

**LUDWIG VON MISES:  
THE MAN AND HIS ECONOMICS**

**THE COLLECTED WORKS OF ISRAEL M. KIRZNER**

*Austrian Subjectivism and the Emergence of*

*Entrepreneurship Theory*

*Competition, Economic Planning, and the*

*Knowledge Problem*

*Competition and Entrepreneurship*

*Discovery, Capitalism, and Distributive Justice*

*The Economic Point of View*

*Essays on Capital and Interest*

*The Essence of Entrepreneurship and the Nature and*

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*Ludwig von Mises: The Man and His Economics*

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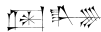
*and the Legacy of Austrian Economics*

ISRAEL M. KIRZNER

# Ludwig von Mises: The Man and His Economics

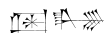
*Edited and with an Introduction by*

PETER J. BOETTKE and FRÉDÉRIC SAUTET



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## CONTENTS

Introduction to the Liberty Fund Edition ix

*by Peter J. Boettke and Frédéric Sautet*

### **LUDWIG VON MISES: THE MAN AND HIS ECONOMICS**

Abbreviations and References 3

Preface 5

1. Ludwig von Mises, 1881–1973 9

2. Ludwig von Mises, Economist 28

3. The Nature of Economic Inquiry 51

4. The Economics of the Market Process 67

5. Monetary Theory, Cycle Theory, and the Rate of Interest 84

6. Mises: Free-Market Economist of the Century 112

Postscript: Misesian Economics After Mises 131

### **ARTICLES OF NOTE ON MISES AND HIS WORK**

Mises and the Renaissance of Austrian Economics 137

Introduction to *Method, Process, and Austrian Economics:*

*Essays in Honor of Ludwig von Mises* 144

Mises on Entrepreneurship 150

Uncertainty, Discovery, and Human Action:

A Study of the Entrepreneurial Profile in the Misesian System 159

Mises and His Understanding of the Capitalist System 183

Human Action, Freedom, and Economic Science 199

*Human Action*, 1949: A Dramatic Episode in Intellectual History 207

Reflections on the Misesian Legacy in Economics 213

Tribute to von Mises: “On the Market” 227

Published Works of Israel M. Kirzner 231

Index 263

Index to the Collected Works 271

## INTRODUCTION TO THE LIBERTY FUND EDITION

The first volume of the Collected Works of Israel Kirzner contains his dissertation, *The Economic Point of View*, written under the guidance of Ludwig von Mises at New York University and defended in 1957. With the present volume, which completes the collection, we return to Mises through the publication of Kirzner's book that pays tribute to his mentor's life and work. One cannot overestimate the importance of Kirzner's encounter with Mises in the 1950s. They met while Kirzner was completing his coursework for the MBA. Following this encounter, Kirzner changed his career path, forsaking professional accountancy to become an academic economist.

Mises was the most significant free-market economist of the twentieth century and one of the greatest economists of all time. Although Carl Menger's influence helped him become an economist, it was under the tutelage of Eugen von Böhm-Bawerk that Mises completed his formative years and became one of the foremost specialists of monetary theory before World War I. Between the world wars, Mises taught as a *Privatdozent* at the University of Vienna and served as secretary at the Vienna Chamber of Commerce. Mises built, throughout his career, a comprehensive approach to economics and human action—praxeology—that encompasses the philosophical and sociological underpinnings of social science. “If economic theory, as the science of human action, has become a *system* at the hands of Mises,” explains Kirzner, “it is so because his grasp of its praxeological character imposes on its propositions an epistemological rationale that in itself creates this systematic unity” (2009a; 164). After having fled Europe during World War II to come to the United States in order to avoid Nazi persecution, Mises started a seminar at New York University, which had a tremendous impact on the resurgence of Austrian economics in America. In his career, Mises not only presented the ideas of the Austrian tradition in a clearer and more encompassing manner than anyone before him; he also contributed to its development

1. Kirzner (2009b; 8). This is especially in reference to *Human Action*.

by deepening the insights of the Austrian school and producing a “sparkling, fresh, fundamentally new interpretation of its central tenets.”<sup>1</sup>

