



# The Philosophy of Ludwig von Mises

AN invitation to speak at Grove City College is a great honor, doubly so, in that I've been asked to talk about Ludwig von Mises. But I am humbled when I contrast the size of the debt I owe to Mises with the meager gesture that is all I am able to offer as a token payment.

I had read Mises' major works before I met the man. I then had the rare privilege of getting to know one of the finest minds in our time, a man who belongs with the great masters of his discipline, Economics; a scholar who advanced that discipline in several particulars by his own genius. And not only that, Mises was an inspired teacher; from

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the days of his celebrated Vienna Seminar almost till the end of his life, men and women sat at his feet, and some of them have become famous in their own right. The Misesian influence spreads and will continue to manifest itself.

Mises lived his active life during the first two-thirds of this century—a period of world turmoil which affected him personally and tragically, forcing him out of his native land and finally out of Europe, losing most of his precious library and other belongings in the course of his escape. Some refugee scholars came to America in the late thirties and early forties and we rolled out the red carpet for them. But not for Mises. Mises had set his entire life resolutely against the ideological absurdities of the twentieth century which produced the

totalitarian upheavals in Europe, as well as the milder but related political and social events in America.

Those European intellectuals who had opposed European fascism and communism in the name of socialism were welcomed here by their domestic counterparts—American socialists, liberals and New Dealers. Lectureships, academic appointments and other honors were made available to them. With Mises it was different. His teachings were a threat to every variety of statism, whatever the label: communism, fascism, Naziism, state interventionism, national planning.

Communist and fascist gangs fought pitched battles in the streets of European cities, but these brawlers were really brothers under the skin; both were statists and collectivists. They fought each other for power; they hankered for the authority to put a nation under red shirts versus brown shirts versus black shirts. But they had a common enemy, and they knew it. The common enemy of all the totalitarians was the old-fashioned Whig philosophy, which, in the second quarter of the nineteenth century began calling itself "liberalism."

### **Classical Liberalism**

Classical liberalism believed in liberty and justice for all; it severely restricted the role of government and politics; it stood for the Rule of

Law, private property, and the free market economy. It designed a set of rules which maximized every person's opportunity to pursue his personal goals; it worked for equal freedom by abolishing the legal privileges which had hitherto given some groups in society unfair advantages over others. It got rid of serfdom and slavery.

Mises was a liberal in this old-fashioned sense, at a time when the intellectual currents in Europe and America were nearly all moving in other directions. And so, his arrival in New York went almost without notice. But Mises did have readers in this country, and one of them was Henry Hazlitt, who had reviewed Mises' great book, *Socialism*, shortly after the English translation became available. Mises and Hazlitt had exchanged letters, and Hazlitt tells about receiving a phone call one day in 1940, a short time after Dr. and Mrs. Mises arrived in Manhattan. "The voice at the other end of the line," Hazlitt recalls, "said 'This is Ludwig Mises.' It had the same effect on me," Hazlitt continues, "as if the voice had said 'This is Adam Smith.'" Such—in the eyes of a select few—was the stature of the man who arrived in New York on the 2nd of August, 1940.

Cast your mind back about a quarter of a century, to the mid-fifties. Mises had been here for fifteen years, he had gained a number of

friends and his influence was spreading. Yale University had published his monumental *Human Action* and reprinted his *Theory of Money and Credit* and *Socialism*. These are among the great books of our time, although their time is yet to come.

The news began to filter down into the universities that here was a man of massive intellect and broad cultivation who had devoted a lifetime of rigorous thought to expounding and defending the free market economy—call it capitalism—together with its correlate, the old-fashioned liberal social philosophy. This was but the echo of a forgotten language on most campuses, where orthodoxy in the social sciences included central planning of the society and governmental regulation of the economy among its basic tenets. It occurred to several faculties that it might be a nice gesture in the direction of academic balance to give Mises an hour on campus to tell the students all about capitalism.

Mises has told us why he refused to accept these invitations. "Some of these teachers," he wrote, "try . . . to demonstrate their own impartiality by occasionally inviting a dissenting outsider to address their students. This is mere eyewash. One hour of sound economics against several years of indoctrination of errors!

