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LUDWIG VON MISES

Notes and Recollections

*With The Historical Setting of the
Austrian School of Economics*



LUDWIG VON MISES

Edited and with a Preface by Bettina Bien Greaves



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PREFACE

In this book, Liberty Fund has combined two monographs by Ludwig von Mises—*Notes and Recollections* and *The Historical Setting of the Austrian School of Economics*—both dealing with the Austrian School of economics, each from a different perspective. The Austrian School is not a school in the sense of a physical structure constructed of steel, bricks, and mortar. Rather it is a collection of ideas and theories. And it has been called Austrian, because the subjective marginal utility theory of value on which it is based originated largely with Carl Menger, Eugen Böhm-Bawerk, and Ludwig von Mises, all Austrian-born.

Notes and Recollections is a very personal account by Mises describing his life in Austria before he came to the United States in 1940. He wrote these reminiscences in an informal, conversational tone. He wrote of his intellectual development, his effort to understand and explain economic ideas, and his contributions to economic theory, as he himself was then helping to develop it. In these autobiographical recollections he also discussed his activities as adviser to Austrian government officials and his frustrations in attempting to keep inflation and communist and Nazi ideas from destroying the Austrian economy. Professor Sennholz's postscript continues the account of Mises's contributions to the Austrian School of Economics by describing his life and work after he migrated to the United States in 1940.

The Historical Setting of the Austrian School of Economics, first published in 1962, was written in Mises's usual serious writing style. It describes the historical background of the school and summarizes its basic teachings.

When Mises writes in this book of "modern economics," he means economics based on "subjective value marginal-utility theory," which he considered a substantial advance over earlier economic theories. This position set him apart from the classical economists—Adam Smith,

David Ricardo, and John Stuart Mill—who considered economics to be the study of how men produced and distributed material goods and services. As Mises explains in these two works, it also separated him from his German contemporaries—advocates of empiricism, positivism, historicism, and “economic state sciences”—according to whom all knowledge of economics must come from experience and history.

To Mises economics was the study of human action, a science developed logically from the a priori fact that man acts. Economists use reason and logic to explain how men seek to attain their various values, ends, and goals in life—material ends, yes, but also spiritual, cultural, intellectual, social, personal, etc., goals and values. Thus economics is not a physical science. It is a science of reason and logic. It is universal, timeless, and true always and everywhere. The logic of economic theory explains the actions of men in the pre- and post-industrial worlds, as well as in today’s highly developed, closely interrelated, world with its finely specialized division of labor. Just as there is no such thing as English mathematics or Chinese physics, the science of economics is the same throughout history, in feudal times as well as in the twenty-first century. Speaking of the Austrian School of economics was a shorthand way to distinguish the subjective value theory developed by Mises’s Austrian-born colleagues from the theories of the empirical schools criticized here. In Mises’s *Nationalökonomie* (1940) and *Human Action* (1949), he explained economics in careful detail as the universal science of human action.

The reader should keep in mind that Mises uses “liberal” (derived from the Latin, *liber* meaning free) in its original, classical sense, not in its modern, corrupted definition as interventionism. All numbered footnotes in this edition are mine.

Bettina Bien Greaves
May 2013

☞ Notes and Recollections

FOREWORD

I set out to be a reformer, but only became the historian of decline.—LvM

When my husband, Ludwig von Mises, wrote these words in December 1940, he evidently felt very depressed; but as *Notes and Recollections* indicates, he had not completely despaired about the possibility that the world might yet heed his warnings. Though this book is slim in size, its thoughts are weighty.

The dark mood in which Ludwig von Mises wrote these *Notes and Recollections* is to be understood in part by the circumstances through which they came to life.

On August 2, 1940, my husband and I landed at a pier in New Jersey. We had left Europe in the midst of a bloody, destructive war. Leaving Geneva was not easy for him. He had spent six happy years there, teaching at the Institut Universitaire des Hautes Etudes as Professor of International Economic Relations. He had become well known all over Europe, and the fame of his books had reached the United States well before he set foot on these shores.

The day we arrived in the United States was hot and humid. Behind us were four weeks of traveling, four weeks of anxiety, of heartache and apprehension.* We were admitted on a nonquota visa; but we had no home or family here to greet us. Like many other immigrants, we were to experience difficult times before we once again felt firm ground beneath our feet. Our belongings, among them his valuable library, had been packed and shipped before we left. Now they were lying somewhere en route, and we were not sure that we would ever see them again. Moving from one small hotel to another, with only savings

* Cf. chapters V and VI, *My Years with Ludwig von Mises*, by Margit von Mises, Arlington House, New Rochelle, New York, 1976.

to live on, and no teaching position offered that might interest him—such was the background when in the autumn of 1940 my husband sat down to write, as he originally planned, an autobiography.

