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# Ludwig von Mises: The Political Economist of Liberty

PART I

BY RICHARD M. EBELING

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Over a professional career that spanned almost three-quarters of the twentieth century, the Austrian economist Ludwig von Mises was without any exaggeration one of the leading and most important defenders of economic liberty. The ideas of individual freedom, the market economy, and limited government that he defended in the face of the rising tide of socialism, fascism, and the interventionist welfare state have had few champions as clear and persuasive as Mises. He was also the most comprehensive and consistent critic of all forms of modern collectivism. Furthermore, his numerous writings on the political, economic, and social principles of classical liberalism and the market order remain as fresh and relevant as when he penned them decades ago.<sup>1</sup>

Born in the city of Lemberg in the old Austro-Hungarian Empire on September 29, 1881, Mises came from a prominent family of Jewish merchants and businessmen. His great-grandfather Mayer Rachi-miel Mises was honored with a nobility title for his service to the Emperor Franz Joseph as a leader of the Jewish community in Lemberg, a few months before Ludwig was born.<sup>2</sup>

Ludwig's father, Arthur, moved his family to Vienna in the early 1890s where he worked as a civil engineer for the Imperial railway system. Ludwig attended one of the city's leading academic *gymnasiums* as preparation for university studies. He entered the University of Vienna in 1900 and received his doctoral degree in jurisprudence in 1906. In 1909 he was employed by the Vienna Chamber of Commerce, Crafts, and Industry, and con-

tinued to work at the Chamber as a senior economic analyst until he left Vienna in 1934 to accept a full-time teaching position at the Graduate Institute of International Studies in Geneva, Switzerland. Besides his work at the Chamber, Mises also taught at the University of Vienna, led an internationally renowned interdisciplinary private seminar, and founded the Austrian Institute for Business Cycle Research in 1927, with a young Friedrich A. Hayek as its first director.<sup>3</sup>

It was during his years in Geneva, between 1934 and 1940, that Mises wrote his greatest work in economics, the German-language version of what became in English *Human Action: A Treatise on Economics*.<sup>4</sup> In the summer of 1940, as the Nazi war machine was finishing its conquest of western Europe, Mises and his wife made their way from Switzerland to the United States, where he spent the rest his life continuing his writings and also teaching for most of those years at New York University, until his death on October 10, 1973, at age 92.

In addition, in both Vienna between the two world wars and then again in post-World War II America, Mises demonstrated a unique ability to attract intellectually creative students around him, thus fostering new generations of scholars to continue the ideas of the Austrian school of economics.

An appreciation of Mises's defense of freedom requires an understanding of the political and ideological trends of the first half of the twentieth century. Throughout most of the nineteenth century, "liberal-



Ludwig von Mises

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ism” had meant belief in and devotion to personal freedom, constitutionally limited government, the sanctity of private property, as well as freedom of enterprise at home and free trade among the nations of the world.

But even before World War I many of those who labeled themselves “liberals” were in fact advocates of what a few decades earlier had been called “state socialism” in prewar Imperial Germany. For almost 40 years before World War I, many of the leading German economists, historians, and political scientists—who became widely known as members of the German Historical School—had argued that the socialists had been correct in their criticisms of free-market capitalism. The unregulated market, they said, resulted in an exploitation of the workers and a disregard of the “national interest.” Where the socialists had gone wrong, they insisted, was in their radical demand for a revolutionary overthrow of the entire existing social order.

What Germany needed instead, they stated, was “state socialism,” under which social reforms would be introduced to ameliorate the supposed “excesses” of unbridled *laissez faire*. The German Historical School supported and encouraged the imposition of the modern welfare state by the German “Iron Chancellor,” Otto von Bismarck, in the 1880s and 1890s. Socialized medicine, state-managed old-age pensions, minimum-wage laws, and government-sponsored public housing and recreational facilities would provide “cradle to grave” security for the “working classes,” and would thus lure them away from the more-radical proposals of the Marxian socialists.<sup>5</sup>

At the same time, government regulation of industry and agriculture through tariffs, cartels, and subsidies, as well as production and price controls, would assure that the activities of the “capitalist class” would be harnessed to what the political authorities considered to be in the “national interest.” Pragmatism and expediency in all economic and social policy decisions were hailed as the

highest forms of political wisdom and “statesmanship,” in place of “inflexible” constitutional restraints that limited the discretionary power for government intervention.

