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LUDWIG VON MISES

Money, Method, and the Market Process

Essays by Ludwig von Mises



LUDWIG VON MISES

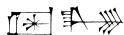
Selected by Margit von Mises

Edited and with an Introduction by Richard M. Ebeling



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The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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FOREWORD

When my husband died in 1973 I had to go through his papers. Some of them were still in manuscript form and had never before been published. I selected several of these, plus a number of other articles that had appeared in periodicals but were no longer in print. This book is the result.

At my request Richard Ebeling wrote an introduction, which he has done in great detail. The depth of Ebeling's understanding of my husband's work is certainly apparent in his writing.

I am pleased to have the Ludwig von Mises Institute present this volume to the public.

Margit von Mises
New York City
September 1989

INTRODUCTION

I

In the 1920s and the 1930s, Ludwig von Mises was recognized as one of the leading economic theorists on the European Continent.¹ F. A. Hayek has said that Mises's critique of the possibilities for economic calculation under socialism had “the most profound impression on my generation. . . . To none of us . . . who read [his] book [*Socialism*] when it appeared was the world ever the same again.”² Lord Lionel Robbins, in introducing the Austrian School literature on money and the trade cycle to English-speaking readers in 1931, emphasized the “marvelous renaissance” the “School of Vienna” had experienced “under the leadership of . . . Professor Mises.”³ In his comprehensive study *German Monetary Theory*, Howard Ellis insisted that Mises's *Theory of Money and Credit* was “one of the most substantial treatises upon monetary theory in the German literature” and that his personal role in bringing an end to the Austrian hyper-inflation of the early 1920s made “Mises a significant figure.”⁴ Fritz Machlup pointed out that in

¹ Ludwig von Mises was born in Lemberg, Austria-Hungary, on September 29, 1881. After studying with Böhm-Bawerk, he received his doctorate from the University of Vienna in 1906. He taught at the University of Vienna (1913–1938), was Economic Advisor to the Austrian Chamber of Commerce (1909–1934), and served as Director of the League of Nations' Austrian Reparations Commission (1918–1920). In 1927, he founded the Austrian Institute for Trade Cycle Research. Professor Mises also taught at the Graduate Institute for International Studies in Geneva (1934–1940) and at New York University (1945–1969). Professor Mises died on October 10, 1973, at the age of 92.

² F. A. Hayek, “Tribute to Ludwig von Mises,” app. 2, in Margit von Mises, *My Years with Ludwig von Mises* (New Rochelle, N.Y.: Arlington House, 1976), p. 189.

³ Lionel Robbins, foreword to F. A. Hayek, *Prices and Production* (New York: Macmillan, 1932), p. ix.

⁴ Howard Ellis, *German Monetary Theory, 1905–1933* (Cambridge, Mass.: Harvard University Press, 1934), p. 77.

the early 1920s “Ludwig v. Mises was the first, so far as I know, to point to the phenomenon of the consumption of capital” due to the distortion of capital accounts caused by inflation and the fiscal policies of the Austrian State.⁵ And in a study of the evolution of the theory of cost in economics, James M. Buchanan has emphasized that “Ludwig von Mises was one of the chief sources for the subjectivist economics” expounded in the 1930s at the London School of Economics and developed further, more recently, by the latest generation of the Austrian School.⁶

Yet, for most of the post-war period, Mises’s writings have been in a general eclipse among economists, even though he continued to lecture widely, published over a half-dozen books during this time, and taught on a regular basis at New York University until his retirement in 1969 at the age of 89. The cause of this peculiar circumstance arose from his position vis-à-vis Keynesian economics. The almost monolithic hold Keynesianism had over economists following 1945 resulted in any individual who challenged either the theoretical edifice or policy proposals of the then “New Economics” experiencing almost certain intellectual death. Yet, this is exactly what Ludwig von Mises did in questioning and unflinchingly criticizing the entire body of Keynesian doctrine. The result was his near total ostracism from the economics profession.

