

# A critique of equality in the light of the Austrian theory

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I am grateful for helpful comments from Mr. Martti Vihanto

## 1 INTRODUCTION

Equality has undoubtedly been one of the most central political ideals in the 20th century. Political parties which have tried consistently to promote equality have succeeded almost without exception in the contest of ideologies. In social research the promotion of equality has been a legitimate objective. For ordinary citizens equality has been one main criterion in interpreting their social being and position and making demands for improvement of them. Societies whose activities are based on free markets and private ownership of production have inherently been held as creating and maintaining inequality. It is by no means an exaggeration to say that there has been a strong tendency to analyse contemporary societies from the point of view of deficiencies in equality.

To many the concept of equality is unambiguous, moral and absolute. It is held as unambiguous because differences between people in income, wealth and consumption are statistically well documented. It involves morality because glaring inequality is in conflict with good living and because it threatens peace in society. It is absolute because only through sufficient realisation of equality is it possible to attain other social objectives such as freedom and happiness (see Hattersley 1987).

The sincerity of supporters of equality has hardly been doubted and the effectiveness of their suggestions has seldom been questioned. Those who speak for equality receive affirmative publicity, support and encouragement. Correspondingly it is permissible to call anyone critical of equality idiot (Hattersley 1987:136). However, is the concept of equality after all as clear and unambiguous as its supporters seem to believe? Are recommendations for further equality as useful as they argue? What does equality really mean?

In this article I shall try to analyse critically how dominant conceptions of equality can be interpreted by the Austrian theory. Especially I shall concentrate on the kind of social consequences the policies based on prevailing thought of equality will produce from the point of view of the Austrian theory. The Austrian theory has been chosen as an alternative because it differs radically from dominant theories of equality.

## 2 THE MAIN TENETS OF THE AUSTRIAN THEORY

Equality has its adherents. In social science Keynesians and Marxians and welfare theorists have convincingly emphasised the concept of equality as a main strategy in the renewal of society. In practice representatives of public government, parties and unions have made a strong case for their activities as promoters of equality. It is no wonder that the Austrian theory is not well known in social science and is rejected in practical policy-making.

The Austrian theory is nevertheless at this moment one of the sources from which consistent critique against prevailing conceptions of equality can be drawn. It is, for two reasons, difficult to depict concisely but satisfactorily the Austrian theory. Firstly many of its basic concepts are controversial and polluted by everyday politics. Secondly this theory offers no solutions to social problems as easily as dominant theories which have specialised in manipulating statistical models with aggregate variables. Consequently one must derive solutions deductively from true a prior assumptions in the Austrian theory.

One of the basic concepts in the Austrian theory is the acting human being who must continuously make choices in order to attain

his goals (Mises 1978 and Hayek 1948). Only individuals can value and choose. The State, social class and organisation as aggregate concepts are not acting subjects. Therefore human action cannot be explained by appealing to aggregate concepts or by referring it to them without distorting the reality. However, it is wrong to say that individuals are seen as atomic and nominal in the Austrian theory, as is often claimed: basically it is a theory of relationships between individuals and society (Hayek 1948:5—7).

Society in the Austrian theory is not a hierarchical system of goals and means, a machine which could be directed and regulated at will. Society is an organic entity which develops spontaneously. Hayek says that society is not the result of purposeful design but of human action which produces unintended but beneficial consequences for citizens and society at large. In his book "The Fatal Conceit" Hayek (1988) makes a strong case for this by analysing markets, freedom, trade, property and morality as spontaneously developing.

The State, according to the Austrian theory, is an organisation which has a legitimate right to use compulsion in order to maintain law and order as well as to minimise coercion in social relations. The State which takes care of its necessary functions will prove useful to society at large (Mises 1985:35). In this case it is difficult for anyone to exploit the State for his own purposes. It may be possible for the State to assume new functions, but in order to do this, Mises recommends, we must be able to distinguish the expectations of reformers from their likely consequences and define the objectives which we must give up if we want to realise their goals.

The Austrian theory does not accept what is a rather common conception in neoclassical economics, namely that State intervention will automatically correct shortcomings in the market even when motivated by expediency. In the Austrian thinking the State is not a neutral agent which is able to protect people and solve their problems so that everyone will be treated equally. This is so because there is no way of collecting the unique knowledge which is the experience of individuals themselves and concentrating it for decision-makers in the State to solve societal problems rationally and comprehensively.

Freedom in the Austrian thinking is by nature negative, not positive. Individuals should be as

free as possible to seek new information and experiment with it as long as they do not use coercion on other people. People should be able to set their own goals and select their own methods in order to attain what they most value. Only freely acting individuals can benefit their fellow-citizens and society. Austrians have developed into a hard scientific principle an insight that individuals are the source of improvement of the society. This is so because there are as many possible independent centres of improvement as there are free individuals.

