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# DEMOCRACY

The God That Failed

# The Economics and Politics of Monarchy, Democracy, and Natural Order

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## INTRODUCTION

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World War I marks one of the great watersheds of modern history. With its end the transformation of the entire Western world from monarchical rule and sovereign kings to democratic-republican rule and sovereign people that began with the French Revolution was completed. Until 1914, only three republics had existed in Europe—France, Switzerland, and after 1911, Portugal; and of all major European monarchies only the United Kingdom could be classified as a parliamentary system, i.e., one in which supreme power was vested in an elected parliament. Only four years later, after the United States had entered the European war and decisively determined its outcome, monarchies all but disappeared, and Europe along with the entire world entered the age of democratic republicanism.

In Europe, the militarily defeated Romanovs, Hohenzollerns, and Habsburgs had to abdicate or resign, and Russia, Germany, and Austria became democratic republics with universal—male and female—suffrage and parliamentary governments. Likewise, all of the newly created successor states with the sole exception of Yugoslavia adopted democratic republican constitutions. In Turkey and Greece, the monarchies were overthrown. And even where monarchies remained nominally in existence, as in Great Britain, Italy, Spain, Belgium, the Netherlands, and the Scandinavian countries, monarchs no longer exercised any governing power. Universal adult suffrage was introduced, and all government power was vested in parliaments and "public" officials.

The world-historic transformation from the *ancien regime* of royal or princely rulers to the new democratic-republican age of popularly elected or chosen rulers may be also characterized as that from Austria and the Austrian way to that of America and the American way. This is true for several reasons. First, Austria initiated the war, and America brought it to a close. Austria lost, and America won. Austria was ruled by a monarch—Emperor Franz Joseph—and America by a democratically elected president—Professor Woodrow Wilson. More importantly, however, World War I was not a traditional war fought over limited territorial objectives, but an ideological one; and Austria and America respectively were (and were perceived as such by the contending parties) the two countries that most clearly embodied the ideas in conflict with each other.<sup>1</sup>

World War I began as an old-fashioned territorial dispute. However, with the early involvement and the ultimate official entry into the war by the United States in April 1917, the war took on a new ideological dimension. The United States had been founded as a republic, and the democratic principle, inherent in the idea of a republic, had only recently been carried to victory as the result of the violent defeat and devastation of the secessionist Confederacy by the centralist Union government. At the time of World War I, this triumphant ideology of an expansionist democratic republicanism had found its very personification in then U.S. President Wilson. Under Wilson's administration, the European war became an ideological mission—to make the world safe for democracy and free of dynastic rulers. When in March 1917 the U.S.-allied Czar Nicholas II was forced to abdicate and a new democratic-republican government was established in Russia under Kerensky, Wilson was elated. With the Czar gone, the war had finally become a purely ideological conflict: of good against evil. Wilson and his closest foreign policy advisors, George D. Herron and Colonel House, disliked the Germany of the Kaiser, the aristocracy, and the military elite. But they hated Austria. As Erik von Kuehnelt-Leddihn has characterized the views of Wilson and the American Left, "Austria was far more wicked than Germany. It existed in contradiction of the Mazzinian principle of the national state, it had inherited many traditions as well as symbols from the Holy Roman Empire (double-headed eagle, black-gold colors, etc.); its dynasty had once ruled over Spain (another *bite noire*); it had led the Counter-Reformation, headed the Holy Alliance, fought against the *Risorgimento*,

suppressed the Magyar rebellion under Kossuth (who had a monument in New York City), and morally supported the monarchical experiment in Mexico. Habsburg—the very name evoked—memories of Roman Catholicism, of the Armada, the Inquisition, Metternich, Lafayette jailed at Olmutz, and Silvio Pellico in Briinn's Spielberg fortress. Such a state had to be shattered, such a dynasty had to disappear."<sup>2</sup>

<sup>1</sup>For a brilliant summary of the causes and consequences of World War I see Ralph Raico, "World War I: The Turning Point," in *The Costs of War: America's Pyrrhic Victories*, John V. Denson, ed. (New Brunswick, NE: Transaction Publishers, 1999).

<sup>2</sup>Erik von Kuehnelt-Leddihn, *Leftism Revisited: From de Sade to Pol Pot* (Washington, D.C.: Regnery, 1990), p. 210; on Wilson and Wilsonianism see further Murray N. Rothbard, "World War I as Fulfillment: Power and the Intellectuals," *Journal of Libertarian Studies* 9, no. 1 (1989); Paul Gottfried, "Wilsonianism: The Legacy that Won't Die," *Journal of Libertarian Studies* 9, no. 2 (1990); idem, "On Liberal and Democratic Nationhood," *Journal of Libertarian Studies* 10, no. 1 (1991); Robert A. Nisbet, *The Present Age* (New York: Harper and Row, 1988).

As an increasingly ideologically motivated conflict, the war quickly degenerated into a total war. Everywhere, the entire national economy was militarized (war socialism),<sup>3</sup> and the time-honored distinction between combatants and noncombatants and military and civilian life fell by the wayside. For this reason, World War I resulted in many more civilian casualties—victims of starvation and disease—than of soldiers killed on the battlefields. Moreover, due to the ideological character of the war, at its end no compromise peace but only total surrender, humiliation, and punishment was possible. Germany had to give up her monarchy, and Alsace-Lorraine was returned to France as before the Franco-Prussian War of 1870-71. The new German republic was burdened with heavy long-term reparations. Germany was demilitarized, the German Saarland was occupied by the French, and in the East large territories had to be ceded to Poland (West Prussia and Silesia). However, Germany was not dismembered and destroyed. Wilson had reserved this fate for Austria. With the deposition of the Habsburgs the entire Austrian-Hungarian Empire was dismembered. As the crowning achievement of Wilson's foreign policy, two new and artificial states: Czechoslovakia and Yugoslavia, were carved out of the former Empire. Austria herself, for centuries one of Europe's great powers, was reduced in size to its small German-speaking heartland; and, as another of Wilson's legacies, tiny Austria was forced to surrender its entirely German province of Southern Tyrolia—extending to the Brenner Pass—to Italy.

Since 1918 Austria has disappeared from the map of international power politics. Instead, the United States has emerged as the world's leading power. The American age—the *pax Americana*—has begun. The principle of democratic republicanism had triumphed. It was to triumph again with the end of World War II, and once more, or so it seemed, with the collapse of the Soviet Empire in the late 1980s and early 1990s. For some contemporary observers, the "End of History" has arrived. The American idea of universal and global democracy has finally come into its own.<sup>4</sup>

<sup>3</sup>See Murray N. Rothbard, "War Collectivism in World War I," in *A New History of Leviathan*, Ronald Radosh and Murray N. Rothbard, eds. (New York: E.P. Dutton, 1972; Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987).

<sup>4</sup>See Francis Fukuyama, *The End of History and the Last Man* (New York: Avon Books, 1992).

Meanwhile, Habsburg-Austria and the prototypical pre-democratic Austrian experience assumed more than historical interest. To be sure, it was not that Austria had not achieved any recognition.

Even democratic intellectuals and artists from any field of intellectual and cultural endeavor could not ignore the enormous level of productivity of Austro-Hungarian and in particular Viennese culture. Indeed, the list of great names associated with late nineteenth and early twentieth century Vienna is seemingly endless.<sup>5</sup> However, rarely has this enormous intellectual and cultural productivity been brought in a systematic connection with the pre-democratic tradition of the Habsburg monarchy. Instead, if it has not been considered a mere coincidence, the productivity of Austrian-Viennese culture has been presented "politically correctly" as proof of the positive synergistic effects of a multiethnic society and of multiculturalism.<sup>6</sup>

However, at the end of the twentieth century increasing evidence is accumulating that rather than marking the end of history, the American system is itself in a deep crisis. Since the late 1960s or early 1970s, real wage incomes in the United States and in Western Europe have stagnated or even fallen. In Western Europe in particular, unemployment rates have been steadily edging upward and are currently exceeding ten percent. The public debt has risen everywhere to astronomical heights, in many cases exceeding a country's annual Gross Domestic Product.