At the end of December he finished his writing, without having had the benefit of his books for reference. On a bleak December afternoon he showed me the manuscript, and I remember my first impression. I felt immediately, without fully understanding it, that this was a most significant document. But I also realized that it was not an autobiography. An autobiography is the “history of a person’s life,” Webster says, “written by himself.” While this manuscript gives a clear image about my husband’s intellectual development, the ideas for his books, his work, and his activities until 1940, it reveals almost nothing about his family or his background.

Two years later, when we finally had an apartment of our own, my husband gave me the handwritten manuscript, which by then was neatly put into two black hardcover folders. “They are yours,” he told me, “take good care of them.”

Undoubtedly he had written this material for publication. For when I, about thirty years later—when he was recognized all over the world—suggested that he write an autobiography, and offered to type his dictation, he answered: “You have my two handwritten folders. That is all people need to know about me.”

It was some time after his death on October 10, 1973, that I remembered the two hardcover folders. I took them out of my closet and read them again and again. I was spellbound. Now I understood what treasure Ludwig von Mises had given me in 1942, when I was not yet ready to see the full historic importance of this manuscript. Never before had he written such candid, harsh, devastating remarks and observations about economic conditions, the universities, the professors, and well-known public personalities in Austria and Germany.

Never before had he expressed such undisguised despair about the coming decline of Western civilization; in retrospect, I would say, he never again wrote in this way. In later years, when his personal situation changed, when he found peace within himself, and when he acquired further insight into the economic conditions and the great possibilities of the United States, he felt a slight hope for the survival of civilization. But never, never would he stop warning against inflation, interventionism, and communism.

I have typed the German manuscript and asked Dr. Hans Sennholz

to do the English translation. Dr. Sennholz took his American Doctor of Philosophy degree with Ludwig von Mises at New York University. He is presently Chairman of the Economics Department at Grove City College.

In *Notes and Recollections* the world can hear once again the warning voice of Ludwig von Mises. I hope that many thinking men and women will read this little book. They then will see—and fear—the consequences of inflation, socialism-communism, and the growing power and corruption of interventionist government. History may repeat itself disastrously if we do not change our course.

Margit von Mises
New York, New York
July 1976

Historicism

The first source of political and historical knowledge for me was the *Gartenlaube*, the periodical of provincial German folk. This was in 1888, the Three-Kaiser Year; its issues carried reports with many pictures of the lives of the two late Kaisers. I was then not yet seven years old and devoured the articles with insatiable fervor.

A little later I found the historical bias of this family magazine, in more explicit form, in the works of German historians. As an Austrian it was not difficult for me to recognize the political overtones of these writers. And I soon discerned the method of their analysis, which had rudely been called the falsification of history. Nor were the later historians for a united Germany more honest or conscientious; they were merely less capable.

When I graduated from high school, the problems of economic, legal, administrative, and social history appeared more attractive to me than political history. Therefore I decided to study law rather than history, which I earlier had in mind as an undergraduate.

In those years the study of law at Austrian universities was arranged in such a way that three to four semesters of the total of eight were dedicated exclusively to the history of law, and the remaining four to five largely to political economy and public law. The school of law offered greater opportunities for the study of history than the school of liberal arts. The “political” historians who taught at the latter were third- and fourth-rate men. The only significant historian produced by Austria, Heinrich Friedjung, was denied access to an academic career. The emphasis in historical education at the University of Vienna was on paleography.

On Historicism, see appendix at end of this chapter. (All notes that follow are Publisher’s Notes, except for original notes which are shown as *Author’s Notes*.)

At that time, around 1900, historicism was at the zenith of its career. The historical method was believed to be the only scientific method for the sciences of human action. From the height of his historical clarity, the “historical political economist” was looking with unspeakable disgust on the “orthodox dogmatist.” Economic history was the science in fashion. In the German-speaking world [Gustav] Schmoller was adored as the great master of “political economy.” And from all over the world ambitious young men flocked to his seminar.

I was still in high school when I noticed a contradiction in the position of the Schmoller circle. On the one hand, they rejected the positivistic demand for a science of law that was to be built from the historical experiences of society; on the other hand, they believed that economic theory was to be abstracted from economic experiences. It was astonishing to me that this contradiction was barely noticed or rarely mentioned.