"If it were possible to expound the operation of capitalism in one or two short addresses," he continued, "it

would be a waste of time to keep the students of economics for several years at the universities. It would be difficult to explain why voluminous textbooks have to be written about this subject. It is these reasons that impel me reluctantly to decline your kind invitation."

I am in perfect accord with the sentiments expressed in this letter of Mises; Mises' philosophy is not to be summarized; not in an hour, not in a semester. I shall not try; but if I succeed in intriguing even one person into reading *Human Action* who otherwise might have neglected it the purpose of this lecture will have been achieved.

#### **Mises as a Man of Thought— A Man of Action**

Ludwig von Mises was a man of action; but by action I do not mean "activity." As the world tends to judge activity, men of action are presidents, generals, explorers, mountaineers, race car drivers and the like. Mises' action was thought, and thought is the most intense form of action there is, and the most enduring. If some present day Emerson were to write an essay on *Man: As Thinker*, he could do no better than to hold up Mises as his exemplar. In Mises, thought and action joined, and were as one.

I do not mean to suggest that when Mises was asked to list his occupation he wrote in "Thinker," or

"Philosopher." I suspect he wrote "Economist." In popular understanding, an economist is someone who concerns himself with the workings of business, industry, and trade or one who forecasts the ups and downs of the stock market. Now, these are indeed important human concerns; and Mises did write several big books about production and distribution, capital and interest, money and credit, work and wages, the business cycle, and the several other topics dealt with in academic courses in economics. But Mises' thought and his writings ranged over the whole spectrum of knowledge, from epistemology to history; he wrote about human action over time—from the inner motivations which give rise to action to the remote consequences of a person's decision to act one way rather than another.

I used to walk past a store window in a town where I lived, in which was displayed a drawing of the old pirate symbol, a skull and crossbones. As you walked past this drawing of a death's-head it changed, all of a sudden, as if by magic, into the portrait of a lovely woman. Change perspective and things have an entirely different focus. Misesian economics represents a new focus; the subject matter changes from a mere bread-and-butter affair into an affair of the mind and spirit; economics deals

with valuing, purposeful, goal-seeking man.

"Production is not something physical, natural and external," writes Mises, "it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external natural forces and things, but the decision of the mind to use these factors for the attainment of ends. . . . The material changes are the outcome of spiritual changes."

### **A Disposition Toward Freedom**

Nearly everyone in the modern world has a disposition toward freedom, and this disposition is powerfully strengthened by the Christian philosophy. Nevertheless, freedom lives precariously in our time in the few places where it survives at all. Freedom may be lost because people do not care enough for it, but that is not our trouble. We want it, but perversely we try to implement freedom by social policies which inhibit and destroy it. There is an anti-economic mentality; it is a refusal to face up to the way-things are in this significant portion of the human situation.

The theologian may give lip service to the idea of God's overlordship of the whole of life yet in practice refuse to admit the existence of an economic realm in which prevails a regularity of phenomena to which he must adjust his action. Man may

try to deny his creaturehood in this area, and think to annul economic laws by statute. But if there are regularities here, man must reckon with them; or they will have their reckoning with him.

It is a fact of the human situation as such—regardless of the nature of the social order—that mankind does not find, ready-made in its natural environment, the wherewithal to feed, house, and clothe itself. There are raw materials only, and most of these are not capable of satisfying human needs until someone works over these natural resources and transforms them into consumable goods. Man learns to cooperate with nature and make use of natural forces to serve his ends. He has to work in order to survive. Work is built into the human situation; the things by which we live do not come into existence unless someone grows them, harvests them, manufactures them, builds them, transports them.

### **Learning to Economize**

Work is irksome and things are scarce, so people must learn to economize and avoid waste. They invent laborsaving devices; they manufacture tools, they specialize and exchange the fruits of their specialization. They learn to get along with each other, our natural sociability reinforced by the discovery that the division of labor benefits all. Division of labor and volun-

tary exchange constitute the market place, which is the greatest labor-saving device of all.

“This division of labor, from which so many advantages are derived,” wrote Adam Smith, “is not originally the effect of any human wisdom which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another. . . . It is common to all men, and to be found in no other race of animals.”

