

BOOK REVIEW

MISES: THE LAST KNIGHT OF LIBERALISM

JÖRG GUIDO HÜLSMANN

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JESÚS HUERTA DE SOTO

Mises: The Last Knight of Liberalism is much more than a biography of the twentieth century's great Austrian economist. It is a monumental work which traces Ludwig von Mises's life and the evolution of his economic thought and places them in the proper historical and cultural context. The book confirms many previously well-known ideas about this eminent author, while it also provides the reader with new, and often surprising, information and data. The erudition in this biography is both fresh and impressive, since the book not only offers a much better understanding of Mises, but also must be considered, on its own merits, to be one of the most significant interpretative contributions on the Austrian school to date. Readers have gained a biography of the life and intellectual development of Mises which far surpasses any of the

Jesús Huerta de Soto (huertadesoto@dimasoft.es) is Professor of Political Economy, Universidad Rey Juan Carlos, Madrid.

others written up to now on great economists, even theorists of the stature of Hayek, Friedman, and Keynes himself. Moreover, the work has established Jörg Guido Hülsmann's reputation as one of the foremost contemporary Austrian economists. In addition, with its publication in 2007, the Ludwig von Mises Institute chalked up another success in its effort to make the major works of contemporary Austrian economists available to the public.

While it would be impossible in a review like this one to do justice to a book like Guido Hülsmann's, I will now attempt to draw a brief outline of both its essential features and the most novel information and topics it contains. I will also comment on those points I feel may be most doubtful or debatable, and I will conclude with a few remarks concerning the style and form of this important work.

THE ESSENTIAL CONTENT OF THE MISES BIOGRAPHY

Perhaps Hülsmann's most significant contribution in terms of clarifying Mises's methodological stance is having shown that the differences between Menger's Aristotelianism and Mises's Kantianism are clearly more "rhetorical" than substantive (see particularly pp. 42 and 127). The traditional Austrian approach is basically "praxeological" as opposed to the naive psychologism of Walras, Gossen, and Jevons (especially when it comes to viewing utility more as a psychological feeling than as the concrete form of actions which express preferences). In addition, the *realism* of Austrian theoretical suppositions has from the beginning characterized the economic analysis of the Austrian school (p. 135).

Furthermore, Hülsmann points out profound differences between two Austrian lines of thought: one which originated with Menger and would continue with Bohm-Bawerk and Mises; and another which would clearly branch off starting with Wieser, whose concept of natural value, his idea that it could be directly calculated in terms of utility, and his view of production as separate from distribution (see pp. 380 and following) collide head-on with the most traditional Austrian analysis. Also, Hülsmann emphasizes that perhaps Mises's chief contribution, from which one can deduce his main offerings with respect to the theory of the impossibility of socialism, or his analysis on money and the cycle, lies in his concept of economic calculation (p. 401), which only

becomes possible for the actor in the context of a market economy with free exchanges and the use of money, a context in which there emerges a constellation of prices that permit actors to direct their action for the future, to discover profit opportunities in a creative manner, and to coordinate the maladjustments which continually arise in the system.

Hülsmann makes some very interesting observations about Mises's stance against a gold standard that operates with a fractional-reserve banking system (p. 517); about Mises's criticism of competition law or "antitrust" legislation (p. 546); and about Mises's pertinent critical analysis of the American policy adopted to confront the Great Depression, a policy which, from the time of Hoover, involved raising tariff barriers and taxes (p. 627).

Moreover, Hülsmann highlights some inconsistencies in Mises's thinking. Examples include Mises's excessive respect for the English classical school in general and Ricardo in particular (p. 555), which could be justified in the sphere of economic policy prescriptions, but not in that of economic analysis; the unwarranted concession Mises makes in his positive assessment of the age-old expansion of fiduciary media, an appraisal which slips into some passages of *The Theory of Money and Credit*, where Mises criticizes German authors who support a 100-percent reserve requirement, like Tellkamp and others (p. 213, footnotes 53 and 54); and Mises's monopoly theory, which remains based on concepts which, like elasticity, are foreign to the traditional Austrian analysis of dynamic processes (pp. 436–437).