<sup>5</sup>The list includes Ludwig Boltzmann, Franz Brentano, Rudolph Carnap, Edmund Husserl, Ernst Mach, Alexius Meinong, Karl Popper, Moritz Schlick, and Ludwig Wittgenstein among philosophers; Kurt Godel, Hans Hahn, Karl Menger, and Richard von Mises among mathematicians; Eugen von Bohm-Bawerk, Gottfried von Haberler, Friedrich A. von Hayek, Carl Menger, Fritz Machlup, Ludwig von Mises, Oskar Morgenstern, Joseph Schumpeter, and Friedrich von Wieser among economists; Rudolph von Jhering, Hans Kelsen, Anton Menger, and Lorenz von Stein among lawyers and legal theorists; Alfred Adler, Joseph Breuer, Karl Bihler, and Sigmund Freud among psychologists; Max Adler, Otto Bauer, Egon Friedell, Heinrich Friedjung, Paul Lazarsfeld, Gustav Ratzenhofer, and Alfred Schutz among historians and sociologists; Hermann Broch, Franz Grillparzer, Hugo von Hofmannsthal, Karl Kraus, Fritz Mauthner, Robert Musil, Arthur Schnitzler, Georg Trakl, Otto Weininger, and Stefan Zweig among writers and literary critics; Gustav Klimt, Oskar Kokoschka, Adolf Loos, and Egon Schiele among artists and architects; and Alban Berg, Johannes Brahms, Anton Bruckner, Franz Lehár, Gustav Mahler, Arnold Schoenberg, Johann Strauss, Anton von Webern, and Hugo Wolf among composers.

<sup>6</sup>See Allan Janik and Stephen Toulmin, *Wittgenstein's Vienna* (New York: Simon and Schuster, 1973); William M. Johnston, *The Austrian Mind: An Intellectual and Social History 1848-1938* (Berkeley: University of California Press, 1972); Carl E. Schorske, *Fin-de-Siecle Vienna: Politics and Culture* (New York: Random House, 1981).

Similarly, the social security systems everywhere are on or near the verge of bankruptcy. Further, the collapse of the Soviet Empire represented not so much a triumph of democracy as the bankruptcy of the idea of socialism, and it therefore also contained an indictment against the American (Western) system of democratic—rather than dictatorial—socialism. Moreover, throughout the Western hemisphere national, ethnic and cultural divisiveness, separatism and secessionism are on the rise. Wilson's multicultural democratic creations, Yugoslavia and Czechoslovakia, have broken apart. In the U.S., less than a century of full-blown democracy has resulted in steadily increasing moral degeneration, family and social disintegration, and cultural decay in the form of continually rising rates of divorce, illegitimacy, abortion, and crime. As a result of an ever-expanding list of nondiscrimination—"affirmative action"—laws and nondiscriminatory, multicultural, egalitarian immigration policies, every nook and cranny of American society is affected by government management and forced integration; accordingly, social strife and racial, ethnic, and moral-cultural

tension and hostility have increased dramatically.

In light of these disillusioning experiences fundamental doubts concerning the virtues of the American system have resurfaced. What would have happened, it is being asked again, if in accordance with his reelection promise, Woodrow Wilson had kept the U.S. out of World War I? By virtue of its counterfactual nature, the answer to a question such as this can never be empirically confirmed or falsified. However, this does not make the question meaningless or the answer arbitrary. To the contrary, based on an understanding of the actual historical events and personalities involved, the question concerning the most likely alternative course of history can be answered in detail and with considerable confidence.<sup>7</sup>

If the United States had followed a strict noninterventionist foreign policy, it is likely that the intra-European conflict would have ended in late 1916 or early 1917 as the result of several peace initiatives, most notably by the Austrian Emperor Charles I. Moreover, the war would have been concluded with a mutually acceptable and facesaving compromise peace rather than the actual dictated peace. Consequently, Austria-Hungary, Germany, and Russia would have remained traditional monarchies instead of being turned into short-lived democratic republics. With a Russian Czar and a German and Austrian Kaiser in place, it would have been almost impossible for the Bolsheviks to seize power in Russia, and in reaction to a growing communist threat in Western Europe, for the Fascists and National Socialists to do the same in Italy and Germany.<sup>8</sup> Millions of victims of communism, national socialism, and World War II would have been saved. The extent of government interference with and control of the private economy in the United States and in Western Europe would never have reached the heights seen today. And rather than Central and Eastern Europe (and consequently half of the globe) falling into communist hands and for more than forty years being plundered, devastated, and forcibly insulated from Western markets, all of Europe (and the entire globe) would have remained integrated economically (as in the nineteenth century) in a world-wide system of division of labor and cooperation. World living standards would have grown immensely higher than they actually have.

<sup>7</sup>For a contemporary collection of examples of "counterfactual history" see *Virtual History: Alternatives and Counter/actuals*, Niall Ferguson, ed. (New York: Basic Books, 1999).

Before the backdrop of this thought experiment and the actual course of events, the American system and the *pax Americana* appear—contrary to "official" history, which is always written by its victors, i.e., from the perspective of the proponents of democracy—to be nothing short of an unmitigated disaster; and Habsburg-Austria and the pre-democratic age appear most appealing.<sup>9</sup> Certainly, then, it would be worthwhile to take a systematic look at the historic transformation from monarchy to democracy.

<sup>8</sup>On the relationship between communism and the rise of fascism and national socialism see Ralph Raico, "Mises on Fascism, Democracy, and Other Questions," *Journal of Libertarian Studies* 12, no. 1 (1996); Ernst Nolte, *Der europäische Bürgerkrieg, 1917-1945. Nationalsozialismus und Bolschewismus* (Berlin: Propyläen, 1987).

<sup>9</sup>No less of an establishmentarian than George F. Kennan, writing in 1951, came indeed close to admitting as much:

Yet, today, if one were offered the chance of having back again the Germany of 1913, a Germany run by conservative but relatively moderate people, no Nazis and no Communists, a vigorous Germany, united and unoccupied, full of energy and confidence, able to play a part again in the balancing-off of Russian power in Europe... well, there would be objections



to it from many quarters, and it wouldn't make everybody happy; but in many ways it wouldn't be so bad, in comparison with our problem of today. Now, think what that means. When you tally up the total score of the two wars, in terms of their ostensible objectives, you find if there has been any gain at all, it is pretty hard to discern. (*American Diplomacy 1900-1950* (Chicago: University of Chicago Press, 1951], pp. 55-56)

While history will play an important role, the following is not the work of a historian, however, but of a political economist and philosopher. There are no new or unfamiliar data presented. Rather, insofar as a claim to originality is made, it is that the following studies contain new and unfamiliar *interpretations* of generally known and accepted facts; moreover, that it is the *interpretation of facts*, rather than the facts themselves, which are of central concern to the scientist and the subject of most contention and debate. One may, for instance, readily agree on the fact that in nineteenth-century America average living standards, tax rates, and economic regulations were comparatively low, while in the twentieth century living standards, taxes, and regulations were high. Yet were twentieth-century living standards higher *because* of higher taxes and regulations or *despite* higher taxes and regulations, i.e., would living standards be even higher if taxes and regulations had remained as low as they had been during the nineteenth century? Likewise, one may readily agree that welfare payments and crime rates were low during the 1950s and that both are now comparatively high. Yet has crime increased *because* of rising welfare payments or *despite* them, or have crime and welfare nothing to do with each other and is the relationship between the two phenomena merely coincidental? The facts do not provide an answer to such questions, and no amount of statistical manipulation of data can possibly change *this* fact. The data of history are logically compatible with any of such rival interpretations, and historians, insofar as they are just historians, have no way of deciding in favor of one or the other.