The longest journey must begin with a single step, and it is a very long journey that leads from those primitive beginnings to the complex economic order of our time. But at every step along the way there is that human need to cope with scarcity, to satisfy creaturely needs, to provide for material well-being. And it is just as true now as it ever was that human labor is required before goods appear, and that prosperity depends upon productivity.

### **Signs of the Market**

The visible signs of our economic activities are all about us; factories, stores, offices, farms, mines, transportation systems, power plants, and so on. These are the locations where work is performed, things transformed, services rendered, goods

exchanged, wages earned, money spent. This is the economy, and the hallmark of the free society is that the economy is not under governmental control; politicians do not regulate the economy, consumers regulate the economy by their buying habits. The billions of consumer decisions made daily in the market place to buy or not to buy determine what goods will be produced, in what quantities, sizes and colors. Consumers, by their market-place decisions, determine who shall stay in business, and how large and prosperous a business shall be. The changing needs, desires, and tastes of consumers regulate wages and salaries. If an entrepreneur makes a profit it is a sign that consumers approve of the services he renders them. In the market place the consumer is sovereign.

The free society has an indispensable role for government. The law, in a society of free people, protects the life, liberty, and property of all persons alike, ensuring peaceful conditions within the community. Government performs as an impartial umpire, by interpreting and enforcing the previously agreed upon rules. A free society endeavors to secure and preserve freedom of personal action within the rules, and the rules are designed to maximize liberty and opportunity for everyone.

Government, in the interest of

maximum freedom, uses lawful force against criminals in order that peaceful citizens may go about their business. The use of lawful force against criminals for the protection of the innocent is the earmark of a properly limited government, and it stands in utter contrast to the state's use of tyrannical force on peaceful citizens—whatever the excuse for such action. It's the contrast between defensive force and aggressive violence; it's the rule of law versus oppression.

### **Laissez-faire Capitalism**

In a society where people are free the economic order is referred to as capitalistic. Some prefer to call it the market economy, or the private property order. Laissez-faire capitalism—when the term is shorn of the pejorative connotations that opponents have injected into it—laissez-faire capitalism is the ideal of individual liberty and voluntary association applied to the workaday economic world. It is the economic counterpart of a social order where individual persons have maximum latitude to pursue their personal goals.

Mises believed in the unhampered market economy, and with enormous erudition in several large volumes he expounded the operations of this intricate system. Starting with the self-evident truth that people would rather be more prosperous

than less prosperous, other things being equal, Mises demonstrated with devastating logic that every political interference with the market hurts some people and makes the entire society poorer. The way to make the nation richer and benefit everyone is to turn the market loose; remove every obstruction that interferes with people's freedom in the market place and the nation's wealth will be maximized. There is no way to upgrade the general welfare except by increasing productivity, and a free people is more productive than a politically regulated people.

### **Political Intervention**

Government is not an economic institution; government is a political institution, and there's no way that you can employ a political means to accomplish an economic end. All political interventions can do is transfer wealth from one set of people to another set; political action does not produce the wealth it redistributes. Furthermore, government is society's power structure, and when the government uses a power play to garnishee wealth from producers it will redistribute that wealth to those who possess enough political clout to go to Washington and lobby for subsidies. And this will not be the poor.

The welfare state operates, ostensibly, for the benefit of "the poor,"

but "the poor" are in reality its principal victims. Every economic program launched by government defeats the purposes for which the program is proposed. For example, government embarks on a vast public housing project, and Mises demonstrates that the end result will be a misallocation of resources and fewer housing units than would be available were housing left to the market.

The welfare state is a misnomer; a more apt label for what we have is the provider state. The theory back of the provider state is that government will supply the material wants of the people by way of food stamps, public housing, free schooling, medical care, direct relief, or whatever.

Now, the government has nothing of its own to give away so what it gives to Peter it must have first taken from Paul. The government takes from producers a portion of everything they manufacture or grow, and it takes a portion of everything people earn by rendering services of one kind or another. The government redistributes a portion of the wealth siphoned into its coffers by taxation, and thus another accurate label for the kind of government we now have is the redistributive state. The market place allocates rewards peacefully, and then government forcibly reshuffles the original apportionments.

It goes without saying that the

market place does not always proportion reward to merit. But the state is not a meritocracy either! The populace, when free, rewards its heroes, and they may not be yours. On the other hand, the market place never punishes merit; the rack, the wheel, and the stake are exclusively instruments of the state. If the state is allowed autocratic power in the market place it will curb freedom everywhere else.

