

## ON PROFESSOR LUDWIG MISES'S 70TH BIRTHDAY

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A distinguished personality from the scholarly circles belonging to the “Austrian School of Economics.” Prof. Ludwig Mises, celebrates his 70th birthday today, far from but not alienated from his homeland. Educated at the “Academic Gymnasium” in Vienna, where so many men of significant importance for the cultural and political life of Austria originated, Prof. Mises turned to economic investigations already during his legal and political studies at the University of Vienna, initially under the direction of Prof Grünberg’s research on economic history (the liberation of peasants in Austria), but very soon turning to the field of exact theory under the paramount influence of the teachings of Carl Menger, Böhm-Bawerk, and Friedrich Wieser, revolutionizing economic theory at the time. In this area, some difficult problems were still waiting to be solved

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\* Author note: This text contains the complete version of an article, honouring Professor Mises’s scientific significance, that was requested from me by the Viennese daily newspaper *Die Presse* (see No. 896 of September 30, 1951), but that was printed only in very abridged form.

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and logically integrated into the new system based on the theory of subjective value. Above all, a theory of money was missing. This became one of the problems around which the scientific life work of Prof. Mises revolved. A second focus of his continued scientific interest laid in an organizational and sociological area: the analysis of the viability and performance of the different economic (structural) systems or organizational forms (the free market economy, the socialist planned economy, etc.). In both areas, Mises has strongly intervened in the scientific discussion of the most current issues through numerous publications. His habilitation thesis *Theorie des Geldes und der Umlaufsmittel* (1912, 2nd edition 1924) was undoubtedly a significant accomplishment for the period in which Knapp's *State Theory of Money* caused confusion (not only amongst the "practitioners"), but it was also—especially in its historical and critical remarks—an excellent introduction to the theory of money. The pursued end goal of deducing the value of money in its ultimate origins from subjective evaluations, however, was just as little achieved by Mises as in later investigation by Wieser, Zwiedineck, and Aftalion in their *Income Theories of Money*. Still, it must be noted that Mises already ascribed a very significant influence to the amount of cash-balances held by the various economic agents when it comes to the formation of the "objective" value of money (i.e., the purchasing power of money), thereby long anticipating Keynes's analogous remarks that were presented in a grandiose style. This is to be acknowledged, but it must not be overlooked that the respective size of cash-balances cannot be considered as an independent determining factor—by influencing the circulating quantity of money—for the causal explanation of the absolute value of money, for that reason alone that the size of the cash-balances is itself determined by the purchasing power of the monetary unit.

After a striking criticism of the classic "Banking Theory" (the theory of the automatic adjustment of the circulation of money substitutes to the demand for money) and with the severest rejection of any of the "controlled" inflations so often recommended and practiced in recent decades, Mises represents, with respect to monetary policy, and more specifically in what concerns central bank policy, the position—actually already stated in the most stringent form in the Statute of the former "Austro-Hungarian Bank"—that the central bank should confine itself to "cautious

restraint in the issuance of means of circulation, in order to mitigate the disadvantages arising from changes in the purchasing power of money," while dispensing with all tasks which do not serve to preserve the value of money (in particular those of a cyclical and socio-political nature). This procedure would be more beneficial to the economy than the "striving for the realization of an impossible ideal," in the form of the complete stability of the value of money or, as it was recently represented in the literature (F. A. Hayek), of a "neutral money." In this sense, Mises has also been practically successful as an (unofficial) adviser to several Austrian central bank presidents. In addition to the already mentioned habilitation thesis, Mises dealt with the problems of monetary theory and policy in other publications, in particular in the treatise "Die Stellung des Geldes im Kreise der wirtschaftlichen Güter" (in the series *Die Wirtschaftstheorie der Gegenwart*, vol. II, 1932) and *The Theory of Money and Credit*, 1934, but also in considerable parts of his *Grundprobleme der Nationalökonomie*, 1933, and *Nationalökonomie*, 1940.

