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Ludwig von Mises on His 120th Birthday

Gerard Radnitzky

Ludwig von Mises was an uncompromising liberal who lived his entire life in the era of rising social-democrat consensus.

September 29 this year marked the 120th anniversary of the birth of Ludwig von Mises—a leader of ‘Austrian economics’ whose influence over policy is growing around the world. To mark the occasion, *Policy* asked Wolfgang Kasper to translate, adapt and expand a recent piece on Mises by a leading European liberal, the philosopher Gerard Radnitzky.

Ludwig von Mises is considered by many insiders as the most important of the four greatest philosophers of markets and freedom who have written in German—Friedrich von Hayek, Wilhelm Röpke, Ludwig Erhard and Mises—if not the most important classical liberal economist and social philosopher of the 20th century. Mises, almost forgotten in Europe, has undergone a remarkable revival in the United States, where there is a Mises Institute and a university bearing his name.

Mises the man

Mises was born on 29 September 1881 in Lemberg, then part of the Austro-Hungarian Empire (now Lwiv in Ukraine), where his father was posted temporarily. He died on 10 August 1973 in New York.

After school and tertiary studies of jurisprudence in Vienna, he began a long career (1909-1934) as the economic councillor of the Austrian Chamber of Commerce, appraising legislation and offering advice on public policy. In 1913, Vienna University made him an honorary professor, and in 1918 he started a private seminar where a circle of outstanding intellectuals, prominent international visitors and young scholars met weekly to discuss issues in economics, sociology, history

and law. He was the admired teacher of such outstanding young economists as Friedrich Hayek, Gottfried Haberler and Fritz Machlup, who attended the Mises seminar. Mises gained an international reputation in the 1920s and 1930s for his exchanges with the Polish socialist economist Oskar Lange, in which he proved conclusively that central planning could at best only coordinate the replication of unchanging production patterns. It was bound to fail abysmally at innovation or coping with evolving circumstances.¹

Mises had written his higher level professorial dissertation in 1912 at the University of Vienna about the Theory of Money and Credit. It became a classic that has hardly been surpassed to date.² He integrated marginal utility theory into monetary theory, advanced purchasing parity theory and defined ‘an ideal money with an unchanged inherent value’. Different from the macro-mechanic theories of Anglo-Saxon economics and the Chicago School, Mises showed that inflation redistributed incomes, typically from the poor to the rich, even if it had no long term effect on aggregate income. Later, Mises worked on the theory of business cycles and the critique of interventionism. He made major contributions to the theory and policy of institutions and order.

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Predicting and fearing the spread of national socialism, he left Austria and found shelter in Switzerland in 1934 where he taught at the Graduate Institute of International Studies in Geneva. In 1940, he fled to New York. This was the era of Roosevelt's New Deal. While numerous socialist and communist exiles were welcomed into US academies, Mises had to survive on small grants. Only in 1945 was he made a Visiting Professor at the Graduate School of Business Administration at New York University, where he worked until what he called his 'early retirement' in 1969, aged 88.

Mises' biography illustrates the dangers of a century in which Europe destroyed itself. He was an uncompromising liberal who lived his entire life in the era of rising social-democrat consensus. He has rightly been called 'a rock in the swirling collectivist currents'. It is revealing that Mises was never offered a chair in a government-financed university. His studies were independently funded. Once, he remarked to his friend Henry Hazlitt: 'A university professorship was closed to me inasmuch as the universities were searching for interventionists and socialists'.³

Mises persevered as a persistent freedom fighter. Different from his pupil Hayek, who did so and had to do so to be heard, Mises never made compromises and concessions. Mises accepted that he—arguably the greatest economist of his century—would never qualify for a Nobel Prize.⁴ In 1947, he was one of the founding fathers of the Mont Pèlerin Society, an international academy which has had much influence in the liberal policy changes of the second half of the 20th century, from Ludwig Erhard's reforms in postwar Germany to the liberal revivals under Margaret Thatcher, Ronald Reagan, Roger Douglas and Ruth Richardson in New Zealand, and the collapse of communism.

On government

Mises defined the state as a territorial monopolist with powers to coerce. For him, the only role of government is the provision of security and protection of life, body and property. Anything beyond that is evil. This is exactly what United States President Thomas Jefferson advocated in his Inaugural Address in the year 1801. Nowadays, only a very slim band of libertarians would

share that position, which goes to demonstrate the extent to which the *Zeitgeist*—the popular consensus of the times—has shifted to collectivism. But note what Goethe had to say: 'What they call the spirit of the age (*Zeitgeist*) is but the spirit of the lords and masters!'