If the mood of the citizens is to demand or accept government handouts a new breed of politicians will emerge, soliciting votes on the promise of more government largess to satisfy the demands of the various pressure groups and lobbies. The siren song is: Vote yourself a raise in pay, or vote yourself better housing, cheaper food, free medical care, and the like.

### **What Government Gives, It Must First Take Away**

Now we know that this world of ours is not run along the lines of something-for-nothing; there is always a *quid pro quo*. If government gives you something-for-nothing or something-for-less, it is obvious that this same government is forcing some of your fellow citizens to take nothing-for-something, or less-for-something. Your gain is another's loss; you are living at the expense of someone else. Other people are being victimized for an assumed

benefit you enjoy. This is unfair; it is immoral.

The ethical code is violated whenever you pick another person's pocket or steal his purse, and the violation is compounded when you do it legally, that is, when you allow government to do your thieving for you. But only a people with larceny in their souls will write a form of theft into their statutes. Some cynic has suggested that robbery is the first laborsaving device. He's at least half right. And if people do covet their neighbor's property they will surely find legal ways to get their hands on it, and conscience will bend around to approve.

An exclusive preoccupation with economizing may lead some people to neglect ethical and other considerations in their single-minded drive to have their own way, to succeed, to get more for less—more reward for less effort; maximum gain, regardless; something for nothing, whenever possible. So economic science, from the very beginning, has been joined symbiotically to a philosophy of society called Whiggism or Whiggery in the eighteenth century, later to adopt a more fitting label, liberalism. The term, Whig, derives from Whiggamore, a label contemptuously applied to some of the seventeenth-century English Dissenters and Nonconformists who led the opposition to the court party. Adam Smith was a Whig, so was

Edmund Burke, and so were most of the men we speak of as Founding Fathers. The Whig Party of England became the Liberal Party in 1829.

### The Wealth of Nations

Adam Smith, writing in 1776, described the prevailing "mercantile system, in its nature and essence a system of restraint and regulation." In contrast to this "system of restraint and regulation" Adam Smith offered "the liberal plan of equality, liberty and justice." These words of Adam Smith shed a good deal of light on our efforts to understand what men like Mises mean by "laissez-faire capitalism."

Laissez faire has never meant a free-for-all; capitalism has never implied the absence of rules. Adam Smith does speak of "allowing every man to pursue his own interest in his own way," and if those words are lifted out of context they do suggest a desperate no-holds-barred, rough and tumble struggle for money and power. But when we know that these two lines I have quoted from Smith follow one another in the same sentence his meaning is unmistakable. He is advocating a society based on equality, liberty and justice.

Once you have a society whose rules are designed to offer equal justice for all persons, then everyone is free to pursue his personal goals. This is the free society of classical

liberalism, and the free economy—or capitalism—is the only way a free people can conduct their economic affairs.

### Spiritual Foundation

Classical liberalism presupposes a religious philosophy which regards man as a created being who bears a unique relation to God, being formed in His image—meaning that man possesses free will and the ability to initiate and command his own actions. This free being is under the moral law laid down in the original constitution of things, responsible for discovering this law and obeying it. He is given dominion over the earth. He is commanded to work in order that he might eat; he is the steward of the earth's scarce resources and held accountable for their economic use.

Classical liberalism, in other words, is the secular projection of Christian philosophy. The American Dream, as Jacques Maritain put it, kept "alive, in human history, a fraternal recognition of the dignity of man—in other words, the terrestrial hope of man (expressed) in the Gospel." The thing called "liberalism" today, bears no resemblance whatsoever to classical liberalism; it has nothing in common with the Whiggism of Adam Smith or the liberalism of Ludwig von Mises.

Mises wrote a book entitled *Liberalism*, describing liberalism as

"a doctrine directed entirely towards the conduct of men in this world . . . it has nothing else in view than the advancement of their outward, material welfare and does not concern itself directly with their inner, spiritual and metaphysical needs."