Another characteristic that displeased me was the school’s relativism, which degenerated with many of its adherents to a blind glorification of the past and its institutions. While many progress fanatics had condemned as bad and damnable everything that was old, these pseudo-historians rejected everything that was new, and they glorified the old. At that time I did not yet understand the significance of Liberalism. But to me, the fact alone that Liberalism was an achievement of the eighteenth century, and that it was not known in former times, was no cogent argument against it. I could not understand how they could justify “historically” and “relatively” whatever was in fact tyranny, superstition, and intolerance. To me it was insolent falsification of history to elevate the sexual mores of the past to models for the present. But the worst transgressions occurred in the fields of church and religion, in which Catholics and Protestants alike diligently suppressed that which they did not like. Equally offensive were the writings in Brandenburg-Prussian history, from the “Great” Elector to the “Great” King.

At least in one point the honesty of Austrian law historians differed refreshingly from the bias of Prussian historical work. In his five-hour lecture on Austrian history, which was mandatory for all first-semester students of law, Professor Siegmund Adler dealt with the history of the forgery of the *privilegium majus* by Duke Rudolf, the founder. This was done with such thoroughness that it could withstand the sharpest critique. Only decades later did Ernst Karl Winter find the courage to

extenuate this chapter of Austrian history by labeling the late Duke a “socialist” who even exceeded in socialism the idol of German socialists, Kaiser Friedrich Wilhelm I.

It was not quite clear to me how an argument against private property could be derived from the fact that in the distant past there had been community property in land. Nor could I understand why monogamy and family should be abolished because there had been promiscuity in the past. To me such arguments were nothing but nonsense.

On the other hand, I also failed to comprehend the opposite point of view frequently and largely held by the same people: that anything in the course of development was always progress—higher development—and therefore morally justified.

I would here like to mention that the honest relativism of historians searching for knowledge had nothing in common with the mendacious historicism of this school. But logically it rested on no sounder ground. According to its tenets, there was no difference between suitable and unsuitable policy. That which is, is ultimately given. And the wise man who sees things with the eyes of a historian must never judge them, but accept them. They believed that the same was true of the natural scientist, who does not treat natural phenomena any differently.

It does not take many words to prove the fallacy of this position, to which many economists are still adhering today [1940]. It is not the task and function of science to make value judgments. It has one of two functions—in fact, in the belief of many, only one function—to inform us whether the means we apply toward the attainment of an objective are suitable or not. The natural scientist does not judge nature, but informs his fellowmen on which means they should rely in order to achieve certain objectives. The sciences of human action must not judge the ultimate objectives of action, but examine the means and methods that can be applied for the attainment of these objectives.

I frequently discussed this with Ludo Hartmann and later also with Max Weber and Alfred Frances Pribram. All three were rather engrossed in historicism, which made it difficult for them to admit the cogency of my position. With Hartmann and Weber their hot tempers finally prevailed which prompted them to turn to political action in spite of their philosophical doubts. Pribram, who lacked this urge to action, remained faithful to his quietism and agnosticism. One could say about him what Goethe said [*Faust*, second part, *Walpurgisnacht*] about the Sphinx:

*Sitzen vor den Pyramiden
Zu der Völker Hochgericht,
Überschwemmung, Krieg und Frieden—
Und verziehen kein Gesicht.**

As for the German historians, I thoroughly disliked their uncouth materialistic position on power. To them power meant bayonets and guns, and realistic policy relied solely upon the military. Everything else was illusion, idealism, and utopianism. They never understood David Hume's famous doctrine that all government rests finally on public "opinion." In this respect their great adversary, Heinrich Friedjung, shared their position. A few months before the outbreak of the Russian Revolution he told me: "I am at a loss when I hear about the mood of the Russian people and the revolutionary ideology that motivates the Russian intelligentsia. That is all so vague and uncertain. Such factors are not decisive. Only the will [to power] of leading statesmen and the plans they decide to execute will count." This differed little from the position of Herr Schober, a petty police official, who later became Chancellor of Austria. Toward the end of 1915 he reported to his superiors that he doubted the possibility of a Russian revolution. "Who, then, could make this revolution? Surely not this Mr. Trotsky, who used to read newspapers in Café Central."