If one is to make a rational choice among such rival and incompatible interpretations, this is only possible if one has a *theory* at one's disposal, or at least a *theoretical proposition*, whose validity does *not* depend on historical experience but can be established *a priori*, i.e., once and for all by means of the *intellectual apprehension or comprehension of the nature of things*. In some circles this kind of theory is held in low esteem; and some philosophers, especially of the empiricist-positivist variety, have declared any such theory off-limits or even impossible. This is not a philosophical treatise devoted to a discussion of issues of epistemology and ontology. Here and in the following, I do not want to directly refute the empiricist-positivist thesis that there is no such thing as a *a priori theory*, i.e., propositions which assert something about reality *and* can be validated independent of the outcome of any future experience.<sup>10</sup> It is only appropriate, however, to acknowledge from the outset that I consider this thesis—and indeed the entire empiricist-positivist research program, which can be interpreted as the result of the application of the (egalitarian) principles of democracy to the realm of knowledge and research and has therefore dominated ideologically during most of the twentieth century,—as fundamentally mistaken and thoroughly refuted.<sup>11</sup> Here it suffices to present just a few examples of what is meant by a *a priori theory*—and in particular to cite some such examples from the realm of the social sciences—in order to put any possible suspicion to rest and recommend my *theoretical approach* as intuitively plausible and in accordance with common sense.<sup>12</sup>

<sup>10</sup>See on this subject Ludwig von Mises, *Theory and History: An Interpretation of Social and Economic Evolution* (Auburn, Ala.: Ludwig von Mises Institute, 1985); idem, *The Ultimate Foundation of Economic Science: An Essay on Method* (Kansas City: Sheed Andrews and McMeel, 1978); Hans-Hermann Hoppe, *Kritik der kausalwissenschaftlichen Sozialforschung. Untersuchungen zur Grundlegung von Soziologie und Okonomie* (Opladen: Westdeutscher Verlag,

Examples of what I mean by *a priori theory* are: No material thing can be at two places at once. No two objects can occupy the same place. A straight line is the shortest line between two points. No two straight lines can enclose a space. Whatever object is red all over cannot be green (blue, yellow, etc.) all over. Whatever object is colored is also extended. Whatever object has shape has also size. If A is part of B and B is a part of C, then A is a part of C.  $4 = 3+1$ .  $6 = 2(3-3)$ . Implausibly, empiricists must denigrate such propositions as mere linguistic-syntactic conventions without any empirical content, i.e., "empty" tautologies. In contrast to this view and in accordance with common sense, I understand the same propositions as asserting some simple but fundamental truths about the structure of reality. And in accordance with common sense, too, I would regard someone who wanted to "test" these propositions, or who reported "facts" contradicting or deviating from them, as confused. *A priori theory trumps and corrects experience* (and *logic overrules observation*), and *not vice-versa*.

<sup>11</sup>See Brand Blanshard, *Reason and Analysis* (LaSalle, Ind.: Open Court, 1964); also Arthur Pap, *Semantics and Necessary Truth* (New Haven, Conn.: Yale University Press, 1958); Saul Kripke, "Naming and Necessity," in *Semantics of Natural Language*, Donald Davidson and Gilbert Harman, eds. (New York: Reidel, 1972); and Paul Lorenzen, *Methodisches Denken* (Frankfurt/M.: Suhrkamp, 1968).

<sup>12</sup>Even a "good empiricist" would have to admit that, according to his own doctrine, he cannot possibly know *a priori* whether or not *a priori* theorems exist and may be used to decide between incompatible explanations of one and the same set of historical data; hence, he would have to adopt a wait-and-see attitude, too.

More importantly, examples of *a priori theory* also abound in the social sciences, in particular in the fields of political economy and philosophy: Human action is an actor's purposeful pursuit of valued ends with scarce means. No one can purposefully *not* act. Every action is aimed at improving the actor's subjective well-being above what it otherwise would have been. A larger quantity of a good is valued more highly than a smaller quantity of the same good. Satisfaction earlier is preferred over satisfaction later. Production must precede consumption. What is consumed now cannot be consumed again in the future. If the price of a good is lowered, either the same quantity or more will be bought than otherwise. Prices fixed below market clearing prices will lead to lasting shortages. Without private property in factors of production there can be no factor prices, and without factor prices cost-accounting is impossible. Taxes are an imposition on producers and/or wealth owners and reduce production and/or wealth below what it otherwise would have been. Interpersonal conflict is possible only if and insofar as things are scarce. No thing or part of a thing can be owned exclusively by more than one person at a time. Democracy (majority rule) is incompatible with private property (individual ownership and rule). No form of taxation can be uniform (equal), but every taxation involves the creation of two distinct and unequal classes of *taxpayers* versus *taxreceiver-consumers*. Property and property titles are distinct entities, and an increase of the latter without a corresponding increase of the former does not raise social wealth but leads to a redistribution of existing wealth.

For an empiricist, propositions such as these must be interpreted as either stating nothing empirical at all and being mere speech conventions, or as forever testable and tentative hypotheses. To us, as to common sense, they are neither. In fact, it strikes us as utterly disingenuous to portray these propositions as having no empirical content. Clearly, they state something about "real" things and events! And it seems similarly disingenuous to regard these propositions as hypotheses. Hypothetical

propositions, as commonly understood, are statements such as these: Children prefer McDonald's over Burger King. The worldwide ratio of beef to pork spending is 2:1. Germans prefer Spain over Greece as a vacation destination. Longer education in public schools will lead to higher wages. The volume of shopping shortly before Christmas exceeds that of shortly after Christmas. Catholics vote predominantly "Democratic." Japanese save a quarter of their disposable income. Germans drink more beer than Frenchmen. The United States produces more computers than any other country. Most inhabitants of the U.S. are white and of European descent. Propositions such as these require the collection of historical data to be validated. And they must be continually reevaluated, because the asserted relationships are not *necessary* (but "contingent") ones; that is, because there is nothing *inherently* impossible, inconceivable, or plain wrong in assuming the opposite of the above: e.g., that children prefer Burger King to McDonald's, or Germans Greece to Spain, etc. This, however, is *not* the case with the former, theoretical propositions. To negate these propositions and assume, for instance, that a smaller quantity of a good might be preferred to a larger one of the same good, that what is being consumed now can possibly be consumed again in the future, or that cost-accounting could be accomplished also without factor prices, strikes one as absurd; and anyone engaged in "empirical research" and "testing" to determine which one of two contradictory propositions such as these does or does not hold appears to be either a fool or a fraud.

According to the approach adopted here, theoretical propositions like the ones just cited are accepted for what they apparently are: as statements about *necessary facts and relations*. As such, they can be *illustrated* by historical data, but historical data can neither *establish* nor *refute* them.<sup>13</sup> To the contrary. Even if historical experience is necessary in order to initially grasp a theoretical insight, this insight concerns facts and relations that extend and transcend logically beyond any particular historical experience. Hence, once a theoretical insight has been grasped it can be employed as a constant and permanent standard of "criticism," i.e., for the purpose of correcting, revising, and rejecting as well as of accepting historical reports and interpretations. For instance, based on theoretical insights it must be considered impossible that higher taxes and regulations can be the cause of higher living standards. Living standards can be higher only despite higher taxes and regulations. Similarly, theoretical insights can rule out reports such as that increased consumption has led to increased production (economic growth), that below-market-clearing (maximum) prices have resulted in unsold surpluses of goods, or that the absence of democracy has been responsible for the economic malfunctioning of socialism as nonsensical. As a matter of theory, only more saving and capital formation and/or advances in productivity can lead to increased production, only guaranteed abovemarket-clearing (minimum) prices can result in lasting surpluses, and only the absence of private property is responsible for the economic plight under socialism. And to reiterate, none of these insights requires further empirical study or testing. To study or test them is a sign of confusion.