During the 1970s, the intellectual terrain began to shift. In the wake of the dismal failure of Keynesian policy prescriptions, doubts began to be generated about the fundamentals of the Keynesian system. A great amount of scholarly self-criticism emerged as myriad exegetical readings were made in an attempt to divine what Keynes “really meant.” The various investigations led to the conclusion that Keynes really meant almost anything, depending upon which of his volumes was read and which passages in any particular book were given emphasis.

The decline of Keynesianism has brought about a new spirit of open, intellectual competition among economists the likes of which has not been seen since the early 1930s. And occupying a prominent place in this competition have been the ideas of Ludwig von Mises and the Austrian School of Economics, of which he was an illustrious member.

⁵ Fritz Machlup, “The Consumption of Capital in Austria,” *Review of Economic Statistics* 17 (January 15, 1935): 13.

⁶ James M. Buchanan, *Cost and Choice: An Inquiry in Economic Theory* (Chicago: Markham Publishing, 1969), p. 34.

II

The 1871 publication of Carl Menger's *Grundsätze der Volkswirtschaftslehre*⁷ marks the beginning of the Austrian School. Carl Menger is usually classified along with William Stanley Jevons and Léon Walras as one of the co-founders of the "Marginalist Economics" which replaced the Classical School and its labor theory of value. In his landmark volume, however, Menger produced a pioneering contribution to economic theory which distinguishes him uniquely from Jevons and Walras.

All three men had grasped the essential role of marginal utility: value was a matter of relative comparison between alternatives, and each alternative's significance was evaluated by the decision maker at the margin, i.e., the importance of the next unit of a good or service that could be obtained or would have to be given up in an act of choice.

For both Jevons and Walras, however, the value of the marginal utility concept was its power in demonstrating the *conditions for equilibrium* in a *given* exchange environment. For Menger, on the other hand, equilibrium was purely a useful limiting case that portrayed the circumstances under which no further motivations for exchange among traders would exist; the importance of marginal utility, in the Mengerian scheme, was precisely its value in enabling an analysis of the *exchange process* itself, regardless of the concrete manifestation of any eventual equilibrium outcome.⁸

An investigation of exchange sequences and processes in *disequilibrium* circumstances necessarily raised questions concerning the knowledge possessed by the respective market participants, the role of time as it related to adjustment periods and production periods relative to change, and the formation of expectations and foresight as potential traders attempted to anticipate future conditions as a guide for their own actions.

The economic analysis derived from Jevons and Walras took on a fundamentally static quality, being basically an attempt to stipulate the

⁷ Carl Menger, *Principles of Economics* [1871] (New York: New York University Press, [1950] 1981).

⁸ William Jaffe, "Menger, Jevons and Walras De-Homogenized," *Economic Inquiry* 14, no. 4 (December 1976): 511–24; and Erich Streissler, "To What Extent Was the Austrian School Marginalist?" in *The Marginalist Revolution in Economics*, R. D. Collision Black, A. W. Coats, and Craufurd D. W. Goodwin, eds. (Durham, N.C.: Duke University Press, 1973), pp. 160–75.

prerequisites for an equilibrium state. The “Austrian” approach derived from Menger had, in comparison, essential dynamic qualities that set it apart from other schools of thought over the years.⁹

The foundations laid by Menger in 1871 were developed further in the last two decades of the nineteenth century and in the first decade of the twentieth century. The two most notable contributors to this endeavor and, in fact, the ones who gave the Austrian School its worldwide recognition, were Eugen von Böhm-Bawerk and Friedrich von Wieser. Böhm-Bawerk extended Menger’s analysis to questions concerning the theory of capital and the origin and formation of interest.¹⁰ Wieser, appreciating Menger’s insight that marginal utility and valuation are subjective estimates by the individual decision maker, demonstrated that cost was a subjective phenomenon as well, nothing more than the next best alternative or opportunity set aside or forgone when a choice and an exchange are made.¹¹