### 3 DOMINANT CONCEPTIONS OF EQUALITY

It is possible to distinguish at least four different conceptions or theories of equality. In public discussion, however, it is rather common to use equality in an undefined way which makes it difficult for participants to reach a shared understanding on equality. Sometimes the word is used in a very wide sense covering nearly every aspect of social life. Sometimes it is defined sharply. It is also important to see that proponents of equality have not adequately analysed the consequences of the policies they have recommended. Possibly for this reason wrong choices have been made and it is not seen that they produce more problems than they are able to solve.

The four distinct conceptions of equality discernible in approaches to the problem are ontological equality, equality of opportunities, equality of outcomes and equality before the law. Promotion of each of these will presume different public policies. In this article every conception is first defined according to its supporters, the designing of public policy to promote it being especially emphasised. Secondly each is analysed according to the logic of the Austrian theory to find its strengths and weaknesses.

### 4 ONTOLOGICAL EQUALITY

Ontological equality means that people are basically the same: a man is born a man and he lives as a man among his kind. The roots of ontological equality go back as far as medieval religion and philosophies underscoring the essential equality of human beings qua human beings (Turner 1986:34). Although secularisation and modern relativistic viewpoints on man

and his position in society have considerably weakened the grounds of ontological equality, it has not lost all significance in the passage of time. According to Turner especially philosophical Marxists still seem to be inclined to lean on ontological equality.

Because human beings are ontologically equal, they should also be treated equally. It is legitimate for the State to correct every deviation in this respect. There is no need to put forward further arguments on the case.

The Austrian theory is very critical of ontological equality. It sees the basic deficiency in the conception in that there is no theory which would satisfyingly specify man's necessary characteristics and guide public policy to pay attention to them. Hayek (1948) says that it is not possible to recognise any such characteristic or feature which would be common to all people and according to which equality between people should be assessed. In his "Socialism" Ludwig von Mises sharply denies the possibility of devising scientifically sound arguments for ontological equality. The fact is that people will be born different in their characteristics and talents (Mises 1981:65).

However, people will not only be born different, they can also acquire skills and characteristics which make them different from each other. This they will do, say Hayek and Mises, by participating in discovery and competitive processes in a market where the multiplicity and variety of skills and characteristics will exceed their comprehension. According to them the more different people become, the more they can benefit their fellow-citizens and society without purposefully meaning to. People who are and will become different will create things to an extent which no man or group of men will ever be able to exceed (Hayek 1948:7).

Ontological equality is not only an empty promise, it may also prove very dangerous to society if accepted as a guiding principle of social policy. In a society which prefers ontological equality someone must decide what are or should be the acceptable and desirable characteristics of men. This will lead to a public policy which seriously hinders possibilities for people to develop differently, because differences between them are not valued. It will also lead to demands to centralise social power to make social policy more efficient and subject people to it.

In ontological society it is necessary to give public authorities the right to decide what kind

of characteristics and skills are deemed acceptable and within which they are permitted to vary. To Hayek ontological equality will gradually produce totally opposite results compared with the original goals of its supporters. He writes (1948:15—16):

Here I may perhaps mention that only because men are in fact unequal can we treat them equally. If all men were completely equal in their gift and inclinations we should have to treat them differently in order to achieve any sort of social organisation.

## 5 EQUALITY OF POSSIBILITIES

It is generally thought that people who are poor, lack sufficient education and live in economic insecurity, lose their possibilities to develop themselves according to their true gifts and inclinations. Equality of possibilities is then a necessary condition for the creation of a good society for people to live in (Hattersley 1987:129 and Moscovitch 1981:82). Supporters of equality of opportunities are inclined to think that the inherent deficiencies of the capitalist system account for shortcomings in equality of possibilities. Hattersley asserts that enthusiasts for free markets should indeed be very careful in choosing their words when the economy they want to defend allows people to die because for instance they cannot afford health services.

Speakers for equality of opportunity pay especial attention to three intertwined grave problems of contemporary societies; poverty, economic insecurity and lack of necessary resources. To solve these problems they have recommended that the State be given a right to intervene in social affairs, for instance by manipulating gross demand, in order to secure employment, enforce minimum laws and provide public services (Lutz-Lux 1979:183, Hattersley 1987:36 and Peled 1985:285).

### Poverty

Poverty, say the supporters of equality of opportunity, is an unavoidable consequence of the free markets (Lutz-Lux 1979:178—179). However, according to the Austrian theory this assertion is in total contradiction to the economic facts of history. There were already immense poverty and brutal exploitation before industrialisation and laissez-faire capitalism. Before

capitalism agriculture was for most men the main source of livelihood. People who found no work in agriculture could find none anywhere else. They were automatically doomed to poverty. Even those who had work had to live in want and anxiety about tomorrow's bread. The mean age of populations was at that time exceptionally low if compared with modern times.