<sup>13</sup>To avoid any misunderstanding: To say that something is "necessary" (and can be recognized as such "*a priori*"), is *not* to claim that one is infallible. Mathematicians and logicians, too, claim to be concerned with necessary relations, and yet they do not claim to be infallible. Rather, what is claimed in this regard is only that in order to refute a *theoretical* proposition (in contrast to a hypothetical one) *another*, even more fundamental theoretical argument is required, just as another mathematical or logical proof or argument is required (and *not* "empirical evidence") in order to refute a mathematical or logical theorem.

When I noted earlier that this is not the work of a historian but of a political economist and philosopher, I obviously did not believe this to be a disadvantage. Quite to the contrary. As has been indicated, historians *qua* historians cannot rationally decide between incompatible interpretations of

the same set of data or sequence of events; hence, they are unable to provide answers to most important social questions. The principal advantage that the political economist and philosopher has over the mere historian (and the benefits to be gained from the study of political economy and philosophy by the historian) is his knowledge of pure—*a priori*—social theory, which enables him to avoid otherwise unavoidable errors in the interpretation of sequences of complex historical data and present a theoretically corrected or "reconstructed," and a decidedly critical or "revisionist" account of history.

Based on and motivated by fundamental theoretical insights from both, political economy and political philosophy (ethics), in the following studies I propose the revision of three central—indeed almost mythical—beliefs and interpretations concerning modern history.

In accordance with elementary theoretical insights regarding the nature of private property and ownership versus "public" property and administration and of firms versus governments (or states), I propose first a revision of the prevailing view of traditional hereditary monarchies and provide instead an uncharacteristically favorable interpretation of monarchy and the monarchical experience. In short, monarchical government is reconstructed theoretically as privately-owned government, which in turn is explained as promoting future-orientedness and a concern for capital values and economic calculation by the government ruler. Second, equally unorthodox but by the same theoretical token, democracy and the democratic experience are cast in an untypically unfavorable light. Democratic government is reconstructed as publicly-owned government, which is explained as leading to present-orientedness and a disregard or neglect of capital values in government rulers, and the transition from monarchy to democracy is interpreted accordingly as civilizational decline.

Still more fundamental and unorthodox is the proposed third revision.

Despite the comparatively favorable portrait presented of monarchy, I am not a monarchist and the following is not a defense of monarchy. Instead, the position taken toward monarchy is this: if one must have a state, defined as an agency that exercises a compulsory territorial monopoly of ultimate decisionmaking (jurisdiction) and of taxation, then it is economically and ethically advantageous to choose monarchy over democracy. But this leaves the question open whether or not a state is necessary, i.e., if there exists an alternative to both, monarchy *and* democracy. History again cannot provide an answer to this question. By definition, there can be no such thing as an "experience" of counterfactuals and alternatives; and all one finds in modern history, at least insofar as the developed Western world is concerned, is the history of states and statism. Only theory can again provide an answer, for theoretical propositions, as just illustrated, concern necessary facts and relations; and accordingly, just as they can be used to rule certain historical reports and interpretations out as false or impossible, so can they be used to rule certain other things in as constructively possible, even if such things have never been seen or tried.

In complete contrast to the orthodox opinion on the matter, then, elementary social theory shows, and will be explained as showing, that no state as just defined can be justified, be it economically or ethically. Rather, every state, regardless of its constitution, is economically and ethically deficient. Every monopolist, including one of ultimate decisionmaking, is "bad" from the viewpoint of consumers. Monopoly is hereby understood in its classical meaning, as the absence of free entry into particular line of production: only one agency, A, may produce X. Any such monopolist is "bad" for consumers because, shielded from potential new entrants into his line of production, the price for his product will be higher and the quality lower than otherwise. Further, no one would agree to a provision that allowed a monopolist of ultimate decisionmaking, i.e., the final arbiter and judge in every case of interpersonal conflict, to determine unilaterally (without the consent of everyone concerned) the price

that one must pay for his service. The power to tax, that is, is ethically unacceptable. Indeed, a monopolist of ultimate decisionmaking equipped with the power to tax does not just produce less and lower quality justice, but he will produce more and more "bads," i.e., injustice and aggression. Thus, the choice between monarchy and democracy concerns a choice between two defective social orders. In fact, modern history provides ample illustration of the economic and ethical shortcomings of *all* states, whether monarchic or democratic.

Moreover, the same social theory demonstrates positively the possibility of an alternative social order free of the economic and ethical shortcomings of monarchy and democracy (as well as any other form of state). The term adopted here for a social system free of monopoly and taxation is "natural order." Other names used elsewhere or by others to refer to the same thing include "ordered anarchy," "private property anarchism," "anarcho-capitalism," "autogovernment," "private law society," and "pure capitalism."

Above and beyond monarchy and democracy, the following is concerned with the "logic" of a natural order, where every scarce resource is owned privately, where every enterprise is funded by voluntarily paying customers or private donors, and where entry into every line of production, including that of justice, police, and defense services, is free. It is in contrast to a natural order that the economic and ethical errors of monarchy are brought into relief. It is before the backdrop of a natural order that the still greater errors involved in democracy are clarified and that the historic transformation from monarchy to democracy is revealed as a civilizational decline. And it is because of the natural order's logical status as the theoretical answer to the fundamental problem of social order—of how to protect liberty, property, and the pursuit of happiness—that the following also includes extensive discussions of strategic matters and concerns, i.e., of the requirements of social change and in particular the radical transformation from democracy to natural order.

Regardless of the unorthodox interpretations and conclusions reached in the following studies, the theories and theorems used to do so are definitely *not* new or unorthodox. Indeed, if one assumes, as do, that a *priori* social theory and theorems exist, then one should also expect that most of such knowledge is old and that theoretical progress is painstakingly slow. This indeed appears to be the case. Hence, even if my conclusions may seem radical or extreme, as a theoretician I am decidedly a conservative. I place myself in an intellectual tradition that stretches back at least to the sixteenth-century Spanish Scholastics and that has found its clearest modern expression in the so-called Austrian School of Economics: the tradition of pure social theory as represented above all by Carl Menger, Eugen von Bohm-Bawerk, Ludwig von Mises, and Murray N. Rothbard.<sup>14</sup>

<sup>14</sup>See Murray N. Rothbard, *Economic Thought Before Adam Smith: An Austrian Perspective on the History of Economic Thought* (Cheltenham, U.K.: Edward Elgar, 1995); idem, *Classical Economics: An Austrian Perspective on the History of Economic Thought* (Cheltenham, U.K.: Edward Elgar, 1995); also *Fifteen Great Austrian Economists*, Randall Holcombe, ed. (Auburn, Ala.: Ludwig von Mises Institute, 1999).

At the outset, I noted Habsburg-Austria and the United States of America as the countries associated most closely with the old monarchical regime and the new and current democratic-republican era, respectively. Here we encounter Habsburg-Austria again and discover another reason why the following studies also may be called *An Austrian View of the American Age*. The Austrian School of economics ranks among the most outstanding of the many intellectual and artistic traditions originating in pre-World War I Austria. As one of the many results of the destruction of the Habsburg Empire, however, the school's third generation, led by Ludwig von Mises, was uprooted in Austria and

on the European continent and, with Mises's emigration to New York City in 1940, exported to the United States of America. And it would be in America where Austrian social theory has taken root most firmly, owing in particular to the work of Mises's outstanding American student, Murray N. Rothbard.

The following studies are written from the vantage point of modern Austrian social theory. Throughout, the influence of Ludwig von Mises and even more of Murray N. Rothbard is noticeable. The elementary theorems of political economy and philosophy, which are employed here for the purpose of reconstructing history and proposing a constructive alternative to democracy, have found their most detailed treatment in Mises's and Rothbard's principal theoretical works.<sup>15</sup> As well, many of the subjects discussed in the following have also been dealt with in their many applied works. Furthermore, the following studies share with Mises and especially Rothbard a fundamental and robust antistatist and pro-private property, and free enterprise position.

