

## SOCIALISM

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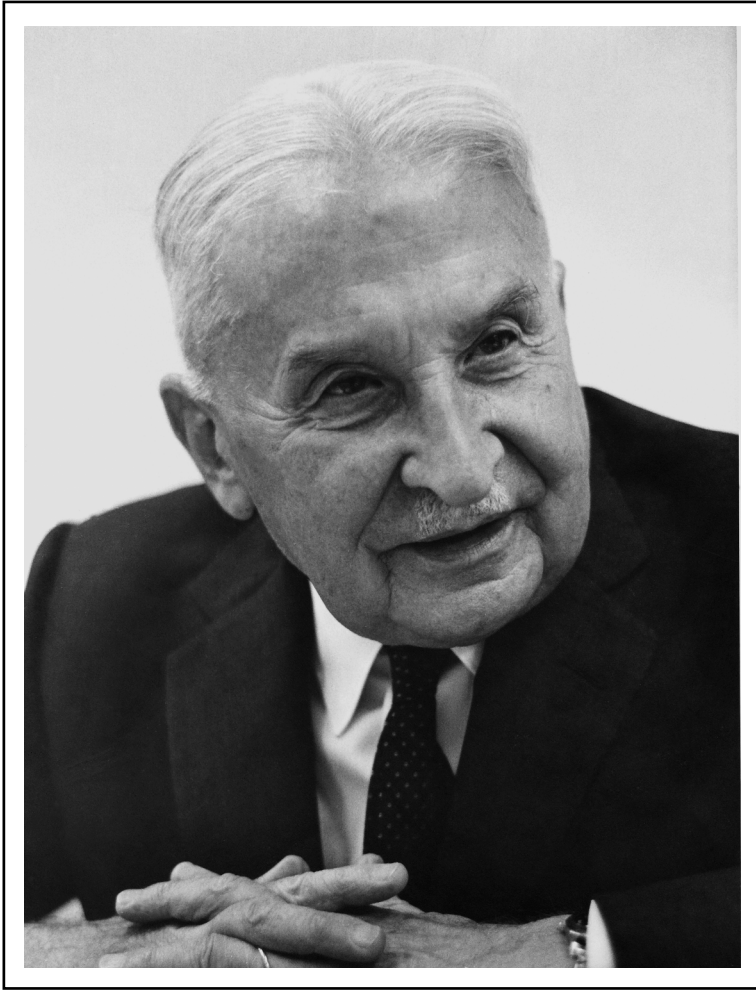
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LUDWIG VON MISES

# SOCIALISM

*An Economic and Sociological Analysis*

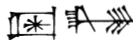
by

LUDWIG VON MISES

*Translated*

*by*

J. KAHANE B.Sc. (Econ.)



**Liberty Fund**

Indianapolis

This book is published by Liberty Fund, Inc., a foundation established to encourage study of the ideal of a society of free and responsible individuals.



The cuneiform inscription that serves 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.

This edition of *Socialism* follows the text, with correction and enlargement of footnotes, of the Jonathan Cape Ltd., edition published in London in 1969. The edition was based on the 1951 edition by Yale University Press which slightly enlarged the first English edition published by Jonathan Cape in 1936, translated from the German by J. Kahane.

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#### Library of Congress Cataloging in Publication Data

Von Mises, Ludwig, 1881-1973.  
Socialism.

Translation of the 2d ed. (1932) of *Die Gemeinwirtschaft*.  
Includes index.

1. Socialism. I. Title

HX276. V562 1979 335 79-21701

ISBN 0-913966-62-2

ISBN 0-913966-63-0 pbk.

C 15 14 13 12 11 10 9 8

P 15 14 13 12 11 10

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## PUBLISHER'S PREFACE TO THE LIBERTY FUND EDITION

*Socialism*, by Ludwig von Mises, was originally published in German under the title *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922). A few paragraphs and the appendix were added to the second German edition, published by the same firm in 1932, and a few more paragraphs were included in the first English translation—*Socialism: An Economic and Sociological Analysis*, translated by J. Kahane (London: Jonathan Cape, 1936).