In their small but outstanding book "Capitalism and Historians" Hayek, Ashton, Hacker, Hutt and de Jouvenel (1954) demonstrate how laissez-faire capitalism indubitably benefited the deprived majority of the community from its very beginning. They stress forcibly that, contrary to dominant opinion, political parties, unions and the State cannot account for the general raising of the standard of living from 1800 on. However, they urge to search for constraints of welfare among these social forces, not among the spontaneous processes of capitalist societies.

The Austrians have indeed dashed many myths of the proponents of equality of opportunities in the context of poverty. In the book "The Long Debate on Poverty", edited by R. M. Hartwell (1972), it is shown that in England between 1700—1780 the per capita national product increased by 50 per cent, between 1780—1850 it rose 50—100 per cent and between 1850—1914 it rose 80—100 per cent. These figures hardly support the general theory of pauperisation of the working class. It must be realised that at that time social problems such as poor housing and overcrowding in towns were not evidence of a rejection of moral responsibility on the part of the new industrial class but the results of natural forces of immigration, internal population movement and bad fiscal policy (Hacker 1954:68).

Despite historical evidence, proponents of equality of opportunity have recommended that the State should take care of those unable to support themselves. They thereby imply that market processes cannot be trusted as a principal vehicle to solve problems of poverty. However, writes Mises, there is no system, political or economic, which could prevent people from being born deficient or from losing their ability to earn their own living. According to him these are misfortunes of nature, not of capitalism. Mises holds that there is no capitalist society which would be willing to solve problems of poverty by the methods of primitive peoples. However, he says, a desire to take care of the poor cannot be interpreted as an expression of

opinion on what kind of measures should be taken to help them. Wrong steps, writes Mises, do not advance the ultimate interests of the poor, but in all likelihood will hurt more than help them.

According to the Austrian theory the State is unable, with all its powers, to undertake intervention and regulate social affairs in such a way as to solve problems of poverty. It is possible to find a solution to it in the logic of unhampered free markets; savings, accumulation of capital and investments (Mises 1966:844). New jobs, raising incomes and increased productivity depend on these so frail processes. In order to accumulate capital and make investments possible, people must save and to save they must give up current consumption for the future. Even a dedicated supporter of the welfare state will consent to call these undisputed results of free markets economic progress (Mises 1966:844).

Public policies designed to counter problems of poverty will not prove as effective as institutions and spontaneous processes of unhampered markets. According to Mises, public policies are generally inclined to favour immediate consumption and will therefore weaken people's will to save. For instance, progressive taxation of big incomes, as is well known, will not promote the accumulation of capital, but will slow down investments on the part of entrepreneurs. If State interventions to alleviate poverty is prolonged, the economy will gradually lose its possibilities for growth and development and will turn into deep recession and progressive poverty (Mises 1966:845).

According to the Austrian theory, if capitalism is allowed to develop and function freely, the proportion of the poor will gradually shrink and a greater part of those who for various reasons are unable to work will be rehabilitated and enabled support themselves. People who are becoming wealthy are more eager than before to donate money to charity with which possibilities for living can be secured to those who are unable to take care of themselves. Precisely here is the most inherent, but also undervalued logic of capitalism. Capitalism will replace public resources with private resources (Mises 1966:837). Capitalism is not heartless and indifferent to the problems of the real have-nots of society as is generally asserted.

The Austrian approach will trust more to private charity than to the good intentions of public authorities. One commonly hears allegations

that private resources will not be sufficient with respect to the needs and the number of the poor. On the contrary, asserts Mises, resources of private charity will prove quite sufficient if credit expansion and inflation caused by an excessive supply of money does not limit people's will to save and if public intervention does not weaken those natural incentives which guide people to seek protection against old age, sickness, accidents etc.. According to Mises the first social security system in Germany proved clearly and beyond doubt the shortcomings and problems which were brought about for society by destroying those incentives.

Charity, writes Mises, is also criticised in that those who seek help must lean on the charity of others. It follows from this that the former must feel indebted to the latter. This kind of critique, says Mises, is justified because it is humiliating for a self-respecting individual to receive alms from his fellow-citizens in order to live. However, Mises goes on, it is impossible to accuse capitalism of unfeelingness towards the poor and the deprived because it is natural for people living in prosperity to help their fellow-men in need. Besides, it must be remembered that the State cannot correct or wipe out poverty, it can only aggravate it.