Hülsmann also makes some intriguing remarks about the relationship between Mises and the Catholic Church. Hülsmann explains that Mises was born in a community that was predominantly Catholic and Polish (p. 8), then typical characteristics of that part of the Austro-Hungarian empire which was Ukraine (pp. 6 and 8). Nevertheless, it is true that throughout his academic life, Mises's opinion of the Catholic Church became less and less negative, a point which can be established by checking his comments on the topic in *The Theory of Money and Credit*, from 1912, and in *Human Action*, which appeared in 1940. In fact, Mises does not rule out the possibility that the Catholic Church may evolve toward liberalism, and he even became economic advisor to Monsignor Seipel, whom he almost considered a true saint (pp. 442–443 and 484).

Also noteworthy is Hülsmann's analysis of Mises's position on democracy. For Mises, democracy as a political system is only viable within a social and cultural context of respect for the principles of classical liberalism. The paradoxical result of this stance is that, if the liberal premise holds, there is practically no need for the intervention of the state (which is reduced to the minimum necessary to properly define and defend property rights, p. 413). I would add that under such circumstances, an anarcho-capitalist system would be fully viable and would also remove the danger that arises from the essentially unstable nature of the democratic system, since from the start politicians would be prevented from exploiting their capacity to use public spending to buy votes, grant subsidies, and corrupt the true spirit of liberalism.

HÜLSMANN'S RESEARCH EFFORT AND HIS PRIMARY DISCOVERIES AND NOVEL PERSPECTIVES

Hülsmann brings to his work many new perspectives and discoveries. These contributions reveal an intense research effort and thousands of hours of study devoted to delving into original documents and into files and libraries all over the world, in search of any detail related to the life of Mises. Hülsmann's book teaches us something on every page and can even surprise us with news we did not know before. This makes reading it an enormous pleasure, especially for those of us who have devoted our lives to study and research in the field of Austrian economics. As is logical, I cannot mention here each and every one of the discoveries and novel perspectives Hülsmann includes in his work, though I will point out a few of those that most caught my attention.

For example, I would begin by referring to all the news Hülsmann gives us about the family, birth, and intellectual evolution of the young Mises during the early years of his life and up to his young adulthood. Particularly interesting to me was the fact that Mises's uncle, Hermann, worked in the insurance sector (pp. 10 and 15), and also that Bohm-Bawerk, during one of his stints as Minister of Finance, established for the first time in Austria a personal income tax, with a marginal rate of 5 percent (p. 143). It was also intriguing to see how, in his first articles, i.e., when he had not yet had the chance to deepen his economic studies, the young Mises arrived

at erroneous conclusions, like the opinion that unions can raise the wages of *all* workers permanently (p. 150, n. 84).

Hülsmann examines and makes some pertinent observations about the academic turmoil in Vienna beginning in the year 1906 (pp. 179 and following). Moreover, Hülsmann clarifies that *The Theory of Money and Credit*, the first important work Mises wrote, was actually meant to respond to Helfferich's challenge to Austrian economists concerning the supposed impossibility of applying the theory of marginal utility to money (p. 177). Also quite interesting is the account of the successive jobs Mises had from the time he finished his university studies; these jobs are described beginning on page 179 of the book. Thus we find that Mises began working as a civil servant in Vienna's fiscal administration and immediately afterward worked in different law firms for a period of two or three years, before he started teaching at the Trade Academy for girls in Vienna in 1907.

It is curious that Hülsmann, in his scarce references to Arthur, Mises's father, makes no mention of the fact that he studied at the Polytechnic Institute of Zurich (p. 17), a point repeated in numerous biographical sketches of Mises. It is amusing to read Hülsmann's account of Mises's initial silly statist remarks (p. 96). Also, the friendship which, from a young age, Mises professed for Kelsen (p. 41) is somewhat startling. In time, the latter would become one of the leading positivist law theorists and would hence adopt a methodological stance directly opposite to that of Mises himself. (Moreover, Kelsen would be one of the very few witnesses to the wedding of Mises and Margit many years later.)

