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Socialism vs. Economic Freedom

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I am here in Buenos Aires as a guest of the Centro de Difusión Economía Libre.¹ What is *economía libre*? What does this system of economic freedom mean? The answer is simple: it is the market economy, it is the system in which the cooperation of individuals in the social division of labor is achieved by the market. This market is not a place; it is a *process*, it is the way in which, by selling and buying, by producing and consuming, the individuals contribute to the total workings of society.

In dealing with this system of economic organization—the market economy—we employ the term “economic freedom.” Very often, people misunderstand what it means, believing that economic freedom is something quite apart from other freedoms, and that these other freedoms—which they hold to be more important—can be preserved even in the absence of economic freedom. The meaning of economic freedom is this: that the individual is in a position to *choose* the way in which he wants to integrate himself into the totality of society. The individual is able to choose his career, he is free to do what he *wants* to do.

This is of course not meant in any sense which so many people attach to the word freedom today; it is meant rather in the sense that, through economic freedom, man is freed from natural conditions.

In nature, there is nothing that can be termed freedom, there is only the regularity of the laws of nature, which man must obey if he wants to attain something.

I.

In using the term freedom as applied to human beings, we think only of freedom *within society*. Yet, today, social freedoms are considered by many people to be independent of one another. Those who call themselves “liberals” today are asking for policies which are precisely the opposite of those policies which the liberals of the nineteenth century advocated in their liberal programs. The so-called liberals of today have the very popular idea that freedom of speech, of thought, of the press, freedom of religion, freedom from imprisonment without trial—that all these freedoms can be preserved in the absence of what is called economic freedom. They do not realize that, in a system where there is no market, where the government directs everything, all those other freedoms are illusory, even if they are made into laws and written up in constitutions.

Let us take one freedom, the freedom of the press. If the government owns all the printing presses, it will determine what is to be printed and what is not to be printed. And if the government owns all the printing presses and determines what shall or shall not be printed, then the possibility of printing any kind of opposing arguments against the ideas of the government becomes practically nonexistent. Freedom of the press disappears. And it is the same with all the other freedoms.

In a market economy, the individual has the freedom to choose whatever career he wishes to pursue, to choose his own way of integrating himself into society. But in a socialist system, that is not so: his career is decided by decree of the government. The government can order people whom it dislikes, whom it does not want to live in certain regions, to move into other regions and to other places. And the government is always in a position to justify and to explain such procedure by declaring that the governmental plan requires the presence of this eminent citizen five thousand miles away from the place in which he could be disagreeable to those in power.

It is true that the freedom a man may have in a market economy is not a perfect freedom from the metaphysical point of view. But there is no such thing as perfect freedom. Freedom means something only within the framework of society. The eighteenth-century authors of “natural law”—above all, Jean Jacques Rousseau—believed that once, in the remote past, men enjoyed something called “natural” freedom. But in that remote age, individuals were not free, they were at the mercy of everyone who was stronger than they were. The famous words of Rousseau: “Man is born free and everywhere he is in chains” may sound good, but man is in fact *not* born free. Man is born a very weak suckling. Without the protection of his parents, without the protection given to his parents by society, he would not be able to preserve his life.

Freedom in society means that a man depends as much upon other people as other people depend upon him. Society under the market economy, under the conditions of “*economía libre*,” means a state of affairs in which everybody serves his fellow citizens and is served by them in return. People believe that there are in the market economy bosses who are independent of the good will and support of other people. They believe that the captains of industry, the businessmen, the entrepreneurs are the real bosses in the economic system. But this is an illusion. The real bosses in the economic system are the consumers. And if the consumers stop patronizing a branch of business, these businessmen are either forced to abandon their eminent position in the economic system or to adjust their actions to the wishes and to the orders of the consumers.

One of the best-known propagators of communism was Lady Passfield, under her maiden name Beatrice Potter, and well-known also through her husband Sidney Webb. This lady was the daughter of a wealthy businessman and, when she was a young adult, she served as her father’s secretary. In her memoirs she writes: “In the business of my father everybody had to obey the orders issued by my father, the boss. He alone had to give orders, but to him nobody gave any

orders.” This is a very short-sighted view. Orders *were* given to her father by the consumers, by the buyers. Unfortunately, she could not see *these* orders; she could not see what goes on in a market economy, because she was interested only in the orders given within her father’s office or his factory.

