

Economic Insights

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Ludwig von Mises

This *Economic Insights* features one of the free economy's most famous intellectual warriors, Ludwig von Mises. Working from within the Austrian paradigm, in 1912 Mises became the first to apply marginal utility theory to money itself, in *The Theory of Money and Credit*, his first major work. He triggered one of economics' most contentious and enlightening debates a few years later with his claim that central planning, regardless of its undesirability on other grounds, was impossible to implement successfully. Holding to this claim and being an uncompromising proponent of classical liberalism impaired Mises' academic reputation for the remainder of his life. Yet he never stopped working, and he produced some of the century's most controversial and brilliant books, among them *Theory and History*, *Socialism*, *Omnipotent Government*, *Bureaucracy*, *Planning for Freedom*, *Liberalism*, *Epistemological Problems of Economics*, *Planned Chaos* and his greatest achievement, *Human Action*.

We often hear the resigned cry that one person can't change the world. But many individuals have done so, and Ludwig von Mises' life stands as one more example of what a determined, committed individual can do to change history's course.

— **Bob McTeer**
President
Federal Reserve Bank of Dallas

Ludwig Elder von Mises' life was testament to the saying that one man with courage makes a majority.

Mises was born in 1881 in Lemberg, Austria-Hungary. He enrolled in the University of Vienna in 1900 and received his doctorate in law and economics in 1906. A student of Eugen von Böhm-Bawerk—himself an admirer of Carl Menger, father of the Austrian school of economics—Mises became one of the university's most prominent figures. After graduating, Mises worked for the Vienna Chamber of Commerce as an economist and economic advisor to the Austrian government.

In 1926 he founded the first entity dedicated solely to the study of macroeconomic fluctuations, the Austrian Institute for Trade Cycle Research.¹ While pursuing this interest, he taught an economic theory course at the University of Vienna without pay and ran a semi-monthly seminar at the chamber offices that drew some of the most notable names in economics and the social sciences, including F. A. Hayek, Gottfried Haberler, Wilhelm Röpke, Alfred Shutz, Erich Voegelin, Paul Rosenstein-Rodan,

Fritz Machlup, Oskar Morgenstern and Lionel Robbins.

Between his departure from Vienna in 1934 and his decision to go to America after the Germans breached the Maginot Line in June 1940, Mises taught in Geneva at the Graduate Institute of International Studies. He flourished in the Swiss city and was very reluctant to leave, especially as his English was much weaker than his French. But the fall of France, the antipathy of the Nazi government—which blacklisted him—and his wife Margit's pleadings made his departure a near certainty. Since the early 1930s, Mises had warned those close to him of impending political disaster in Austria and urged them to emigrate. American economist Benjamin Anderson, then with Chase Manhattan Bank, supported the couple's bid for nonquota visas, which allowed them immediate entry into the United States, provided they could get there. It proved to be a difficult, harrowing journey, but when it ended, Mises at last stood on American soil.²

The early years in his new country were not easy ones for Mises. He had

The Problem of Socialist Economic Calculation

The problem of economic calculation is the fundamental problem of Socialism. That for decades people could write and talk about Socialism without touching this problem only shows how devastating were the effects of the Marxian prohibition on scientific scrutiny of the nature and working of a socialist economy.

To prove that economic calculation would be impossible in the socialist community is to prove also that Socialism is impracticable. Everything brought forward in favour of Socialism during the last hundred years, in thousands of writings and speeches, all the blood which has been spilt by the supporters of Socialism, cannot make Socialism workable. The masses may long for it ever so ardently, innumerable revolutions and wars may be fought for it, still it will never be realized. Every attempt to carry it out will lead to syndicalism or, by some other route, to chaos, which will quickly dissolve the society, based upon the division of labour, into tiny autarkous groups.