Concerning the reference Hülsmann makes to Menger's predecessors, it is very surprising he does not mention Cantillon (p. 112), when in fact it is known that Hayek received from Menger's widow a copy of the first edition of the *Essay on the Nature of Commerce in General* as payment "in kind" for having appraised the library of her late husband. In addition, Hülsmann's assessment of Menger is perhaps too objectivist (especially on p. 125), and Hülsmann neglects to name the Spaniard Jaime Balme as Menger's direct predecessor in the development of the theory of marginal utility, together with the Frenchman Dupuit (who is indeed mentioned on p. 128).

Hülsmann gives a very intriguing description of the beginning of Mises's academic life and university contacts. Specifically, I was surprised to learn that Mises initially participated in a discussion group which ran parallel to Bohm-Bawerk's seminar and included Pribram, Philippovich (whom Hülsmann reports was an interventionist Mengerian), and others. The discussion group would later become the Economic Society [*Nationalökonomische Gesellschaft*], which was to exert so much influence on the German-speaking economic world in subsequent decades. It was precisely at the behest of Philippovich, who was unable to meet the deadline, that in 1909 Mises published his first article in the *Economic Journal*; the paper was devoted to the foreign exchange policy of the Austro-Hungarian Bank. That same year, having just turned twenty-eight, Mises began to work for the Vienna Chamber of Commerce (where he would be employed for a quarter of a century), and from the start he devoted himself to attacking the estate tax, farm subsidies, and in general, the increasing government monetary and fiscal intervention of the time.

In contrast to the path of Mises, throughout the entire book, Hülsmann highlights the analytical and political caprices of Schumpeter. To be specific, he refers to Schumpeter's support of the Marxist theory of the concentration of capital (p. 431) and his explicit defense of socialization (p. 336) and of the incipient theory of market socialism (p. 378), which leads him to advocate taxes on capital and wealth (p. 350) and to praise Marx (p. 530). Hülsmann mentions Schumpeter's revisionist position favorably only when tracing the origin of economic thought to the scholastic tradition of the Spanish Golden Age (p. 769).

In addition, Hülsmann very clearly explains Weiser's unequivocal stance in favor of the Banking School and of the veil-of-money theory (pp. 226–227), erroneous doctrines which would end up influencing Schumpeter (p. 250, n. 76) and modern monetary-equilibrium theorists, like Selgin and others (p. 228). During this period, not even Mises managed to completely free himself from Weiser's unhealthy influence, especially regarding the veil-of-money theory and the supposedly beneficial effect which the creation of fiduciary media may have had on certain historical occasions (p. 237). In any case, Hülsmann stresses that after the end of World War I, Mises was the first to warn of Churchill's grave error in reestablishing

the parity that existed between the pound and gold in the period prior to the severe inflationary process triggered during the war. In contrast, and in accordance with the most reliable economic theory, Mises defended the reintroduction of the gold standard, but always at the new parity, which after the war was in a de facto devalued state (p. 355).

Hülsmann cites another slip of Mises's on page 402 of the book. There he refers to Mises's naive application of the theory that the marginal utilities of capital and labor are equal, a theory he presents in a simultaneous, static sense in his work on *Socialism* (when in fact, as Mises and Hans Mayer later recognized, human actions are always sequential, never synchronic, and thus the above equality of weighted marginal utilities is illusory and omits the dynamic process and true economic calculation, which is always sequential and diachronic and takes place from an entrepreneurial perspective in the market).

Hülsmann provides us with an excellent study of the emergence and development of the famous seminar Mises held in his official office of the Vienna Chamber of Commerce, a group which formally began to meet on November 26, 1919 (p. 365). Just as illustrative is the historical analysis of the growing influence Mises exerted over his German colleagues from the Economic Society and over young economists from the *Verein für Socialpolitik*. More and more members of both groups, convinced mainly by Mises, began to adopt positions counter to that of the socialist professors of the historicist school, and they began to criticize and abandon many proposals which (like those concerning the regulation of "corporate social responsibility," the reform of legislation to aid unions, and the development of antitrust legislation), despite their long-standing nature and damaging effects, are still being put forward today and presented to the public in general as the "most advanced" paradigm of entrepreneurial and political governance (p. 198). It actually surprised me to find that, within the historicist school, Schmoller himself came to regret his excesses to a certain extent (something Hülsmann mentions on p. 397). In this context, it comes as no surprise that as early as 1936, the leader of the failed popular French government, Léon Blum, promoted a law requiring the presence of union delegates to represent the personnel of all companies that employed more than ten workers.