III

Ludwig von Mises’s contributions to the Austrian School spanned six decades and touched upon almost every aspect of economic science. The most controversial of Mises’s writings have undoubtedly been those devoted to questions of methodology. Yet, at the same time, they are probably the most important of all his works. Indeed, what Mises attempted was the laying of a philosophical foundation for the entire edifice of economic science as it had developed from Adam Smith’s first analysis of the spontaneous market order to Carl Menger’s restatement of the principles of that spontaneous order on the basis of a conscious use of methodological individualism.¹²

⁹ Ludwig M. Lachmann, “The Significance of the Austrian School of Economics in the History of Ideas,” in *Capital, Expectations, and the Market Process* (Kansas City, Kans.: Sheed Andrews and McMeel, 1977), pp. 45–64. On the evolution of the early Austrian School, see Ludwig von Mises, *The Historical Setting of the Austrian School* (New Rochelle, N.Y.: Arlington House, 1969); also Richard M. Ebeling, “Austrian Economics—An Annotated Bibliography,” pt. 1, “The Austrian Economists,” *Humane Studies Review* 2, no. 1 (1983).

¹⁰ Eugen von Böhm-Bawerk, *Capital and Interest*, 3 vols. (South Holland, Ill.: Libertarian Press, 1959).

¹¹ Friedrich von Wieser, *Natural Value* [1889] (New York: Augustus M. Kelley, [1893] 1971); and Wieser, *Social Economics* [1914] (New York: Augustus M. Kelley, [1927] 1967).

¹² Carl Menger, *Problems of Economics and Sociology* [1883] (Urbana, Ill.: University of Illinois Press, 1963). Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978), pp. 122–23; these autobiographical “notes and recollections” were written by Mises in 1940,

Mises's writings on methodology covered practically his entire career. His early statements on the subject were collected in 1933 under the title *Epistemological Problems of Economics*.¹³ They were refined and integrated into a general economic treatise, *Nationalökonomie* (1940)¹⁴ and in its English-language counterpart, *Human Action* (1949),¹⁵ and restated in *Theory and History* (1957)¹⁶ and in *The Ultimate Foundation of Economic Science* (1962).¹⁷

The unique factor that separates the natural sciences from the social sciences, Mises argued, is the purposefulness or intentionality of all human endeavors. Man *above all else* is the being who acts, who inquisitively looks out upon the world, is conscious of opportunities to improve his lot, and proceeds to apply means to achieve ends when circumstances are perceived by the actor as offering the possibility for success.

Purposefulness, perception of circumstances, alertness to opportunities, Mises emphasized, are all attributes assignable only to individuals; and their concrete content are functions of the particular perspectives, circumstances, and interpretations of the respective actors themselves. Social science, therefore, is grounded at its start in methodological individualism and methodological subjectivism. The *alpha* and *omega* of social phenomena is the subjective world of acting man. The laws of nature and the physical environment may be the limits within which human endeavors are possible of accomplishment, but it is the human actor's *perception* of the possible and the attainable that will be the divining rod for action initiated.

We also see in this Misesian schema all the dynamic elements that dominated Menger's *Grundsätze*: imperfect knowledge, time and change, expectations and foresight. Each of these has implied residence

shortly after his arrival in the United States from Nazi-occupied Europe; see also, Margit von Mises, *My Years with Ludwig von Mises*, 2nd enl. ed. (Cedar Falls, Iowa: Center for Futures Education, 1984).

¹³ Ludwig von Mises, *Epistemological Problems of Economics* [1933] (New York: New York University Press, [1960] 1981).

¹⁴ Ludwig von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens* [1940] (Munich: Philosophia Verlag, 1980).

¹⁵ Ludwig von Mises, *Human Action: A Treatise on Economics*, 3rd rev. ed. [1949] (Chicago: Henry Regnery, 1966).

¹⁶ Ludwig von Mises, *Theory and History: An Interpretation of Social and Economic Evolution* [1957] (Auburn, Ala.: The Ludwig von Mises Institute, 1985).