Collectivism has become a demon that has instigated wars and robbed generations of young people of their best years. Never before in history was the sphere of politics extended as far as in the 20th century, the century of most awful wars. Mises saw the causes for this in an excess of government regulations, depriving individuals of their freedom. Stalin nationalised the means of production. Hitler said that he would 'instead, socialise the people'. Roosevelt needed America's entry into the war to continue the New Deal.

In his posthumously published memoirs, Mises showed just how well he understood the real politics of the 1930s. He saw clearly how British policies drove Mussolini into Hitler's arms and how this deprived independent Austria of its only support. Mises also recognised that the nationalisation of monetary systems enabled the state to wage war to an extent and with a cruelty which were unprecedented.⁵ In the tradition of Misesian monetary analysis, his student Hayek later argued eloquently for the denationalisation of money and competition among currencies.

Mises certainly pleaded for a minimal state, although he did not go as far as some contemporary representatives of Austrian economics, for example Anthony de Jasay who argues that politics will always erode the minimal state.⁶

On socialism, hard and soft

In reaction to the Soviet experiment, Mises published an essay entitled 'The Impossibility of Economic Calculation in a Socialist Economy' in 1920. From this evolved his book *Socialism* which has appeared in numerous editions.⁷ At the time, the word 'socialism' described fundamentalist, hard socialism with coercive central planning and state capitalism, the government being the buyer, seller and adjudicator. Mises demonstrated with cogent logic that an evaluation of economic costs and benefits was impossible without prices that had been formed in free markets. He predicted that the Soviet Union would implode one

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day. Had he attached a precise timing, his scientific prediction would have become an unscientific prophesy.

Mises rowed valiantly against the current, as a few horrifying pointers will show. Paul Samuelson, the first to win the Economics Nobel Prize, wrote in the 1989 edition of his bestseller *Economics* (p. 837) that the Soviet Union had proven that a socialist command economy could prosper. And that in 1989! Other Nobel Prize winners—Gunnar Myrdal, Trygve Haavelmo, Maurice Allais, and Kenneth Arrow—pronounced similar views. None has apologised for his errors.

By the 1960s, the term 'socialism' no longer referred exclusively to coercive central planning, but also the milder form of creeping socialism, which comes gradually and softly, masked by the sweet poison of the welfare state. To address this, Mises added a chapter to the third edition of his magnum opus *Human Action* (1966) about the 'the newest form of interventionism, the German social market economy'.⁸ He saw the social market economy as a kind of hamstrung, kidnapped market economy. It was based on what is called the 'John Stuart Mill fallacy', the idea that production and redistribution can be treated as if totally separate. In reality, they are but two faces of the same coin. Redistributive policies allow one sub-group of society (the political class, bureaucracy, social welfare recipients etc.) to extract parasitic gains from the others, the productive part of the economy (industry, commerce, etc.). That reduces the rewards for enterprise and production and cuts innovation and employment.

Mises had analysed the redistributive 'social market' even before it was put in practice in postwar Germany. Hayek later also attacked this new form of soft socialism.⁹ He showed that soft socialism—social democratism—will in the long run produce the same results as hard, fundamentalist socialism, namely the bankruptcy of government and enormous opportunity costs: the prosperity that society misses out on as compared to a genuine free market order. Mises also argued that all sorts of socialism lead to an unfree society. In *Bureaucracy* he explained the sources of inefficiency under bureaucratic management and contrasted this with entrepreneurial management.¹⁰ This slim work did more to lay the basis for privatisation in the 1980s and 1990s than any other. Yet mainstream economists still have not taken note of this analysis.

Mises contrasted socialism with the market economy in the fullest sense of the word, with sovereign consumers, no political privileges, no protectionism, no rent seeking—a free economy open to international

exchanges of knowledge, goods and services.¹¹ New technologies, such as the internet, e-cash, and offshore banking, seem indeed seem to bear the potential of modern reality coming somewhat closer to the Misesian ideal. This is so because the protagonists of these new technologies do not fight for influence over government; they can function largely without it. Mises also showed in a much-reprinted essay (1956)¹² why most intellectuals find the spontaneous order of markets rather unappealing: in a competitive market order, intellectuals do not play a very exalted role.