This notwithstanding, the following studies can in two regards claim originality. On the one hand, they provide for a more profound understanding of modern political history. In their applied works, Mises and Rothbard discussed most of the twentieth century's central economic and political issues and events: socialism versus capitalism, monopoly versus competition, private versus public property, production and trade versus taxation, regulation, and redistribution, etc.; and both gave detailed accounts of the rapid growth of state power during the twentieth century and explained its economically and morally deleterious consequences. However, while they have proven exceptionally perceptive and farsighted in these endeavors (especially in comparison to their empiricist-positivist counterparts), neither Mises nor Rothbard made a systematic attempt to search for a cause of the decline of classical-liberal thought and laissez-faire capitalism and the concomitant rise of anticapitalist political ideologies and statism during the twentieth century. Certainly, they did not think of democracy as being such a cause. In fact, although aware of the economic and ethical deficiencies of democracy, both Mises and Rothbard had a soft spot for democracy and tended to view the transition from monarchy to democracy as progress. In contrast, I will explain the rapid growth of state power in the course of the twentieth century lamented by Mises and Rothbard as the systematic outcome of democracy and the democratic mindset, i.e., the (erroneous) belief in the efficiency and/or justice of public property and popular (majority) rule.

"Ludwig von Mises, *Human Action: A Treatise on Economics*, Scholar's Edition (Auburn, Ala.: Ludwig von Mises Institute, [1949] 1999); Murray N. Rothbard, *Man, Economy, and State: A Treatise on Economic Principles* (Auburn, Ala.: Ludwig von Mises Institute, [1962] 1993).

On the other hand, based on this deeper, "revisionist" understanding of modern history, the following studies arrive also at a "better"—clearer and more acute—understanding of the constructive alternative to the democratic *status quo*, i.e., a natural order. There are detailed explanations regarding the operation of a natural order as a state-less social system with freely financed insurance agencies serving as competitive providers of law and order. And there are equally detailed discussions of strategic matters. In particular, there are detailed discussions specifically of secession and of privatization as the primary vehicles and means by which to overcome democracy and establish a natural order.

Each of the following chapters is self-contained and can be read separately. While this implies some thematic overlap across chapters, they combine into a progressing and expanding theoretical whole. With these studies I wish to promote in particular the tradition of Austrian social theory and contribute to its reputation as not only a bastion of truth but also as inspiring, exciting, and refreshing.

And by the same token but more generally, I wish to promote and contribute to the tradition of grand social theory, encompassing political economy, political philosophy and history and including—normative as well as positive questions. An appropriate term for this sort of intellectual endeavor would seem to be sociology. But while the term sociology has been sometimes used in this meaning, under the dominant influence of the empiricist-positivist philosophy the term has acquired an altogether different meaning and reputation. According to the empiricist doctrine, normative questions are not "scientific" questions at all, and there exists no such thing as *a priori* theory. That pretty much rules out grand social theory from the outset as "unscientific." Accordingly, most of what passes nowadays as sociology is not only just plain false but also irrelevant and dull. In distinct contrast, the following studies are everything a good positivist claims one cannot and shall not be: interdisciplinary, theoretically oriented, and dealing with both positive-empirical *and* normative questions. I hope to demonstrate by example that this is the right approach as well as the more interesting one.

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*September 2000*

# ON TIME PREFERENCE, GOVERNMENT, AND THE PROCESS OF DECIVILIZATION

## Time PREFERENCE

In acting, an actor invariably aims to substitute a more satisfactory for a less satisfactory state of affairs and thus demonstrates a preference for more rather than fewer goods. Moreover, he invariably considers when in the future his goals will be reached, i.e., the time necessary to accomplish them, as well as a good's duration of serviceability. Thus, he also demonstrates a universal preference for earlier over later goods, and for more over less durable ones. This is the phenomenon of time preference.<sup>1</sup>

Every actor requires some amount of time to attain his goal, and since man must always consume something and cannot entirely stop consuming while he is alive, time is always scarce. Thus, *ceteris paribus*, present or earlier goods are, and must invariably be, valued more highly than future or later ones. In fact, if man were not constrained by time preference and if the only constraint operating on him were that of preferring more over less, he would invariably choose those production processes which yielded the largest output per input, regardless of the length of time needed for these methods to bear fruit. He would always save and never consume. For instance, instead of making a fishing net first, Crusoe would have begun constructing a fishing trawler—as it is the economically most efficient method of catching fish. That no one, including Crusoe, can act in this way makes it evident that man cannot but "value fractions of time of the same length in a different way according as they are nearer or remoter from the instant of the actor's decision." "What restricts the amount of saving and investment is time preference."<sup>2</sup>

<sup>1</sup>See on the following in particular Ludwig von Mises, *Human Action: A Treatise on Economics*, Scholar's Edition (Auburn, Ala.: Ludwig von Mises Institute, 1998), chaps. 18 and 19; also William Stanley Jevons, *Theory of Political Economy* (New York: Augustus M. Kelley, 1965); Eugen von Bohm-Bawerk, *Capital and Interest*, 3 vols. (South Holland, Ill.: Libertarian Press, 1959); Richard von Strigl, *Capital and Production* (Auburn, Ala.: Ludwig von Mises Institute, 2001); Frank Fetter, *Capital, Interest, and Rent* (Kansas City: Sheed Andrews and McMeel, 1977); Murray N. Rothbard, *Man, Economy, and State*, 2 vols. (Los Angeles: Nash, 1970).

Constrained by time preference, man will only exchange a present good for a future one if he anticipates thereby increasing his amount of future goods. The rate of time preference, which is (and can be) different from person to person and from one point in time to the next, but which can never be anything but positive for everyone, simultaneously determines the height of the premium which present goods command over future ones as well as the amount of savings and investment. The market rate of interest is the aggregate sum of all individual time-preference rates reflecting the social rate of time preference and equilibrating social savings (i.e., the supply of present goods offered for exchange against future goods) and social investment (i.e., the demand for present goods thought capable of yielding future returns).

No supply of loanable funds can exist without previous savings, i.e., without abstaining from a possible consumption of present goods (an excess of current production over current consumption). And no demand for loanable funds would exist if no one perceived an opportunity to employ present



goods productively, i.e., to invest them so as to produce a future output that would exceed current input. Indeed, if all present goods were consumed and none invested in time-consuming production methods, the interest rate would be infinitely high, which, anywhere outside of the Garden of Eden, would be tantamount to leading a mere animal existence, i.e., eking out a primitive subsistence living by encountering reality with nothing but one's bare hands and a desire for instant gratification.

A supply of and a demand for loanable funds only arise—and this is the human condition—if it is recognized first that indirect (more roundabout, lengthier) production processes yield a larger or better output per input than direct and short ones.<sup>3</sup> Second, it must be possible, by means of savings, to accumulate the amount of present (consumption) goods needed to provide for all those wants whose satisfaction during the prolonged waiting time is deemed more urgent than the increment in future well-being expected from the adoption of a more time-consuming production process.

<sup>2</sup>Mises, *Human Action*, pp. 483 and 491.

<sup>3</sup>To be sure, not all lengthier production processes are more productive than shorter ones, but under the assumption that man, constrained by time preference, will invariably (and at all times) select the shortest conceivable methods of producing some given output, any increase in output then can—praxeologically—only be achieved if the production process is lengthened, given constant technology

So long as these conditions are fulfilled, capital formation and accumulation will set in and continue. Land and labor (the originary factors of production), instead of being supported by and engaged in instantaneously gratifying production processes, are supported by an excess of production over consumption and employed in the production of capital goods. Capital goods have no value except as intermediate products in the process of turning out final (consumer) goods later, and insofar as the production of final products is more productive with than without them, or, what amounts to the same thing, insofar as he who possesses and can produce with the aid of capital goods is nearer in time to the completion of his ultimate goal than he who must do without them. The excess in value (price) of a capital good over the sum expended on the complementary originary factors required for its production is due to this time difference and the universal fact of time preference. It is the price paid for buying time, for moving closer to the completion of one's ultimate goal rather than having to start at the very beginning. For the same reason, the value of the final output must exceed the sum spent on its factors of production (the price paid for the capital good and all complementary labor services).