The discovery of this fact is clearly most inconvenient for the socialist parties, and socialists of all kinds have poured out attempts to refute my arguments and to invent a system of economic calculation for Socialism. They have not been successful. ■

Praxeology Versus Positivist Method in Social Science

...Behaviorism and positivism want to apply the methods of the empirical natural sciences to the reality of human action. They interpret it as a response to stimuli. But these stimuli themselves are not open to description by the methods of the natural sciences. Every attempt to describe them must refer to the meaning which acting men attach to them. We may call the offering of a commodity for sale a "stimulus." But what is essential in such an offer and distinguishes it from other offers cannot be described without entering into the meaning which the acting parties attribute to the situation. No dialectical artifice can spirit away the fact that man is driven by the aim to attain certain ends. It is this purposeful behavior—viz., action—that is the subject matter of our science. We cannot approach our subject if we disregard the meaning which acting man attaches to the situation, i.e., the given state of affairs, and to his own behavior with regard to this situation.

It is not appropriate for the physicist to search for final causes because there is no indication that events which are the subject matter of physics are to be interpreted as the outcome of actions of a being, aiming at ends in a human way. Nor is it appropriate for the praxeologist to disregard the operation of the acting being's volition and intention; they are undoubtedly given facts. If he were to disregard it, he would cease to study human action. Very often—but not always—the events concerned can be investigated both from the point of view of praxeology and from the natural sciences. But he who deals with the discharging of a firearm from the physical and chemical point of view is not a praxeologist. He neglects the very problems which the science of purposeful human behavior aims to clarify....

The postulates of positivism and kindred schools of metaphysics are therefore illusory. It is impossible to reform the sciences of human action according to the pattern of physics and the other natural sciences. There is no means to establish an a posteriori theory of human conduct and social events. History can neither prove nor disprove any general statement in the manner in which the natural sciences accept or reject a hypothesis on the ground of laboratory experiments.■

—*Human Action*, 26–7, 31.

abandoned his research notes and library, as well as a well-paid position in Geneva, for uncertain circumstances in the New York of 1940. Although Mises had a temporary appointment as lecturer and research associate professor at the University of California–Berkeley, he remained in New York because he thought it the country's cultural center. As Mises never did hold a full-time teaching position at any American university, this decision had large consequences for his career and, therefore, for his prestige in U.S. academic circles. It also meant years of frugality and dissaving for him and his wife.

The Rockefeller Foundation, through the National Bureau of Economic Research, provided some support in the form of a once-renewed, two-year research grant that ended in early 1945, just as Mises began his long association with the Graduate School of Administration at New York University. He was hired to teach a one-semester course but remained as a visiting professor until his retirement in 1969. In 1948 he began his famous Thursday evening seminar. He also formed a relationship with the Foundation for Economic Education, writing for its publication *The Freeman* and conducting seminars.

Another fortuitous relationship for Mises was the friendship of Henry Hazlitt.³ Hazlitt saw to it that Mises' works were reviewed in major national media and promoted him among those in a position to help support Mises' research and writing over the next three decades.

During this time—between 1944 and 1960—Mises wrote prolifically, finishing several books, among them *Omnipotent Government*, *Bureaucracy*, *Theory and History* and his masterpiece, *Human Action: A Treatise on Economics*.⁴ Although often difficult for those without formal training in economics to fully comprehend, these books have been in print continuously and sold well. Mises' influence has grown with every person who has discovered and read him.

His NYU seminars were the other main avenue by which Mises helped shape political and economic events.

The Origins of Socialist Ideology

The truth is that the concept of socialism did not originate from the "proletarian mind." No proletarian or son of a proletarian contributed any substantial idea to the socialist ideology. The intellectual fathers of socialism were members of the intelligentsia, scions of the "bourgeoisie." Marx himself was the son of a well-to-do lawyer. He attended a German *Gymnasium*, the school all Marxians and other socialists denounce as the main offshoot of the bourgeois system of education, and his family supported him through all the years of his studies; he did not work his way through the university. He married the daughter of a member of the German nobility; his brother-in-law was Prussian minister of the interior and as such head of the Prussian police.... Friedrich Engels was the son of a wealthy manufacturer....

The workers were never enthusiastic about socialism. They supported the union movement whose striving after higher wages Marx despised as useless. They asked for all those measures of government interference with business which Marx branded petty-bourgeois nonsense. They opposed technological improvement, in earlier days by destroying new machines, later by union pressure and compulsion in favor of feather-bedding. Syndicalism—appropriation of the enterprises by the workers employed in them—is a program that the workers developed spontaneously. But socialism was brought to the masses by intellectuals of bourgeois background. Dining and wine together in the luxurious London homes and country seats of late Victorian "society," ladies and gentlemen in fashionable evening clothes concocted schemes for converting the British proletarians to the socialist creed.■

—*Theory and History*, 121–2.