By Kirzner’s own account, Mises’s intellectual influence on his work is tremendous. Kirzner even claims that his own work is best seen as a clarification of Ludwig von Mises’s oeuvre—all the elements were already contained in Mises’s insights. Kirzner’s work is, however, the foremost exemplar of the development of the Misesian—as well as Hayekian—research program. The entrepreneurial function was omnipresent in Mises’s work but was not articulated in ways that most of the profession could understand and engage with. Kirzner provided a framework that puts the role of entrepreneurship at the center of modern market theory and our understanding of the price system. He opened up the closed approach of microeconomics and offered solutions that could not be envisaged within the traditional approach. This way, Kirzner successfully introduced Misesian ideas into contemporary scholarship. Kirzner’s important influence on the field of entrepreneurship studies, for instance, also marks the introduction of Misesian insights into modern entrepreneurship research.

One may find the same analytical foundations in the works of both authors, and Kirzner implicitly recognizes this when he states: “Mises’ economics, seen as the science of human action, must itself include understanding of the manner in which human beings become aware of the opportunities for gainful activity. For Mises, the verb ‘to act’ includes not only effective exploitation of all perceived net opportunities for gain, but also the *discovery* of those opportunities” (Kirzner 2001; 87). In his consistent development of the Misesian research program, Kirzner has fought against mechanistic representations of the market. Following Mises, he has continually argued that economists should move beyond the exclusive focus on equilibrium states of affairs and center their efforts instead upon explicating the principles of market processes. In Kirzner’s view, to understand the system of capitalistic production the theorist must trace economic phenomena back to the purposes and plans of the individual decision makers and recognize the intertemporal coordinating role of capital markets. This utterly subjectivist approach is deeply rooted into Misesian praxeology.

Mises’s influence on the revival of classical liberal ideas first in Europe but more importantly in the United States cannot be overstated. As Kirzner puts it: “Mises saw the denial of economics as an alarming threat



to a free society and to Western civilization. It is economics that is able to demonstrate the social advantages of the unhampered market. The validity of these demonstrations rests heavily on precisely those insights into human action that positivist thought treats, in effect, as meaninglessly nonsense. What inspired Mises' vigorous and spirited crusade against the philosophic underpinnings of an economics not founded on human purposefulness was more than the scientist's passion for truth, it was his profound concern for the preservation of human freedom and dignity" (1978; vii).

This volume includes two sections. The first section contains Kirzner's book *Ludwig von Mises: The Man and His Economics*. It offers a treatment of Mises's life and it details his intellectual development and influence not only in economics—the development of Austrian economics in the last part of the twentieth century owes perhaps everything to Mises—but also in the classical liberal movement that emerged after World War II. Kirzner insists that his mentor, while a laissez-faire economist, built the praxeological approach upon the possibility and importance of *wertfrei* science, that is, the Weberian idea that science must be value free if it is to serve the truth. Reading through the volume, one can sense Kirzner's deep respect and admiration for his professor and mentor. As the foreword to *The Economic Point of View* attests, Mises thought very highly of his student's work and reciprocated such consideration. This mutual respect and admiration make the book all the more special, as one gets a glimpse into the feelings of two very private individuals.

Section two offers nine important articles by Israel Kirzner on Mises's life and work, which complement the book. The articles reflect on Mises's legacy in economics and focus on various aspects of his work, such as the roles of entrepreneurship, uncertainty, and subjectivism in economic science, as well as the importance of Mises's *Human Action* in intellectual history. It also includes Mises's obituary that Kirzner published in 1973. The volume concludes with a list of publications by Israel Kirzner and a general index for the entire series.

#### ACKNOWLEDGMENTS

We would first like to thank wholeheartedly Israel Kirzner for his unparalleled contribution to economic science. Kirzner's research program has deeply enriched the discipline and has shed light on some of economics' most difficult puzzles. Economists owe him an immense intellectual debt.

The publication of *The Collected Works of Israel M. Kirzner* would not be a reality without the participation of Liberty Fund, Inc. We are extremely grateful to Liberty Fund, and especially Emilio Pacheco, for making this project possible. To republish Kirzner's unique oeuvre has been on our minds since our time spent at New York University in the 1990s, where one of us was a professor (Peter) and the other a postdoc student (Frédéric). We are thrilled at the idea that current and future generations of economists and other scholars will have easy access to Kirzner's works.

Finally, we wish to thank Emily Washington for her invaluable help in the publication of this volume and Rosolino Candela for his critical work on Kirzner's bibliography.

