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Ludwig von Mises's Human Action: A 50th Anniversary Appreciation

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Fifty years ago, on September 14, 1949, Yale University Press released a major new work—*Human Action* by the Austrian economist Ludwig von Mises.^[1] The following week, in his regular *Newsweek* column, Henry Hazlitt referred to this book as “a landmark in the progress of economics. . . . *Human Action* is, in short, at once the most uncompromising and the most rigorously reasoned statement of the case for capitalism that has yet appeared. If a single book can turn the ideological tide that has been running in recent years so heavily toward statism, socialism, and totalitarianism, *Human Action* is that book. It should become the leading text of everyone who believes in freedom, individualism, and . . . a free-market economy.”^[2]

It is useful to recall the state of the world when this book first appeared. The Soviet system of central economic planning had been imposed by Stalin on all of eastern Europe. In Asia, Mao Zedong's communist armies were just completing their conquest of the Chinese mainland. In western Europe, many of the major noncommunist governments were practicing what the German free-market economist Wilhelm Röpke called at the time “national collectivism”—a “combination of repressed inflation, collectivist controls, ‘full employment,’ exchange control, state monopolies, bilateralism, subsidies, fiscal socialism [and] ‘cheap money’ policies.” In the United States, government policy was guided by what Hazlitt referred to in *Newsweek* a few weeks before his review of *Human Action* as “ultra-Keynesian ideology.”^[3]

In *Human Action*, Mises opposed every one of these trends and policies, plus many others in contemporary social philosophy, philosophy of science, and economic theory and method. He challenged the foundations, logic, and conclusions of every facet of twentieth-century collectivism. As F. A. Hayek explained, in reviewing the German-language version of the book:

There appears to be a width of view and an intellectual spaciousness about the whole book which are much more like that of an eighteenth-century philosopher than that of a modern specialist. And yet, or perhaps because of this, one feels throughout much nearer reality, and is constantly recalled from the discussion of technicalities to the consideration of the great problems of our time. . . . It ranges from the most general philosophical problems raised by all scientific study of human action to the major problems of economic policy of our own time.^[4]

And as his American student and friend Murray N. Rothbard pointed out, “*Human Action* is it: Mises's greatest achievement and one of the finest products of the human mind in our century. It is economics whole . . . and provided a way out for the discipline of economics, which had fragmented into uncoordinated and clashing sub-specialties. In addition to providing this comprehensive and integrated economic theory, *Human Action* defended sound, Austrian economics against all its methodological opponents, against historicists, positivists, and neo-classical practitioners of mathematical economics and econometrics. He also updated his critique of socialism and interventionism.”^[5]

Early Career

Ludwig von Mises was born in Lemberg, Austria-Hungary, on September 29, 1881. Though originally interested in history, he turned to economics shortly after entering the University of Vienna in 1900 and reading *Principles of Economics* by Carl Menger, founder of the Austrian school of economics. While at the University he studied with Eugen von Böhm-Bawerk, the person perhaps most responsible for establishing international respect for

the Austrian school. In 1906 Mises was awarded a doctoral degree in jurisprudence (at that time economics was studied as part of the law faculty at the university).

Beginning in 1909 Mises worked at the Vienna Chamber for Commerce, Trade, and Industry as an economic analyst within its department of finance. In this capacity he evaluated and made recommendations about various legislative proposals in the areas of banking, insurance, monetary and foreign-exchange policy, and public finance. In the years between the two world wars, he was a senior secretary with the Chamber, enabling him to argue with some authority on the economic policy issues confronting the Austrian government.

The consensus of economists and others who knew Mises during this time is that he was extremely influential in moderating collectivist and inflationary policies in Austria. He was instrumental in preventing the full nationalization of the Austrian economy by a socialist government immediately after World War I. He helped to redirect public and political opinion to bring the Great Austrian Inflation to an end in 1923. And in the aftermath of this monetary disaster, he played an important role in writing the statutes and bylaws of the reconstructed National Bank of Austria, under the auspices of the League of Nations in 1924.

In 1913, Mises had been given the right to teach at the University of Vienna as a *Privatdozent* (an unsalaried lecturer); in 1918 he was promoted to the title of "Professor Extraordinary." Almost every semester until 1934, he taught a course that influenced a new generation of young Viennese and foreign scholars. He also co-founded and served as vice president of the Austrian Economic Society.

Influential Seminar

In 1920 Mises began a private seminar that normally met twice a month from October to June at his Chamber office. It brought together a group of Viennese scholars in economics, political science, philosophy, sociology, and law, many of whom became world-renowned scholars in their respective fields. The participants, almost to a man, recalled the seminar as one of the most rigorous and rewarding experiences of their lives.

One other important activity undertaken by Mises during this period was his founding of the Austrian Institute for Business Cycle Research in 1926. With 27-year-old F. A. Hayek as the first director, the institute was soon internationally recognized as a leading center for economic forecasting and policy analysis in Central Europe.

In 1934 Mises was offered and accepted a position as professor of international economic relations at the Graduate Institute of International Studies in Geneva, Switzerland. Shortly after arriving in Geneva he set about a project he long had in mind, the writing of a comprehensive treatise on economics. Most of his time during the next six years, outside of his light teaching responsibilities, was devoted to this plan. In May 1940, as Europe was falling under the dark cloud of Nazi occupation, this monumental work, *Nationalökonomie*, was published in Switzerland. It served as the basis for his later English-language treatise, *Human Action*.