In all economic problems, we must bear in mind the words of the great French economist Frédéric Bastiat, who titled one of his brilliant essays: “*Ce qu’on voit et ce qu’on ne voit pas*” (“That which is seen and that which is not seen”). In order to comprehend the operation of an economic system, we must deal not only with the things that can be seen, but we also have to give our attention to the things which cannot be perceived directly. For instance, an order issued by a boss to an office boy can be heard by everybody who is present in the room. What cannot be heard are the orders given to the boss by his customers.

II.

The fact is that, under the capitalistic system, the ultimate bosses are the consumers. The sovereign is not the state, it is the people. And the proof that they are the sovereign is borne out by the fact that they have *the right to be foolish*. This is the privilege of the sovereign. He has the right to make mistakes, no one can prevent him from making them, but of course he has to pay for his mistakes. If we say the consumer is supreme or that the consumer is sovereign, we do not say that the consumer is free from faults, that the consumer is a man who always knows what would be best for him. The consumers very often buy things or consume things they ought not to buy or ought not to consume.

But the notion that a capitalist form of government can prevent people from hurting themselves by controlling their consumption is false. The idea of government as a paternal authority, as a guardian for everybody, is the idea of those who favor socialism. In the United States some years ago, the government tried what was called “a noble experiment.” This noble experiment was a law making it illegal to buy or sell intoxicating beverages. It is certainly true that many people drink too much brandy and whiskey, and that they may hurt themselves by doing so. Some authorities in the United States are even opposed to smoking. Certainly there are many people who smoke too much and who smoke in spite of the fact that it would be better for them not to smoke. This raises a question which goes far beyond economic discussion: it shows what freedom really means.

Granted, that it is good to keep people from hurting themselves by drinking or smoking too much. But once you have admitted this, other people will say: Is the body everything? Is not the mind of man much more important? Is not the mind of man the real human endowment, the real human quality? If you give the government the right to determine the consumption of the human body, to determine whether one should smoke or not smoke, drink or not drink, there is no good reply you can give to people who say: “More important than the body is the mind and the soul, and man hurts himself much more by reading bad books, by listening to bad music and looking at bad movies. Therefore it is the duty of the government to prevent people from committing these faults.”

And, as you know, for many hundreds of years governments and authorities believed that this really *was* their duty. Nor did this happen in far distant ages only; not long ago, there was a government in Germany that considered it a governmental duty to distinguish between good and bad paintings—which of course meant good and bad from the point of view of a man who, in his youth, had failed the entrance examination at the Academy of Art in Vienna; good and bad from the point of view of a picture-postcard painter, Adolf Hitler. And it became illegal for people to utter other views about art and paintings than his, the Supreme Führer’s.

Once you begin to admit that it is the duty of the government to control your consumption of alcohol, what can you reply to those who say the control of books and ideas is much more important?

Freedom really means *the freedom to make mistakes*. This we have to realize. We may be highly critical with regard to the way in which our fellow citizens are spending their money and living their lives. We may believe that what they are doing is absolutely foolish and bad, but in a free society, there are many ways for people to air their opinions on how their fellow citizens should change their ways of life. They can write books; they can write articles; they can make speeches; they can even preach at street corners if they want—and they do this in many countries. But they must *not* try to police other people in order to prevent them from doing certain things simply because they themselves do not want these other people to have the freedom to do it.

III.

This is the difference between slavery and freedom. The slave must do what his superior orders him to do, but the free citizen—and this is what freedom means—is in a position to choose his own way of life. Certainly this capitalistic system can be abused, and is abused, by some people. It is certainly possible to do things which ought not to be done. But if these things are approved by a majority of the people, a disapproving person always has a way to attempt to change the minds of his fellow citizens. He can try to persuade them, to convince them, but he may not try to force them by the use of power, of governmental police power.

In the market economy, everyone serves his fellow citizens by serving himself. This is what the liberal authors of the eighteenth century had in mind when they spoke of the harmony of the rightly understood interests of all groups and of all individuals of the population. And it was this doctrine of the harmony of interests which the socialists opposed. They spoke of an “irreconcilable conflict of interests” between various groups.

