private property not only in consumer goods, but also in the means of production. A system without tradable private property would not have prices. And without prices, there could be no economic calculation. That is why, even if no other problems plagued central planning (such as perverse incentives), socialism must fail. Lacking private property and true prices, the planner cannot plan.

This method of calculation gives each business a ready test of success: the bottom line. This also applies to the subdivisions of a large business. (Mises notes that Goethe regarded double-entry bookkeeping as "one of the finest inventions of the human mind.") And so, Mises concludes, the owner of a business does not need to burden his managers with countless rules to be robotically applied whenever a decision is to be made. Rather, he can give them one instruction: "Make as much profit as possible."

The profit-and-loss statement provides a virtually fail-safe test of the performance of subordinates.

Thus within the framework of a profit-seeking enterprise responsibility can be divided. Every submanager is responsible for the working of his department. It is to his credit if the accounts show a profit, and it is to his disadvantage if they show a loss. His own selfish interests push him toward the

utmost care and exertion in the conduct of his section's affairs. If he incurs losses, he will be their victim. He will be replaced by another man whom the general manager expects to be more successful, or the whole section will be discontinued. At any rate he will be discharged and lose his job. If he succeeds in making profits, he will see his income increased or at least he will not be in danger of losing it.... His fate is at any rate closely connected with that of his department. In working for it, he works not only for his boss but also for himself.

Mises winds up the chapter with a discussion of the labor market. Applying the principles developed earlier, he shows that workers are put to the same test as managers and owners: do they produce enough consumer satisfaction (expressed in retail prices willingly paid) to justify their efforts? The imperative to make profit means that "personal considerations" are of little importance. "The market passes judgment on products, not on producers," Mises writes. "The price of labor is a market phenomenon determined by the consumers' demands for goods and services." By implication, businessmen are not being cruel when they seek lower-priced labor, whether domestically or abroad. They are carrying out the consumers' orders.

Mises turns Marx upside down by pointing out that the commodity status of labor liberates rather than enslaves workers:

Like the capitalists, the entrepreneurs, and the farmers, the wage earner depends on the arbitrariness of the consumers. But the consumers' choices do not concern the persons engaged in production; they concern things and not men.

With this as background, next time we'll examine the nature of bureaucracy.

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