

## **MARKET REFORMS AND THE EUROPEAN WELFARE STATE: AUSTRIAN SCHOOL ON DESOCIALISATION, INTERVENTIONISM AND POLITICAL CENTRALISATION**

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**Introduction.** The contemporary social order of the West is interventionist to its core. Therefore, countries considering transition have a real opportunity to go beyond contemporary interventionism and attempt to establish a truly market-based society and private-property-based economy. The Austrian school can play an important role in this process, as it is a crucial and inspiring part of classical political economy.

The Austrians built on Adam Smith's social theory, particularly his understanding of social self-organisation. Adam Smith taught us one fundamental lesson: if we want a peaceful social order conducive to generating prosperity, predation must be eliminated from social interactions, whether conducted by private or public agents. Public predation in particular must not be underestimated, as states are powerful and dangerous institutions that can attack private property and even engage in killing people rather than protecting their lives.

By eliminating predation, you create a framework in which people can discover how they can be useful to others, and prosperity will follow. However, the Austrian School gives us much more than an elaboration of Smith's understanding

of the underlying social order. Austrian economics is unique. One important aspect is its methodological foundation. Subjectivism and methodological individualism are key features, enriched in case of Mises by his belief in the a priori nature of economics – that some elementary truths about people's existence in society do not require empirical verification.

The beauty of such an approach is that you are always reminded that there is no need to repeatedly measure the effects of some governmental intervention because you have a powerful theoretical explanation for it. You therefore know from the outset what the consequences are – it's in the nature of things, in the essence of the activity.

**The purpose of the paper** is to present the ideas of the Austrian School of Economics in terms of applications of its basic principles.

**Research results and discussion.** I want to focus on the applied aspects of the Austrian School, specifically **three key topics**: the impossibility of socialism in any form and the nature of the transition from socialism to a market economy; the dynamism of interventionism; and the question of political centralisation.

Essentially, socialism represents a massive violation of the rule of law, which inevitably leads to economic catastrophe. If you have an economic system with perverse incentives – a centrally planned economy, for example – you are doomed to fail. Mises explained why this is the case in his 1920 article [1], and then expanded on this in his famous book *Socialism* [2] a few years later. Thanks to Mises, we now know that **socialist experiments consistently fail as a matter of principle, not by accident.**

This happens because there are no market prices for the means of production. Consequently, the central

planner is unable to plan effectively, and his actions lead to economic chaos – ‘planned chaos’. There is no mechanism for learning about alternative uses of resources or alternative investments because relevant market prices do not exist. As a result, a state based on socialist principles of management will inevitably collapse due to the wasteful use of scarce resources and people end up in poverty.

Even if Mother Teresa were head of state and wanted to help the poor, the catastrophe that socialism brings would still happen because the problem lies in the fallacy of the socialist system, not in goodness of people.

To identify how to transition from socialist experiments to a market economy, we can draw on F.A. Hayek’s concept of ‘Liberal Utopia’, as presented in his essay ‘The Intellectuals and Socialism’ [3]. In other words, we must consider the ultimate implications of taking markets and private property seriously and making it a cornerstone of a free society. We simply must have a vision of what a fully free-market, private-property-based economy would look like.

Indeed, it is a kind of utopia because we live in a complicated social reality that is far from such an ideal. However, we need to have this final destination and goal to guide us. Whenever any policy is debated, we must ask one simple question: Are we moving our society towards greater respect for private property, or away from it? Are we moving towards this liberal utopia, or further away from it? If we are moving towards it, albeit imperfectly or insufficiently, then we should support such a reform or policy. If not, then don’t implement it if you want to build a classical liberal economic system.

Once we understand that we want to transition from a socialist system that kills and produces poverty to a liberal order in which private property is respected, what practical steps must be taken?

To answer this question, we can look to the experience of the Czech Republic. I would like to emphasise the policy of privatisation based on the principle of restitution: whatever was stolen must be returned to its rightful owners. This is a sound principle both ethically and economically. Restoring private property through restitution played a very important role in the Czech Republic. If you cannot return the stolen property, then privatise by other means wherever possible, and open up the market to competition and deregulation to ensure that you can **get the prices right**. Market prices that signal information about underlying economic realities are a crucial feature of a market economy.

However, achieving this is not easy unless the **institutions** are functioning properly – the courts, the police, etc. – and that is much more difficult to achieve. Even if you manage to achieve this, a sustainable market economy will not work well – as Peter Boettke, one of the greatest contemporary Austrian economists reminds us [4] – unless you **get the culture right**, i.e. eliminate corruption and increase trust within society. The lesson to be learned is that the transition from socialist experiments to a market economy is very difficult and it is a lengthy process.