What does this mean? When Karl Marx—in the first chapter of the *Communist Manifesto*, that small pamphlet which inaugurated his socialist movement—claimed that there was an irreconcilable conflict between classes, he could not illustrate his thesis by any examples other than those drawn from the conditions of precapitalistic society. In precapitalistic ages, society was divided into hereditary status groups, which in India are called “castes.” In a status society a man was not, for example, born a Frenchman; he was born as a member of the French aristocracy or of the French bourgeoisie or of the French peasantry. In the greater part of the Middle Ages, he was simply a serf. And serfdom, in France, did not disappear completely until after the American Revolution. In other parts of Europe it disappeared even later.

But the worst form in which serfdom existed—and continued to exist even after the abolition of slavery—was in the British colonies abroad. The individual inherited his status from his parents, and he retained it throughout his life. He transferred it to his children. Every group had privileges and disadvantages. The highest groups had only privileges, the lowest groups only disadvantages. And there was no way a man could rid himself of the legal disadvantages placed upon him by his status other than by fighting a political struggle against the other classes. Under such conditions, you could say that there was an “irreconcilable conflict of interests between the slave owners and the slaves,” because what the slaves wanted was to be rid of their slavery, of their quality of being slaves. This meant a loss, however, for the owners. Therefore, there is no question that there had to be this irreconcilable conflict of interests between the members of the various classes.

One must not forget that in those ages—in which the status societies were predominant in Europe, as well as in the colonies which the Europeans later founded in America—people did not consider themselves to be connected in any special way with the other classes of their own nation; they felt much more at one with the members of their own class in other countries. A French aristocrat did not look upon lower class Frenchmen as his fellow citizens; they were the “rabble,” which he did not like. He regarded only the aristocrats of other countries—those of Italy, England, and Germany, for instance, as his equals.

The most visible effect of this state of affairs was the fact that the aristocrats all over Europe used the same language. And this language was French, a language which was not understood, outside France, by other groups of the population. The middle classes—the bourgeoisie—had their own language, while the lower classes—the peasantry—used local dialects which very often were not understood by other groups of the population. The same was true with regard to the way people dressed. When you travelled in 1750 from one country to another, you found that the upper classes, the aristocrats, were usually dressed in the same way all over Europe, and you found that the lower classes dressed differently. When you met someone in the street, you could see immediately—from the way he dressed—to which class, to which status he belonged.

It is difficult to imagine how different these conditions were from present-day conditions. When I come from the United States to Argentina and I see a man on the street, I cannot know what his status is. I only assume that he is a citizen of Argentina and that he is not a member of some legally restricted group. This is one thing that capitalism has brought about. Of course, there are also differences within capitalism. There are differences in wealth, differences which Marxians mistakenly consider to be equivalent to the old differences that existed between men in the status society.

IV.

The differences within a capitalist society are not the same as those in a socialist society. In the Middle Ages—and in many countries even much later—a family could be an aristocrat family and possess great wealth, it could be a family of dukes for hundreds and hundreds of years, whatever its qualities, its talents, its character or morals. But, under modern capitalistic conditions, there is what has been technically described by sociologists as “social mobility.” The operating principle of this social mobility, according to the Italian sociologist and economist Vilfredo Pareto, is “la circulation des élites” (the circulation of the elites). This means that there are always people who are at the top of the social ladder, who are wealthy, who are politically important, but these people—these elites—are continually changing.

This is perfectly true in a capitalist society. It was *not* true for a precapitalistic status society. The families who were considered the great aristocratic families of Europe are still the same families today or, let us say, they are the descendants of families that were foremost in Europe, 800 or 1000 or more years ago. The Capetians of Bourbon—who for a very long time ruled here in Argentina—were a royal house as early as the tenth century. These kings ruled the territory which is known now as the Ile-de-France, extending their reign from generation to generation. But in a capitalist society, there is continuous mobility—poor people becoming rich and the descendants of those rich people losing their wealth and becoming poor.

Today I saw in a bookshop in one of the central streets of Buenos Aires the biography of a businessman who was so eminent, so important, so characteristic of big business in the nineteenth century in Europe that, even in this country, far away from Europe, the bookshop carried copies of his biography. I happen to know the grandson of this man. He has the same name his grandfather had, and he still has a right to wear the title of nobility which his grandfather—who started as a blacksmith—had received eighty years ago. Today this grandson is a poor photographer in New York City.