By 1900 the faculty of the University of Vienna had only one instructor who belonged to the German Historical School. Karl Grünberg had worked for a while with Professor [Georg Friedrich] Knapp in Strasbourg, and then published a book that described the agrarian policy of the Austrian government in the Sudetic Mountains. His work slavishly followed in form, presentation, and method, Knapp's book on the old provinces of Prussia. It was neither economic history nor administrative history. It was merely an extract from government documents, a description of policy as found in government reports. Any able government official could easily have written it.

It was Professor Grünberg's ambition to found in Vienna a center for economic history like that created by Knapp in Strasbourg. Knapp's students were then researching the peasant liberation in the several German provinces. And so Professor Grünberg decided that his stu-

* Sitting at the Pyramids
In the people's highest court,
Facing flood and war and bustle—
And moving—not a muscle!

dents should work on the peasant liberation in various parts of Austria. He induced me to work on the history of the lord-peasant relationship in Galicia. As far as possible, I endeavored to free myself from too close an association with Knapp's system. But I succeeded only in part, which made my study, published in 1902, more a history of government measures than economic history.¹ And my second historical work, which I published in 1905, independent of Grünberg—in fact, against his advice—was not much better. Under the title, *A Contribution to Austrian Factory Legislation*, it described older Austrian laws on the limitation of child labor in industry.²

While I was spending a great deal of time on these publications, I made plans for more extensive research. It was to be economic and social history but not extracts from official reports. However, I never found opportunity to do this work. After completing my university education I never again had the time for work in archives and libraries.

It was my intense interest in historical knowledge that enabled me to perceive readily the inadequacy of German historicism. It did not deal with scientific problems, but with the glorification and justification of Prussian policies and Prussian authoritarian government. The German universities were state institutions and the instructors were civil servants. The professors were aware of this civil-service status, that is, they saw themselves as servants of the Prussian king. If, on occasion, they used their formal independence to criticize government measures, their criticism was no stronger than the grumbling that could be generally heard in any circle of officers and officials.

Such study of “economic state science” necessarily repelled young people with intelligence and thirst for knowledge. Instead, it strongly attracted simpletons. Indeed, it was not difficult to visit archives and put together a historical thesis from a bundle of official reports. This led to the majority of professorships being held by men who, according to the evaluation yardsticks of independent professions, should be rated as intellectually limited. We must bear this in mind in order to understand how men like Werner Sombart could acquire great reputation. It was necessary, of course, not to be stupid and uncultured.

University instruction in an a priori science presents special prob-

1. *Die Entwicklung der gutsherrlich-bäuerlichen Verhältnisses in Galizien: 1772–1948* (Vienna & Leipzig). Not available in English.

2. *Zur Geschichte der österreichischen Fabrikgesetzgebung* (*Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*). No English translation available.

lems if the teacher is to be also a researcher. In any field there are but a few men who can increase the given fund of knowledge. But in the a posteriori experimental sciences both work together—the pioneers and the followers—so that there is no marked distinction between them. In his laboratory, every professor of chemistry can compare himself with the great pioneer. Like him, he is researching even if his contributions to scientific progress are more modest. But it is quite different in philosophy, economics, and in a certain sense also in mathematics. If a professorship were conditional on an independent contribution to economics, scarcely a dozen professors could be found in the whole world. Therefore, if a professorship is to be granted only to independent researchers, work in related fields must also be accepted. Thus, appointment to a professorship in economics would depend on noteworthy distinction in other fields, in the history of thought and doctrine, economic history, especially economic history of the most recent past (which erroneously is called economic problems of the present).

The fiction that in the sciences all professors are equal does not tolerate the existence of two types of professors in economics: those who work independently in economics [as original theorists]; and those who come from economic history and description. The inferiority complex of these “empiricists” gives them a prejudice against theory.

In Germany, and later also in many other countries, this antagonism to theory at first assumed nationalistic overtones. During the first half of the nineteenth century the German professors at best were merely transmitters of the ideas of English economists: only a few, among them Hermann and Mangoldt, should be remembered. The older historical school had a nationalistic resentment against Western [especially English] thought. The younger school then added to the dispute all those arguments with which Nazism rejected Western ideas. To these professors it was a special delight to replace the inadequate English economics with utopian German doctrines. John Stuart Mill was the last Englishman with whom the German professors were still somewhat familiar. He was an epigone of those inadequate Classicists; but, the German professors gave Mill credit for having anticipated some of the great ideas of German economics.

The Historical School of Economic State Science did not produce a single thought. It did not write a single page in the history of sciences. For eighty years it served only diligently to propagandize Nazism. And