Peter J. Boettke and Frédéric Sautet

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**LUDWIG VON MISES:**

**THE MAN AND HIS ECONOMICS**

## ABBREVIATIONS AND REFERENCES

All page references in the text are to the writings of Mises and his wife. When referring to his books, I use the following abbreviations. All other references are in the notes.

- EFI      *Economic Freedom and Interventionism: An Anthology of Articles and Essays by Ludwig von Mises*, ed. Bettina Bien-Greaves (Irvington-on-Hudson: Foundation for Economic Education, 1990).
- EP      *Economic Policy: Thoughts for Today and Tomorrow* (South Bend, Ind.: Regnery Gateway, 1979).
- EPE      *Epistemological Problems of Economics* (Princeton, N.J.: Van Nostrand, 1960).
- HA      *Human Action: A Treatise on Economics*, 3rd revised edition (Chicago: Henry Regnery, 1966).
- HSAS      *The Historical Setting of the Austrian School of Economics* (New Rochelle, N.Y.: Arlington House, 1969).
- LCT      *Liberalism in the Classical Tradition* (San Francisco: Foundation for Economic Education and Cobden Press, 1985).
- MMC      *On the Manipulation of Money and Credit*, ed. Percy L. Greaves and trans. Bettina Bien-Greaves (Dobbs Ferry, N.Y.: Free Market Books, 1978).
- MMMP      *Money, Method, and the Market Process: Essays by Ludwig von Mises*, ed. Richard M. Ebeling (Norwell, Mass.: Praxeology Press of the Ludwig von Mises Institute, and Kluwer Academic Publications, 1990).
- MYWM      *My Years with Ludwig von Mises* (New Rochelle, N.Y.: Arlington House, 1976).
- NR      *Notes and Recollections*, trans. Hans F. Sennholz (South Holland, Ill.: Libertarian Press, 1978).
- S      *Socialism: An Economic and Sociological Analysis*, trans. J. Kahane (London: Jonathan Cape, 1936).
- TH      *Theory and History: An Interpretation of Social and Economic Revolution* (New Haven: Yale University Press, 1957).
- TMC      *The Theory of Money and Credit*, rev. edition (New Haven: Yale University Press, 1953).
- UFES      *The Ultimate Foundation of Economic Science: An Essay on Method* (Princeton, N.J.: Van Nostrand, 1962).

## PREFACE

This work is certainly not a full-length biography (nor even an intellectual biography) of Ludwig von Mises. What I have sought to present, in briefest outline, is the *story of Mises in his role of economist*. In attempting to provide this outline, I have faced certain difficulties which, not at all coincidentally, arose out of the very deep personal significance to me of telling this story. Ludwig von Mises was my revered teacher. Everything I have learned, taught, or written, in and on economics, derives, to greater or lesser extent, from what I learned close to a half-century ago in his classes and seminars at New York University, and from what I have learned during these past forty-six years from his published writings. Mises suffered severe professional rejection during the closing decades of his career. As my own understanding of economics has deepened over time, my awareness of this professional rejection has also deepened, in turn, the respect and affection with which I regard my teacher. And it is, of course, precisely this regard and affection which render it a virtual impossibility to hope that my story of Mises, the economist, can be a strictly impartial and objective one. Yet surely Mises, that stern exemplar of intellectual honesty, would have insisted that his story be told with complete candor and detachment. The standards of intellectual integrity which Mises represented are simply inconsistent with any hagiographic treatment.

I have done my best to present Mises and his economics without, on the one hand, concealing my own admiration for the subtlety and depth of Misesian economics, and, on the other hand, without failing to take note of the difficulties which other economists (and sometimes even Mises's own followers) have encountered in that work.