Members of the German Historical School argued that old-fashioned classical liberalism had been purely “negative” in its understanding of freedom, and in advocating that government’s role was simply to secure the lives, liberty, and property of the citizenry from violence, aggression, and fraud. Government, they said, had to be more “positive” and active in providing social safety nets for the masses against the uncertainties of life. Hence, they and their “progressive” followers in England, France, and especially the United States soon were referring to their ideas as a newer and more-enlightened “liberalism,” which would create a truer and more complete “freedom” from want and worry.<sup>6</sup> The concept of liberalism, most particularly in the United States, was changing from a political and economic philosophy of individual liberty and free enterprise under the rule of law and limited government, to a notion of political paternalism with an increasingly intrusive hand of government in the social and commercial affairs of its citizens.<sup>7</sup>

### Socialism and Nationalism

The last decades of the nineteenth century also saw the growth of two other modern forms of collectivism: socialism and nationalism. Their common premise was that the individual and his interests were always potentially in conflict with the best interests of society as a whole. The Marxists claimed to have discovered the inescapable “laws of history,” which demonstrated that the emergence of the division of labor and private property split society into inherently antagonistic social “classes.” Those who owned the means of production earned rent and profit by extracting a portion of the wealth produced by the non-owning workers whom the owners of productive property employed in agriculture and industry.

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Eventually this class conflict would lead, through a process of historical evolution, to a radical and revolutionary change in which the workers would rise up and expropriate the property of the capitalists. After having socialized the means of production, the new workers' state would introduce central planning in place of the previous decentralized and profit-oriented production plans of the now expropriated capitalists. Socialist central planning, it was claimed, would generate a level of production and a rising standard of living far exceeding anything experienced during the "capitalist phase" of human history. This process would culminate in a "post-scarcity" world in which all of man's wants and wishes would be fully satisfied, with selfishness and greed abolished from the face of the earth.<sup>8</sup>

The proponents of aggressive nationalism argued that there was, indeed, an inherent conflict among men in the world.<sup>9</sup> This antagonism, however, was not based on social classes as the Marxian socialists defined them. Instead, these conflicts were between nations and national groups. Unfortunately, the nationalist ideologues said, individuals within nations often acted in ways inconsistent with the best interests of the nation to which they belonged. Thus the particular interests of businessmen, workers, and those in various professional groups had to be regulated and controlled for the furtherance of the greater national good. As a result, aggressive nationalism dovetailed—especially, though certainly not exclusively, in Imperial Germany—with the interventionist and welfare-statist policies of state socialism and the newer "progressive" liberalism.

Commercial and military conflict among the nations of the world was inevitable in the eyes of these nationalists. The prosperity of any one nation could only come at the expense of other nations. Hence, the task of all national statesmen was to foster the power and triumph of their own national group through the conquest and impoverishment of others around the world. Since no nation would willingly accept its own political and material destruction, war was an inescapable aspect of the human condition. Militarism and the martial spirit were likewise hailed as both necessary and superior to the "individualistic" and "pacifistic" spirit of production and trade.<sup>10</sup>

The culmination of these collectivist tendencies was

the outbreak of World War I in 1914, an analysis of the causes and consequences of which Ludwig von Mises offered in his 1919 volume, *Nation, State, and Economy*.<sup>11</sup> The Great War, as it was called, not only brought forth the triumph of the nationalistic spirit; it also saw the imposition of various forms of socialist central planning as virtually all the belligerent nations either nationalized or thoroughly controlled private industry and agriculture in the name of the wartime national emergency. The governments at war also established welfare-statist rationing and regulation of all consumer production since the needs of total war required total state responsibility for the supposed well-being of entire populations.