The lower the time-preference rate, the earlier the onset of the process of capital formation, and the faster the roundabout structure of production will be lengthened. Any increase in the accumulation of capital goods and the roundaboutness of the production structure in turn raises the marginal productivity of labor. This leads to either increased employment or wage rates, or even if the labor supply curve should become backward sloping with increased wage rates, to a higher wage total. Supplied with an increased amount of capital goods, a better paid population of wage earners will produce an overall increased—future—social product, thus also raising the real incomes of the owners of capital and land.

## **Factors Influencing Time Preference And The Process Of Civilization**

Among the factors influencing time preference one can distinguish between external, biological, personal, and social or institutional ones.

External factors are events in an actor's physical environment whose outcome he can neither

directly nor indirectly control. Such events affect time preference only if and insofar as they are expected. They can be of two kinds. If a positive event such as manna falling from heaven is expected to happen at some future date, the marginal utility of future goods will fall relative to that of present ones. The time-preference rate will rise and consumption will be stimulated. Once the expected event has occurred and the larger supply of future goods has become a larger supply of present goods, the reverse will happen. The time-preference rate will fall, and savings will increase.

On the other hand, if a negative event such as a flood is expected, the marginal utility of future goods rises. The time-preference rate will fall and savings will increase. After the event, with a reduced supply of present goods, the time-preference rate will rise.<sup>4</sup>

Biological processes are technically within an actor's reach, but for all practical purposes and in the foreseeable future they too must be regarded as a given by an actor, similar to external events.

It is a given that man is born as a child, that he grows up to be an adult, that he is capable of procreation during part of his life, and that he ages and dies. These biological facts have a direct bearing on time preference. Because of biological constraints on their cognitive development, children have an extremely high time-preference rate. They do not possess a clear concept of a personal life expectancy extending over a lengthy period of time, and they lack full comprehension of production as a mode of indirect consumption. Accordingly, present goods and immediate gratification are highly preferred to future goods and delayed gratification. Savings-investment activities are rare, and the periods of production and provision seldom extend beyond the most immediate future. Children live from day to day and from one immediate gratification to the next.<sup>5</sup>

In the course of becoming an adult, an actor's initially extremely high time-preference rate tends to fall. With the recognition of one's life expectancy and the potentialities of production as a means of indirect consumption, the marginal utility of future goods rises. Saving and investment are stimulated and the periods of production and provision are lengthened.

<sup>4</sup>if it is expected that nothing at all can be done about the impending losses of future goods such that no present attempt to mitigate these losses through compensatory savings (or insurance) appears possible because such savings would be destroyed as well, the time-preference rate will immediately rise, and it will remain high after the event.

<sup>5</sup>On the high time preference of children as well as on biological (racial) and cultural factors modifying it see Walter Mischel, "Preference for Delayed Reinforcement: An Experimental Study of a Cultural Observation," *Journal of Abnormal and Social Psychology* 56 (1958); idem, "Preference for Delayed Reinforcement and Social Responsibility," *Journal of Abnormal and Social Psychology* 62 (1961); idem, "Father Absence and Delay of Gratification: Cross-Cultural Comparisons," *Journal of Abnormal and Social Psychology* 63 (1961).

Finally, becoming old and approaching the end of one's life, one's time-preference rate tends to rise. The marginal utility of future goods falls because there is less of a future left. Savings and investments will decrease, and consumption—including the nonreplacement of capital and durable consumer goods—will increase. This old-age effect may be counteracted and suspended, however. Owing to the biological fact of procreation, an actor may extend his period of provision beyond the duration of his own life. If and insofar as this is the case, his time-preference rate can remain at its adult-level until his death.

Within the constraints imposed by external and biological factors, an actor sets his time-preference rate in accordance with his subjective evaluations. How high or low this rate is and what changes it

will undergo in the course of his lifetime depend on personal psychological factors. One man may not care about anything but the present and the most immediate future. Like a child, he may only be interested in instant or minimally delayed gratification. In accordance with his high time preference, he may want to be a vagabond, a drifter, a drunkard, a junkie, a daydreamer, or simply a happy-go-lucky kind of guy who likes to work as little as possible in order to enjoy each and every day to the fullest. Another man may worry about his and his offspring's future constantly and, by means of savings, may want to build up a steadily growing stock of capital and durable consumer goods in order to provide for an increasingly larger supply of future goods and an ever longer period of provision. A third person may feel a degree of time preference somewhere in between these extremes, or he may feel different degrees at different times and therefore choose still another lifestyle-career.<sup>6</sup>

<sup>6</sup>In contrast to the widespread recognition of the phenomenon of time preference by economists, in particular those of the "Austrian School," amazingly little attention has been paid to it by sociologists and political scientists. For a notable exception see Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown, 1974), esp. chap. 3. Banfield identifies time preference as the underlying cause for the persistent distinction between social classes and cultures, in particular between the "upper class" and the "lower class." Whereas members of the former are characterized by future-orientation, self-discipline, and a willingness to forego present gratification in exchange for a better future, members of the "lower class" are characterized by their present-orientation and hedonism.

However, no matter what a person's original time-preference rate or what the original distribution of such rates within a given population, once it is low enough to allow for any savings and capital or durable consumer-goods formation at all, a tendency toward a fall in the rate of time preference is set in motion, accompanied by a "process of civilization."<sup>7</sup>

The saver exchanges present (consumer) goods for future (capital) goods with the expectation that these will help produce a larger supply of present goods in the future. If he expected otherwise he would not save. If these expectations prove correct, *and if everything else remains the same*, the marginal utility of present goods relative to that of future ones will fall. His time-preference rate will be lower. He will save and invest more than in the past, and his future income will be still higher, leading to yet another reduction in his time-preference rate. Step by step, the time-preference rate approaches zero—without ever reaching it. In a monetary economy, as a result of his surrender of present money, a saver expects to receive a higher real-money income later. With a higher income, the marginal utility of present money falls relative to future money, the savings proportion rises, and future monetary income will be even higher.

If [the lower class individual] has any awareness of the future, it is of something fixed, fated, beyond his control: things happen *to* him, he does not *make* them happen. Impulse governs his behavior, either because he cannot discipline himself to sacrifice a present for a future satisfaction or because he has no sense of the future. He is therefore radically improvident. ... He works only as he must to stay alive, and drifts from one unskilled job to another, taking no interest in his work.... He is careless with his things ... and, even when nearly new, they are likely to be permanently out of order for lack of minor repairs. His body, too, is a thing "to be worked out but not repaired." (Banfield, *The Unheavenly City*, pp. 61-62)

Phenomena typically associated with the "lower class," such as family breakdown, promiscuity, venereal disease, alcoholism, drug addiction, violence, crime, high infant mortality, and low life expectancy, all have a common cause in high time preference. Their cause is not unemployment or

low income. Rather, notes Banfield, causation is, if anything, the other way around: lasting unemployment and persistently low incomes likewise are the effects of an underlying high time preference.

As another important exception to the general neglect of the phenomenon of time preference at the hands of noneconomists see T. Alexander Smith, *Time and Public Policy* (Knoxville: University of Tennessee Press, 1988).

<sup>7</sup>For a detailed empirical, socio-psychological description of the phenomenon of the "process of civilization" see also Norbert Elias, *Über den Prozess der Zivilisation* (Frankfurt/M., 1968); English edition, *The Civilizing Process: A History of Manners* (New York: Urizen Books, 1978).

Moreover, in an exchange economy, the saver-investor also contributes to a lowering of the time-preference rate of nonsavers. With the accumulation of capital goods, the relative scarcity of labor services increases, and wage rates, *ceteris paribus*, will rise. Higher wage rates imply a rising supply of present goods for previous nonsavers. Thus, even those individuals who were previously nonsavers will see their personal time-preference rates fall.