A number of scholars have explored various aspects of Mises's intellectual contributions and legacy. All students of Misesian economics must be grateful to Bettina Bien-Greaves for her remarkable two-volume *Mises: An Annotated Bibliography*, a veritable treasure house of information. Professor Richard Ebeling has devoted most of his scholarly career to the study of the life and work of Mises. He has contributed a number

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of superb introductions to several volumes of Mises's writings, which he also discovered and edited. Professor Ebeling's forthcoming full-length biography of Mises is eagerly awaited. Eamonn Butler has attempted an ambitious survey of Mises's overall intellectual contribution (from a somewhat different point of departure than that taken in the present work). Professor Karen Vaughn, in the course of her notable exploration of a broader, fascinating episode in intellectual history (*Austrian Economics in America: The Migration of a Tradition* [Cambridge: Cambridge University Press, 1994]), has dealt significantly (and critically) with important segments of Mises's career. The late Murray N. Rothbard, brilliant American disciple of Mises, has more than once presented his own appreciation of Mises's work. And Rothbard's own extraordinarily prolific published writings constitute—even where one feels compelled to disagree with aspects of those writings—a remarkable testimony to Mises's influence and inspiration. Others, too, (including, especially, scholars working with the Auburn University-based Ludwig von Mises Institute) have made significant additions to Mises scholarship. And I have no doubt that the years ahead will bring many more contributions to this fascinating area of intellectual history. It gives me great personal satisfaction to be able to add my own modest contribution to this literature.

I wish to thank Mr. Jeffrey O. Nelson, publisher of ISI Books, for suggesting this project to me and for encouraging me to pursue it. I am particularly grateful to my colleagues in the Austrian Economics Program at New York University, Professor Mario J. Rizzo and Dr. David Harper, for their contributions to this volume. Each of them gave me advice and encouragement during the writing of the work; each of them read a draft of the entire work and offered copious and valuable comments and suggestions. (Neither of them is in any way responsible for any remaining deficiencies in this work.) Grateful acknowledgment is due to the Sarah Scaife Foundation (and especially to Mr. Richard M. Larry) for its support of the Austrian Economics Program at New York University, under whose research auspices I have written this book. One of the central focal points of our research in this Austrian Economics Program at New York University has been the economic ideas of Ludwig von Mises. I take this opportunity to express my appreciation to my present and former colleagues in this program, Professor Mario J. Rizzo, Dr. David Harper, and Professor Peter J. Boettke (now continuing his prolific research in these same areas at George Mason University), and to those many others who,

over the past quarter century, have made distinguished contributions to the revitalized interest in Misesian economics.

Ordinarily, when a scientist's career has ended, his work tends to lose its immediacy; it tends, as it were, to move aside, giving way to the subsequent contributions of others to his discipline. But, as the decades have slipped by since Mises's death in 1973, my own appreciation for his economic insights and understanding has only continued to mature. My recognition of Mises's scientific contributions, and my moral regard for the intellectual courage and integrity with which he carried on his work, have made this project a particularly rewarding one. I can only hope that my little book can help communicate to a new generation of readers some of that same scientific recognition and some of that same moral regard.

Israel M. Kirzner

*September 2000*

## 1. LUDWIG VON MISES, 1881–1973

The purpose of this short work is to provide a picture of Ludwig von Mises, the economist and social thinker. Such a picture must consist primarily of lines and brush strokes representing Mises's ideas, and explaining how these ideas differed importantly from those of his contemporaries. The subsequent chapters offer such accounts and explanations. But a picture consists of more than lines and strokes; it includes the canvas upon which these are imposed. The story of Mises, the intellectual and the scholar, cannot be appreciated unless it also includes brief attention to the human and historical context within which Mises's intellectual contributions emerged. This chapter seeks to give a brief survey of this human and historical context, a survey that will be brief not only because of space limitations, but also because many of the details of Mises's life, interesting though they may be for a full-length biography, are not, in fact, directly relevant to an appreciation of his intellectual stature.<sup>1</sup> I include in this chapter only those salient features of his biography (and of its historical background) which seem necessary in order for the development of Mises's economic and social ideas to be rendered coherent and understandable.

### **VIENNA: THE EARLY YEARS**

Ludwig von Mises was born on September 29, 1881, in the city of Lemberg in the Austro-Hungarian Empire. His mother was Adele (Landau) von Mises; his father, Arthur Edler von Mises, a construction engineer in government service to the Ministry of Railroads, died at the age of forty-six (after a gall bladder operation) when Ludwig was a twenty-two-year-old university student. (Ludwig's only sibling to survive into adulthood was his younger brother Richard, who was to become a noted mathematician, Harvard professor, and probability theorist.) Although his birthplace was hundreds of miles away from the imperial capital, Mises was to spend some forty years of his life in Vienna. From the age of eleven he spent about eight years attending the Academic Gymnasium in Vienna, after which he became a student in the Faculty of Law and Political Sciences at

1. I understand that two separate full-length biographies of Mises are now being prepared by Professor Richard Ebeling and by Dr. J. Guido Hülsmann.



the University of Vienna. With an interruption of about one year's military service (at the conclusion of which he received his commission as lieutenant in a reserve artillery regiment), Mises spent about five years at the university, winning high university honors in the areas of juridical studies, social sciences, and history of law, and being awarded the degree of Doctor of Laws in 1906.