However, the fact that the State through its officials may also humiliate and make arbitrary decisions, cannot be overlooked. It is also well known that the resources of the State are seldom if ever sufficient to do what is generally thought necessary for the poor. Milton Friedman goes straight to the point when he says that public money will not really solve anything. If the State increases its own budget it will correspondingly diminish the resources of private charity organisations (Friedman 1982:190—191):

Opponents of capitalism very often point to the enormous poverty and shortcomings of the third world. They demand the same opportunities for citizens of the third world as citizens of the industrial nations are able to enjoy. Their demand is legitimate, but their recipe — using public money without revitalising capitalism — is wrong. An allegation that third world people are poor because the industrialised nations are rich is also wrong. Mises says that one basic reason for the poverty of the third world is not capitalism but the near absence of capitalism. Hernando de Soto proves in his empirical study how right Mises is (de Soto 1989).

Proponents of equality of opportunity will claim that laws to enforce minimum wages will ease and fight poverty. In their opinion minimum wage laws and full employment policy on the part of the State will be effective in solving the problems of poverty (Lutz-Lux 1979:188 and Hattersley 1987:247). Minimum wage laws will make it compulsory for firms to pay a certain salary to their workers. Minimum wages, it is argued, will protect the interests of the poorest and weakest. But it must be said that the real problem is not the size of the pay-packet.

Entrepreneurs will obviously transfer the costs of minimum wages to the prices of their goods and some buyers will not be willing to pay; they will move to cheaper goods or refrain from consumption. Minimum wages will force employers to pay certain salaries without account being taken of their contribution to productivity. However, minimum wage laws will not force employers to hire people whom they must pay for non-productivity. For these two natural reasons minimum wage schemes will automatically create unemployment — hardly the original goal of the supporters of equality of opportunity. It must also be noted that minimum wage laws will also create unemployment by giving employers an incentive to increase their total productivity for instance by substituting technological innovations for human work.

Minimum wage laws are designed to protect the interests of workers who have no special skills or education and who therefore face difficulties in working efficiently. However, when minimum wage laws are enacted, these people are the first to suffer; they lose their jobs. They find themselves at the mercy of public authorities who have not enough resources to support them. Proponents of minimum wage schemes will often say that it is useless to have jobs that cannot pay well, and unfortunately there are too many who believe them. It must be realised that the proponents for such laws cannot bring about jobs for those who are fired or who will not find new work. Only a free market can provide work for people with different skills and a willingness to contribute to productivity.

### **Social insecurity**

The supporters of equality of opportunity are quick to point out that one of the most distinctive and unbearable features of a free market

economy is social insecurity. People suddenly lose their jobs, incomes and all means of decent living. It is often argued that people in general are helpless in face of the massive and blind forces of the free market. For these reasons they demand that the State should be able to secure people a certain basic security especially against unemployment, but also old age and sickness (Lutz-Lux 1979:209, Flora 1985:17 and Johansen-Kolberg 1985:143—144).

According to Ludwig von Mises, those who appeal to social insecurity as a characteristic feature of the market are indeed right, but their counter-recommendations are wrong. Change, says Mises, is a real feature of the free market. Mises is strong in his opinion. No groups should be privileged with certain incomes, positions or occupations in the free market. In an unhampered market the greed of the very few does not explain change, as is often believed. On the contrary, Mises asserts, the customer's desire to obtain as cheaply as possibly the various goods they need and deem necessary to their well-being exclusively explains change in the free market. Therefore for instance, insecurity of farmers in the market will simply depend on the consumer's desire to buy cheap rather than expensive goods and his occasional readiness to give up old goods in order to experiment with new ones.

According to Mises, people who agitate against social insecurity reflect more probably the experiences of medieval people than the conditions and situations of modern society. It is natural, Mises goes on, for workers to attempt to secure their jobs, farmers their incomes and entrepreneurs their market shares. They will all readily call upon their experiences in order to accentuate that their positions in the market should not be weakened or undermined by inherent changes in the market. It seems ironic but true, says Mises, that expectations and hopes will come true only in a totally stagnated society.

In order to combat economic insecurity it is demanded that the State should support firms and sectors of production in serious trouble to avoid massive lay-offs and unemployment. There are two grave economic consequences in this policy. Firstly, it will prevent resources from moving from old and unprofitable use to new spheres where demand is growing and profits are bigger. Secondly, citizens are forced through taxation to maintain production of goods which they would be able to buy cheap-

er somewhere else or which they would no longer need at all. This will seriously restrict spontaneous development of society and rob society of its possibilities to create new jobs.

The State is urged, through legislation, to insure people in their different needs like old age, accident, unemployment, and support families with children or take care of children who have lost their parents or supporters (Lutz-Lux 1979:209—213). It is legitimate for the State to protect the interests of children, but in other respects the State should encourage private providers to compete with their services to further the security interests of citizens. If the State alone must be trusted, it is as well to bear in mind that it has not as strong incentive as competing firms to develop its services continuously. Legislation can further preparedness against different kinds of insecurity, but not in being given a monopoly in this (Hayek 1960: 298).