In addition, as an indirect result of the increased real incomes brought about through savings, nutrition and health care improve, and life expectancy tends to rise. In a development similar to the transformation from childhood to adulthood, with a higher life expectancy more distant goals are added to an individual's present value scale. The marginal utility of future goods relative to that of present ones increases, and the time-preference rate declines further.<sup>8</sup>

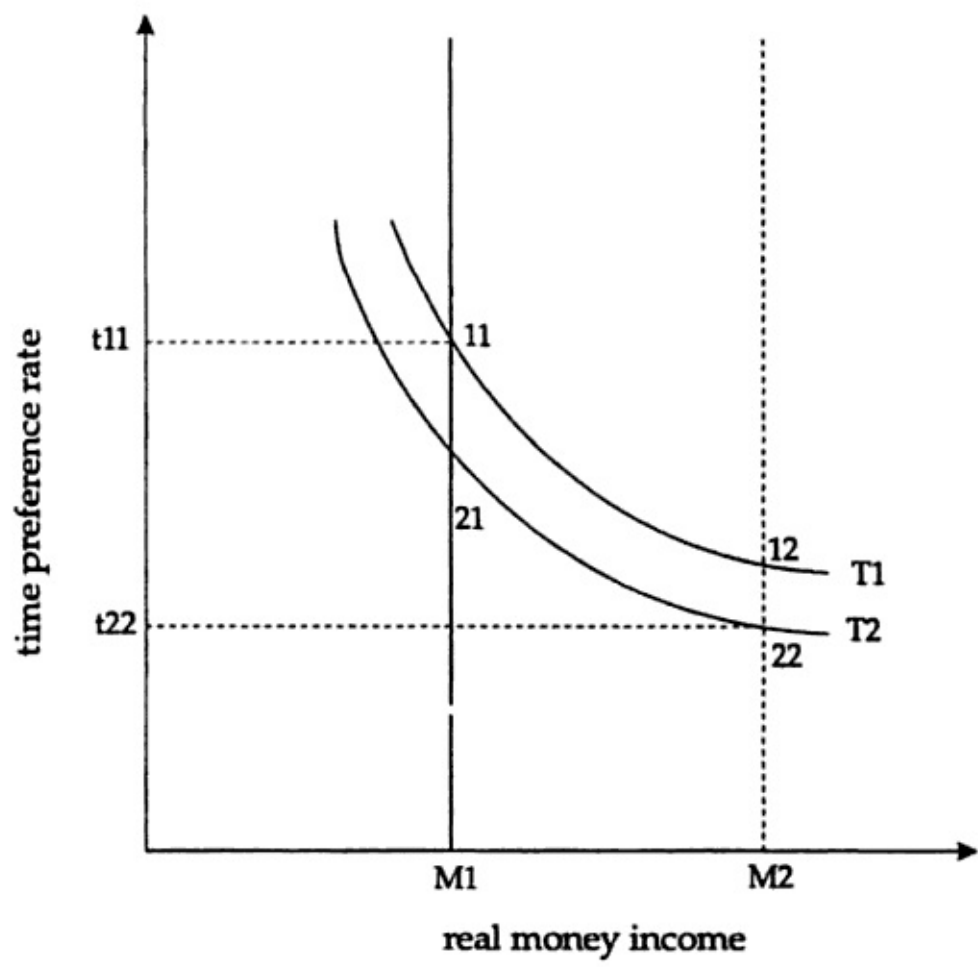
Simultaneously, the saver-investor initiates a "process of civilization." In generating a tendency toward a fall in the rate of time preference, he—and everyone directly or indirectly connected to him through a network of exchanges—matures from childhood to adulthood and from barbarism to civilization.

In building up an expanding structure of capital and durable consumer goods, the saver-investor also steadily expands the range and horizon of his plans. The number of variables under his control and taken into account in his present actions increases. Accordingly, this increases the number and time horizons of his predictions concerning future events. Hence, the saver-investor is interested in acquiring and steadily improving upon his knowledge concerning an increasing number of variables and their interrelationships. Yet once he has acquired or improved his own knowledge and verbalized or displayed it in action, such knowledge becomes a "free good," available for imitation and utilization by others for their own purposes. Thus, by virtue of the saver's saving, even the most present-oriented person will be gradually transformed from a barbarian to a civilized man. His life ceases to be short, brutish, and nasty, and becomes longer, increasingly refined, and comfortable.

Figure 1 provides a graphic illustration of the phenomena of time preference and the process of civilization. It relates individual time-preference rates (the height of the premium of a specified present good over the same good at a specified later date which induces a given individual to engage in intertemporal exchange) on the vertical axis to the individual's *real* money income (his supply of present money) on the horizontal. In accordance with the law of marginal utility, each individual time-preference curve, such as T1 or T2, slopes downward as the supply of present money increases. The process of civilization is depicted by a movement from point 11—with a time preference rate of  $t_{11}$ —to point 22—with a time preference rate of  $t_{22}$ . This movement is the composite result of two interrelated changes. On the one hand, it involves a movement along T1 from point 11 to 12, representing the fall in the time-preference rate that results if an individual with a *given* personality

possesses a larger supply of present goods. On the other hand, there is a movement from point 12 to 22. This change from a higher to a lower time-preference curve—with real income assumed to be given—represents the *changes* in personality as they occur during the transition from childhood to adulthood, in the course of rising life-expectancies, or as the result of an advancement of knowledge.

<sup>8</sup>to avoid any sort of misunderstanding, it must be made clear that the mere fact of a longer life has no impact on time preference. Rather, it is only the individual's personal knowledge—the subjective expectation—of this fact, that leads to a fall in a person's degree of time preference.



**Figure 1**  
**Time Preferences and the Process of Civilization**

**TIME PREFERENCE, PROPERTY, CRIME, AND GOVERNMENT**

The actual amount of present goods allocated to the production of future goods depends on the one hand on a person's technical knowledge. For instance, without the knowledge of how to build a fishing net, Crusoe obviously could not have begun to exchange present goods for future ones, that is, to save and invest. On the other hand, given a person's technical knowledge, the amount of saving depends solely on his supply of present goods and his time-preference schedule. The smaller his supply of present goods and the higher his time-preference schedule, the higher his effective time-preference rate and the lower his actual savings will be.

In the beginning of humanity, there was only "land" (nature-given resources and obstacles) and

"labor" (human bodies). Strictly speaking, the only *given* supply of any good is that of body-time. The supply of all other goods—be they perishable or durable consumer goods such as berries or caves, or indirectly useful goods (production factors), such as berry bushes and their surrounding land—is not "given." It is the result of someone's prior action; of the appropriation (homesteading) of nature by a specific individual. The facts and laws of nature and human biology are "givens," of course, and nature as such may be generous or skimpy. But only through an individual's act of appropriation is nature turned into a supply of goods. It is even more obvious that the supply of all *produced* goods is not "given." Be they consumer goods, which have been stored, conserved or made more durable, or produced factors of production (capital goods), they are all the outcome of the activities of specific individuals. Finally, technical knowledge is also not a "given." That one potato saved today can yield ten potatoes one year from now may be a fact of nature, but one must first have a potato. Yet even if one did and one were perfectly willing to invest it for this return or an even lower one, such a fact would be irrelevant unless the person in question knew the laws of potato growing.

Thus, neither the supply of present goods nor technology is given or fixed. Rather, they are artifacts created with the intention of improving their appropriator-producer's well-being. These expectations can turn out right or wrong, and rather than securing a profit for the actor, his actions may result in a loss. But no one would spend any time picking berries unless he expected the berries to be edible. No one would appropriate a berry bush unless he thought that this would enhance his berry harvest. No one would want to learn about any fact or law of nature unless he anticipated that such knowledge would help him improve his circumstances.