The bulk of Mises's work in economics up to this time was under the influence of teachers imbued directly or indirectly with the ideas of the German Historical School (about which more will be said in subsequent chapters), and Mises had, by the time he received his doctorate, already published several scholarly works in historical economics research. Mises was, however, already beginning to rebel against the methodological and ideological tenets of that school, presumably partly as a result of his reading Carl Menger's *Grundsätze* at the end of 1903<sup>2</sup>—an experience which, he later described, made an “economist” of him (NR, 33). It was apparently after receiving his doctorate that Mises came under the powerful personal influence of Eugen von Böhm-Bawerk (who, after retiring from prestigious service as Minister of Finance of the Austro-Hungarian Empire, began to conduct his famous seminar at the University of Vienna in 1905).<sup>3</sup> Mises attended Böhm-Bawerk's seminar for a number of years until he was himself admitted to the (unsalaried) rank of privatdozent, permitting him to lecture at the university, in 1913. It was during this period that his own systematic understanding of economics developed, along the lines pioneered by Menger (with whom he had extensive personal discussions (NR, 35) and Böhm-Bawerk, culminating in Mises's own pathbreaking 1912 work on monetary theory. This book established Mises as an important economic theorist in his own right, and was the foundation of his subsequent fame as a leading exponent of the “Austrian School.”

After several years of engagement in various professional economic responsibilities, Mises obtained a position in 1909 at the Austrian Chamber of Commerce (a quasi-governmental body directly concerned with national commercial and industrial policy). It was his work in this

2. Carl Menger (1840–1921) was the founder of the Austrian School of Economics. His *Grundsätze der Volkswirtschaftslehre* (1871) was the book which initiated the Austrian tradition.

3. Eugen von Böhm-Bawerk (1851–1914) was one of the founding leaders of the Austrian School of Economics.

capacity which, especially after the end of World War I, thrust Mises squarely into the controversial public issues of his time and brought him into contact with many of the leading Austrian political, industrial, and financial personalities. Mises's career as economist thus developed, from the very beginning, as one combining academic research and university teaching with the very practical work of an economic public policy specialist at the center of ferocious political and policy debates.

The state of academic economics in Austria (and the rest of the continent) will be outlined in the chapter following this one. And it is not difficult to recognize the obvious relevance of Mises's earlier work in monetary economics for the public policy issues which reached the crisis point in the hyperinflations of the early twenties. Here we simply note the fact that Mises's early years as doctoral student, university lecturer, and public policy economist were years of social and political change and turmoil. The old courtly world of Imperial Vienna, center of the vast but crumbling Austro-Hungarian Empire, was giving way to a postwar milieu in which entirely new economic and political winds were to blow with an unprecedented ferocity.

Mises was himself, in his old age, to write about the political and ideological currents already at work in continental Europe around the turn of the century. There is no doubt that the views he expressed reflect his youthful impressions of the social context within which his lifelong convictions were forged. Mises saw the controversies that raged between the dominant German intellectuals in social science and the Austrian economists led by Menger, and subsequently Böhm-Bawerk, as having a significance extending far beyond the substance or methodology of economic theory. Most of the German professors, Mises wrote, "more or less eagerly made propaganda in their writings and in their courses for the policies of the Imperial Government: authoritarian conservatism, *Sozialpolitik*, protectionism, huge armaments, and aggressive nationalism" (HSAS, 23f). Mises saw the Mengerian School as the champion of liberalism, as the last intellectual source of hope for the preservation of freedom and civilization in the face of the dangers posed by statism and by Marxism. From his perspective at the outset of the last third of the twentieth century, Mises saw, in fact, a "straight line that leads from the work of the Historical School to Nazism," from "Schmoller's glorification of the Hohenzollern Electors and Kings, to Sombart's canonization of Adolf Hitler" (HSAS, 33–34). In memoirs written several decades

earlier (1940), Mises also traced the cataclysmic twentieth-century events for which Marxism and Nazism have been responsible to the teachings of the German Historical School. He reports that Menger had (apparently well before the turn of the century) foreseen that the policies pursued by the European powers would “lead to a horrible war that will end with gruesome revolutions, with the extinction of European culture and the destruction of prosperity of all nations” (NR, 35). It was in this charged ideological atmosphere that Mises’s own ideas developed and crystallized.