The Austrian theory draws attention to a crucial role which change involving insecurity and uncertainty has in the unhampered market. Inherent insecurity and uncertainty of the market will advance economic growth and development by forcing entrepreneurs and workers constantly to seek new possibilities, new ways of achieving efficiency, new ideas to meet the needs of customers. If these functions, so important to economic progress, are ignored, it will give vested interests an impetus to consolidate their positions.

Proponents of equality of opportunity readily appeal to dramatic and traumatic experiences of the Great Depression in the 30's in order to gain approval of their demands. In this context Milton Friedman is as clear as Mises. Against common understanding, says Friedman, the Great Depression was not the outcome of market failure, but of decision-making on the part of public financial authorities. He writes (Friedman 1982:38):

The fact is that the Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy.

It is useful to remember that Ludwig von Mises predicted as early as 1924 the coming crash of the Austrian bank Credit Anstalt in 1931 (Skousen 1991:104). Friedrich A. Hayek forecast already in 1929 that the American boom would collapse within months because of the Federal Reserve, leading to a great crash

in the economy (Skousen 1991:104). There were also other warnings of the inevitable collapse, Skousen points out, but they were not heeded nor remembered afterwards, which gravely distorts economic history and undermines the teachings of the Austrians. Skousen ends his analysis of economic depressions with the following words (Skousen 1991:108):

The point is this: If government leaders had not acted so ineptly in regard to monetary and banking policy, the depression would never have occurred and the economy would not have stagnated. The Keynesian analysis of the depression is wrongheaded. The free market does not run the economy off its tracks unless it is pushed or unless the tracks are misplaced.

### Resources of equality

It is stressed that the State has to be able to provide its citizens with sufficient resources as a necessary condition of equality of opportunity. Especially education and health are upheld as examples of necessary resources. Proponents of equality of possibilities are of the firm opinion that when the government educates all children, differences between the educated and uneducated populations will shrink and may disappear altogether and then education as a privilege of the few will turn out to be a possibility for everyone (Mises 1990:195). This thinking has led to a heated debate on whether public government should be given an authoritative right to provide certain services. For this reason for instance elementary education is in many countries provided exclusively by the government.

Necessary resources are generally called basic public services. By this it is implied that production of them will require different attitudes, methods, decisions, operations and organisations from those involved with other goods. However, according to the Austrian theory, basic public services can and must be analysed from the point of view of the same framework — demand, supply etc. — as any other services, be they cultural or recreational by nature. This does not rule out the possibility that services have problems of their own which must be understood, but these do not entitle to detach these services from the general framework.

It is argued that public authorities must provide basic social services because private provision cannot satisfy their demand. It is natural for some people to lament that services they very much value are not produced in the quan-

ties they would hope for. According to the Austrian theory, demand should determine supply. If there is no demand there is no parallel supply. There may be supply but it will not succeed in inducing a parallel demand. To create supply or maintain it at a certain level the State must tax some other production. Skousen writes that a government sponsoring a service in this respect must go beyond what individuals would voluntarily desire and will inevitably deprive them of other activities they would personally deem more important (Skousen 1991: 147). The basic meaning of the discovery process in the free market is to let entrepreneurs seek unfilled needs and better ways of satisfying known needs (Kirzner 1985 and Lachman 1986).

It is often pointed out that government must supply the necessary resources for citizens because private provision is as expensive or even more so than the corresponding public one. Here it must be remembered that public authorities usually regulate private provision of necessary resources. Private providers must follow certain instructions and fulfil the same criteria as public ones. For instance children must spend as many years in private schools as in public ones. Private providers must hire the same kind of personnel as public ones. These factors go far to account for the operations and costs of private providers. For these reasons it is no wonder that differences in these respects between public and private providers are usually minor ones. The problem is not a market failure, as is often implied, but public regulation which does not incite providers of necessary resources to innovate in order to lower costs and compete with prices.

One powerful argument against Austrian thinking and for public provision is that the poorest of the population cannot afford basic social services when they need them. The argument seems concrete and logical but fails under critical examination. First, when a need for a service is recognised and its provision is entrusted exclusively to the government, it is important to realise that the government cannot provide this service immediately to all. It must plan the needed operation in advance, hire and train personnel, construct buildings and order equipment. The government is forced to adopt a step-by-step approach. While it is bringing a service to the poor in some regions the poor of other regions are suffering because

they must wait and because a corresponding private service is denied to them.

