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Why Nazism Was Socialism and Why Socialism Is Totalitarian

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My purpose today is to make just two main points: (1) To show why Nazi Germany was a socialist state, not a capitalist one. And (2) to show why socialism, understood as an economic system based on government ownership of the means of production, positively requires a totalitarian dictatorship.

The identification of Nazi Germany as a socialist state was one of the many great contributions of Ludwig von Mises.

When one remembers that the word "Nazi" was an abbreviation for "der Nationalsozialistische Deutsche Arbeiter Partei — in English translation: the National *Socialist* German Workers' Party — Mises's identification might not appear all that noteworthy. For what should one expect the economic system of a country ruled by a party with "socialist" in its name to be but socialism?

Nevertheless, apart from Mises and his readers, practically no one thinks of Nazi Germany as a socialist state. It is far more common to believe that it represented a form of capitalism, which is what the Communists and all other Marxists have claimed.

The basis of the claim that Nazi Germany was capitalist was the fact that most industries in Nazi Germany appeared to be left in private hands.

What Mises identified was that private ownership of the means of production existed *in name only* under the Nazis and that the actual substance of ownership of the means of production resided in the German government. For it was *the German government* and not the nominal private owners that exercised all of the *substantive powers of ownership*: it, not the nominal private owners, decided what was to be produced, in what quantity, by what methods, and to whom it was to be distributed, as well as what prices would be charged and what wages would be paid, and what dividends or other income the nominal private owners would be permitted to receive. The position of the alleged private owners, Mises showed, was reduced essentially to that of government pensioners.

De facto government ownership of the means of production, as Mises termed it, was logically implied by such fundamental collectivist principles embraced by the Nazis as that the common good comes before the private good and the individual exists as a means to the ends of the State. If the individual is a means to the ends of the State, so too, of course, is his property. Just as he is owned by the State, his property is also owned by the State.

But what specifically established *de facto* socialism in Nazi Germany was the introduction of price and wage controls in 1936. These were imposed in response to the inflation of the money supply carried out by the regime from the time of its coming to power in early 1933. The Nazi regime inflated the money supply as the means of financing the vast increase in government spending required by its programs of public works, subsidies, and rearmament. The price and wage controls were imposed in response to the rise in prices that began to result from the inflation.

The effect of the combination of inflation and price and wage controls is *shortages*, that is, a situation in which the quantities of goods people attempt to buy exceed the quantities available for sale.

Shortages, in turn, result in economic chaos. It's not only that consumers who show up in stores early in the day are in a position to buy up all the stocks of goods and leave customers who arrive later, with nothing — a situation to which governments typically respond by imposing rationing. *Shortages result in chaos throughout the economic system.* They introduce randomness in the distribution of supplies between geographical areas, in the allocation of a factor of production among its different products, in the allocation of labor and capital among the different branches of the economic system.

In the face of the combination of price controls and shortages, the effect of a decrease in the supply of an item is not, as it would be in a free market, to raise its price and increase its profitability, thereby operating to stop the decrease in supply, or reverse it if it has gone too far. Price control prohibits the rise in price and thus the increase in profitability. At the same time, the shortages caused by price controls prevent increases in supply from reducing price and profitability. When there is a shortage, the effect of an increase in supply is merely a reduction in the severity of the shortage. Only when the shortage is totally eliminated does an increase in supply necessitate a decrease in price and bring about a decrease in profitability.

As a result, the combination of price controls and shortages makes possible random movements of supply without any effect on price and profitability. In this situation, the production of the most trivial and unimportant goods, even pet rocks, can be expanded at the expense of the production

of the most urgently needed and important goods, such as life-saving medicines, with no effect on the price or profitability of either good. Price controls would prevent the production of the medicines from becoming more profitable as their supply decreased, while a shortage even of pet rocks prevented their production from becoming less profitable as their supply increased.

As Mises showed, to cope with such unintended effects of its price controls, the government must either abolish the price controls or add further measures, namely, precisely the control over what is produced, in what quantity, by what methods, and to whom it is distributed, which I referred to earlier. The combination of price controls with this further set of controls constitutes the *de facto* socialization of the economic system. For it means that the government then exercises all of the substantive powers of ownership.

This was the socialism instituted by the Nazis. And Mises calls it socialism on the German or Nazi pattern, in contrast to the more obvious socialism of the Soviets, which he calls socialism on the Russian or Bolshevik pattern.

Of course, socialism does not end the chaos caused by the destruction of the price system. It perpetuates it. And if it is introduced without the prior existence of price controls, its effect is to inaugurate that very chaos. This is because socialism is not actually a positive economic system. It is merely the negation of capitalism and its price system. As such, the essential nature of socialism is one and the same as the economic chaos resulting from the destruction of the price system by price and wage controls. (I want to point out that Bolshevik-style socialism's imposition of a system of production quotas, with incentives everywhere to exceed the quotas, is a sure formula for universal shortages, just as exist under all around price and wage controls.)

