

## REVIEWS

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BUREAUCRACY, Ludwig von Mises, 2005, Institute of Public Finance, Zagreb, 150 pp.

Review\*

In their set texts for exams, students are often assigned massive books of several hundreds of pages that could realistically be reduced to a text of at most half the size, without losing out in quality at all. This is why the course material called the script is written, to help them out in their studies, and to soften the blow to their budgets. If a student decided to *script* Mises' *Bureaucracy* he or she would find out that it is a vain task, because in this book almost everything seems essential. There is no messing circumlocution. Mises' sentences are short and clear, sometimes rather droll. A reader unacquainted with his works will probably be surprised with this quality, because it is most often to be met with in American authors, and on the whole not to be expected from someone known as one of the leading proponents of the Austrian liberal economics school.

The second surprise lies in the book, *pace* the title, not being exclusively about the bureaucracy. The special thing about it is that it takes in a very large number of areas. It mixes elements of political economy, comparative economic systems, micro-economics, macro-economics, knowledge about the civil service, history, philosophy and political science. There is no reference at all to Max Weber, or, for example, no technical advice for implementing reforms of the civil service. Although Mises is aware that the words bureaucracy and bureaucrat have on the whole highly derogatory meanings (no one likes to be called a bureaucrat), for him, bureaucracy is not in and of itself either good or bad. He understands bureaucracy as the symptom of a condition, not a vector.

What is at the heart of the book is the comparison between socialism and capitalism, though a critique of state interventionism. The book is also a sharp condemnation of totalitarian regimes. Mises himself in the foreword to *Bureaucracy* (1962 edition) wrote that the objective of the work was neither to criticise nor to accuse the bureaucracy but to explain what is meant by bureaucratic management and in what way it differs from management for profit. Pursuant to this comparison, it is possible to give an evaluation of socialism and a market economy. It has to be borne in mind that the first edition of the book was in 1944 (the day after his best-known student, later Nobel prize-

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winner Friedrich A. Hayek published *The Road to Serfdom*), at the time of the “triumphant advance of the socialist idea”, after the experience of the New Deal, and at a time marked by the totalitarian regimes in Germany and Italy. Mises for this reason wanted to warn American citizens what the consequences of comprehensive state planning and control might be and explain why it was that socialism was condemned to failure.<sup>1</sup> At the same time he criticised the then current economic policy of state interventionism in the US. He came to that country from Geneva in 1940, and previously had taught at the University of Vienna, and worked in the Austrian Chamber of Commerce as a Government Adviser. His lectures had been extremely popular among the students, but few of them registered for his courses, thinking that it could harm them in their future careers. Mises’ views were extremely radical for that time, and hence had no support to speak of, not even in the USA.

As well as its introduction and conclusion, *Bureaucracy* has seven units: *Profit Management, Bureaucratic Management, Bureaucratic Management of Public Corporations, Bureaucratic Management of Private Corporations, Social and Political Implications of Bureaucratisation, Psychological Consequences of Bureaucratisation* and *Is There a Cure?* Profit and business management are described as the two ways of handling operations in a company, or rather two ways in which people work together. Profit management enables peaceful collaboration, to be put into practice to the benefit or cost of all those directly involved. On the other hand, bureaucratic management helps some to the detriment of others and makes conditions worse than they would be without it.

The main characteristic of profit or business management is that it is driven by the profit motive. Bureaucratic management is on the other hand that which is related to obedience to detailed rules and regulations that are laid down by the authority of the highest competent body. The main concern of the bureaucrat is the observance of rules and regulations, irrespective of whether they are rational or tend to the reverse of what they were originally intended to achieve. The fundamental principle in bureaucratic management is subservience. While the success of a management in turning a profit can be measured by accounting, the objectives of a civil service cannot be measured in monetary quantities and checked out by a profit and loss account. For example, it is not possible to put a market price on reduction of the rate of crime because of the work of some police station. Mises considers this non-existence of any standards that can in an unchallengeable manner rate the performance of a civil service at the basis of every discussion concerning the problem of the bureaucracy. It kills ambition, destroys initiative and any incentive to do more than the minimal requirement. It is important to note that Mises is aware of the necessity of some bureaucratic management, but only in certain activities – the courts, defence, the police force.