### **A Deeper Meaning**

Now, some critics of classical liberalism have judged it to be crass, too neglectful of man's higher nature. Not so, says Mises: "The critics who speak in this vein show only that they have a very imperfect and materialistic conception of these higher and nobler needs. Social policy with the means that are at its disposal, can make men rich or poor, but it can never succeed in making them happy or in satisfying their inmost yearnings. . . . All that social policy can do is . . . further a system that feeds the hungry, clothes the naked, and houses the homeless. Happiness and contentment do not depend on food, clothing and shelter, but, above all, on what a man cherishes within himself. It is not from disdain of spiritual goods that liberalism concerns itself exclusively with man's material well-being, but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation."

Mises further describes some of the central principles of classical liberalism as individual liberty,

equal treatment under the law, and the elimination of class privileges; private property, the free market, free trade, and the peaceful cooperation of all mankind. Most Americans still respond positively to these ideals because they are part of our heritage inscribed in our basic documents, celebrated on patriotic holidays.

Man has an innate urge to live better, including the drive to improve his material circumstances and enjoy more prosperity. To this end he has always engaged in some degree of specialization, and he's traded and bartered things he wants less for whatever it is he wants more. These voluntary exchanges are market transactions.

### **The Cultural Framework**

The market has always existed; voluntary exchanges occur among primitive peoples, and there is a brisk under-the-counter market in communist nations like Russia and China. But mere wishes do not transform the market into the market economy. The market economy emerges only when the cultural conditions prepare the ground for it, as was the situation in certain western nations in the eighteenth century.

When a nation's cultural framework includes such spiritual ingredients as the rule of law, equal liberty, security for property, a high

level of morality, and that respect for rationality which makes science and technology possible, then the impulses and incentives which everywhere produce the market will give rise to capitalism, or the market economy—which is the market institutionalized.

“The reformers of the oriental peoples want to secure for their fellow citizens the material well-being that the Western nations enjoy,” writes Mises, “. . . they think that all that is needed . . . is the introduction of European and Western technology.” What they really need, Mises continues, is “the social order which in addition to other achievements has generated this technological knowledge. . . . The East is foreign to the Western spirit that has created capitalism.”

How can a society whose worldview includes such doctrines as Maya, karma and caste produce the social structure upon which the market economy is based? Accept the idea of Maya and you exclude the idea of a rationally structured, cause and effect universe. The doctrine of karma makes it virtually impossible for individuals to have the necessary self-responsibility and will to succeed which are essentials for a going-concern economy. And caste divisions in a society are incompatible with the idea of inherent rights and equality before the law. Capitalism is rooted in the cultural

heritage of the West, Christendom, and you can't have the fruits without the roots; you cannot merely *wish* an end result—to will the end is to will the means.

### **A Creative Intelligence**

The pivot on which Western culture has turned is the conviction that a Creative Intelligence is working out its purposes through nature, history and persons; and that every individual enjoys a unique relationship with this Power. Because he is a created being, there is a sacred essence in man, which, in the fullness of time was understood as conferring certain rights and immunities in the political sphere.

By the eighteenth century, our philosophical forebears regarded as self-evident the truth that all men are created equal, possessing certain rights endowed by the Creator. Government was to be structured around the sovereign person so as to secure his rights and protect his private domain. Americans organized themselves politically around a spiritual framework which, paradoxically, regarded politics as relatively unimportant. The law was to protect life, liberty and property, so that men and women could better attend to the more important things in life—such as religion, art, education, science, sociability and play.

The philosopher-king idea had

prevailed in most ages: Find the wisest and best men and then give them power over the nation so as to magnify their capacity to do good. The American notion was just the opposite. Americans had had some experience of the corrupting influence of power, and they were aware of the depravity of human nature—that man is a fallen creature. So the brand new political idea adumbrated on these shores was to limit political power so drastically that even if evil men do seize power they can't do much harm. I'd phrase their insight this way: Never advocate any more power for your best friends than you would want to have wielded by your worst enemies.

### **The Political and Economic Aspects of Freedom**

Two centuries ago things came to a head, in two great social achievements. In the Declaration of Independence and Constitution we had the political philosophy and the legal structures for a society of free people. The economic counterpart of our unique politics was the free economy, which promised a society of prosperous people.

