



Photograph by David Jarrett

Ludwig von Mises
(1881–1973)

Ludwig von Mises: Defender of Capitalism

by

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September 29, 1981, is the one-hundredth anniversary of the birth of Ludwig von Mises, economist and social philosopher, who passed away in 1973. Von Mises was my teacher and mentor and the source or inspiration for most of what I know and consider to be important and worthwhile in these fields—of what enables me to understand the events shaping the world in which we live. I want to take this opportunity to pay tribute to him, because I believe that he deserves to occupy a major place in the intellectual history of the twentieth century.

Von Mises is important because his teachings are necessary to the preservation of material civilization. As he showed, the base of material civilization is the division of labor. Without the higher productivity of labor made possible by the division of labor, the great majority of mankind would simply die of starvation. The existence and successful functioning of the division of labor, however, vitally depends on the institutions of a *capitalist* society—that is, on limited government and economic freedom, private ownership of land and all other property, exchange and money, saving and investment, economic inequality and economic competition, and the profit motive—institutions everywhere under attack for several generations.

When von Mises appeared on the scene, Marxism and the other socialist sects enjoyed a virtual intellectual monopoly. Major flaws and inconsistencies in the writings of Smith and Ricardo and their followers enabled the socialists to claim classical economics as their actual ally. The writings of Jevons and the earlier “Austrian” economists—Menger and Böhm-Bawerk—were insufficiently comprehensive to provide an effective counter to the socialists. Bastiat had tried to provide one, but

died too soon, and probably lacked the necessary theoretical depth in any case.

Thus, when von Mises appeared, there was virtually *no* systematic intellectual opposition to socialism or defense of capitalism. Quite literally, the intellectual ramparts of civilization were undefended. What von Mises undertook, and which summarizes the essence of his greatness, was *to build an intellectual defense of capitalism* and thus of civilization.

The leading argument of the socialists was that the institutions of capitalism served the interests merely of a handful of rugged “exploiters” and “monopolists” and operated against the interests of the great majority of mankind, which socialism would serve. While the only answer others could give was to devise plans to take away somewhat less of the capitalists’ wealth than the socialists were demanding, or to urge that property rights nevertheless be respected despite their incompatibility with most people’s well-being, von Mises challenged everyone’s basic assumption. He showed that *capitalism operates to the material self-interests of all*, including the non-capitalists—the so-called proletarians. In a capitalist society, von Mises showed, privately owned means of production serve *the market*. The physical beneficiaries of the factories and mills are all who buy their products. And, together with the incentive of profit and loss and the freedom of competition that it implies, the existence of private ownership ensures an ever-growing supply of products for all.

Thus, von Mises showed to be absolute nonsense such clichés as “poverty causes communism.” Not poverty, but poverty plus the mistaken belief that communism is the cure for poverty, causes communism. If the misguided revolutionaries of the backward countries and of impoverished slums understood economics, any desire they might have to fight poverty would make them advocates of capitalism.

Socialism, von Mises showed, in his greatest original contribution to economic thought, not only abolishes the incentive of profit and loss and the freedom of competition along with private ownership of the means of pro-

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duction, but makes economic calculation, economic coordination, and economic *planning* impossible, and therefore results in chaos. For socialism means the abolition of the price system and the intellectual division of labor; it means the concentration and centralization of all decision-making in the hands of one agency: the Central Planning Board or the Supreme Dictator.

Yet the planning of an economic system is beyond the power of any one consciousness: the number, variety and locations of the different factors of production, the various technological possibilities that are open to them, and the different possible permutations and combinations of what might be produced from them, are far beyond the power even of the greatest genius to keep in mind. Economic planning, von Mises showed, requires the cooperation of all who participate in the economic system. It can exist only under capitalism, where, every day, businessmen plan on the basis of calculations of profit and loss; workers, on the basis of wages; and consumers, on the basis of the prices of consumers' goods.

Von Mises's contributions to the debate between capitalism and socialism—the leading issue of modern times—are overwhelming. Before he wrote, people did not realize that capitalism *has* economic planning. They uncritically accepted the Marxian dogma that capitalism is an anarchy of production and that socialism represents rational economic planning. People were (and most still are) in the position of Moliere's M. Jourdan, who never realized that what he was speaking all his life was prose. For, living in a capitalist society, people are literally surrounded by economic planning, and yet do not realize that it exists. Every day, there are countless businessmen who are *planning* to expand or contract their firms, who are *planning* to introduce new products or discontinue old ones, *planning* to open new branches or close down existing ones, *planning* to change their methods of production or continue with their present methods, *planning* to hire additional workers or let some of their present ones go. And every day, there are countless workers *planning* to improve their skills, change their occupations or places of work, or to continue with things as they are; and consumers, *planning* to buy homes, cars, stereos, steak or hamburger, and how to use the goods they already have—for example, to drive to work or to take the train, instead.