An enlarged edition of the Kahane translation was published in 1951 (New Haven: Yale University Press). This edition included an epilogue originally published (and still available) under the title *Planned Chaos* (Irvington, New York: Foundation for Economic Education, 1947). This enlarged edition was reprinted by Jonathan Cape (London) in 1969, and is here reprinted again, in 1981, by Liberty Fund (Indianapolis).

This edition leaves the text as translated by Kahane in 1936 and added to by Mises in 1951 undisturbed. The present publisher has, however, undertaken to add certain features to aid the contemporary reader. Translations have been provided for all non-English expressions left untranslated in the Jonathan Cape edition. These translations appear in parentheses after the expressions or passages in question. Chapters have been numbered consecutively throughout the book.

All footnotes have been checked against the second German edition. When works in languages other than English are cited by Mises, information concerning versions in English has been provided when such versions could be located. The corresponding page references in the English versions are also provided insofar as location of these was possible. Complete information

concerning the English version is provided at the first citation of a given work. Only the page references in the English are provided in later citations, but full information is easily located in the Index to Works Cited. All bibliographical information added to the footnotes is clearly labeled as a publisher's note.

Having been written in 1922 in Austria and ranging over many fields of learning, *Socialism* contains a number of references to individuals and events with which many readers will not be familiar. Brief explanations of such references are provided by asterisked footnotes printed below Mises' notes and clearly labeled as being added by the publisher. Such notes also offer explanations quoted from Mises of his special use of a few English terms.

In order to facilitate study of the book, two new indexes have been provided. An Index to Works Cited lists all books and authors cited in *Socialism*. This index also provides English versions of works cited by Mises in German. In cases where no English version has been found, a literal translation of the title has been provided. A general Subject and Name Index is also provided.

*Socialism* has been available in English for more than forty years and references to it abound in the scholarly literature. Since Liberty Fund editions are set in new type, the pagination of this new edition differs from the earlier ones. We have, therefore, indicated the pagination of the expanded edition of 1951 in the margins of the Liberty Fund edition.

The pagination of all previous English language editions was the same from pages 15 through 521. In the enlarged edition of 1951, a Preface was added as pages 13–14, and the Epilogue was added as pages 522–592. By placing the pagination of the 1951 edition in the margins of our edition, we provide a guide to the location of citations of all earlier English editions.

The publisher wishes to acknowledge with thanks the aid of several persons who helped with this edition. The many aids to study and understanding offered in this edition are due primarily to the work of Bettina Bien Greaves of the Foundation for Economic Education. She performed the monumental task of checking the footnotes against the second German edition. She also undertook the equally difficult task of providing most of the citations to English language versions of works cited in German. She provided most of the material for the asterisked explanations of unfamiliar references. She also did most of the work of preparing the new indexes. If this edition is more easily studied by contemporary readers, most of the credit should go to Mrs. Greaves.

For aid with translations from Greek, the publisher acknowledges the help

of Professors Perry E. Gresham and Burton Thurston of Bethany College. For help with Latin translations, Professor Gresham must be acknowledged again along with Father Laut of Wheeling College. Percy L. Greaves, Jr., of Dobbs Ferry, New York, provided translations from French. Professor H. D. Brueckner of Pomona College provided aid with locating translations and citations of Kant.



## FOREWORD

By F. A. Hayek

When *Socialism* first appeared in 1922, its impact was profound. It gradually but fundamentally altered the outlook of many of the young idealists returning to their university studies after World War I. I know, for I was one of them.

We felt that the civilization in which we had grown up had collapsed. We were determined to build a better world, and it was this desire to reconstruct society that led many of us to the study of economics. Socialism promised to fulfill our hopes for a more rational, more just world. And then came this book. Our hopes were dashed. *Socialism* told us that we had been looking for improvement in the wrong direction.

