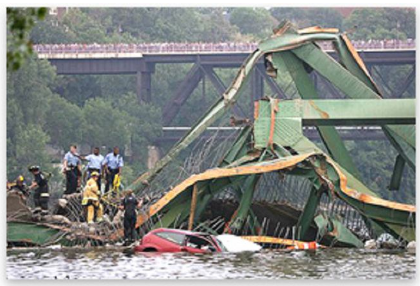
Roads, Bridges, and Socialist Capital

Mises Daily: Wednesday, August 15, 2007 by William L. Anderson (http://mises.org/daily/author/450/William-L-Anderson)



The horrific bridge collapse in Minnesota has brought its share of news and commentary, much of it predictable. For example, the *New York Times,* which is relentless in its insistence that society is improved only through the growth of state power, wrote what essentially is a front-page editorial (http://www.nytimes.com/2007/08/07/us/07highway.html?_r=1&hp&oref=slogin) calling for higher taxes in Minnesota:

> MINNEAPOLIS, Aug. 6 — In the past two years, Gov. Tim Pawlenty of Minnesota (http://topics.nytimes.com/top/news/national/usstatesterritoriesandpossessions/minnesota/index.html?inline=nyt-geo) twice vetoed legislation to raise the state's gas tax to pay for transportation needs.
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> Now, with at least five people dead in the collapse of the Interstate 35W bridge here, Mr. Pawlenty, a Republican (http://topics.nytimes.com/top/reference/timestopics/organizations/r/republican_party/index.html?inline=nyt-org) , appears to have had a change of heart.
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> "He's open to that," Brian McClung, a spokesman for the governor, said Monday of a higher gas tax. "He believes we need to do everything we can to address this situation and the extraordinary costs."

Thus, we see the theme of the story: another tight-fisted Republican gives in to the reality that only higher taxes will provide safe bridges and roads. In other words, it is only a matter of taxation and money spent that determines things like bridge safety. Moreover, one would expect that the *Times* and others on its side would hold that privately owned bridges would be even more dangerous, since they seem to believe that profit-minded owners would skimp on safety in their relentless search to become even wealthier.

(http://mises.org/daily/2668) (This pretty much is the argument that the *Times* and

its resident socialist, Paul Krugman, maintain about medical care. Private medical care, they argue, is more expensive, since doctors and hospitals need to "make a profit." Turn everything over to the state, which can operate without profits, and cost-savings magically appear, with even better care for everyone.)

Certainly the incentive issue is important. Brad Edmonds (http://mises.org/daily/2668) and Thomas Sowell (http://www.townhall.com/Columnists/ThomasSowell/2007/08/07/a_bridge_too_far_gone?page=full&comments=true) both dealt with the problems of incentives that politicians and bureaucrats face when determining where to spend tax monies. Yet the reason that we see this kind of deterioration in government-owned roads goes deeper than just the incentive problems, as important as they are. Indeed, we are seeing yet another example of the real problem of socialism, as Ludwig von Mises and the Austrians have been pointing out for nearly a century: the problem of economic calculation, and especially how socialism almost always leads to a depleted and obsolete capital stock.

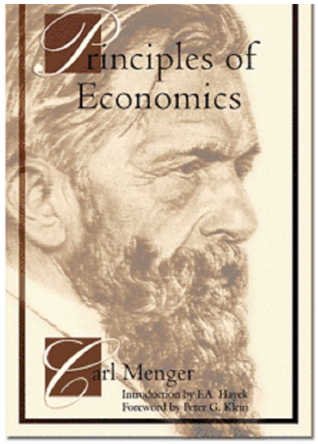
The mainstream economic paradigm tends to treat capital stock as a given, something that magically appears in the equation whenever economists wish to put together a mathematical equation that explains Everything We Need To Know about economics. Indeed, this was the approach that the socialists took in arguing with Mises and F.A. Hayek in the "Socialist Calculation Debate" of the 1930s and beyond.

Yet, capital and capital stock are *not* simply givens. Capital must come from somewhere, and the laws of economics apply to capital as they do everywhere else. Capital formation can be explained through economic analysis, as the Austrians well demonstrate.

For example, in the first chapter of his groundbreaking 1871 *Principles of Economics* (http://mises.org/store/Principles-of-Economics-P239C0.aspx) , Carl Menger points out (http://mises.org/etexts/menger/one.asp) that advances in wealth and civilization are due not necessarily to advances in division of labor (as Adam Smith had said a century earlier), but rather to capital, or *higher-order goods*:

> In its most primitive form, a collecting economy is confined to gathering those goods of lowest order that happen to be offered by nature. Since economizing individuals exert no influence on the production of these goods, their origin is independent of the wishes and needs of men, and hence, so far as they are concerned, accidental. But if men abandon this most primitive form of economy, investigate the ways in which things may be combined in a causal process for the production of consumption goods, take possession of things capable of being so combined, and treat them as goods of higher order, they will obtain consumption goods that are as truly the results of natural processes as the consumption goods of a primitive collecting economy, but the available quantities of these goods will no longer be independent of the wishes and needs of men. Instead, the quantities of consumption goods will be determined by a process that is in the power of men and is regulated by human purposes within the limits set by natural laws. (http://mises.org/store