¹⁷ Ludwig von Mises, *The Ultimate Foundation of Economic Science: An Essay on Method* (Kansas City, Kans.: Sheed Andrews and McMeel, [1962] 1976).

in the concept of purposeful action, for action—conscious behavior directed toward selected goals—has logical meaningfulness only where choice is seen as possible. And choice, as selection among alternative opportunities, has reality only where certain knowledge of the future is lacking. In turn, time and change, as Mises was wont to emphasize, are inseparable from action, for the very thought of action implies a *becoming* and a *became*.

A methodological subjectivist approach to analyzing the relationship of time to action, or the meaning of “ends possible” and “means available,” or costs (as forgone opportunities) and benefits (as prospective gain in psychic improvement) resulted in Mises’s rejection of what he saw as Positivist imperialism, i.e., the imposition of the methods considered appropriate in the natural sciences into the social sciences. Application of the Positivist rules of “objective science” would require the abandonment of that aspect that comprises the unique element in human events: appreciation of human action as having subjective meaning from the actor’s point of view. The movement of physical objects between individuals only took on the quality of an “exchange,” Mises argued, to the extent that that was the meaning the actors respectively assigned to their own action and to that of the other.

Yet, for Mises, this rejection of measurement and quantification as the standards for social science did not at the same time mean a collapse into Historicism, i.e., the argument that there are neither laws nor permanent regularities in the social world. The laws of social phenomena, Mises said, are ultimately derivatives from the *logic of action* which, itself, is one and the same with the logic of thought and reason. The processes of the market that tend to make market prices equal to market costs, for supply to tend toward an equilibrium with demand, are all reducible to the logic guiding the actions of the respective individuals subsumed under the terms “suppliers” and “demanders,” i.e., that the value of any particular means should not exceed the value of any particular end they serve.

This accounts, also, for what has usually been perceived as Mises’s peculiar insistence that economic theory is both a priori and empirically truthful. It is a priori, for Mises, because the logic of action and its requisite categories of means and ends, costs and benefits, etc., must conceptually precede in thought the selection of any concrete end and the application of any concrete means and, therefore, the designating of something as one or the other. And it is empirically truthful because

the logic of human thought precludes the conceiving of any conscious human action not operating within these categories; hence, it empirically reflects the essential qualities of all conscious human conduct.

While the categories of action can serve as the filing system enabling the social scientist and the economist to both order and give intelligible interpretation to the complexity of the social world, the categories remain purely generic in nature; i.e., they do not provide any information about the specific ends and means selected by individuals or the concrete outcomes that may arise from a series of actions. Thus, the “elasticities” of demand and supply and the particular “speeds of adjustment” in prices, output, and expectations will depend upon the historical circumstances. This is lucidly explained by Mises in “The Treatment of ‘Irrationality’ in the Social Sciences,” one of the essays in this volume:

We have plenty of figures available concerning the German inflation of the years, 1914–1923. Economic theory provides us with all the knowledge needed for a perfect grasp of the causes of price changes. But this knowledge does not give us quantitative definiteness. Economics is . . . qualitative and not quantitative. . . . There are in the sphere of human action no constant relations between magnitudes. . . . The rise of German prices in the years of the First World War was not only due to the increase of the quantity of bank notes. Other changes contributed, too. The supply of commodities went down because many millions of workers were in the army and no longer worked in the plants, because government control of business reduced productivity, because the blockade prevented imports from abroad, and because workers suffered from malnutrition. It is impossible to establish by methods other than *Verstehen* [interpretive “understanding”] how each of these factors—and of some other relevant factors—contributed to the rise of prices. . . . The *Verstehen* is in the realm of history the substitute, as it were, for quantitative analysis and measurement, which are unfeasible with regard to human actions outside the field of technology. (pp. 28–29)

Similarly, economic forecasting, as Mises pointed out, is fundamentally an attempt to act as a “historian of the future.”¹⁸ It is an attempt to project oneself into the future and anticipate how market actors over a future period will classify various entities as either means or ends; what expectations they will form about the most advantageous courses of ac-

¹⁸ Mises, *Theory and History*, p. 320; also, Richard M. Ebeling, “Expectations and Expectations Formation in Mises’s Theory of the Market Process,” *Market Process* (Spring 1988).