Other people, who were poor at the time this photographer’s grandfather became one of Europe’s biggest industrialists, are today captains of industry. Everyone is free to change his status. That is the difference between the status system and the capitalist system of economic freedom, in which everyone has only himself to blame if he does not reach the position he wants to reach.

The most famous industrialist of the twentieth century up to now is Henry Ford. He started with a few hundred dollars which he had borrowed from his friends, and within a very short time he

developed one of the most important big business firms of the world. And one can discover hundreds of such cases every day.

Every day, the *New York Times* prints long notices of people who have died. If you read these biographies, you may come across the name of an eminent businessman, who started out as a seller of newspapers at street corners in New York. Or he started as an office boy, and at his death he was the president of the same banking firm where he started on the lowest rung of the ladder. Of course, not all people can attain these positions. Not all people *want* to attain them. There are people who are more interested in other problems and, for these people, other ways are open today which were not open in the days of feudal society, in the ages of the status society.

V.

The socialist system, however, *forbids* this fundamental freedom to choose one's own career. Under socialist conditions, there is only one economic authority, and it has the right to determine all matters concerning production.

One of the characteristic features of our day is that people use many names for the same thing. One synonym for socialism and communism is "planning." If people speak of "planning" they mean, of course, *central* planning, which means *one plan made by the government*—one plan that prevents planning by anyone except the government.

A British lady, who also is a member of the Upper House, wrote a book entitled *Plan or No Plan*, a book which was quite popular around the world. What does the title of her book mean? When she says "plan," she means only the type of plan envisioned by Lenin and Stalin and their successors, the type which governs all the activities of all the people of a nation. Thus, this lady means a central plan which excludes all the personal plans that individuals may have. Her title *Plan or No Plan* is therefore an illusion, a deception; the alternative is not a central plan or no plan, it is *the total plan* of a central governmental authority or *freedom* for individuals to make their own plans, to do their own planning. The individual plans his life, every day, changing his daily plans whenever he will.

The free man plans daily for his needs; he says, for example: "Yesterday I planned to work all my life in Cordoba." Now he learns about better conditions in Buenos Aires and changes his plans, saying: "Instead of working in Cordoba, I want to go to Buenos Aires." And that is what freedom means. It may be that he is mistaken, it may be that his going to Buenos Aires will turn out to have been a mistake. Conditions may have been better for him in Cordoba, but he himself made his plans.

Under government planning, he is like a soldier in an army. The soldier in the army does not have the right to choose his garrison, to choose the place where he will serve. He has to obey orders. And the socialist system—as Karl Marx, Lenin, and all socialist leaders knew and admitted—is the transfer of army rule to the whole production system. Marx spoke of "industrial armies," and Lenin called for "the organization of everything—the postoffice, the factory, and other industries, according to the model of the army."

Therefore, in the socialist system everything depends on the wisdom, the talents, and the gifts of those people who form the supreme authority. That which the supreme dictator—or his committee—does *not* know, is not taken into account. But the knowledge which mankind has accumulated in its long history is not acquired by everyone; we have accumulated such an enormous amount of scientific and technical knowledge over the centuries that it is humanly impossible for one individual to know all these things, even though he be a most gifted man.

And people are different, they are unequal. They always will be. There are some people who are more gifted in one subject and less in another one. And there are people who have the gift to find

new paths, to change the trend of knowledge. In capitalist societies, technological progress and economic progress are gained through such people. If a man has an idea, he will try to find a few people who are clever enough to realize the value of his idea. Some capitalists, who dare to look into the future, who realize the possible consequences of such an idea, will start to put it to work. Other people, at first, may say: "They are fools"; but they will stop saying so when they discover that this enterprise, which they called foolish, is flourishing, and that people are happy to buy its products.

Under the Marxian system, on the other hand, the supreme government body must first be convinced of the value of such an idea before it can be pursued and developed. This can be a very difficult thing to do, for only the group of people at the head—or the supreme dictator himself—has the power to make decisions. And if these people—because of laziness or old age, or because they are not very bright and learned—are unable to grasp the importance of the new idea, then the new project will not be undertaken.