Mises' lasting influence

Ludwig von Mises had a profound influence on the generation of postwar economist-philosophers who overturned the social-democratic/Keynesian tide. His students helped to pave the way for the rollback of the welfare state, privatisation and regulatory reform during the last two decades of the 20th century—Murray Rothbard, Israel Kirzner, Gerald P. O'Driscoll, Hans-Hermann Hoppe, alongside his earlier students, Hayek, Haberler, Lachmann and Machlup. Mises' influence owes much to his brilliant style and crystal clear theories about markets, capitalism and liberty. The stringent logic in his refutations of socialism, statism, and the belief in the Nanny State, and his castigation of the freedom-threatening arrogations of power by the political class, did much to turn the tide. Mises's writings come in handy when you need consolation after feeling annoyed again by the collectivist *Zeitgeist*. He represents an ideal and he lived by this ideal. His writings enhance one's appetite for liberal thought.

Mises's critique of interventionism is highly relevant today. The meeting of the Mont Pèlerin Society in Santiago de Chile in 2000 focused on interventionism in economic policy and its influence on social mentality. The design of economic policy in Europe and elsewhere, which is now advertised as the 'New Left' or the 'New Centre' by the likes of Tony Blair and Gerhard Schröder, masks its socialist content to facilitate the grab for power. Mises taught us that this approach will lead to excessive taxes and a tightly spun net of regulations and directives. He interpreted the share of the government's take as a crude indicator of the citizens' disenfranchisement. With growing government activism, Mises predicted a shadow economy would emerge. But, different from the opinions spread by government-dependent media, the parallel shadow economy would not displace legal economic activity. To the contrary, it amounted to people's capitalism

from below, which complements and increases the private sphere. Moreover, black markets change popular mentality and, eventually, political life.

Mises sacrificed none of his insights, even those which contradicted the popular consensus most radically, to current fashions of political correctness. And he never lost sight of the first-best world of economic and political freedom.

In the end, a stroke of good fortune

It was widely believed that Mises's papers and books were burnt in 1938 when Austria was annexed by Germany. Indeed, the Gestapo confiscated everything he had left behind in Vienna. But they kept the Mises collection. In 1945, the Gestapo archives were stolen by the Soviet secret service NKWD and moved to Moscow. There, researchers can now study the Mises early manuscripts. In the 20th century, even some manuscripts have had a weird and wonderful fate.

Endnotes

- ¹ L. von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981). The German original was published in 1922.
- ² L. von Mises, *The Theory of Money and Credit* (New Haven: Yale University Press, 1959). The German original was published in 1912. And L. S. Moss, *The Economics of Ludwig von Mises* (Kansas City: Sheed and Ward, 1976).
- ³ Dustjacket to L. von Mises, *Notes and Recollections* (South Holland, IL: Libertarian Press, 1978).
- ⁴ See Rothbard and Hazlitt in L. von Mises, *Planning for Freedom* (South Holland, IL: Libertarian Press, 1980), 234-275.
- ⁵ L. von Mises, *Omnipotent Government* (New Haven: Yale University Press, 1944).
- ⁶ A. de Jasay, *The State* (Oxford: Blackwell, 1985); and *Against Politics. On Government: Anarchy and Order* (London: Routledge, 1997).
- ⁷ L. von Mises, *Socialism: An Economic and Sociological Analysis*, see n.1.
- ⁸ L. von Mises, *Human Action: A Treatise on Economics*, 3rd edn. (Chicago: H. Regnery and London: W. Hodge & Co., 1966). The German original was published in 1940.
- ⁹ See the foreword to the 1976 German edition of Hayek's *The Road to Serfdom*, 2nd edn. (Chicago: University of Chicago Press, 1944). Numerous editions are available.
- ¹⁰ L. von Mises, *Bureaucracy* (New Haven: Yale University Press, 1962). The German original was published in 1944.
- ¹¹ L. von Mises, *The Free and Prosperous Commonwealth: An Exposition of the Ideas of Classical Liberalism* (Princeton: Van Nostrand, 1962). The German original was published in 1927.
- ¹² L. von Mises, *The Anti-Capitalist Mentality* (Princeton: Van Nostrand, 1956).