tion to undertake; and to then analyze both the intended and the likely unintended consequences of a multitude of individual plans as they meet and mesh in the social arena over that future period of time.¹⁹

Mises's contributions to economic science have all been attempts, to one degree or another, to apply this methodology to particular problems. As F. A. Hayek has perceptively pointed out, ". . . most peculiarities of [Mises's] views which at first strike many readers as strange and unacceptable trace to the fact that in the consistent development of the subjectivist approach he has for a long time moved ahead of his contemporaries."²⁰

In monetary theory, for instance, Mises made one of the first successful applications of marginal utility analysis to explain the value of money by emphasizing the role of uncertainty and expectations in the actions of market participants. His classic work, *The Theory of Money and Credit* (1912; 1924; 1935),²¹ and his monograph *Monetary Stabilization and Cyclical Policy* (1928),²² as well as portions of *Human Action*,²³ however, contain much more than this. In the parlance of contemporary economics, Mises tried to develop a microeconomic foundation for macroeconomics. Utilizing Böhm-Bawerk's capital theory and Knut Wicksell's distinction between the money and "natural" rates of interest, he devised a dynamic process analysis showing how changes in the money supply could generate shifts in income distribution, cause resource misallocations via relative price distortions, and induce trade cycle fluctuations.

What distinguished Mises's approach, for example, from Irving

¹⁹ For an analysis of the relationship between Mises's view of economic science and alternative perspectives in the history of economic thought, see Israel M. Kirzner, *The Economic Point of View* (Kansas City, Kans.: Sheed Andrews and McMeel, [1960] 1976); and for Mises's relationship to other members of the Austrian School, see Lawrence H. White, *The Methodology of the Austrian School Economists* (Auburn, Ala.: The Ludwig von Mises Institute, 1984); and Richard M. Ebeling, "Austrian Economics—An Annotated Bibliography," pt. 2, "Methodology of the Austrian School," *Humane Studies Review* 3, no. 2 (Fall 1985); see also Murray N. Rothbard, "Praxeology as the Method of the Social Sciences," in *Individualism and the Philosophy of the Social Sciences* (San Francisco: Cato Institute, 1979).

²⁰ F. A. Hayek, *The Counter-Revolution of Science* (Indianapolis, Ind.: Liberty Fund, [1952] 1979), p. 52, n. 7.

²¹ Ludwig von Mises, *The Theory of Money and Credit* [1912; 2nd rev. ed., 1924] (Indianapolis, Ind.: Liberty Fund, [1953] 1981).

²² Ludwig von Mises, "Monetary Stabilization and Cyclical Policy" [1928], in *On the Manipulation of Money and Credit* (Dobbs Ferry, N.Y.: Free Market Books, 1978), pp. 57–171.

²³ Mises, *Human Action*, pp. 398–478 and 538–86.

Fisher's quantity theory of money was precisely his refusal to make the analytical jump (made by Fisher and others) from changes in the aggregate money stock to changes in the general "price level." Mises insisted upon a strict adherence to methodological individualism. Any explanation of statistically calculated changes in total employment and output or in the "price level" needed to be dissected into the "step-by-step" sequential process of individual market actions, reactions, and plan adjustments and readjustments following an increase (or decrease) in the money supply. Thus, the macroeconomic aggregates were to be decomposed into their microeconomic components by rigorously analyzing the "transmission mechanism" of a monetary injection.²⁴

The same methodological considerations permeate Mises's famous writings on comparative economic systems. Already in the 1880s and 1890s, Wieser and, in particular, Böhm-Bawerk had critically evaluated the Marxian labor theory of value and discovered fundamental defects in both the assumptions and the logic.²⁵ However, almost no thought had been given by either socialist or non-socialist economists to the efficacy of state economic planning as an alternative to a market economy. In a series of three books, *Socialism* (1922),²⁶ *Liberalism* (1927),²⁷ and *A Critique of Interventionism* (1929),²⁸ Mises took up this very question.