We can think of examples from military history. Napoleon was certainly a genius in military affairs; he had one serious problem, however, and his inability to solve that problem culminated, finally, in his defeat and exile to the loneliness of St. Helena. Napoleon's problem was: "How to conquer England?" In order to do that, he needed a navy to cross the English Channel, and there were people who told him they had a way to accomplish that crossing, people who—in an age of sailing ships—had come up with the new idea of steam ships. But Napoleon did not understand their proposal.

Then there was Germany's *Generalstab*, the famous German general staff. Before the First World War, it was universally considered to be unsurpassed in military wisdom. A similar reputation was held by the staff of General Foch in France. But neither the Germans nor the French—who, under the leadership of General Foch, later defeated the Germans—realized the importance of aviation for military purposes. The German general staff said: "Aviation is merely for pleasure, flying is good for idle people. From a military point of view, only the Zeppelins are important," and the French general staff was of the same opinion.

Later, during the period between World War I and World War II, there was a general in the United States who was convinced that aviation would be very important in the next war. But all other experts in the United States were against him. He could not convince them. If you have to convince a group of people who are not directly dependent on the solution of a problem, you will never succeed. This is true also of noneconomic problems.

There have been painters, poets, writers, composers, who complained that the public did not acknowledge their work and caused them to remain poor. The public may certainly have had poor judgment, but when these artists said: "The government ought to support great artists, painters, and writers," they were very much in the wrong. Whom should the government entrust with the task of deciding whether a newcomer is really a great painter or not? It would have to rely on the judgment of the critics, and the professors of the history of art who are always looking back into the past yet who very rarely have shown the talent to discover new genius. This is the great difference between a system of "planning" and a system in which everyone can plan and act for himself.

It is true, of course, that great painters and great writers have often had to endure great hardships. They might have succeeded in their art, but not always in getting money. Van Gogh was certainly a great painter. He had to suffer unbearable hardship and, finally, when he was thirty-seven years old, he committed suicide. In all his life he sold only *one painting* and the buyer of it was his cousin. Apart from this one sale, he lived from the money of his brother, who was not an artist nor a painter. But van Gogh's brother understood a painter's needs. Today you cannot buy a van Gogh for less than hundred or two hundred thousand dollars.

Under a socialist system, van Gogh's fate might have been different. Some government official would have asked some well-known painters (whom van Gogh certainly would not have regarded as artists at all) whether this young man, half or completely crazy, was really a painter worthy to be supported. And they without a doubt, would have answered: "No, he is not a painter; he is not an artist; he is just a man who wastes paint;" and they would have sent him into a milk factory or into a home for the insane. Therefore all this enthusiasm in favor of socialism by the rising generation of painters, poets, musicians, journalists, actors, is based on an *illusion*. I mention this because these groups are among the most fanatical supporters of the socialist idea.

VI.

When it comes to choosing between socialism and capitalism as an economic system, the problem is somewhat different. The authors of socialism never suspected that modern industry, and all the operations of modern business, are based on calculation. Engineers are by no means the only ones who make plans on the basis of calculations, businessmen also must do so. And businessmen's calculations are all based on the fact that, in the market economy, the money prices of goods inform not only the consumer, they also provide vital information to businessmen about the factors of production, the main function of the market being not merely to determine the cost of the *last* part of the process of production and transfer of goods to the hands of the consumer, but the cost of those steps leading up to it. The whole market system is bound up with the fact that there is a mentally calculated division of labor between the various businessmen who vie with each other in bidding for the factors of production—the raw materials, the machines, the instruments—and for the human factor of production, the wages paid to labor. This sort of calculation by the businessman cannot be accomplished in the absence of prices supplied by the market.

At the very instant you abolish the market—which is what the socialists would like to do—you render useless all the computations and calculations of the engineers and technologists. The technologists can give you a great number of projects which, from the point of view of the natural sciences, are equally feasible, but it takes the market-based *calculations* of the businessman to make clear which of those projects is the most advantageous, from the *economic* point of view.

The problem with which I am dealing here is the fundamental issue of capitalistic economic calculation as opposed to socialism. The fact is that economic calculation, and therefore all technological planning, is possible only if there are money prices, not only for consumer goods but also for the factors of production. This means there has to be a market for raw materials, for all half-finished goods, for all tools and machines, and for all kinds of human labor and human services.

