Mises, Ludwig von (1881-1973)

Mises is the best-known representative and most important theorist in the Austrian tradition of economics. He made major contributions to 1) monetary and business cycle theory, where he presented the microeconomic foundations of macroeconomic theorizing; 2) the socialist calculation debate, where he highlighted the institutional prerequisites for the efficient allocation of scarce resources; and 3) economic methodology, where he argued that economic behavior is a subset of universal features of human action.

Shortly after completing his studies at the University of Vienna in 1906, Mises began working as an economic advisor and policy analyst for the Vienna Chamber of Commerce. When Hitler became the German chancellor in 1933, Mises, who was Jewish, decided to leave Austria. He accepted a visiting professorship at the Graduate Institute of International Studies in Geneva, Switzerland in 1934. In 1940, as the Nazi advance continued across Europe, he moved to New York City and, with the help of the Volker Fund, secured a visiting appointment in the NYU Graduate School of Business Administration in 1945. He remained there until he retired in 1969.

The official Journal of Economic Literature classification system places the Austrian School among heterodox approaches to economics, but, beginning in the latter part of the 19th Century and continuing into about the first third of the 20th Century, Austrian-influenced economists in general, and Mises in particular, were very influential. Paul Samuelson, the first American economist to win the Nobel Memorial Prize in Economic Sciences, once compiled a list of thirty theorists who would have likely won the prize had it begun in 1901 with the other Nobel awards. No fewer than eight were either directly or indirectly affiliated with the Austrian School, including Mises.

He and some of his students were, to some extent, marginalized beginning shortly before the start of WWII. This is partly due to the fact that the Great Depression in the 1930s shook people's confidence in free markets, of which Mises was an ardent defender. People can be forgiven for, at this time, turning a wistful eye to the apparent successes of the Soviet planned economy. Mises had recently argued that socialist centralized planning of the economy is impossible. Finally, his contributions to business cycle theory ran clean against the popularity of Keynesian-inspired fiscal and monetary policies. For a long time, then, the mainstream of the profession regarded Mises to have lost the most prominent theoretical debates that he had pursued.

Mises's tenure at the Vienna Chamber of Commerce focused on monetary policy. In *The Theory of Money and Credit* (1912), Mises provides an account of the purchasing power of money and its fluctuations that employed a marginal-utility analysis of the demand for money. Money had its origins in market exchange and, in a monetary economy, is represented in one half of every market transaction. Therefore, when a government manipulates the supply of money or credit, or otherwise distorts its value, it distorts market activity. Economic resources will tend to be misallocated in a boom phase of various production processes, which is followed by a bust when these processes are subsequently disbanded and the capital associated with them has to be liquidated.

In *Socialism* (1922), Mises argues that socialist economies, where the means of production cannot be privately owned, cannot plan production processes so that scarce resources will be efficiently directed to their highest valued use. Defenders of socialism argued that production for direct use would avoid the waste associated with production for exchange and generate unprecedented levels of productivity and wealth. Central planners would rationalize production processes by directing state owned capital goods to where they are needed in the economy to generate final goods for consumers. Mises argues, however, that without private property and competitive markets in the means of production, there will be no money prices or exchange ratios in the means of production. Without them, there are no indicators of relative scarcity for capital goods and so no rational allocation of capital goods among alternative production projects.

So at any given time many different technologically feasible investments exist. Which should we pursue? Which ones are *economically* feasible? Should we build high-rise or low-rise buildings? Should they be constructed primarily of concrete, glass, steel or a combination of them? What combination should we employ? Markets handle these questions by attaching a price to a resource that indicates the value of the next highest valued use, which is determined by the countless decisions individuals make based on their preferences and means. Market economies have the institutional mechanisms that secure an efficient coordination of production processes with consumer demand. Socialist economies lack any method for effecting this coordination and so they are characterized by systematic waste.

In his *magnum opus*, *Human Action* (1949), Mises argues for the subjective and process-oriented nature of human choice and behavior in markets against the snapshot analysis of equilibrium states typical in economists' models. The distinctive methodology Mises advances for social sciences is motivated by his opposition to the Prussian Historical School. He claims that conclusions of economic arguments are scientific propositions having the same ontological and epistemic status as those found in the natural sciences, but at the same time, relevant to the institutionally robust and complex world of human experience. For example, the sections in the book on price theory uncover the role of entrepreneurial exchange behavior in pursuit of profit. The sections reassessing monetary theory focus on intertemporal coordination of people's plans. And the sections revisiting his analysis of socialist calculation are integrated with these other ideas in a general theory of social cooperation based on private property, freedom of contract, monetary stability and fiscal responsibility.

– Kyle Swan

See also Austrian School of Economics; Free Market; Freedom of Contract; Great Depression; Hayek, Friedrich A. (1899-1992); Market Socialism; Socialism; Monetary Policy

Further Readings

Hülsmann, Jörg Guido (2007). *Mises: The Last Knight of Liberalism*. Auburn, AL: Ludwig von Mises Institute.

Mises, Ludwig von (1978). *Notes and Recollections*. South Holland, IL: Libertarian Press.

Vaughn, Karen (1994). *Austrian Economics in America*. New York: Cambridge University Press.