Out of the ashes of World War I there arose new totalitarian states, first with the establishment of a communist dictatorship in Russia following the Bolshevik Revolution of 1917 under Lenin's leadership, and then with the rise to power of Mussolini and his Fascist Party in Italy in 1922. Both the communists and the fascists rejected the ideas and the institutions of classical liberalism. Constitutional government, the rule of law, civil liberties, and economic freedom were declared by both these variations on the collectivist theme as reactionary hindrances to the success of, respectively, the worker's state in Soviet Russia and national greatness in Fascist Italy. Both communism and fascism insisted that the individual needed to be "reeducated" and made to conform to the wider socialist or nationalist good. The individual was to be reduced to a cog in the machinery of the all-powerful and all-planning state.<sup>12</sup>

Germany's defeat in the war had resulted in political and economic chaos, which culminated in the disastrous hyperinflation of the early 1920s.<sup>13</sup> Many of the social and cultural anchors of German society were unhinged by the war and the inflation.<sup>14</sup> A growing number of Germans longed for a "Leader" to guide them out of the morass of political instability and economic hardship. In 1925 Mises analyzed these trends in Germany and concluded that they were leading the German people toward a "national socialism," instead of either classical liberalism or Marxian socialism.<sup>15</sup> Anticipating the triumph of Hitler and his National Socialist (Nazi) movement in 1933, Mises warned in 1926 that many Germans were "setting their hopes on the coming of the

‘strong man’—the tyrant who will think for them and care for them.”<sup>16</sup>

In later years Mises emphasized that while the Marxists in the Soviet Union used the tools of central planning to culturally redesign a socialist “new man” through various methods of indoctrination and thought control, the National Socialists in Nazi Germany took this a step further with their scheme of centrally planning the racial breeding of a new “master race.”<sup>17</sup>

This was the historical context in which Mises published some of his most important works in the period between the two world wars: *Socialism* (1922), *Liberalism* (1927), and *Critique of Interventionism* (1929). 

1. On Mises’s life and contributions to economics and the philosophy of freedom, see Richard M. Ebeling, *Austrian Economics and the Political Economy of Freedom* (Northampton, Mass.: Edward Elgar, 2003) chapter 3, “A Rational Economist in an Irrational Age: Ludwig von Mises,” pp. 61–99; and Richard M. Ebeling, “Planning for Freedom: Ludwig von Mises as Political Economist and Policy Analyst,” in Richard M. Ebeling, ed., *Competition or Compulsion: The Market Economy versus the New Social Engineering* (Hillsdale, Mich.: Hillsdale College Press, 2001), pp. 1–85; see, also, Murray N. Rothbard, *Ludwig von Mises: Scholar, Creator, Hero* (Auburn, Ala.: Ludwig von Mises Institute, 1988), and Israel M. Kirzner, *Ludwig von Mises* (Wilmington, Del.: ISI Books, 2001).

2. On Mises’s family background and the cultural climate of Vienna and Austria in terms of the Jews and anti-Semitism, see Richard M. Ebeling, “Ludwig von Mises and the Vienna of His Time,” Parts I and II, *The Freeman*, March 2005, pp. 24–31, and April 2005, pp. 19–25.

3. On Mises’s work as policy analyst and advocate in the Austria of the interwar period, see Richard M. Ebeling, “The Economist as the Historian of Decline: Ludwig von Mises and the Austria Between the Two World Wars,” in Richard M. Ebeling, ed., *Globalization: Will Freedom or Global Government Dominate the International Marketplace?* (Hillsdale, Mich.: Hillsdale College Press, 2002), pp. 1–68.

4. Ludwig von Mises, *Human Action: A Treatise on Economics*, 3d rev. ed. (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1966]).

5. Bismarck told an American admirer, “My idea was to bribe the working class, or shall I say, to win them over, to regard the state as a social institution existing for their sake and interested in their welfare.” See William H. Dawson, *The Evolution of Modern Germany*, vol. II (New York: Charles Scribner’s Sons, 1914), p. 349.

6. On the ideas and development of the German welfare state and regulated economy in the late nineteenth and early twentieth centuries, see Richard M. Ebeling, *Austrian Economics and the Political Economy of Freedom*, chapter 7, “The Political Myths and Economic Realities of the Welfare State,” pp. 179–202, especially, pp. 179–84; and Richard M. Ebeling, “National Health Care and the Welfare State,” in Jacob G. Hornberger and Richard M. Ebeling, eds., *The Dangers of Socialized Medicine* (Fairfax, Va.: The Future of Freedom Foundation, 1994), pp. 25–37; see also, Mises’s criticisms of the German Historical School in “The Historical Setting of the Austrian School of Economics” [1969], reprinted in Bettina Bien Greaves, ed.,

*Austrian Economics: An Anthology* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), pp. 53–76, especially pp. 60–69.