At most, socialism merely changes the direction of the chaos. The government's control over production may make possible a greater production of some goods of special importance to itself, but it does so only at the expense of wreaking havoc throughout the rest of the economic system. This is because the government has no way of knowing the effects on the rest of the economic system of its securing the production of the goods to which it attaches special importance.

The requirements of enforcing a system of price and wage controls shed major light on the totalitarian nature of socialism — most obviously, of course, on that of the German or Nazi variant of socialism, but also on that of Soviet-style socialism as well.

We can start with the fact that the financial self-interest of sellers operating under price controls is to evade the price controls and raise their prices. Buyers otherwise unable to obtain goods are willing, indeed, eager to pay these higher prices as the means of securing the goods they want. In these circumstances, what is to stop prices from rising and a massive black market from developing?

The answer is *a combination of severe penalties combined with a great likelihood of being caught and then actually suffering those penalties*. Mere fines are not likely to provide much of a deterrent. They will be regarded simply as an additional business expense. If the government is serious about its price controls, it is necessary for it to impose penalties comparable to those for a major felony.

But the mere existence of such penalties is not enough. The government has to make it actually dangerous to conduct black-market transactions. It has to make people fear that in conducting such a transaction they might somehow be discovered by the police, and actually end up in jail. In order to create such fear, the government must develop an army of spies and secret informers. For example, the government must make a storekeeper and his customer fearful that if they engage in a black-market transaction, some other customer in the store will report them.

Because of the privacy and secrecy in which many black-market transactions can be conducted, the government must also make anyone contemplating a black-market transaction fearful that the other party might turn out to be a police agent trying to entrap him. The government must make people fearful even of their long-time associates, even of their friends and relatives, lest even they turn out to be informers.

And, finally, in order to obtain convictions, the government must place the decision about innocence or guilt in the case of black-market transactions in the hands of an administrative tribunal or its police agents on the spot. It cannot rely on jury trials, because it is unlikely that many juries can be found willing to bring in guilty verdicts in cases in which a man might have to go to jail for several years for the crime of selling a few pounds of meat or a pair of shoes above the ceiling price.

In sum, therefore, the requirements merely of enforcing price-control regulations is the adoption of essential features of a totalitarian state, namely, the establishment of the category of "economic crimes," in which the peaceful pursuit of material self-interest is treated as a criminal offense, and the establishment of a totalitarian police apparatus replete with spies and informers and the power of arbitrary arrest and imprisonment.

Clearly, the enforcement of price controls requires a government similar to that of Hitler's Germany or Stalin's Russia, in which practically anyone might turn out to be a police spy and in which a secret police exists and has the power to arrest and imprison people. If the government is unwilling to go to such lengths, then, to that extent, its price controls prove unenforceable and simply break down. The black market then assumes major proportions. (Incidentally, none of this is to suggest that price controls were the cause of the reign of terror instituted by the Nazis. The Nazis began their reign of terror well before the enactment of price controls. As a result, they enacted price controls in an environment ready made for their enforcement.)

Black market activity entails the commission of further crimes. Under de facto socialism, the production and sale of goods in the black market entails the defiance of the government's regulations concerning production and distribution, as well as the defiance of its price controls. For example, the goods themselves that are sold in the black market are intended by the government to be distributed in accordance with its plan, and not in the black market. The factors of production used to produce those goods are likewise intended by the government to be used in accordance with its plan, and not for the purpose of supplying the black market.

Under a system of de jure socialism, such as existed in Soviet Russia, in which the legal code of the country openly and explicitly makes the government the owner of the means of production, all black-market activity necessarily entails the misappropriation or theft of state property. For example, the factory workers or managers in Soviet Russia who turned out products that they sold in the black market were considered as stealing the raw materials supplied by the state.

Furthermore, in any type of socialist state, Nazi or Communist, the government's economic plan is part of the supreme law of the land. We all have a good idea of how chaotic the so-called planning process of socialism is. Its further disruption by workers and managers siphoning off materials and supplies to produce for the black market, is something which a socialist state is logically entitled to regard as an act of sabotage of its national economic plan. And *sabotage* is how the legal code of a socialist state does regard it. Consistent with this fact, black-market activity in a socialist country often carries the death penalty.

Now I think that a fundamental fact that explains the all-round reign of terror found under socialism is the incredible dilemma in which a socialist state places itself in relation to the masses of its citizens. On the one hand, it assumes full responsibility for the individual's economic well-being. Russian or Bolshevik-style socialism openly avows this responsibility — this is the main source of its popular appeal. On the other hand, in all of the ways one can imagine, a socialist state makes *an unbelievable botch of the job*. It makes the individual's life a nightmare.