Mises saw the issue as concerning questions of knowledge, change, and adjustment—the Mengerian themes, once again. In the Walrasian world of general equilibrium, on the other hand, where it is assumed that the relevant supply and demand conditions are known and all markets are cleared at equilibrium prices, it superficially appears as if a "market" outcome and a "planned" outcome are interchangeable with

²⁴ Richard M. Ebeling, ed., *The Austrian Theory of the Trade Cycle and Other Essays*, by Ludwig von Mises, Gottfried Haberler, Murray N. Rothbard, and Friedrich A. Hayek (New York: Center for Libertarian Studies, 1978; reprinted by the Ludwig von Mises Institute, 1983).

²⁵ Böhm-Bawerk, "Unresolved Contradiction in the Marxian Economic System" [1976], in *Shorter Classics of Böhm-Bawerk*, vol. 1 (South Holland, Ill.: Libertarian Press, 1962), pp. 201–301; or Böhm-Bawerk, *Karl Marx and the Close of His System* (Clifton, N.J.: Augustus M. Kelley, [1949] 1975), an alternative translation.

²⁶ Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* [1922; rev. ed., 1932] (Indianapolis, Ind.: Liberty Fund, [1951] 1981).

²⁷ Ludwig von Mises, *Liberalism: A Socio-Economic Exposition* [1927] (Kansas City, Kans.: Sheed Andrews and McMeel, [1962] 1978); the original translation was published under the title *The Free and Prosperous Commonwealth*.

²⁸ Ludwig von Mises, *A Critique of Interventionism* [1929] (New Rochelle, N.Y.: Arlington House, 1977).

each other.²⁹ But what are the implications if, instead, it is assumed that an economy *is not* in equilibrium and that constant changes on both the demand and supply sides are an integral part of the system? In other words, what are the implications in the *real world*? How is the coordination of a multitude of individual human plans and activities to be brought about so as to assure a tendency toward an efficient allocation of scarce consumer goods and means of production?

As Mises explained, in a market economy this is accomplished via the price mechanism: rivalrous entrepreneurs bid for the use or purchase of scarce factors of production based upon their respective anticipations of the relative consumer demands for either existing or new products. Prices for these factors of production are formed out of the interaction of, on the one hand, entrepreneurs who have expectations about the prices consumers would be willing to pay for the final output the productive factors could assist in producing and, on the other hand, owners of the productive factors who form expectations about alternative employment opportunities. In turn, the ongoing process of profit and loss assures that economic control of those scarce factors of production always tends to be in the hands of those entrepreneurs who demonstrate a greater capacity for forming a more nearly correct foresight about changes in underlying market conditions.³⁰

Socialism, Mises argued, negated the entire market process. Without private ownership of the means of production, no markets would exist upon which prices for scarce resources could be generated. And without real market-created prices, reflecting ever-changing supply and demand conditions, no rational technique would exist for carrying out the economic calculations required for the estimation of various least-cost methods of production. Hence, concluded Mises, the establishment of universal socialism would necessitate the demise of all rational economic planning.³¹

²⁹ This is not to suggest that Walras believed that a “planned” solution was interchangeable with a “market” solution. Indeed, he emphasized that the problem was too complex for any solution other than that provided by the competitive market; see Léon Walras, *Elements of Pure Economics* (New York: Augustus M. Kelley, [1954] 1969), p. 106.

³⁰ Mises, *Human Action*, pp. 257–397; and Ludwig von Mises, “Profit and Loss,” in *Planning for Freedom*, enl. ed. (South Holland, Ind.: Libertarian Press, 1980), pp. 108–50.