In the second of the main topics dealt with by Mises, the investigation of the various forms of socio-economic orders, covered in his publications *Die Gemeinwirtschaft. Untersuchungen über den Sozialismus*, 1st ed. 1922, 2nd ed. 1932; *Liberalismus*, 1927; *Kritik des Interventionismus, Untersuchungen zur Wirtschaftspolitik und Wirtschaftsideologie der Gegenwart*, 1929; *Socialism: An Economic and Sociological Analysis*, 1936; *Omnipotent Government*, 1944, and *Planned Chaos*, 1947, the focus lies also in his critical analysis. *Die Gemeinwirtschaft*, written in the period of the political struggle for "socialization" after the First World War, contains an arsenal of arguments against "socialization" in any form—especially that of a totalitarian planned economy—that has yet to be surpassed in its completeness, but whose degree of effectiveness cannot be discussed here. Whatever is said against the rationality of a socialist economy in the extensive literature today, especially by his former inner circle of students, can already be found in a scientifically more precise form in Mises's work.

In a positive sense, Mises advocates an individualistic, competitive economy, completely free from any interference or regulation by the state (which he calls "Interventionism"), as the ideal form of a national economy, i.e. "Liberalism" in the most extreme sense. And here his teaching starts to become unrealistic, and to the same extent

to distance itself from the foundations of the "Austrian School" in its cognitive goal and method. It is understandable that the approval and opposition which his doctrine has found was determined less by scientific criteria than by membership to various political factions and economic interest groups. And equally understandable is the fatal misunderstanding in the judgment of wide circles, who are not accustomed to distinguish between scientific knowledge and confessions based on ideologies that, because this glorification of extreme liberalism, supposedly in the name of science, is espoused by a national economist who emerged from the "Austrian School," the "Austrian School of Economics" is the "School of Liberalism"! But nothing could be further from the truth. For the theory of the Austrian School, like any exact science, is based on the recognition of factual connections and is therefore not bound to any ideological world-view and certainly not to any party-political axioms and postulates resulting from them.<sup>1</sup> In its doctrine of economic value, it has found new insights into the basic connections of all economies, which can be used as instruments for explaining the economic processes in every economic order. One of these economic orders is the free market economy, and it is to aspects of this order that the theory of the Austrian School first applied the newly found discoveries: to the derivation of the laws of the formation of the competitive price and of the monopoly price, to the analysis of supply and demand, the theory of production, the determinants of the distribution of national income, etc. (The gradual development of the theory from this basis to the changes arising in the course of economic activity in case of a restriction of individual economic freedom is in full swing). But this does not in the least imply that the "Austrian School" demands a free competitive economy as the ideal economic order. Nor does it mean that it limits its object of study—as Mises demands—solely to "catallactics" (the processes of the exchange of goods in the market economy). And if we are to speak of postulates, it must be pointed out that, in today's discussion of economic policy, the alternative "extreme liberalism vs. totalitarian planned economy" is considered

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<sup>1</sup> If one wants to make a postulate that is generally valid for the man of culture, then I consider the formulation that I myself have always advocated—and that is recently often quoted—as the most scientifically and ethically justifiable: "As much freedom as possible—as much commitment as necessary," subject to the specific circumstances (e.g. war economy).

to be unrealistic and obsolete, and the problem is now seen—and rightly so—as a question of the appropriateness and reasons for determining the respective extent of freedom and obligation.

It was necessary to make these observations in order to dispel misunderstandings (unfortunately already widespread) about the nature of the theory referred to as the “Austrian School.” What Mises brings forward in the teachings recently outlined is outside the cognitive framework of the Austrian School, which deliberately leaves ideological questions to social philosophy. But this is not intended to detract from the evaluation of this highly personal achievement by Mises, which he presents with verve and consistency.

And with that, I have arrived at the personality of Mises as scholar and human being. It seems to me that this is the main feature of his character: absolute consistency in the pursuit of his scientific goals, unyielding rejection of all compromises (which sometimes almost led to intolerance towards foreign ideas), courage in the defense of his scientific convictions, which he was able to defend against numerous opponents (both in the problems pertaining to monetary theory and policy as well as in his sociological research) with the polemical sharpness and elegance acquired in the classes of Böhm-Bawerk. And—what has to be credited to him in particular: as one of the few among the not inconsiderable number of Austrian economists who, under the pressure of political circumstances (or voluntarily as the case may be), emigrated to the USA—where he has been a visiting professor at the University of New York since 1945—he has not been content to adapt passively to the new scientific milieu, but rather has always actively and successfully endeavored, in accordance with his convictions, to disseminate knowledge of the still far from exhausted theoretical edifice of the Austrian School and to work on its further development and utilization for the solution of current economic problems. That he will be able to do this for many years to come is the wish of his colleagues back in his homeland and at the same time of the University of Vienna, where he was a prominent teacher for so many years, on his 70th birthday.

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