Many of the influential and talented individuals who gathered for the weekly seminars became university professors themselves, further spreading the core ideas of Austrian economic theory. Throughout this period, however, Mises remained an outcast professionally, and unlike colleagues such as Hayek, he never secured a conventional full-time teaching position despite his

reputation, knowledge and publication record.⁵ This was due, said his critics, to his “intransigence,” a word used as a synonym for Mises’ inability to compromise with the socialist, proplanning policies that dominated domestic economic agendas in most nations after World War II.⁶

And there was, for prospective employers and his political opponents, even more. In 1920 Mises wrote the article that triggered the so-called socialist calculation debate, in which he (and later, other Austrian theorists—notably Hayek) claimed socialism was doomed because of its inability to rationally allocate resources. This made him well-known not only as an opponent of planning in all its rhetorical forms but also as the person who first questioned its very possibility.⁷

This was a large ideological load to carry between 1945 and 1970, a period characterized by a growing enthusiasm for government intervention and central economic fine-tuning. Mises and the small group around him stood mostly alone in their advocacy of laissez-faire and disavowal of government attempts to manipulate free market outcomes, whether for purely economic reasons or to meet the growing demand for “social justice.” But Mises never wavered in his conviction that only free markets could help people achieve prosperity and dignity.

The disintegration of the Soviet Union, and the sea change toward global capitalism that caused it, bore out Mises’ prediction that socialism could not work. He adhered to that belief in the face of claims by most economists that he was wrong, that he had lost the intellectual debate on this point to Oscar Lange and that not only could socialism work but it might even outperform market-based economies.⁸ It is unfortunate that Nobel awards in economics can only be given to the living, for Mises’ analysis of the inevitable, long-run failing of collectivist schemes stands empirically verified as one of the greatest achievements in economic theory.

Mises died in October 1973 in New York City. His legacy—in the form of voluminous writing on many important

subjects, rich in theoretical innovation and wrinkles from his fertile mind—continues to attract new adherents, both to Austrian economics and to the profession of economics more generally. An institute at Auburn University that bears his name continues to spread his ideas and make many of his writings publicly available. In 1974 his favorite student—F. A. Hayek—won a joint Nobel Prize in economics for monetary theory work clearly based on Mises’ insights in *The Theory of Money and Credit* and his formation of Austrian business cycle theory.

Mises has been dead for three decades, but his intellectual influence still surrounds us and always will.■

—Robert L. Formaini
Senior Economist

Notes

¹ Mises (1969a) calls the entity he founded the Austrian Institute for Trade Cycle Research. But he later (Mises 1978, 76) calls it the Austrian Institute for Business Cycle Research, as does Rothbard (1987), and both use the 1926 founding date. Margit von Mises (1976) supplies yet another name and a different founding date—Austrian Institute for Business Research and 1927.

² Margit von Mises (1976, chap. 4).

³ Readers may wish to consult Formaini (vol. 6).

⁴ Until a badly handled reprinting of *Human Action* in 1963, Mises had an ongoing relationship with Yale University Press, which brought out *Omnipotent Government* and *Bureaucracy* in 1944 and reprinted *Socialism* (1951), *The Theory of Money and Credit* (1953) and *Theory and History* (1957).

Foreseeing California's Energy Crisis in 1927

...To be sure, it is conceded [by prosocialist intellectuals] that socialism, the communal ownership of the means of production, is altogether, or at least for the present, impracticable. But, on the other hand, it is asserted that unhampered private ownership of the means of production is also an evil. Thus people want to create a third way, a form of society standing midway between private ownership...and communal ownership.... Private property will be permitted to exist, but the ways in which the means of production are employed by the entrepreneurs, capitalists, and landowners will be regulated, guided, and controlled by authoritarian decrees and prohibitions....

...The crucial acts of intervention with which we have to deal aim at fixing the prices of goods and services at a height different from what the unhampered market would have determined....