Yet people deny the name planning to all this activity and reserve it for the feeble efforts of a handful of government officials, who, having prohibited the planning of everyone else, presume to substitute their knowledge and intelligence for the knowledge and intelligence of tens of millions. Von Mises identified the existence of planning under capitalism, the fact that it is

based on prices (“economic calculations”), and the fact that the prices serve to coordinate and harmonize the activities of all the millions of separate, independent planners.

He showed that each individual, in being concerned with earning a revenue or income and with limiting his expenses, is led to adjust his particular plans to the plans of all others. For example, the worker who decides to become an accountant rather than an artist, because he values the higher income to be made as an accountant, changes his career plan in response to the plans of others to purchase accounting services rather than paintings. The individual who decides that a house in a particular neighborhood is too expensive and who therefore gives up his plan to live in that neighborhood, is similarly engaged in a process of adjusting his plans to the plans of others; because what makes the house too expensive is the plans of others to buy it who are able and willing to pay more. And, above all, von Mises showed, every business, in seeking to make profits and avoid losses, is led to plan its activities in a way that not only serves the plans of its own customers, but takes into account the plans of all other users of the same factors of production throughout the economic system.

Thus, von Mises demonstrated that capitalism is an economic system rationally planned by the combined, self-interested efforts of all who participate in it. The failure of socialism, he showed, results from the fact that it represents not economic planning, but the *destruction* of economic planning, which exists only under capitalism and the price system.

Von Mises was not primarily anti-socialist. He was *pro*-capitalist. His opposition to socialism, and to all forms of government intervention, stemmed from his support for capitalism and from his underlying love of individual freedom and conviction that the self-interests of free men are harmonious—indeed, that one man's gain under capitalism is not only not another's loss, but is actually others' *gain*. Von Mises was a consistent champion of the self-made man, of the intellectual and business pioneer, whose activities are the source of progress for all mankind and who, he showed, can flourish only under capitalism.

Von Mises demonstrated that competition under capitalism is of an entirely different character than competition in the animal kingdom. It is not a competition for scarce, nature-given means of subsistence, but a competition in the positive creation of new and additional wealth, from which all gain. For example, the effect of the competition between farmers using horses and those using tractors was not that the former group died of starvation, but that everyone had more food and the income available to purchase additional quantities of

other goods as well. This was true even of the farmers who “lost” the competition, as soon as they relocated in other areas of the economic system, which were enabled to expand precisely by virtue of the improvements in agriculture. Similarly, the effect of the automobile’s supplanting the horse and buggy was to benefit even the former horse breeders and blacksmiths, once they made the necessary relocations.

In a major elaboration of Ricardo’s Law of Comparative Advantage, von Mises showed that there is room for all in the competition of capitalism, even those of the most modest abilities. Such people need only concentrate on the areas in which their relative productive inferiority is least. For example, an individual capable of being no more than a janitor does not have to fear the competition of the rest of society, almost all of whose members could be better janitors than he, if that is what they chose to be. Because however much better janitors other people might make, their advantage in other lines is even greater. And so long as the person of limited ability is willing to work for less as a janitor than other people can earn in other lines, he has nothing to worry about from their competition. He, in fact, outcompetes them for the job of janitor by being willing to accept a lower income than they. Von Mises showed that a harmony of interests prevails in this case, too. For the existence of the janitor enables more talented people to devote their time to more demanding tasks, while their existence enables him to obtain goods and services that would otherwise be altogether impossible for him to obtain.

On the basis of such facts, von Mises argued against the possibility of inherent conflicts of interest among races and nations, as well as among individuals. For even if some races or nations were superior (or inferior) to others in every aspect of productive ability, mutual cooperation in the division of labor would still be advantageous to all. Thus, he showed that all doctrines alleging inherent conflicts rest on an ignorance of economics.

He argued with unanswerable logic that the economic causes of war are the result of government interference, in the form of trade and migration barriers, and that such interference restricting foreign economic relations is the product of other government interference, restricting domestic economic activity. For example, tariffs become necessary as a means of preventing unemployment only because of the existence of minimum wage laws and pro-union legislation, which prevent the domestic labor force from meeting foreign competition by means of the acceptance of lower wages when necessary. He showed that the foundation of world peace is a policy of *laissez-faire* both domestically and internationally.

In answer to the vicious and widely believed accusation of the Marxists that Nazism was an expression of capitalism, he showed, in addition to all the above, that Nazism was actually a form of *socialism*. Any system characterized by price and wage controls, and thus by shortages and government controls over production and distribution, as was Nazism, is a system in which the government is the *de facto* owner of the means of production. Because, in such circumstances, the government decides not only the prices and wages charged and paid, but also what is to be produced, in what quantities, by what methods, and where it is to be sent. These are all the fundamental prerogatives of ownership. This identification of “socialism on the German pattern,” as he called it, is of immense value in understanding the nature of present demands for price controls.