³¹ Mises, *Human Action*, pp. 689–715; also, Ludwig von Mises, “Economic Calculation in the Socialist Commonwealth” [1920], in *Collectivist Economic Planning*, F. A. Hayek, ed. (London: Routledge and Sons, 1935), pp. 87–130. For an extended summary of Mises’s contribution to the socialist calculation debate, see Murray N. Rothbard, “Ludwig von Mises and Economic

Government intervention within a market order, Mises reasoned, ultimately created the same problems as did socialism, only in a more moderate form. To the extent that the interventions infringed upon the free-market formation of prices and direction of production, to that extent, market forces—i.e., entrepreneurial attempts to competitively satisfy consumer demands in the most efficient manner—were thwarted. Furthermore, as each government intervention would distort and disrupt the competitive market price structure, the government would continually face the problem of either extending its controls and regulations in an attempt to compensate for the imbalances its previous interventions had caused or repealing the existing interventions and allowing a return to a competitive market arrangement. Thus, Mises insisted, an interventionist “mixed-economy” was inherently unstable; logically it required either an extension of the interventions until all-round planning was established via a continuing piecemeal process or else the interventionist state would have to contract until a free-market order once again predominated.³²

Mises’s conclusion that a market economy was the only reasonable solution to the problem of economic order was not meant by him to be taken as a personal value judgment on his part. Quite to the contrary, he saw it as a purely scientific conclusion to a scientific problem. Once a society is beyond a primitive economic state, or more exactly, if it is to get beyond such a state, there must exist a certain set of institutional structures that enable advantageous utilization of extensive division of labor. The growing complexity and dispersion of knowledge that emerges with the division of labor precludes any successful coordination via some central directing authority. Some mechanism must assist in this endeavor, and the price mechanism, argued Mises, was

Calculation Under Socialism,” in *The Economics of Ludwig von Mises: Toward a Critical Reappraisal*, Lawrence S. Moss, ed. (Kansas City, Kans.: Sheed Andrews and McMeel, 1976), pp. 67–77; Karen I. Vaughn, “Economic Calculation under Socialism: The Austrian Contribution,” *Economic Inquiry* 18 (October 1980): 535–54; Don Lavoie, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (New York: Cambridge University Press, 1985); and Richard M. Ebeling, “Economic Calculation under Socialism: Ludwig von Mises and His Predecessors,” in *The Meaning of Ludwig von Mises* (Auburn, Ala.: The Ludwig von Mises Institute, forthcoming).

³² Ludwig von Mises, “Middle-of-the-Road Policy Leads to Socialism,” in *Planning for Freedom*, pp. 18–35. For an elaboration of Mises’s critique of intervention linked to his criticism of economic calculation under socialism, see Israel M. Kirzner, “The Perils of Regulation: A Market-Process Approach,” *Discovery and the Capitalist Process* (Chicago: University of Chicago Press, 1985), pp. 119–49.

just such an apparatus. Information about a multitude of consumer preferences and entrepreneurial expectations could be successfully transmitted across a nation, across a continent, and, indeed, across the world through changes in market prices for both finished goods and the factors of production.

Real market prices—reflecting *real* preferences, *real* expectations, *real* information about scarcity conditions—were impossible if private ownership of the factors of production was outlawed, for without ownership there could be no trades, without the ability to trade there could be no bids and offers, and without bids and offers there were no *real* prices. Interventions in a market economy, on the other hand, did not abrogate prices, but they could distort and disrupt the informational flow, thus seriously diminishing the efficiency of the society's extended use of the division of labor. Thus, as a scientist, Mises felt confident in saying that ultimately there was no alternative to a thoroughgoing market order.

We also see in Mises's critique of interventionism the same microeconomic process analysis that is visible in his monetary studies. An intervention impinges upon the economic system at some point. The relative price and production relations of the market are disturbed, resulting in modifications in the actions of various market participants that distort the market order. These modified actions, in turn, influence the behavior and response of still others, resulting in even further imbalances and distortions between various supplies and demands. The implication that Mises drew was that the longer-term, complex ramifications from any specific intervention can, therefore, tend to have the consequence of making worse any initial market condition that the intervention was meant to remedy. Thus, with the tools of modern economic theory, Mises was able to construct a sophisticated sequence analysis that reinforced the older arguments of the Classical Economists concerning the importance of understanding both what is seen (the initial, short-run effect of an intervention) and what is unseen (the longer-run consequences) in the implementation of economic policy.

IV

In the post-war years, the methodological thrust implicit in Mises's writings was inevitably bound to conflict with the Keynesian spirit of the times. For a wide range of theoretical and policy issues, micro-