In a social context, an individual's supply of appropriated and produced goods, his time-preference schedule, and hence his effective timepreference rate may also be affected by the actions—and the expectations regarding these actions—of others.<sup>9</sup>

The tendency toward a fall in the time-preference rate and the accompanying process of civilization will proceed so long—as has so far been tacitly assumed to be the case—as no one interferes with another's acts of nature-appropriation and production. So long as this is the case and each person is respected by everyone else as the owner of his supply of body-time and whatever goods he has appropriated and produced such that everyone may enjoy, unmolested by others, all present and future benefits to be derived from these goods, the existence of more than one person either leaves the tendency toward a fall in the time-preference rate unchanged, or it even accelerates and reinforces the very process. The former is the case if and insofar as A appropriates a previously unowned, nature-given good, or if he transforms such a good into a different one without causing any physical damage to the goods owned by another person B. A's supply of present goods, or the value of such goods for A is increased, and hence, *ceteris paribus*, his time-preference rate will fall. Because A's acts have no impact on the supply of goods owned by B, B's time-preference rate remains unaffected. Furthermore, the tendency will actually be accelerated insofar as A and B, based on the mutual recognition of each other's property, engage in voluntary trade or cooperation and even without any such exchange insofar as they merely observe each other's activities and copy each other's knowledge. For any voluntary trade or cooperation between A and B increases—*ex ante*—the supply and/or the value attached to the supply of the goods of *both* parties (otherwise it would not take place), and hence the time-preference rate of both A and B will fall. Moreover, by learning facts and laws from one another, such as that there are potatoes, that potatoes can be eaten, or that one's present potato may yield ten future ones, the tendency toward a fall in the rate of time preference spreads from one person to another.

However, if violations of property rights occur and the goods appropriated or produced by A are stolen, damaged or expropriated by B, or if B restricts the uses that A is permitted to make of his

goods in any way

<sup>9</sup>See on the following Rothbard, *Man, Economy, and State*, pp. 147-59; see also idem, *Power and Market* (Kansas City: Sheed Andrews and McMeel, 1977); Hans Hermann Hoppe, *A Theory of Socialism and Capitalism* (Boston: Kluwer, 1989); idem, *The Economics and Ethics of Private Property* (Boston: Kluwer, 1993).

(apart from not being allowed to cause any physical damage to the property of B), then the tendency toward a fall in the rate of time preference will be disturbed, halted, or even reversed.

The violations of property rights—and the effect they have on the process of civilization—can be of two kinds. They can take the form of criminal activities (including negligent behavior), or they can take the form of institutional or governmental interference.

The characteristic mark of criminal invasions of property rights is that such activities are considered illegitimate or unjust not only by the victim, but by property owners in general (and possibly even by the criminal himself). Hence, the victim is considered to be entitled to defend himself if need be by retaliatory force, and he may punish and/or exact compensation from the offender.

The impact of crime is twofold. On the one hand, criminal activity reduces the supply of the goods of the victimized appropriator-producer-exchanger, thereby raising his effective time-preference rate (his timepreference schedule being given). On the other hand, insofar as individuals perceive a risk of future victimization they will accordingly reallocate their resources. They will build walls and fences, install locks and alarm systems, design or buy weapons, and purchase protection and insurance services. The existence of crime thus implies a setback in the process toward a fall in the rate of time preference as far as actual victims are concerned, and it leads to expenditures—by actual *and* potential victims—which would be considered wasteful without the existence of crime.<sup>10</sup>

Therefore, crime or a change in its rate has the same type of effect on time preference as the occurrence or a changed frequency of "natural" disasters. Floods, storms, heat waves, and earthquakes also reduce their victims' supplies of present goods and thus increase their effective timepreference rate. And the perceived risk-change of natural disasters also leads to resource reallocations and expense adjustments—such as the construction of dams, irrigation systems, dikes, shelters, or the purchase of earthquake insurance—which would be unnecessary without these natural risks.

More importantly, however, because actual and potential victims are permitted to defend, protect, and insure themselves against both social disasters such as crime as well as natural ones, the effect of these on time preference is temporary and unsystematic. Actual victims will save or invest a smaller amount of goods because they are poorer. And the altered risk perceptions among actual and potential victims shape the *direction* of their future actions. But as long as physical protection and defense are permitted, the existence of social or of natural disasters does not imply that the time-preference *degree* of actual or potential victims—their degree of /uh<re-orientation—will be systematically changed." After taking account of the damage and redirecting one's activities, the tendency toward a fall in the rate of time preference and the attending process of civilization will resume its previous path. In its course, both the protection against crime and natural disasters can be expected to undergo continual improvement.<sup>12</sup>

<sup>10</sup>See also Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies, and Theft," *Western Economic Journal* 5 (1967).

Matters fundamentally change and the process of civilization is permanently derailed whenever property-rights violations take the form of government interference, however. The distinctive mark of government violations of private property rights is that contrary to criminal activities they are considered legitimate not only by the government agents who engage in them, but by the general public as well (and in rare instances possibly even by the victim). Hence, in these cases a victim may *not* legitimately defend himself against such violations.<sup>13</sup>

<sup>11</sup>In terms of Figure 1 above: Social and natural disasters alike imply a movement upward and to the left on a given time-preference curve—insofar as actual victims are concerned. But they do not imply a change in a person's character structure, i.e., a shift from a lower to a higher time-preference curve. Such a shift occurs in the presence of government disasters, however.

<sup>12</sup> On the evolution and efficiency of systems of competitive law courts and privately provided defense and law enforcement see Gustave de Molinari, *The Production of Security* (New York: Center for Libertarian Studies, 1977); William C. Wooldridge, *Uncle Sam the Monopoly Man* (New Rochelle, N.Y.: Arlington House, 1970); Murray N. Rothbard, *For A New Liberty* (New York: Macmillan, 1978); Hoppe, *The Economics and Ethics of Private Property*; Morris and Linda Tannehill, *The Market for Liberty* (New York: Laissez Faire Books, 1984); Terry Anderson and P.J. Hill, "The American Experiment in Anarcho-Capitalism: The Not So Wild, Wild West," *Journal of Libertarian Studies* (1980); Bruce L. Benson, "Guns for Protection, and other Private Sector Responses to the Government's Failure to Control Crime," *Journal of Libertarian Studies* (1986); idem, *The Enterprise of Law: Justice Without the State* (San Francisco: Pacific Research Institute, 1990); Roger D. McGrath, *Gunfighters, Highwaymen, and Vigilantes: Violence on the Frontier* (Berkeley: University of California Press, 1984); idem, "Treat Them to a Good Dose of Lead," *Chronicles* (January 1994).

<sup>13</sup>On the theory of the state see besides the works cited in footnote 9 above Franz Oppenheimer, *The State* (New York: Vanguard Press, 1914); idem, *System der Soziologie*, vol. 2, *Der Staat* (Stuttgart: Gustav Fischer, 1964); Alexander Rustow, *Freedom and Domination* (Princeton, NJ: Princeton University Press, 1980); Charles Tilly, "War Making and State Making as Organized Crime," in *Bringing the State Back In*, Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds. (Cambridge: Cambridge University Press, 1985); Richard Epstein, *Takings: Private Property and the Power of Eminent Domain* (Cambridge, Mass.: Harvard University Press, 1985).

The imposition of a government tax on property or income violates a property or income producer's rights as much as theft does. In both cases the appropriator-producer's supply of goods is diminished against his will and without his consent. Government money or "liquidity" creation involves no less a fraudulent expropriation of private-property owners than the operations of a criminal counterfeiter gang. Moreover, any government regulation as to what an owner may or may not do with his property—beyond the rule that no one may physically damage the property of others and that all exchange and trade with others must be voluntary and contractual—implies a "taking" of somebody's property on a par with acts of extortion, robbery, or destruction. But taxation, the government's provision of liquidity, and government regulations—unlike their criminal counterparts—are considered legitimate and the victim of government interference—unlike the victim of a crime—is *not* entitled to physical defense and protection of his property.

Because of their legitimacy, then, government violations of property rights affect individual time preferences systematically differently and much more profoundly than does crime. Like crime, government interference with private-property rights reduces someone's supply of present goods and



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