...If a lower [than free market] price is decreed by government, the proceeds will fall short of the costs. Merchants and manufacturers will, therefore, unless the shortage of the goods involved would cause them to deteriorate rapidly in value, withhold their merchandise from the market in the hope of more favorable times, perhaps in the expectation that the government order will soon be rescinded. If the authorities do not want the goods concerned to disappear altogether from the market as a result of their interference, they cannot limit themselves to fixing the price; they must at the same time also decree that all stocks on hand be sold at the prescribed price.

But even this does not suffice. At the price determined on the unhampered market, demand and supply would have coincided. Now, because the price was fixed lower by government decree, the demand has increased while the supply has remained unchanged. The stocks on hand are not sufficient to satisfy fully all who are prepared to pay the prescribed price. A part of the demand will remain unsatisfied....If the government wishes to avoid this consequence of its intervention, which runs counter to its intentions, it must add rationing to price control and compulsory sale: a governmental regulation must determine how much of a commodity may be supplied to each individual applicant at the prescribed price.

But once the supplies already on hand at the moment of the government's intervention are exhausted, an incomparably more difficult problem arises. Since production is no longer profitable if the goods are to be sold at the price fixed by the government, it will be reduced or entirely suspended. If the government wishes to have production continue, it must compel the manufacturers to produce, and, to this end, it must also fix the prices of raw materials and half-finished goods and the wages of labor....

If the Government will not set this right again by desisting, from its interference, i.e., by rescinding the price controls, then it must follow up the first step with others....Either capitalism or socialism: there exists no middle way.■

—*Liberalism*, chapter 2, section 5.

⁵ Formaini (vol. 4).

⁶ Rueff (1956). When he wasn't being labeled "intransigent" for his political support for free trade, Mises was called other things for his belief in *a priori* reasoning during the heyday of the positivist–empiricist trend in economics. For one example, see Blaug (1980, 93).

⁷ Mises (1975).

⁸ For an example of a prosocialist theoretical refutation of Mises' antiplanning claim, see Schumpeter (1976, 172–73).

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The Importance of Clear Terminology for Clear Thinking

Government is an apparatus of compulsion and coercion. It has the power to obtain obedience by force. The political sovereign, be it an autocrat or the people as represented by its mandataries, has power to crush rebellions as long as his ideological might subsists.

The position which entrepreneurs and capitalists occupy in the market economy is of a different character. A "chocolate king" has no power over the consumers, his patrons. He does not rule the consumers, he serves them.... He loses his "kingdom" if the consumers prefer to spend their pennies elsewhere. Nor does he "rule" his workers. He hires their services by paying them precisely that amount which the consumers are ready to restore to him in buying the product. Still less do the capitalists and entrepreneurs exercise political control. The civilized nations of Europe and America were long controlled by governments which did not considerably hinder the operation of the market economy. Today these countries too are dominated by parties which are hostile to capitalism and believe that every harm inflicted upon capitalists and entrepreneurs is extremely beneficial to the people.

In an unhampered market economy the capitalists and entrepreneurs cannot expect an advantage from bribing officeholders and politicians. On the other hand, the officeholders and politicians are not in a position to blackmail businessmen and to extort graft from them. In an interventionist country powerful pressure groups are intent upon securing for their members privileges at the expense of weaker groups and individuals. Then the businessmen may deem it expedient to protect themselves against discriminatory acts on the part of the executive officers and the legislature by bribery; once used to such methods, they may try to employ them in order to secure privileges for themselves.... [T]he fact that businessmen bribe politicians and officeholders and are blackmailed by such people does not indicate that they are supreme and rule the countries. It is those ruled—and not the rulers—who bribe and are paying tribute.... [The businessmen] venture to preserve the free enterprise system and to defend themselves against discrimination by legitimate democratic methods. They form trade associations and try to influence public opinion. The results of these endeavors have been rather poor.... The best that they have been able to achieve is to delay for a while some especially obnoxious measures.

Demagogues misrepresent this state of affairs in the crassest way. They tell us that these associations of bankers and manufacturers are the true rulers of their countries and that the whole apparatus of what they call "plutodemocratic" government is dominated by them. A simple enumeration of the laws passed in the last decades by any country's legislature is enough to explode such legends. ■

— *Human Action*, 272–73.

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Suggested Reading

Several Mises books can be downloaded from www.mises.org.

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