When this fact was discovered, the socialists did not know how to respond. For 150 years they had said: "All the evils in the world come from the fact that there are markets and market prices. We want to abolish the market and with it, of course, the market economy, and substitute for it a system without prices and without markets." They wanted to abolish what Marx called the "commodity character" of commodities and of labor.

When faced with this new problem, the authors of socialism, having no answer, finally said: "We will not abolish the market altogether; we will pretend that a market exists; we will play market, like children who play school." But everyone knows that when children *play* school, they do not learn anything. It is just an exercise, a game, and you can "play" at many things.

This is a very difficult and complicated problem and in order to deal with it in full one needs a little more time than I have here. I have explained it in detail in my writings. In six lectures I cannot enter into an analysis of all its aspects. Therefore, I want to advise you, if you are interested in the fundamental problem of the impossibility of calculation and planning under socialism, read my book *Human Action*, which is available in an excellent Spanish translation.

But read other books, too, like the book of the Norwegian economist Trygve Hoff, who wrote on economic calculation. And if you do not want to be one-sided, I recommend that you read the highly-regarded socialist book on this subject by the eminent Polish economist Oskar Lange, who at one time was a professor at an American university, then became a Polish ambassador, and later returned to Poland.

VII.

You will probably ask me: "What about Russia? How do the Russians handle this question?" This changes the problem. The Russians operate their socialistic system within a world in which there are prices for all the factors of production, for all raw materials, for everything. They can therefore employ, for their planning, the *foreign* prices of the world market. And because there are certain differences between conditions in Russia and those in United States, the result is very often that the Russians consider something to be justified and advisable—from their economic point of view—that the Americans would not consider economically justifiable at all.

The "Soviet experiment," as it was called, does not prove anything. It does not tell us anything about the fundamental problem of socialism, the problem of calculation. But are we entitled to speak of it as an experiment? I do not believe there is such a thing as a scientific experiment in the field of human action and economics. You cannot make laboratory experiments in the field of human action because a scientific experiment requires that you do the same thing under various conditions, or that you maintain the same conditions, changing perhaps only one factor. For instance, if you inject into a cancerous animal some experimental medication, the result may be that the cancer will disappear. You can test this with various animals of the same kind which suffer from the same malignancy. If you treat some of them with the new method and do not treat the rest, then you can compare the result. You cannot do this within the field of human action. There are no laboratory experiments in human action.

The so-called Soviet "experiment" merely shows that the standard of living is incomparably lower in Soviet Russia than it is in the country that is considered, by the whole world, as the paragon of capitalism: the United States.

Of course, if you tell this to a socialist, he will say: "Things are wonderful in Russia." And you tell him: "They may be wonderful, but the average standard of living is much lower." Then he will answer: "Yes, but remember how terrible it was for the Russians under the tsars and how terrible a war we had to fight."

I do not want to enter into discussion of whether this is or is not a correct explanation, but if you deny that the conditions are the same, you deny that it was an experiment. You must then say this (which would be much more correct): "Socialism in Russia has not brought about an improvement in the conditions of the average man which can be compared with the improvement of conditions, during the same period, in the United States."

In the United States you hear of something new, of some improvement, almost every week. These are improvements that business has generated, because thousands and thousands of business people are trying day and night to find some new product which satisfies the consumer better or is less expensive to produce, or better *and* less expensive than the existing products. They do not do this out of altruism, they do it because they want to make money. And the effect is that you have an improvement in the standard of living in the United States which is almost miraculous, when compared with the conditions that existed fifty or a hundred years ago. But in Soviet Russia, where you do not have such a system, you do not have a comparable improvement. So those people who tell us that we ought to adopt the Soviet system are badly mistaken.

There is something else that should be mentioned. The American consumer, the individual, is both a buyer and a boss. When you leave a store in America, you may find a sign saying: “Thank you for your patronage. Please come again.” But when you go into a shop in a totalitarian country—be it in present-day Russia, or in Germany as it was under the regime of Hitler—the shopkeeper tells you: “You have to be thankful to the great leader for giving you this.”

In socialist countries, it is not the seller who has to be grateful, it is the buyer. The citizen is *not* the boss; the boss is the Central Committee, the Central Office. Those socialist committees and leaders and dictators are supreme, and the people simply have to obey them.

1. Later the Centro de Estudios sobre la Libertad.

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