

CONTENTS

Abbreviations and References	ix
Preface	xi
1. Ludwig von Mises, 1881-1973	i
2. Ludwig von Mises, Economist	33
3. The Nature of Economic Inquiry	69
4. The Economics of the Market Process	93
5. Monetary Theory, Cycle Theory, and the Rate of Interest	121
6. Mises: Free-Market Economist of the Century	163
Postscript: Misesian Economics After Mises	193
Appendix: Books By Mises	197
Endnotes	201
Index	221

- LCT *Liberalism in the Classical Tradition* (San Francisco: Foundation for Economic Education and Cobden Press, 1985).
- NR *Notes and Recollections*, trans. Hans F. Sennholz (South Holland, Ill.: Libertarian Press, 1978).
- 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).
- 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' own followers) have encountered in that work.

A number of scholars have explored various aspects of Mises' 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 of superb introductions to several volumes of Mises' 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' 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' career. The late Murray N. Rothbard, brilliant American disciple of Mises, has more than once presented his own appreciation of Mises' 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' 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 acknowledgement 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' death in 1973, my own appreciation for his economic insights and understanding has only continued to mature. My recognition of Mises' 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

CHAPTER ONE

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' 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' 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' life, interesting though they may be for a full-length biography, are not, in fact,

directly relevant to an appreciation of his intellectual stature.¹ 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' 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 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' 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 1903²—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.)³ 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'