A number of my contemporaries, who later became well known but who were then unknown to each other, went through the same experience: Wilhelm Röpke in Germany and Lionel Robbins in England are but two examples. None of us had initially been Mises' pupils. I had come to know him while working for a temporary Austrian government office which was entrusted with the implementation of certain clauses of the Treaty of Versailles. He was my superior, the director of the department.

Mises was then best known as a fighter against inflation. He had gained the ear of the government and, from another position as financial adviser to the Vienna Chamber of Commerce, was immensely busy urging the government to take the only path by which a complete collapse of the currency could still be prevented. (During the first eight months I served under him, my nominal salary rose to two hundred times the initial amount.)

As students during the early 1920's, many of us were aware of Mises as the somewhat reclusive university lecturer who, a decade or so earlier, had

published a book<sup>1</sup> known for its successful application of the Austrian marginal utility analysis theory of money—a book Max Weber described as the most acceptable work on the subject. Perhaps we ought to have known that in 1919 he had also published a thoughtful and farseeing study on the wider aspects of social philosophy, concerning the nation, the state, and the economy.<sup>2</sup> It never became widely known, however, and I discovered it only when I was his subordinate at the government office in Vienna. At any rate, it was a great surprise to me when this book, *Socialism*, was first published.<sup>3</sup> For all I knew, he could hardly have had much free time for academic pursuits during the preceding (and extremely busy) ten years. Yet this was a major treatise on social philosophy, giving every evidence of independent thought and reflecting, through Mises' criticism, an acquaintance with most of the literature on the subject.

For the first twelve years of this century, until he entered military service, Mises studied economic and social problems. He was, as was my generation nearly twenty years later, led to these topics by the fashionable concern with *Sozialpolitik*, similar in outlook to the "Fabian" socialism of England. His first book,<sup>4</sup> published while he was still a young law student at the University of Vienna, was in the spirit of the predominant German "historical school" of economists who devoted themselves mainly to problems of "social policy." He later even joined one of those organizations which prompted a German satirical weekly to define economists as persons who went around measuring workingmen's dwellings and saying they were too small. But in the course of this process, when he was taught political economy as part of his law studies, Mises discovered economic theory in the shape of the *Grundsätze der Volkswirtschaftslehre* (*Principles of Economics*) of Carl Menger,<sup>5</sup> then about to retire as a professor at the university. As Mises says in his fragment of an autobiography,<sup>6</sup> this book made him an economist. Having gone through the same experience, I know what he means.

<sup>1</sup> Ludwig von Mises, *Theorie des Geldes und der Umlaufsmittel* (Munich and Leipzig: Duncker & Humblot, 1912). Publisher's Note: This has been translated into English as *The Theory of Money and Credit* (Indianapolis: LibertyClassics, 1981).

<sup>2</sup> Ludwig von Mises, *Nation, Staat und Wirtschaft: Beiträge zur Politik und Geschichte der Zeit* (Vienna: Manz'sche Verlags und Universitäts-Buchhandlung, 1919).

<sup>3</sup> Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922).

<sup>4</sup> Ludwig von Mises, *Die Entwicklung des gutsherrlichbäuerlichen Verhältnisses in Galizien, 1772–1848* (Vienna and Leipzig: Franz Deuticke, 1902).

<sup>5</sup> Carl Menger, *Principles of Economics* (New York: New York University Press, 1981).

<sup>6</sup> Ludwig von Mises, *Notes and Recollections*; foreword by Margit von Mises, translation and postscript by Hans F. Sennholz (South Holland, Ill.: Libertarian Press, 1978); p. 33.