7. See Richard M. Ebeling, “Free Markets, the Rule of Law, and Classical Liberalism,” *The Freeman*, May 2004, pp. 8–15.

8. Mises showed the inherent flaws and contradictions in the Marxian theory of history and class conflict in *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981 [1922; revised eds., 1932, 1951]), pp. 279–320, and *Theory and History: An Interpretation of Social and Economic Evolution* (Indianapolis: Liberty Fund, 2005 [1957]), pp. 102–58.

9. On the evolution and meanings of nationality and nationalism, see Carlton J.H. Hayes, *The Historical Evolution of Modern Nationalism* (New York: Richard R. Smith, 1931); Carlton J.H. Hayes, *Essays on Nationalism* (New York: Macmillan, 1928); Walter Sulzbach, *National Consciousness* (Washington, D.C.: American Council on Public Affairs, 1943); and Frederick Hertz, *Nationality in History and Politics* (New York: Oxford University Press, 1944).

10. Ludwig von Mises, “Autarky and Its Consequences” [1943] in Richard M. Ebeling, ed., *Money, Method and the Market Process: Essays by Ludwig von Mises* (Norwell, Mass.: Kluwer Academic Press, 1990) p. 138: “Aggressive or militaristic nationalism aims at conquest and the subjugation of other nations by arms. *Economic nationalism* aims at the furthering the well-being of one’s own nation or some of its groups through inflicting harm upon foreigners by economic measures, for instance: trade and migration barriers, expropriation of foreign investments, repudiation of foreign debts, currency devaluation, and foreign exchange control.”

11. Ludwig von Mises, *Nation, State, and Economy: Contributions to the Politics and History of Our Time* (New York: New York University Press, 1983 [1919]).

12. See Richard M. Ebeling, *Austrian Economics and the Political Economy of Freedom*, chapter 6, “Classical Liberalism and Collectivism in the 20th Century,” pp. 159–78, especially pp. 159–63; on the political and ideological similarities of communism, fascism, and Nazism, see Ludwig von Mises, *Planned Chaos* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1947), pp. 62–79; also see Richard Overy, *The Dictators: Hitler’s Germany, Stalin’s Russia* (New York: W.W. Norton, 2004); A. James Gregor, *The Faces of Janus: Marxism and Fascism in the Twentieth Century* (New Haven, Conn.: Yale University Press, 2000); François Furet, *The Passing of an Illusion: The Idea of Communism in the Twentieth Century* (Chicago: University of Chicago Press, 1999); and Richard Pipes, *Russia Under the Bolshevik Regime* (New York: Alfred A. Knopf, 1993), pp. 240–81.

13. For Mises’s analysis of the Great German Inflation, see his monograph, “Stabilization of the Monetary Unit—From the Viewpoint of Theory” [1923], in Percy L. Greaves, Jr., ed., *Ludwig von Mises, On the Manipulation of Money and Credit* (Dobbs Ferry, N.Y.: Free Market Books, 1978), pp. 1–49, and Ludwig von Mises, “Business Under German Inflation” [1946], reprinted in *Ideas on Liberty*, November 2003, pp. 10–13; also Richard M. Ebeling, “The Great German Inflation,” *Ideas on Liberty*, November 2003, pp. 4–5.

14. See Albrecht Mendelssohn Bartholdy, *The War and German Society: The Testament of a Liberal* (New York: Howard Fertig, 1971 [1937]), and Mortiz J. Bonn, *Wandering Scholar* (London: Cohen & West, Ltd., 1949), pp. 273–90.

15. Ludwig von Mises, “Anti-Marxism” [1925] in *Critique of Interventionism* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1929]), pp. 71–95.

16. Ludwig von Mises, “Social Liberalism,” [1926] in *Critique of Interventionism*, p. 67.

17. Mises, *Planned Chaos*, pp. 77–78.