Every day of his life, the citizen of a socialist state must spend time in endless waiting lines. For him, the problems Americans experienced in the gasoline shortages of the 1970s are normal; only he does not experience them in relation to gasoline — for he does not own a car and has no hope of ever owning one — but in relation to simple items of clothing, to vegetables, even to bread. Even worse he is frequently forced to work at a job that is not of his choice and which he therefore must certainly hate. (For under shortages, the government comes to decide the allocation of labor just as it does the allocation of the material factors of production.) And he lives in a condition of unbelievable overcrowding, with hardly ever a chance for privacy. (In the face of housing shortages, boarders are assigned to homes; families are compelled to share apartments. And a system of internal passports and visas is adopted to limit the severity of housing shortages in the more desirable areas of the country.) To put it mildly, a person forced to live in such conditions must seethe with resentment and hostility.

Now against whom would it be more logical for the citizens of a socialist state to direct their resentment and hostility than against that very socialist state itself? The same socialist state which has proclaimed its responsibility for their life, has promised them a life of bliss, and which *in fact* is responsible for giving them a life of hell. Indeed, the leaders of a socialist state live in a further dilemma, in that they daily encourage the people to believe that socialism is a perfect system whose bad results can only be the work of evil men. If that were true, who in reason could those evil men be but *the rulers themselves*, who have not only made life a hell, but have perverted an allegedly perfect system to do it?

It follows that the rulers of a socialist state must live in terror of the people. By the logic of their actions and their teachings, the boiling, seething resentment of the people should well up and swallow them in an orgy of bloody vengeance. The rulers sense this, even if they do not admit it openly; and thus their major concern is always to keep the lid on the citizenry.

Consequently, it is true but very inadequate merely to say such things as that socialism lacks freedom of the press and freedom of speech. Of course, it lacks these freedoms. If the government owns all the newspapers and publishing houses, if it decides for what purposes newsprint and paper are to be made available, then obviously nothing can be printed which the government does not want printed. If it owns all the meeting halls, no public speech or lecture

can be delivered which the government does not want delivered. But socialism goes far beyond the mere lack of freedom of press and speech.

A socialist government totally *annihilates* these freedoms. It turns the press and every public forum into a vehicle of hysterical propaganda in its own behalf, and it engages in the relentless persecution of everyone who dares to deviate by so much as an inch from its official party line.

The reason for these facts is the socialist rulers' terror of the people. To protect themselves, they must order the propaganda ministry and the secret police to work 'round the clock. The one, to constantly divert the people's attention from the responsibility of socialism, and of the rulers of socialism, for the people's misery. The other, to spirit away and silence anyone who might even remotely suggest the responsibility of socialism or its rulers — to spirit away anyone who begins to show signs of thinking for himself. It is because of the rulers' terror, and their desperate need to find scapegoats for the failures of socialism, that the press of a socialist country is always full of stories about foreign plots and sabotage, and about corruption and mismanagement on the part of subordinate officials, and why, periodically, it is necessary to unmask large-scale domestic plots and to sacrifice major officials and entire factions in giant purges.

It is because of their terror, and their desperate need to crush every breath even of potential opposition, that the rulers of socialism do not dare to allow even purely cultural activities that are not under the control of the state. For if people so much as assemble for an art show or poetry reading that is not controlled by the state, the rulers must fear the dissemination of dangerous ideas. Any unauthorized ideas are dangerous ideas, because they can lead people to begin thinking for themselves and thus to begin thinking about the nature of socialism and its rulers. The rulers must fear the spontaneous assembly of a handful of people in a room, and use the secret police and its apparatus of spies, informers, and terror either to stop such meetings or to make sure that their content is entirely innocuous from the point of view of the state.

Socialism cannot be ruled for very long except by terror. As soon as the terror is relaxed, resentment and hostility logically begin to well up against the rulers. The stage is thus set for a revolution or civil war. In fact, in the absence of terror, or, more correctly, a sufficient degree of terror, socialism would be characterized by an endless series of revolutions and civil wars, as each new group of rulers proved as incapable of making socialism function successfully as its predecessors before it. The inescapable inference to be drawn is that the terror actually experienced in the socialist countries was not simply the work of evil men, such as Stalin, but springs from the nature of the socialist system. Stalin could come to the fore because his unusual willingness and cunning in the use of terror were the specific characteristics most required by a ruler of socialism in order to remain in power. He rose to the top by a process of socialist natural selection: the selection of the worst.

I need to anticipate a possible misunderstanding concerning my thesis that socialism is totalitarian by its nature. This concerns the allegedly socialist countries run by Social Democrats, such as Sweden and the other Scandinavian countries, which are clearly not totalitarian dictatorships.