/Principles-of-Economics-P239C0.aspx)



> Consumption goods, which before were the product of an accidental concurrence of the circumstances of their origin, become products of human will, within the limits set by natural laws, as soon as men have recognized these circumstances and have achieved control of them. The quantities of consumption goods at human disposal are limited only by the extent of human knowledge of the causal connections between things, and by the extent of human control over these things. Increasing understanding of the causal connections between things and human welfare, and increasing control of the less proximate conditions responsible for human welfare, have led mankind, therefore, from a state of barbarism and the deepest misery to its present stage of civilization and well-being, and have changed vast regions inhabited by a few miserable, excessively poor, men into densely populated civilized countries. Nothing is more certain than that the degree of economic progress of mankind will still, in future epochs, be commensurate with the degree of progress of human knowledge.

As Menger painstakingly points out in his *Principles*, the valuation that individuals place upon the goods of lowest order (i.e., consumer goods) ultimately will determine the value of the higher-order goods, or what economists call the factors of production. This relationship is what permits the entrepreneur and business owner to calculate the value of capital goods, something that Mises and others said was not possible under a socialist regime.

Furthermore, within a private property order, capital is an *asset*. That is because the capital ultimately produces the consumer goods that provide profits to the entrepreneurs, and it is here where the owners of capital goods have an incentive to keep capital in good repair.

"When the state is sued, liability ultimately falls upon the taxpayers, not the politicians and bureaucrats."

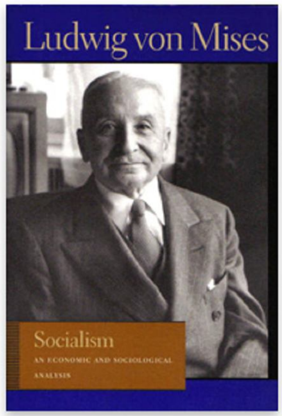
Under socialism, as I have argued elsewhere (http://mises.org/daily/1031) , capital becomes a *liability*, not an asset. That is because capital brings no income to its owners; once it is established, it is just another good that needs to be maintained. That is why the communist nations seemed to be in a time warp, as socialist authorities had no reason to modernize or even maintain capital beyond minimal standards.

For example, automobiles manufactured in East Germany in 1990, just before the country disappeared as a political entity, were based upon the 1948 models. Since no profits were made on automobiles like the Wartburgs (http://en.wikipedia.org/wiki/Wartburg_(car)) (which resembled go-carts at best), and since the East German government did not want too many of its citizens to enjoy the relative freedom that automobiles provided, there was no reason for the government to modernize its capital stock in automobile factories.

Lest the reader think that it is too great a leap to compare a collapsing bridge in Minneapolis with the now-defunct East German Wartburg, think again. Neither the US government nor the State of Minnesota, which jointly "own" the bridge that collapsed, received "profits" from that bridge. Once it was built, it represented *pure cost* to these governments.

Thus, we then see the sets of incentives of which both Edmonds and Sowell spoke now making more sense. The owners of a privately owned bridge would have the *incentive* to keep it in repair because the bridge is bringing them income; loss of that piece of capital is the loss of the income that flows from it. Therefore, we see the economic calculation for privately owned capital at work.

Governments, on the other hand, operate according to a very different economic calculus. Since the bridge does not bring an income to the state, at least directly, it is much easier for politicians to want to spend on those things that provide fame, glory, and *votes*. In fact, in a perverse way, the bridge collapse in Minnesota provides a *benefit* to politicians, since they now have an excuse to confiscate *even more taxes* from individuals, thus expanding the power of the state.



(http://mises.org/store/Socialism-P55C0.aspx) $25 (http://mises.org/store/Socialism-P55C0.aspx)

"Under socialism, capital becomes a liability, not an asset."

Yes, there will be some short-term lawsuits that will follow, but no one who actually was responsible for the sorry maintenance record of the bridge will pay a penny, since when the state is sued, liability ultimately falls upon the taxpayers, not the politicians and bureaucrats.

As we can see from the *New York Times* article, raising taxes in the wake of the bridge collapse will provide a *political benefit* to the governor of Minnesota, since he will be seen as trying to "be responsible." However, the real problem is the fact that under socialism, the economic calculus is perverse and 180 degrees away from what would be economic calculation in a world of private property.

One doubts, however, that the *Times* ever will editorialize against socialism, and certainly not road and bridge socialism. Yet, the Austrians once again are able to understand not only why the bridge was so poorly maintained that it collapsed, but also why this incident will repeat itself over and over again.

William Anderson, an adjunct scholar of the Mises Institute, teaches economics at Frostburg State University. Send him mail (mailto:banderson@frostburg.edu) . See his articles (http://mises.org/articles.aspx?AuthorId=17) . Comment on the blog (http://blog.mises.org/archives/006988.asp) .