Second, the Austrian theory warns not to accept the presupposition that it is possible for a government to provide a service without a price or at a lowered price. Ludwig von Mises argues strongly that public provision, if rendered gratuitously or below real production costs, will lead to a situation where demand will grow faster than the ability of the government to fulfil it. If the government is the sole provider it must try to serve all. This often forces public authorities to make hard choices to regulate whose needs are met and whose are not. Here the crucial question is who will succeed in securing these services. Research on the distributional impact of public services will show beyond doubt that it is not the poor who will benefit more from them, but people who could afford to buy the services they need on the market (Goodin-LeGrand 1987).

However, it would be wrong to interpret the Austrian theory as denying totally public provision of necessary resources. There are differences of opinion, but for instance Hayek thinks it is acceptable for a government to produce services important to the well-being of people living in communities where private producers for certain reasons — number of children, costs, etc. — are unwilling or unable to provide them. However, he warns not to understand this to mean that it would automatically lead to the public alternative. Hayek asserts that it would be useful for governments to assume a role in which they could encourage private provision of necessary resources.

As for the public policy of providing necessary resources, especially two likely consequences must be noted; standardisation and centralisation of political power. Because every citizen must be treated equally they must be offered the same kind of service with only minimal variation. However, people's needs are bound to change and it is not uncommon for them to seek different solutions to the same needs. If a government is unable to differentiate its services according to changing problems and needs it will detract from future services or resources citizens might like and need more than those offered. In order to provide standardised services political power must be centralised in the State apparatus. The more social power is centralised the more possibilities there are for the State to manipulate and control people's conduct and choices. Hayek

writes (1960:380):

In fact, the more highly one rates that education can have over men's minds, the more convinced one should be of danger of placing this power in the hands of any single authority.

It is also said that if there is no government control in the field of necessary resources the best jobs, for instance, will be reserved only for children whose parents are wealthy enough to educate them in expensive institutions. In asserting this it is easy to forget that the real problem which a government must face is to fight all kinds of privileges (Mises 1966:748—749). It is representatives of public professions who are often loudest in demanding governmental intervention to further equality in society. If the government responds it is at the same time lured to support the privileges of profession. It is easy to see how well professions producing necessary or not-so-necessary resources have succeeded in attaining their goals. This is not, it must be said, thinking against useful professions but against how they further their interests with the help of the government.

Supporters of necessary resources will present their case as objective and impartial. They argue with statistics and research results produced by sciences concentrating on education, health and social services. These services, whose reality consists of public organisations, their personnel, finance and policies, try to dispel the inherent subjectivity stressed by the Austrian theory and replace it with objectivism. Following the logic of Hayek it is possible to say that only a few of the problems associated with necessary resources are scientific in the sense that they could be decided by objective criteria. And Mises asserts that it is impossible to forge an overall social welfare function for the whole of society out of the preferences of the millions of individuals making up society.

## 5 EQUALITY OF OUTCOMES

Where supporters of equality of opportunity seek to promote conditions of success for citizens, supporters of equality of outcomes turn their attention to how equally incomes and wealth are distributed among them. They are of the firm opinion that big differences in distribution of incomes and wealth are unbearable and therefore they must be levelled by government measures (Drover 1981:199, Hattersley 1987:135, Lutz-Lux 1979:167 and Turner 1986:36). The State can level outcomes by



progressive taxation, a method which is called redistribution.

According to Hattersley equality of outcomes is useful because it will help citizens in their pursuit of freedom and happiness and widen their choices in the market. It is based, he writes, on the theory of diminishing marginal utility according to which redistribution of incomes and wealth will clearly increase the utility of the less-well-paid without decreasing conspicuously that of the well-paid. Redistribution will of course increase consumption of alcohol and tobacco, but in the end, Hattersley believes, it will open new possibilities of material, aesthetic, and even spiritual consumption for those who cannot otherwise afford them.

According to the Austrian theory, redistribution policy will give rise to problems worse than inequality of outcomes. Mises points out that redistribution is possible only by sacrificing other objectives. Supporters of redistribution imagine, he writes, that the level of overall incomes in society is constant and all that is required is to redistribute it more evenly than before. In other words they suppose that the level of average incomes will stay unchanged in spite of redistribution. However, this is not the case (Mises 1981:384):

It has been shown that in whatever way one envisages the equalisation of incomes this must always and necessarily lead to a very considerable reduction of the total national income and, thus, also of the average income. On this showing, the matter takes on quite a different complexion. For we have then to decide whether we are in favour of an equal distribution of income at a lower average income, or inequality of incomes at a higher average income.

