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Bureaucracy: A Mises Classic, Part 2 **by Sheldon Richman**

Last month I discussed Ludwig von Mises’s presentation of profit management in his great little book *Bureaucracy*. He explains in detail how consumers “use” the price and profit-and-loss systems to direct entrepreneurs toward producing the things they want most urgently. (Of course, they don’t self-consciously use these systems; they simply buy and abstain from buying in order to best satisfy their needs.) Nothing matches this arrangement — which we call the free market, or capitalism — for delivering the goods and services that make our lives better and more comfortable.

Mises goes to the trouble of describing profit management so he can contrast it with bureaucratic management, or government administration. It would be a mistake to conclude that Mises was anti-bureaucracy. As an advocate of limited government, he can be said to have been an advocate of limited bureaucracy. He opposed despotic government not because it is bureaucratic, but because it is despotic: it overrides the decisions of individuals in order to carry out the objectives of the rulers. He writes,

It is frequently asserted that bureaucratic management is incompatible with democratic government and institutions. This is a fallacy. Democracy implies the supremacy of the law....

Bureaucratic management means, under democracy, management in strict accordance with the law and the budget. It is not for the personnel of the administration and for the judges to inquire what should be done for the public welfare and how the public funds should be spent. This is the task of the sovereign, the people, and their representatives.

(We ignore for this discussion the critique leveled by the public-choice school and similar lines of thought at the idea that the people are truly in control of government through their ostensible representatives. In this regard, I refer readers to Charlotte A. Twight’s book *Dependent on D.C.*)

Mises continues:

Only in recent years have people become aware of the menace of bureaucracy, and they consider bureaucracy not an instrument of democratic government but, on the contrary, the worst enemy of freedom and democracy.

To these objections we must answer again that bureaucracy in itself is neither good nor bad. It is a method of management which can be applied in different spheres of human activity. There is a field, namely, the handling of the apparatus of government, in which bureaucratic methods are required by necessity. What many people nowadays consider an evil is not bureaucracy as such, but the expansion of the sphere in which bureaucratic management is applied. This expansion is the unavoidable consequence of the progressive restriction of the individual citizen's freedom, of the inherent trend of present-day economic and social policies toward the substitution of government control for private initiative. People blame bureaucracy, but what they really have in mind are the endeavors to make the state socialist and totalitarian.

For Mises, when bureaucracy goes beyond the task of maintaining an environment in which the social cooperation of the marketplace can proceed in peace, it becomes inimical to human welfare. It is in this connection that he sharply contrasts profit management with bureaucratic management to show that bureaucracy is incapable of satisfying consumers' quest for goods and services.

Bureaucracy and the marketplace

In the first section of his book Mises explained that in the marketplace, owners of businesses could essentially give their managers one simple directive: "Make as much profit as possible." Under these circumstances, managers can be granted great discretion, because the profit imperative determines the details of day-to-day administration and the profit-and-loss sheet is an unimpeachable scorecard.

This is inapplicable for a bureaucracy. A bureaucracy does not sell its "services" to consenting customers, so there are no prices for what it does. It obtains its revenues and finances its operations through taxation — fiscal force — not through sales. Without the possibility of sales — and the possibility of rejection — there is no prospect of profit and loss. Thus it would make no sense to tell a bureaucrat to maximize profits. There can be no profits.

Since that is so, Mises writes, bureaucrats cannot be given discretion in the manner of profit-oriented managers. Rather, they must be "bound to comply with detailed rules and regulations," whether a government is accountable to a despot or to the people.

Now we are in a position to provide a definition of bureaucratic management: Bureaucratic management is the method applied in the conduct of administrative affairs the result of which has no cash value on the market. Remember: we do not say that a successful handling of public affairs has no value, but that it has no price on the market, that its value cannot be realized in a market transaction and consequently cannot be expressed in terms of money.

Running government like a business

One implication of Mises's analysis is that government cannot be run on a businesslike basis. (H. Ross Perot must never have read this book.) Republicans love to promise that their party is sympathetic to business and therefore is best able to run government efficiently like a business. But Mises shows this is nonsense:

In public administration there is no market price for achievements. This makes it indispensable to operate public offices according to principles entirely different from those applied under the profit motive....

A bureau is not a profit-seeking enterprise; it cannot make use of any economic calculation; it has to solve problems which are unknown to business management. It is out of the question to improve its management by reshaping it according to the pattern of private business. It is a mistake to judge the efficiency of a government department by comparing it with the working of an enterprise subject to the interplay of market factors.

Thus,

It is vain to advocate a bureaucratic reform through the appointment of businessmen as heads of various departments. The quality of being an entrepreneur is not inherent in the personality of the entrepreneur; it is inherent in the position which he occupies in the framework of market society.

This is an important point. The greatest entrepreneur, if appointed head of a government department, could not be expected to duplicate his success in his new position. He would lack the compass that was readily available in his former situation: market prices, the tool of economic calculation by which he could guide his efforts to earn profits. In his government department, he would essentially be like any other bureaucrat, and his success in the marketplace would count for little. True, his department might have to buy supplies in the market, and as a former businessman, he might strive for the best deals. But that would not constitute placing his department on a businesslike basis, for its "output" would never be offered for sale on the market and thus would command no price. So economic calculation would be impossible.

Mises also rejects the notion that the “tools of scientific management,” such as time and motion studies, are relevant to bureaucracies. He writes, “Like any kind of engineering, management engineering too is conditioned by the availability of a method of calculation,” profit and loss, which is missing in bureaucratic management.

Having established that bureaucracy is different in kind from a profit-seeking enterprise, Mises closes his book with a ringing warning against the bureaucratization of society. As government grows, rules for private citizens proliferate, smothering freedom and the social cooperation generated by the division of labor and the free market. This process is abetted by the ignorance of economics and a mystification of the state, which Mises calls *Statolatry*. In a section titled “The Bureaucratization of the Mind,” he writes,

The government pretends to be endowed with the mystical power to accord favors out of an inexhaustible horn of plenty. It is both omniscient and omnipotent. It can by a magic wand create happiness and abundance.

The truth is that the government cannot give if it does not take from somebody....

It is not in the power of the government to make everybody more prosperous.

Ultimately, he says, it comes down to “who should be the master?” He writes,

Every half-wit can use a whip and force other people to obey. But it requires brains and diligence to serve the public. Only a few people succeed in producing shoes better and cheaper than their competitors. The inefficient expert will always aim at bureaucratic supremacy. He is fully aware of the fact that he cannot succeed within a competitive system. For him all-round bureaucratization is a refuge. Equipped with the power of an office he will enforce his rulings with the aid of the police.

Mises’s *Bureaucracy* is as pertinent today as ever. There’s much profit to be mined from those few pages.

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