The **second topic** is modern interventionism. As a leading thinker in this field, Mises identified three main areas of contemporary state interventionism: **mismanagement of the currency, fiscal irresponsibility** and pervasive **regulation**.

The Austrian School of Economics is unique in saying that we have to think outside the box when it comes to money. When students study trade, they learn about the concept of 'free trade'. So, when Donald Trump introduces tariffs, all the economists protest because it goes against 200 years of economic teaching. Despite the fact that trade has always

been subject to tariffs, students understand that there is a well-established vision of an ideal world without them.

The situation is different, however, when it comes to money. Students do not learn about the concept of 'free money'. Only the Austrian School of Economics envisages a world without government-produced money – a world of 'depoliticised money' [5]. This is a fruitful idea as sound money is of the utmost importance for well-functioning markets! If the monetary system is mismanaged or manipulated, prices will no longer coordinate economic activities – and the country will become poorer as a result.

Also, inflation is a dangerous tax. It is cruel and invisible, some people get rich at the expense of others without most people understanding what is going on. This is why governments love inflation and taxing people in this way.

There's also the most well-known insight of the Austrian School: the boom-bust cycle. When states manipulate money, bubbles form, leading to unemployment, crises and bankruptcies. The Austrian theory of business cycles can explain economic crises, such as the most recent financial crisis, the dot-com bubble or the Great Depression of the 1930s.

The problems of fiscal irresponsibility and cascades of omnipresent regulation in the Western world today are so huge that they are well understood not only by Austrian economists, but also by EU bureaucrats such as Mario Draghi [6].

The **third topic** is political centralisation. Classical liberals and Austrians alike have always argued that most action should take place at an individual level. This is what defines a market society.

The more centralised the system, the more political power there is and the less power citizens possess. The main

issue is that it is extremely difficult to regain power once it has been handed over to someone else. Mises warned from the outset – even in his early writings such as *Nation, State, and Economy* [7] – of the dangers of centralisation, especially in multi-ethnic, multi-lingual states. When one policy is imposed on everyone, it inevitably creates deeply dissatisfied minorities. These minorities will then attempt to seize political power next time and use it against you. This creates endless animosity, not because people naturally hate each other, but because a centralised political system encourages conflict and is therefore incompatible with the peaceful coexistence of diverse groups of free individuals. The centralisation of political power creates very vocal opponents of the regulatory system and may ultimately lead to violence and war.

The history of Europe teaches us that state policies based on nationalistic sentiments are one of the biggest enemies of peace and economic prosperity. The centralisation of political power fosters these dangerous sentiments.

Conversely, and perhaps surprisingly, Mises's papers from the 1930s and 1940s suggest the creation of a European Federation to establish a centralised political framework. The aim was not to destroy the free political and economic system, but rather to protect it and safeguard the free liberal social order in Europe. He believed that such a centralised political construct could protect freedom by eliminating the nationalistic policies of individual states, which were rooted in dangerous nationalistic sentiments and animosities.

One of the most interesting areas of research in applied Austrian economics today is the analysis of how the European Union operates, because it has had two aspects to its construction from the very beginning.

One was essentially a Misesian vision: creating the conditions for peaceful, continent-wide economic coexistence and

cooperation and eliminating policies based on nationalistic sentiments. This is the 'good' European Union.

The other aspect is the EU's involvement in taxation, redistribution, subsidies, etc. This is the bad European Union: a centralised, redistributive, semisocialist state-like entity. The future of the continent will depend on which of these visions prevails.

**Conclusion.** The Austrian School encompasses much more than just economics. It is a grand and comprehensive social theory. It provides not only insightful explanations of how prosperity is generated and how entrepreneurs bring about innovations and progress in many areas. It also explains how markets break down prejudices and encourage morality, ultimately helping us to understand how diverse people can live alongside each other and improve their lives in harmony.

There is also a wonderful classical liberal aspect to it, in that it is about judging people as individuals rather than as members of groups.

The Austrian school, and the teachings of Ludwig von Mises in particular, provide the best framework to guide us in our efforts to regain freedom and remove political and bureaucratic interference from our lives, families, education, finances, environmental protection, or even security provision and law enforcement. The Austrian school offers unique guidance on how we can apply the fundamental principles of a free society – such as private property, voluntary cooperation, and a free market economy – to create a better, more peaceful, and prosperous world.

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