Mises' initial interests had been primarily historical, and to the end he retained a breadth of historical knowledge rare among theoreticians. But, finally, his dissatisfaction with the manner in which historians and particularly economic historians interpreted their material led him to economic theory. His chief inspiration came from Eugen von Böhm-Bawerk, who had returned to a professorship at the University of Vienna after serving as Austrian Minister of Finance. During the decade before the war, Böhm-Bawerk's seminar became the great center for the discussion of economic theory. Its participants included Mises, Joseph Schumpeter, and the outstanding theoretician of Austrian Marxism, Otto Bauer, whose defense of Marxism long dominated the discussion. Böhm-Bawerk's ideas on socialism during this period appear to have developed a good deal beyond what is shown by the few essays he published before his early death. There is no doubt that the foundations of Mises' characteristic ideas on socialism were laid then, though almost as soon as he had published his first major work, *The Theory of Money and Credit* (1912), the opportunity for further systematic pursuit of this interest vanished with Mises' entry into service for the duration of World War I.

Most of Mises' military service was spent as an artillery officer on the Russian front, but during the last few months he served in the economic section of the Ministry of War. It must be assumed that he started on *Socialism* only after his release from military duty. He probably wrote most of it between 1919 and 1921—the crucial section on economic calculation under socialism was in fact provoked by a book by Otto Neurath published in 1919, from which Mises quotes. That under the prevailing conditions he found time to concentrate and to pursue a comprehensive theoretical and philosophical work has remained a wonder to one who at least during the last months of this period saw him almost daily at his official work.

As I suggested before, *Socialism* shocked our generation, and only slowly and painfully did we become persuaded of its central thesis. Mises continued, of course, thinking about the same range of problems, and many of his further ideas were developed in the "private seminar" which began about the time *Socialism* was published. I joined the seminar two years later, upon my return from a year of postgraduate study in the United States. Although there were few unquestioning followers at first, he gained interest and admiration among a younger generation and attracted those who were concerned with problems of the borderline of social theory and philosophy. Reception of the book by the profession was mostly either indifferent or hostile. I remember but one review that showed any recognition of *Socialism's* importance and that was by a surviving liberal statesman of the preceding

century. The tactics of his opponents were generally to represent him as an extremist whose views no one else shared.

Mises' ideas ripened during the next two decades, culminating in the first (1940) German version of what became famous as *Human Action*.<sup>7</sup> But to those of us who experienced its first impact, *Socialism* will always be his decisive contribution. It challenged the outlook of a generation and altered, if only slowly, the thinking of many. The members of Mises' Vienna group were not disciples. Most of them came to him as students who had completed their basic training in economics, and only gradually were they converted to his unconventional views. Perhaps they were influenced as much by his disconcerting habit of rightly predicting the ill consequences of current economic policy as by the cogency of his arguments. Mises hardly expected them to accept all his opinions, and the discussions gained much from the fact that the participants were often only gradually weaned from their different views. It was only later, after he had developed a complete system of social thought, that a "Mises School" developed. The very openness of his system enriched his ideas and enabled some of his followers to develop them in somewhat different directions.

Mises' arguments were not always easily apprehended. Sometimes personal contact and discussion were required to understand them fully. Though written in a pellucid and deceptively simple prose, they tacitly presuppose an understanding of economic processes—an understanding not shared by all his readers. We see this most clearly in his crucial argument on the impossibility of an economic calculation under socialism. When one reads Mises' opponents, one gains the impression that they did not really see why such calculation was necessary. They treat the problem of economic calculation as if it were merely a technique to make the managers of socialist plants accountable for the resources entrusted to them and wholly unconnected with the problem of what they should produce and how. Any set of magic figures appeared to them sufficient to control the honesty of those still indispensable survivors of a capitalist age. They never seemed to comprehend that it was not a question of playing with some set of figures, but one of establishing the only indicators those managers could have for deciding the role of their activities in the whole structure of mutually adjusted activities. As a result, Mises became increasingly aware that what separated him from his critics was his wholly different intellectual approach to social and economic problems, rather than mere differences of interpretation of particular facts.

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<sup>7</sup> Ludwig von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens* (Geneva: Éditions Union, 1940).