In such cases, it is necessary to realize that along with these countries not being totalitarian, they are also *not socialist*. Their governing parties may espouse socialism as their philosophy and their ultimate goal, but socialism is not what they have implemented as their economic system.

Their actual economic system is that of a hampered market economy, as Mises termed it. While more hampered than our own in important respects, their economic system is essentially similar to our own, in that the characteristic driving force of production and economic activity is not government decree but the initiative of private owners motivated by the prospect of private profit.

The reason that Social Democrats do not establish socialism when they come to power, is that they are unwilling to do what would be required. The establishment of socialism as an economic system requires a massive act of theft — the means of production must be seized from their owners and turned over to the state. Such seizure is virtually certain to provoke substantial resistance on the part of the owners, resistance which can be overcome only by use of massive force.

The Communists were and are willing to apply such force, as evidenced in Soviet Russia. Their character is that of armed robbers prepared to commit murder if that is what is necessary to carry out their robbery. The character of the Social Democrats in contrast is more like that of pickpockets, who may talk of pulling the big job someday, but who in fact are unwilling to do the killing that would be required, and so give up at the slightest sign of serious resistance.

As for the Nazis, they generally did not have to kill in order to seize the property of Germans other than Jews. This was because, as we have seen, they established socialism by stealth, through price controls, which served to maintain the outward guise and appearance of private ownership. The private owners were thus deprived of their property without knowing it and thus felt no need to defend it by force.

I think I have shown that socialism — actual socialism — is totalitarian by its very nature.

In the United States at the present time, we do not have socialism in any form. And we do not have a dictatorship, let alone a totalitarian dictatorship.

We also do not yet have Fascism, though we are moving towards it. Among the essential elements that are still lacking are one-party rule and censorship. We still have freedom of speech and press and free elections, though both have been undermined and their continued existence cannot be guaranteed.

What we have is a hampered market economy that is growing ever more hampered by ever more government intervention, and that is characterized by a growing loss of individual freedom. The growth of the government's economic intervention is synonymous with a loss of individual freedom because it means increasingly initiating the use of physical force to make people do what they do not voluntarily choose to do or prevent them from doing what they do voluntarily choose to do.

Since the individual is the best judge of his own interests, and at least as a rule seeks to do what it is in his interest to do and to avoid doing what harms his interest, it follows that the greater the

extent of government intervention, the greater the extent to which individuals are prevented from doing what benefits them and are instead compelled to do what causes them loss.

Today, in the United States, government spending, federal, state, and local, amounts to almost half of the monetary incomes of the portion of the citizenry that does not work for the government. Fifteen federal cabinet departments, and a much larger number of federal regulatory agencies, together, in most instances with counterparts at the state and local level, routinely intrude into virtually every area of the individual citizen's life. In countless ways he is taxed, compelled, and prohibited.

The effect of such massive government interference is unemployment, rising prices, falling real wages, a need to work longer and harder, and growing economic insecurity. The further effect is growing anger and resentment.

Though the government's policy of interventionism is their logical target, the anger and resentment people feel are typically directed at businessmen and the rich instead. This is a mistake which is fueled for the most part by an ignorant and envious intellectual establishment and media.

And in conformity with this attitude, since the collapse of the stock market bubble, which was in fact created by the Federal Reserve's policy of credit expansion and then pricked by its temporary abandonment of that policy, government prosecutors have adopted what appears to be a particularly vengeful policy toward executives guilty of financial dishonesty, as though their actions were responsible for the widespread losses resulting from the collapse of the bubble. Thus the former head of a major telecommunications company was recently given a twenty-five year prison sentence. Other top executives have suffered similarly.

Even more ominously, the government's power to obtain mere criminal indictments has become equivalent to the power to destroy a firm, as occurred in the case of Arthur Andersen, the major accounting firm. The threatened use of this power was then sufficient to force major insurance brokerage firms in the United States to change their managements to the satisfaction of New York State's Attorney General. There is no way to describe such developments other than as conviction and punishment without trial and as extortion by the government. These are major steps along a very dangerous path.

Fortunately, there is still sufficient freedom in the United States to undo all the damage that has been done. There is first of all the freedom to publicly name it and denounce it.

More fundamentally, there is the freedom to analyze and refute the ideas that underlie the destructive policies that have been adopted or that may be adopted. And that is what is critical. For the fundamental factor underlying interventionism and, of course, socialism as well, whether Nazi or Communist, is nothing but wrong ideas, above all, wrong ideas about economics and philosophy.

There is now an extensive and growing body of literature that presents sound ideas in these two vital fields. In my judgment, the two most important authors of this literature are Ludwig von Mises and Ayn Rand. An extensive knowledge of their writings is an indispensable prerequisite for success in the defense of individual freedom and the free market.

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