Mises himself experienced the hardships of war. During World War I he saw active service at the front in the Carpathians as a first lieutenant, but after getting typhoid in 1917 he was called back to Vienna to work in the economics division of the Department of War (MYWM, 25f). It was his work in that capacity, together with his reflections on the political turmoil which was to follow the conclusion of hostilities, which led him to publish his second book, *Nation, Staat und Wirtschaft*, in 1919. (The book was translated into English many years later by Professor Leland Yeager under the title *Nation, State and Economy*.) Mises was later to describe that work as “a scientific book with political design. It was an attempt at alienating the affections of the German and Austrian public from National-Socialist (*Nazi*) ideas which then had no special name, and recommending reconstruction by democratic-liberal policy” (NR, 66). This tone of the work captured the passion which was to characterize Mises’s writings throughout his life. He saw the results of his scientific work as enormously significant for practical policy, if a civilized society was to be created and preserved.

#### VIENNA AFTER WORLD WAR I

During the years immediately following the war’s end, Mises’s stature as a Viennese intellectual came to be well established. Several aspects of his work during these years contributed to his prominence in the Vienna of the twenties. His 1919 book did not receive extensive attention. But his 1922 work *Die Gemeinwirtschaft* (published in English in 1936 as *Socialism: An Economic and Sociological Analysis*)—a work thoroughly out of step with both the strong political momentum toward socialism in Austria immediately after the war and the generally favorable attitude of intellectuals at that time toward socialism—placed Mises squarely in the eye of the storm of public debate. Expanding on a seminal 1920 article

on the pure economics of socialist central planning, Mises laid out in this book not only his now-famous critique of the possibility of socialist economic calculation, but also his extensive economic and sociological critique of socialism in general. This work made Mises the archenemy of all those who saw Mises's ideal of a liberal (free-market) society as an old-fashioned reactionary ideology discredited by twentieth-century intellectual-progressive developments.

At the same time, Mises's rapidly expanding responsibilities at the Chamber of Commerce during these years of postwar turmoil involved him directly in the central political and policy issues of the day. Although formally only a staff member at the Chamber, in fact Mises's influence became national in scope. In Mises's own words (written some two decades later): "In the Chamber I created a position for myself. . . . My position was incomparably greater than that of any . . . Austrian who did not preside over one of the big political parties. I was the economist of the country" (NR, 73f). In his memoirs Mises describes how he persuaded the Marxist Otto Bauer to refrain from installing a Bolshevik regime in Vienna during the winter of 1918–19 (NR, 18f). But Mises's success was severely limited. "Supported only by a few friends I waged a hopeless fight. All I achieved was to delay the catastrophe. The fact that in the winter of 1918–19 Bolshevism did not take over and that the collapse of industry and banks did not occur in 1921, but in 1931, was in large part the result of my efforts" (NR, 74).<sup>4</sup>

It was during these early postwar years that Mises acquired the reputation of obstinacy and intransigence—character traits which more friendly observers would later interpret as the expression of Mises's consistency, incorruptibility, and intellectual (and political) courage.<sup>5</sup> Mises himself recognized and defended his "intransigence," seeing himself as intransigent only in matters of science. "I always drew a sharp distinction between my scientific and political activity. In science, compromises are treason to truth. In politics, compromises are unavoidable. . . . In the Austria of the postwar period I was the economic conscience" (NR, 75).

4. Although the claims made by Mises (in the quotations in this paragraph) may at first seem immodest, there are at least some grounds for accepting them at face value. See note 6 below.

5. See Jacques Rueff, "The Intransigence of Ludwig von Mises," chapter 1 in *On Freedom and Free Enterprise: Essays in Honor of Ludwig von Mises*, ed. M. Sennholz, rev. ed. (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1994).