According to Mises, human resource management in a profit system is fairly simple. The only instruction that the CEO gives the employees is to go out and make more money. A study of the accountancy records shows how successful they were in executing his commands. In order not to lose his or her job, every department head has to do

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<sup>1</sup> A fierce criticism of socialism and communism is found in his work *Die Gemeinschaft*, published in 1922.

it as well as possible. For this reason only qualified associates and workers will be employed, not personal friends and relatives. Employees don't owe their employers gratitude or subservience, only a certain quantity and quality of work. The whole system is customer-oriented, for customers are ruthless, and never buy just in order to protect an inefficient producer from the consequences of bad management. In a bureaucratic organisation the situation is different, because the position of a subordinate is dependent on the judgement of the superior, concerning him as a person, not about his work.

The book demonstrates that a private corporation that is profit-oriented will never become bureaucratic, however large it is, unless the hands of its managers are tied because of some governmental influence. The book illustrates this with the examples of European corporations of the 19<sup>th</sup> century, which in many cases depended on the decisions of government agencies. In order to forestall possible harmful consequences, the management of the firm had to keep good relations with people in power. This was largely done by cramming the boards with various big-wigs, such as former ministers and ex-generals politicians, their relatives and other friends. No business know-how or experience was desiderated from them. As long as they were just members of the boards, they were not very harmful. However, there were also some for whom there was no room in the boardroom, and they had to found invented paid jobs. They were much more harmful, because they did not care for the profit of the company. If they could rely on the support of the government, why bother about providing better and cheaper products? It is clear that Mises' example is topical in the 21<sup>st</sup> century as well, and not only in European corporations.

Mises thinks that the rule is that state government is inclined to distancing itself from the profit system; it is ready to give up part of the profit, or the whole profit, or even take losses to achieve some other objective. Irrespective of the kind of objective, such policies always result in subsidising some group at the expense of the others. It should be added that Mises even assumed that the government appointed honest and efficient managers to the state corporations and that the moral climate in the state or the company provided adequate protection against abuse. His condemnation of state interference would have been still greater with respect to contemporary Croatia.

In this connection, a particularly interesting and timely part of the book is that which describes the observations of American businessmen visiting Southern and Eastern Europe in the early twentieth century. Mises sums them up into two statements: "the entrepreneurs in these countries do not care about efficiency in production, and governments are in the hands of corrupt cliques". He thinks that industrial inefficiency and corruption are the consequence of state involvement in the economies of these countries. In the conditions of a government that affects numerous elements of business operations and of politically influenced courts, a businessman has only two resources: diplomacy, or bribery. These methods have to be resorted to not only with respect to the ruling party, but also with the opposition which might one day find itself in power. Mises thinks that only the persistent and the fearless can survive in such corrupt circumstances. "Business men who grew up in conditions of a one-time liberal age have to give up their job to adventurers. Western European and American entrepreneurs, used to an environment of law and cor-

rectness, are lost if they do not ensure the services of local strongmen. This system, of course, does not provide much stimulus to technological advance”.

Throughout the book, the author criticises socialism through his analysis of bureaucratic management. However, he ascribes the impossibility of carrying out any socialist agenda and centralistic planning to the absence of private ownership of the factors of production, and as a result of this the absence of market prices for production factors. Without prices for these factors, it is impossible to determine which productive methods are advantageous, for the purpose of meeting consumer needs and making a profit. No socialist central committee is ever going to know which of the projects considered are going to be more successful, and whether activating them will lead to squandering available resources, which means that socialism will “certainly produce total chaos”.

He describes capitalism as a system in which everyone can acquire riches and in which everyone has unlimited opportunities. He says that this kind of description of capitalism goes only for the US, and not for Europe. Still, bureaucratisation is a threat to America too, and this is a form of government that destroys initiative, for it leaves no room for the rebellious innovator with ideas of his or her own. Young people can only submit to the domination of the old, and the only route to promotion is the favour of superiors. Sometimes he goes overboard in his encomiums of capitalism, and says that unemployment is a relatively unimportant phenomenon in the system. Still, he observes too that unemployment as a mass phenomenon is the consequence of governmental policies erroneously directed to the protection of labour, and pressures and coercive actions of unions, coming very close to today’s standard explanation of the high rate of unemployment in Europe.