The Austrian theory also denies the assumption whereby some are poor because some are rich. For Mises all societies where incomes and wealth are distributed vigorously are poor. Unequal distribution of incomes and wealth is a natural character of the market economy. The policy of redistribution will unavoidably weaken the very foundation of free society. It will not bring about the benefits hoped for by proponents of the policy (Murray 1991:41):

This unintended outcome of egalitarianism seems to apply even under conditions of affluence. Reports from the most-successful egalitarian states — Sweden, for example — indicate that they are not becoming more compassionate or more harmonious as egalitarianism advances; envy, suspicion, and rudeness are not diminishing but increasing. . . . The heart of the matter is that human relationships inevitably de-

teriorate in every country that seeks egalitarianism because in reality people are not equal.

Who is in a better position to witness the consequences of redistributive policy than Kjell-Olof Feldt, former Secretary of Finance in Sweden for many years. He writes ironically (Feldt 1991:189):

From the point of view of equality the 1970's was a remarkable success. Profits fell, property of corporations shrank. But it was not only capitalists who became poor — the whole population lost their standard of living when economic growth stopped.

According to Mises the great function of inequality of outcomes is to induce and motivate people voluntarily to improve their positions. Inequality of incomes and wealth has always induced people to move from unprofitable and unproductive sectors of production to new more profitable and productive ones. In this is the basic economic logic of inequality for Mises and there is no way any government could substitute it. In reality, Mises argues, people have always sought new livelihood and better salaries this way and so they will still do if redistributive policies did not hinder them.

According to the Austrian theory, speakers for redistributive policies do not want to pay attention to the way economic rewards are determined in the market economy. For Mises earnings will be determined by the continuous choices people make voluntarily on the market. Wages of employees will depend on people's willingness to buy the goods they have produced. Employees with their employers who produce goods which no one wants or few are willing to buy will lose their incomes. Employees who work efficiently and produce goods which many want to buy, can steadily increase their salaries.

There is no way of circumventing these frail processes and any attempt to do so will hurt the interests of participants involved. Finland for instance has for many a year followed a policy the purpose of which has been to level salaries between workers with high incomes and low incomes. The comprehensive wage policy backed by the government has forced workers to give up salaries they would be entitled to in profitable and productive sectors of production. Correspondingly some employers have been forced to pay salaries above the market level. For workers in this camp this means immediate benefits, but inevitable losses in the long

run, because their firms cannot control costs and remain competitive.

It is curious, Mises points out, how eagerly people believe in the fiction that there is a social will which is able to determine objectively salaries for all people or that there is a certain level of salaries to which it is legitimate for all to reach. Perhaps, he surmises, this is an additional proof of the primitive thinking of human beings. In an unhampered market incomes and wealth cannot be deemed unequal on any commonly accepted criteria and it is impossible for legislators of social policy to seek the same more or less generally acceptable level of earnings. It is also impossible for any science to prove beyond doubt that such a level exists. Determining such a level will inevitably be based on arbitrary contemplation.

It is perhaps useful in this connection to pay close attention to a probable conflict between the goals of equality of opportunity and those of outcomes. Proponents of equality of opportunity tried to promote the chances of people to earn, prosper and advance. By education they are able to get well-paid jobs and with the help of public health care they can earn without interruption. But as they earn more the supporters of equality of outcomes will force them to give a part of their incomes and newly acquired wealth to the State.

The policy of redistribution harms society and will not yield the benefits expected. It will thwart spontaneous processes of the market, restrict productivity and prevent people from becoming prosperous. In the passage of the time the economy will lose its capacity to renew and create new work. Those whose interests redistributive policy protects will lose as they must get along with diminishing incomes. Those from whom money is taken will lose their possibilities to save. When savings diminish, the reserve of capital shrinks, and investments for increasing productivity will be given up.

## 6 EQUALITY BEFORE THE LAW

Ontological equality, equality of opportunities and equality of outcomes do not stand up to critical assessment by the Austrian theory. What about equality before the law? What is the Austrian attitude to this? The main object of the Austrian theory has been and is to analyse both economic and social history as a continuous

struggle of men against the despotism and injustice of the powerful. Equality before the law is the only kind of equality which is conducive to liberty of individuals, protection of property and limited government (Hayek 1984:331 and 1978:143).

For the Austrians the liberty of all men is not possible at all without equality before the law. Liberty, says Hayek, has nothing to do with any other sort of equality, and individuals acting freely are bound to produce inequality in many respects between them. However, Hayek warns, this cannot be understood to allow citizens to act without attention to the interests of their fellow-men or even to violate them. Negative freedom, without being anarchism, is very useful to society at large (Hayek 1978:133):

To enable the individual to use his knowledge and abilities in the pursuit of his self-chosen aims was regarded both as the greatest benefit government could secure to all, as well as the best way of inducing these individuals to make the greatest contribution to the welfare of others.