I should give special mention to Hülsmann's detailed description of the vicissitudes that affected the books and papers Mises left in his Vienna apartment, belongings which the Nazis seized in 1938 and which ended up in secret files in Moscow until they were rediscovered in 1991 (p. 727). Hülsmann also relates many interesting anecdotes, like the fact that Mises had to pay 50 percent of the cost of publishing his book, *The Theory of Money and Credit*, which not only was his first major work on economics, but also earned him a *Habilitation* to teach as a professor at the University of Vienna (p. 212). Bohm-Bawerk would later devote two entire semesters of his own seminar to an in-depth analysis and discussion of the theories Mises develops in this book (p. 209).

Hülsmann's biography has other engaging features, like his reference to the fact that the tradition Mises always upheld against antitrust legislation (and which his disciples Rothbard and Kirzner would later maintain) had already been established by authors of the stature of Max Weber and Friedrich Naumann. Hülsmann also points out that "monetary constitutionalism" is much older than was thought, since Felix Somary defended it as early as 1924. Moreover, in that same year, in his *A Tract on Monetary Reform*, Keynes proposed stabilizing the purchasing power of money, which in the context of the greatly increasing productivity the world was then experiencing, meant a massive injection of money, which in the long run would distort the entire productive structure and plant the seeds of the Great Depression of 1929. Finally, I did not know that the salary Mises received during the years he taught at the Graduate Institute for International Studies in Geneva was ultimately paid by the Rockefeller Foundation (p. 569).

SOME PERHAPS MORE DOUBTFUL OR DEBATABLE ASPECTS OF HÜLSMANN'S INTERPRETATION

The admiration this masterpiece of Hülsmann's arouses must not obscure the fact that it also contains certain stances and interpretations which, at the very least, can be considered doubtful. As is logical, these aspects do not at all diminish the great merit of Hülsmann's book, though it is necessary to give a brief account of them to spark a healthy debate, which in any case must result in an even deeper knowledge of the work of Mises.

To begin with, it might be a good idea to question the interpretation (which in my opinion is too biased toward the maximizing perspective) Hülsmann gives Mises's contributions, on pages 309 and 310 of his biography. I also find the assessment of the French Revolution of 1789, on page 319, too laudatory, as well as the observations about unions, on page 316. Moreover, I do not deem entirely suitable the emphasis Hülsmann places on the concept of "choice," as opposed to the more important ideas of action and change, which truly go to the heart, so to speak, of Austrian economic analysis (p. 388). A similar comment could be expressed about the radical separation Hülsmann, following in the footsteps of other Austrian theorists like Salerno and Rothbard, wishes to make between Mises and Hayek on the topic of socialist economic calculation (p. 404).

Nevertheless, one of the aspects that evokes the strongest reservations in me is Hülsmann's classification of Hayek as a "neo-liberal," within a system of categorization in which he divides the principal Austrian authors into "classical liberals" (the group to which Mises himself would belong) and "neo-liberals" (among whom Hayek would be found). In my opinion, it is much more fruitful to classify economists as either Austrians (Mises and Hayek) or neoclassicals (both members of the Chicago school and Keynesians, who focus on the analysis of equilibrium and maximization). In any case, it is important to point out that, though Hülsmann makes a clear attempt to separate Hayek from Mises in terms of theory, Hülsmann's own book exudes a certain ambivalence when it comes to assessing Hayek. For example, on page 161, he is called a "neoclassical," but later, on page 710, he is identified as a "neo-liberal" economist, in my view unjustly. However, at the end of the book, on page 1003, Hülsmann is obliged to recognize that Hayek is a "classical liberal," thus openly contradicting the above terms.