But at this very period, Western civilization was to undergo a process of radical secularization which virtually destroyed the ideas of human nature and destiny which undergirded our freedom and prosperity. The human person underwent a rad-

ical devaluation; once regarded as the lord of creation he came to be looked upon as the accidental end product of natural and social forces—"little more than a chance deposit on the surface of the world, carelessly thrown up between two ice ages by the same forces that rust iron and ripen corn."

Gone was the idea of a moral law for man's guidance and fulfillment; gone was the idea of free will: a man's character was not made by him, but *for* him. Man was the mere creature of circumstance, deprived of initiative, he could not act, he could only react.

An English critic named Christopher Booker, writing on Samuel Johnson, makes reference to this enormous transformation in the human outlook. "On the eve of the French Revolution and the age of Romanticism, European civilization stood on the verge of one of the most astonishing and fundamental shifts in collective consciousness in history—the keynote of which was to be an almost exact reversal of every truth about human nature and experience which Johnson had fought through to with such remorseless honesty and pain . . . it was proclaimed that human happiness *could* be achieved by political means, that the causes of most human ills did not lie within us, but outside us. If there was one belief which was to characterize western

civilization with ever increasing force from the time Johnson passed away, it was that most human suffering is caused by external factors. In Marx, in Freud, in almost every philosopher and thinker who has shaped western attitudes over the past two hundred years (with one or two towering exceptions, such as Dostoevsky), we find this same overpowering drive to offload the blame for all our guilt, our pain, onto others, onto society, onto our parents, onto political structures, onto our material circumstances." (*The American Spectator*, October, 1978.)

### The Consequences of Error

The religious and philosophical errors of the eighteenth and nineteenth centuries produced the social and personal disasters of the twentieth century—faulty thinking and fallacious ideas have come to violent issue in the wars of our time. We tried, and we erred; but we can learn from our mistakes. Try a new direction, and we may succeed. Indeed, we are succeeding as more and more thoughtful people examine the philosophy of freedom in its several

dimensions and deeper levels. And as they search, more and more people are encountering the towering figure of Ludwig von Mises. Here was a man of unwavering integrity, a man who lived the truths he taught.

It is impossible to summarize the philosophy of Ludwig von Mises, but I shall close with what might be construed as a personal testimony by Mises himself, which does sum up the character of the man. It is a paragraph from his little book *Bureaucracy*.

"Mankind would never have reached the present state of civilization without heroism and self-sacrifice on the part of an elite. Every step forward on the way toward an improvement of moral conditions has been an achievement of men who were ready to sacrifice their own well-being, their health, and their lives for the sake of a cause that they considered just and beneficial. They did what they considered their duty without bothering whether they themselves would not be victimized. These people did not work for the sake of reward, they served their cause unto death." ☉

#### Books by Mises

Of the numerous volumes written by and about this outstanding economist, a dozen or more are stocked for resale by: The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

Ask for "A Literature of Freedom" catalogue and order form.

# THE SQUEEZE

JAMES DALE DAVIDSON, the chairman of the National Taxpayers Union, is a forceful man of action, as those who have watched his efforts in behalf of a constitutional convention to balance the budget are well aware. He is also a true man of letters. His *The Squeeze* (Summit Books, 1230 Avenue of the Americas, New York, N.Y. 10020, 281 pp., \$11.95) is both a trenchant and witty analysis of what happens when the money system of a great country goes sour and an item-by-item prescription for dealing with ills that are most uncomfortably close to reaching a point of no return.

We are, says Mr. Davidson, victimized by nine separate squeezes (he lists them as money, taxes, quality, underemployment, health-care, housing, legal, bureaucratic and energy), though it is obvious that all of them derive from the central fallacy that money is something that

should be under the control of politicians. Since Mr. Davidson's concern here is not with international politics, he does not mention the biggest squeeze of all, which is the one exerted by the Russian bear hug. That, however, is the unspoken part of his picture; if we don't do something about the nine domestic squeezes, our general debility will be such that the bear hug will get us with only a perfunctory effort on the part of the bear.

Mr. Davidson's theory is that most of our woes derive from a system that allows the government an extreme latitude in monetizing its debt. This results in an ever-accelerating emission of paper which represents no production. What happens is that Say's Law—the law that says production creates its own purchasing power in the form of wages, payments for raw materials, dividends and interest—is sabotaged. The money created by