Von Mises showed that all of the accusations made against capitalism were either altogether unfounded or should be directed against government intervention, which destroys the workings of capitalism. He was among the first to point out that the poverty of the early years of the Industrial Revolution was the heritage of all previous history—that it existed because the productivity of labor was still pitifully low; because scientists, inventors, businessmen, savers and investors could only step by step create the advances and accumulate the capital necessary to raise it. He showed that all the policies of so-called labor and social legislation were actually contrary to the interests of the masses of workers they were designed to help—that their effect was to cause unemployment, retard capital accumulation, and thus hold down the productivity of labor and the standard of living of all. In a major original contribution to economic thought, he showed that *depressions* were the result of government-sponsored policies of credit expansion designed to lower the market rate of interest. Such policies, he showed, created large-scale malinvestments, which deprived the economic system of liquid capital and brought on credit contractions and thus depressions. Von Mises was a leading supporter of the gold standard and of *laissez-faire* in banking, which, he believed, would virtually achieve a 100% reserve gold standard and thus make impossible both inflation and deflation.

What I have written of von Mises provides only the barest indication of the intellectual content that is to be found in his writings. He authored over a dozen volumes. And I venture to say that I cannot recall reading a single paragraph in any of them that did not contain one or more profound thoughts or observations. Even on the occasions when I found it necessary to disagree with him (for example, on his view that monopoly can exist under capitalism, his advocacy of the military draft, and

certain aspects of his views on epistemology, the nature of value judgments, and the proper starting point for economics), I always found what he had to say to be extremely valuable and a powerful stimulus to my own thinking. I do not believe that anyone can claim to be really educated who has not absorbed a substantial measure of the immense wisdom present in his works.

Von Mises's two most important books are *Human Action* and *Socialism*, which best represents the breadth and depth of his thought. These are not for beginners, however. They should be preceded by some of von Mises's popular writings, such as *Bureaucracy* and *Planning For Freedom*.

The Theory of Money and Credit, *Theory and History*, *Epistemological Problems of Economics*, and *The Ultimate Foundations of Economic Science* are more specialized works that should probably be read only after *Human Action*. Von Mises's other popular writings in English include *Omnipotent Government*, *The Anti-Capitalistic Mentality*, *Liberalism*, *Critique of Interventionism*, *Economic Policy*, and *The Historical Setting of the Austrian School of Economics*. For anyone seriously interested in economics, social philosophy, or modern history, the entire list should be considered required reading. [All titles of von Mises currently in print can be ordered on this web site.]

Von Mises must be judged not only as a remarkably brilliant thinker but also as a remarkably courageous human being. He held the truth of his convictions above all else and was prepared to stand alone in their defense. He cared nothing for personal fame, position, or financial gain, if it meant having to purchase them at the sacrifice of principle. In his lifetime, he was shunned and ignored by the intellectual establishment, because the truth of his views and the sincerity and power with which he advanced them shattered the tissues of fallacies and lies on which most intellectuals then built, and even now continue to build, their professional careers.

It was my great privilege to have known von Mises personally over a period of twenty years. I met him for the first time when I was sixteen years old. Because he recognized the seriousness of my interest in economics, he invited me to attend his graduate seminar at New York University, which I did almost every week thereafter for the next seven years, stopping only when the start of my own teaching career made it no longer possible for me to continue in regular attendance.

His seminar, like his writings, was characterized by the highest level of scholarship and erudition, and always by the most profound respect for ideas. Von Mises was never concerned with the personal motivation or character of an author, but only with the question of whether the man's ideas were true or false. In the same way, his personal manner was at all times highly respectful, reserved, and a source of friendly encouragement. He constantly strove to bring out the best in his students. This, combined with his stress on the importance of knowing foreign languages, led in my own case to using some of my time in college to learn German and then to undertaking the translation of his *Epistemological Problems of Economics*—something that has always been one of my proudest accomplishments.

Today, von Mises's ideas at long last appear to be gaining in influence. His teachings about the nature of socialism have been confirmed in the first-hand observations of honest news reporters with extensive experience in Soviet Russia, such as Robert Kaiser, Hedrick Smith, John Dornberg, and Henry Kamm. They are being confirmed at this very moment by the actions of millions of angry workers in Poland.

Some of von Mises's ideas are being propounded by the Nobel prizewinners F.A. Hayek (himself a former student of von Mises) and Milton Friedman. They exert a major influence on the writings of Henry Hazlitt and the staff of the Foundation for Economic Education, as well as such prominent former students as Hans Sennholz. Von Mises's monetary theories permeate the pages of recent best-selling books on personal investments, such as those by Harry Browne and Jerome Smith. And last, but certainly not least, they appear to be exerting an important influence on the present President of the United States, who has acknowledged reading *Human Action* and has expressed his admiration for it.

Von Mises's books deserve to be required reading in every college and university curriculum—not just in departments of economics, but also in departments of philosophy, history, government, sociology, law, business, journalism, education, and the humanities. He himself should be awarded an immediate posthumous Nobel Prize—indeed, more than one. He deserves to receive every token of recognition and memorial that our society can bestow. For as much as anyone in history, he labored to preserve it. If he is widely enough read, his labors may actually succeed in helping to save it.