People acting freely without violating the interests of others must be able to enjoy the fruits of their own industry (Mises 1985:28). This means a right to income, wealth and property protected by equality before the law. People must be sure that their property cannot be threatened and that only they can make decisions concerning its use. In these circumstances the value of property is increased by using it the way it benefits the fellow-men of property owners and society. Chamberlain describes what happened in societies where property was continuously violated and not governed by abstract, impersonal rules. When there is no property nor a right to it people cannot decide their own business nor live in peace (Chamberlain 1959:47 and Mises 1985:33—34).

Equality before the law is not possible if it must rest on the conception of modern democracy which presupposes the rights of the majority of democratically elected representatives to decide whatever they will. For the Austrian theory equality before the law is then incompatible with unlimited democracy (Hayek 1978:143). Unlimited democracy will inevitably lead to arbitrary decisions and differences in the handling of the same kind of cases. Equality before the law denies the majority the right to use its powers to confer on its supporters special advantages which cannot be similarly offered to all citizens. The majority, Hayek states bluntly, will probably consist of coalitions

tions of various organised interests and therefore it is misleading to call it the true majority of all the people.

For Mises equality before the law arose as a demand for the abolition of discrimination and privileges which restricted men in pursuit of economic independence. In feudal societies, Mises points out, people did not have the same freedoms bestowed by the law, the law was used to enforce privileges and discrimination. For these reasons feudal societies were very violent, because harmony of interests and mutually beneficial interaction were not allowed to develop between men. For Mises it is natural for men who have nothing to lose to react violently in order to better their lots, because they could not do it by peaceful means.

For Mises it is unfortunate that some social reformers have interpreted totally wrongly the history of the plight of the masses in arguing that the real function of government policy is to calm down the masses by helping them. In fact, he asserts, the masses were restless because discrimination and privileges limited their possibilities to acquire the means of living themselves. Social policy, according to Mises, made itself guilty of falsehood by saying that discrimination and privileges were the natural products of capitalism. The Austrians, speaking for capitalism building on equality before the law, never accepted discrimination and privileges but have always demanded their elimination as a necessary condition for the improvement of society.

A modern version of feudal society is called an interventionist society where different privileges (unions), financial backing (agriculture), restriction of competition (tariff, duties), public monopolies (elementary schools), and violations of property laws (rent control) are common examples of grave constraints on equality before the law. In an interventionist society, as also in feudal society, people's interests and future will depend more on these arrangements and less on people's abilities to create new work and better serve their fellowmen (Mises 1990:204). It is difficult for people living in an interventionist society to understand that there are no privileged and no discrimination in a totally capitalist society.

Mises warns of the danger of ignoring equality before the law in social policy. For Mises the more groups are favoured, the greater the damage to society. The real problem is that privileges given a group by the State will acti-

vate other groups to acquire similar privileges through political decision-making (Mises 1981:203):

Each tries to the better of the other. Each tries to get more privileges so as to reap the greater gain. The idea of perfectly equal protection for all is fantasy of an ill-thought-out theory.

In other words of Mises, policy-makers should realise that in the short run discrimination and privileges can benefit some groups, but in the long run all groups, will benefit only if they are totally eliminated. It is not promotive of the harmonious development of society that only immediate benefits are seen. When the process starts it is very difficult to stop because groups will promote only their immediate interests and will be unwilling to restore equality before the law.

## 7 TOWARDS A NEW POLICY

This article has delineated different conceptions of equality and corresponding public policies based on them from the point of view of the Austrian theory. It is sought to show that ontological equality, equality of opportunity and equality of outcomes are empty ideals and policies promoting them will lead to the sacrifice of values which are more important than equality. There is very little if nothing in these equalities which could be promoted by governmental policies. People can promote them more effectively by participating in the impersonal processes of the market economy.

It would be more useful for an understanding of equality to discern the real repercussions of policies promoting it within the framework set up by the Austrian theory than simply to speak for supposed lack and losses of equality and the urgent need to patch it up through public policy. According to the Austrian theory there are seldom such problems as zealots of equality have said to exist. They do not want to seek greater equality in society but force people to accept a certain pattern of distribution they themselves prefer more than the one existing. They suppose they can design society the way they please. They pretend that they are able to reveal social justice to people. They do not want to accept that the only kind of equality is equality before the law.

To accept equality before the law will mean that powerholders — political parties, interests groups etc. — should renounce their former policies based on a wrong interpretation of equality. They should also rethink their ways of acquiring wealth. Politicians and officials acting on behalf of governments should stop giving privileges or channeling them and adopt new orientations and roles instead. This would surely mean a radical trimming down of bureaucracy. Using the expression of Ludwig von Mises in his "Liberalism" it is possible to foresee that, in spite of barriers, equality before the law will lead to victory because it has the substance and the arguments.

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