Closely related to this ambivalence, and possibly confusion, in evaluating Hayek is Wieser's influence on Hayek, which Hülsmann may exaggerate, and the fact that, despite all the errors Wieser himself committed (p. 169), Hülsmann completely neglects to mention his sound criticism of Schumpeter's methodology, for having involved the narrowest positivist methodological instrumentalism, as opposed to the traditional genetic-causal approach

adopted by the Austrian school and extolled by Wieser himself. Furthermore, it is a pity that Hülsmann passes up the opportunity to mention, for instance on page 170, that Wieser's main disciple and his successor as chair of the economics department at the University of Vienna, Hans Mayer, was perhaps the Austrian author who expressed the clearest criticism of the functional theory of price determination developed by neoclassical economists, a critical view Mises fully shares in *Human Action* (though he fails to cite Mayer himself, for obvious political reasons and out of personal enmity).

Again, on pages 474–476, I feel Hülsmann overstates Wieser's influence on Hayek. I believe some exaggeration appears on page 637 as well, where Hülsmann claims Hayek advocated the general-equilibrium theory he had received from Wieser at the London School of Economics, when actually Hayek, in his entire conception of the market and competition, ended up stressing not equilibrium but the dynamic market process and the fact that so-called general equilibrium cannot possibly exist and be somehow calculated and solved. Also highly debatable is the assertion that Hayek saw money as "neutral" (p. 701), and likewise is Hülsmann's statement that Mises took from Schumpeter the key idea that entrepreneurship is the motor of the economy (p. 771), when in fact the tradition of centering economic analysis around the figure of the entrepreneur is much older and can be traced back, through Menger, at least to Cantillon himself.

Finally, for me, perhaps the weakest point of Hülsmann's work lies in his failure to develop a theory of entrepreneurship. According to Hülsmann, entrepreneurial profit arises from the acceptance of uncertainty (and not from pure, creative acts of entrepreneurship, p. 772). Furthermore, it seems to me unjust that Hülsmann excludes Kirzner from the list of American authors influenced by Mises—among whom he does mention Rothbard and Schultz (p. 945)—and also unjust that he does not consider Hayek an Austrian economist in the Misesian sense, as he states on page 989.

In any case, and as Marañón would say, these critical observations are "like the little spots that ultimately make a woman's face even more beautiful." Hülsmann's book is a definitive masterpiece, which due to its depth and erudition (almost 1200 pages and thousands of footnotes), is bound to become the essential reference work for

anyone who wishes to learn more about the twentieth century's great liberal economist and the teacher of successive generations of Austrian economists: Ludwig von Mises. As a result of the above, and of the lavish contribution of Austrian economic analysis and the detailed representation of the historical context of Mises's entire era, tradition, and cultural and intellectual development, we should be immensely grateful for Hülsmann's huge effort and for the invaluable tool he has bequeathed us for our work.

POSTSCRIPT

From the standpoint of form, the book here reviewed has two additional virtues: its great clarity and the exquisite English in which it is written. Moreover, I have detected almost no misprints, in fact only nine in a total of nearly 1200 pages. If only to show the depth to which I have read the work, as well as to facilitate the correction of printing errors in the second edition, I list them below:

- On page 5, footnote 5 states that the Jews were expelled from Spain in the year 1497, when the event took place in 1492.
- On page 61, the paragraph in small font should be part of the main text.
- On page 77, second line, "your" should read "year."
- On page 103, footnote 7, it should be clarified who Belcredi is.
- On page 162, footnote 106, the title of Schumpeter's work published in 1908 should include *Das* at the beginning.
- On page 240, footnote 56, the page number is missing from the reference to Patinkin's book.
- On page 244, footnote 64, the page numbers are missing from the references to Keynes's books.
- On page 533, there is a contradiction, since in the main text Karl Pribram is cited, while footnote 20 refers to "Alfred Pribram."
- And on page 709, it states that in 1940 Hayek was fifty-one years old, when he was actually only forty-one.