What is particularly interesting is that Mises rules out any compromise between socialism and capitalism. Economic interventionism is a policy of self-annihilation. He thinks that there is certainly a need for government, police, courts and jails because not all people are virtuous and honest, but he is contemptuous of the German practice of state control of the universities, railroads, telephone and telegraph. He advocates a kind of minimum government enough to protect lives and property. It is taken for granted then that Mises in this book totally ignores the problem of negative market externalities and public goods, as well as the question of economic equality. Today’s Sweden would perhaps refute his harsh views about state interventionism, but perhaps we should wait a little long to see how sustainable such a system is.

In connection with the reform of the civil service, Mises thinks that no reform is capable of obviating the bureaucratic characteristic of the government departments. A public administration must of necessity be formalist and bureaucratic, because in its workings it is impossible to apply the methods of profit management. It is beside the point to accuse civil servants of being slow and inert. That civil servants are not there to serve the public is not an error in bureaucracy, rather it is a consequence of a political system in which increasing numbers of assignments are put into the lap of the state, and the freedom of the individual in the management of his own affairs is limited. He is sceptical with respect to the reform of the administration in the sense of adjustment to changed social conditions, because department heads are most often elderly, who know that they are going

to be pensioned off in a year or two, and see every proposal for reform as an inroad into their peace of mind. In addition, a bureaucrat is not free to aim at improvement: his virtue and duty is to be obedient.

Mises criticises promotion according to seniority, because officials will thus only endeavour to satisfy the formal criteria, and will forget that their job is “to do the job as well as possible”. However, here he falls into a trap, because this means that after all certain non-profit criteria can exist, and that the work of civil servants can be evaluated. Similarly, if everything really were as fixed and unalterable as he claims, how can it be said that some country has a better civil service than another?

Mises’ critique of the work of the government extends to its abridgement of the liberty of citizens. For him, government control is irreconcilable with any kind of constitutional and democratic government, and so his fight against democracy is at the same time a battle for liberty and democracy. He cynically observes that the world would be great for government officials and clerks if there were no constitution, laws about the protection of rights, regulations and parliaments, because then the state would be able to heal all wounds. Sometimes he goes too far, for example when he says that the delegation of the power of decision making is the main resource of contemporary dictatorships. He also claims that a representative democracy cannot exist if most of the electorate get their wages from the government. Such claims are insufficiently well founded.

His fear of totalitarianism was vast. “Humanity is manifestly moving towards totalitarianism. New generations long for full state control of all areas of life.” Sixty years on, not everything is as black as Mises painted it. It has to be pointed out that for him democracy necessarily implies the rule of law, for otherwise officials would be arbitrary and unchecked despots, and judges would be fussy *qadis*.

Still, it is remarkable how much Mises, in spite of everything that was going on then, trusted people. Thus he says: “The fact that some individuals go wrong cannot be considered a sufficient reason for restricting the liberty of the vast majority of decent people.” Are decent people an overwhelming majority? If they were, would we really need so many laws? What he did excellently observe is that educated people always have a greater responsibility than the relatively unlettered. The greatest advocates of fascism and Nazism were intellectuals rather than the vulgar.

After a reading of this book, the question inevitably arises: Surely it is not all so simple, is it? Mises’ logic seems so very convincing, and yet the feeling remains that things are not quite so black and white, not so absolute. Sometimes one gets the feeling that for him society is an economic model in which everything can be explained by shifting a curve. He is oblivious to informal institutions, or the possible abuse of authority in the private sector, and takes the rule of law as a given. His view about the role of the state is clear, but many people would want to dispute it. *Bureaucracy* will probably reduce the feeling of impatience and anger when reform of the civil service is concerned, but will even more increase demands for the rule of law and democracy. At the same time, people will want there to be as few corporations in state hands as possible, and for a larger number of people to have read *Bureaucracy* immediately it came out. Croatian readers are likely to become even more aware of the hierarchical nature

of the society in which they live, but will find encouragement to go on with demanding changes for the good – at least those who are willing to sacrifice their own benefits. What one has to admit is that Mises was true to his own self, and in this too: “Everyone bears a portion of the society on his back and no one can shake off his own share of the responsibility. And no one can find a safe way out if the society is heading straight for destruction. This is why everyone, in his own area, has to get resolutely involved in the intellectual struggle.”

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