In the summer of 1940 Mises resigned from his position at the Graduate Institute and left for the United States.^[6] His first years in America were not easy. He experienced great difficulty in finding a permanent teaching position, partly because of his age (he was 58 when he arrived in America) and partly because of the intellectual climate prevailing in America. H

is was a voice for an older classical liberalism and free-market capitalism that was out of step with the popular trends of socialism, interventionism, and Keynesian economics that were embraced by a large majority of American academics and policymakers.

Not until 1945 did he receive an academic appointment as visiting professor in the Graduate School of Business at New York University, a position and status he retained until his retirement in 1969 at the age of 87. During this almost quarter-century of teaching in the United States, Mises trained a new generation of economists in the tradition of the Austrian school.

International Reputation

In Europe, Mises had already established an international reputation as one of the most original and controversial economists of his time. Before World War I, in 1912, he had published *The Theory of Money and Credit*, in which he successfully applied the concept of marginal utility to explain the demand for money,

demonstrated the process by which the interaction of the demand and supply of money established the purchasing power of the monetary unit, and developed a theory of the business cycle which showed that government manipulations of the market rate of interest was the primary cause of economy-wide fluctuations in production, investment, and employment.^[7]

In the early 1920s Mises also challenged the most fundamental assumptions of a socialist planned economy. In his article on "Economic Calculation in the Socialist Commonwealth" (1920) and in his treatise *Socialism: An Economic and Sociological Analysis* (1922), he showed that socialism's abolition of private property, the market economy, and money prices for both consumer goods and the factors of production meant the end of rational economic calculation. Rather than ushering in a utopian epoch of material plenty, socialist central planning would create economic waste, inefficiency, and stagnant or falling standards of living.^[8]

In later books, *Liberalism* (1927) and *Critique of Interventionism* (1929), Mises argued that only free-market capitalism could create a social order of individual freedom, material prosperity, and domestic and international peace. A regulated and "hampered" market economy could only produce an economy of distortions, imbalances, political corruption, and abuse.^[9]

And in 1933, Mises published a series of essays under the title *Epistemological Problems of Economics*, in which he argued that economics was a distinct science derived from the insight that all social processes derive from the choices and actions of the individual participants in the social and market order. Attempts to reduce conscious and intentional human conduct to the physicalist methods of the natural sciences would not merely distort any real understanding of human decision-making and activity, it would also create a serious false impression that social and market processes could be manipulated and controlled much like inanimate matter in a laboratory experiment.^[10]

Integration of Themes

As both Hayek and Rothbard clearly understood, however, it was in *Human Action* that all these themes were integrated into a systematic conception of man, the social order, the market economy, and its alternatives. Mises explained that our knowledge of the logic of human action is fundamentally different from the way scientists acquire knowledge about the physical world. The inanimate matter of the external world can be measured, quantified, and organized on the basis of various hypotheses concerning the nature of and relationships between the physical entities of the universe. But we have no way of determining the "real" or "true" causal reasons why the elements of nature have the properties and relational characteristics they seem to possess. We can only observe, hypothesize, quantitatively test, and draw tentative conclusions that may be falsified tomorrow.

Human sciences like economics, however, have a radically different starting point. Here we have the ability to know the nature and properties of the causal factor that generates the complex relations of the social and economic processes. All the social processes have their origin in and can be reduced to the actions and reactions of individual human beings. Being human, the social scientist can draw on a source of knowledge unavailable to the natural scientist: introspection. That is, the social scientist can look within himself and trace out the logical and formal characteristics of his own mental processes.

As Mises expressed it, "action" is reason applied to purpose. By understanding the logic of our own reasoning processes, the social scientist can comprehend the essentials of human action: that man, as a conscious being, invariably finds some aspects of his human condition unsatisfactory; he imagines ends or goals that he would like to attain in place of his present or expected circumstances; and he perceives methods and means to try to achieve them. But he soon discovers that some of the means with which he could attain ends are limited in quantity and quality relative to their potential uses. Hence, man is confronted with the necessity to choose among desired ends, and has to set some goals aside either for a day or forever, so those means can be used for the pursuit of other ends to which he has assigned greater importance. Few human decisions, however, are categorical—all or nothing. Most are incremental, giving up a little of one attainable end so as to possibly attain a little bit more of some other desired end; thus, most choices are made at the "margin."

From these elementary and self-evidently true foundations, all the complex theorems of economics can be traced out. But the resulting "laws" of economics are not open to quantitative verification or prediction. The laws

of economics, in other words, are logical relationships, and not empirical ones. Why? Because man has volition, free will, and the ability to change his mind and imagine new possibilities that make his actions and responses in the future different in their concrete form from what they were yesterday or are today. Hence, the search for a quantitative economics for deterministic prediction of what men and markets will do today, tomorrow, or a year from now is the pursuit of the unattainable.

Division of Labor

For Mises, one of the greatest accomplishments of mankind was the discovery of the higher productivity arising from a division of labor. The classical economists' analysis of comparative advantage, under which specialization in production increases the quantity, quality, and variety of goods available, was more than merely a sophisticated demonstration of the mutual gains from trade. In Mises's view, the law of comparative advantage was in fact "the law of human association." The mutual benefits resulting from specialization, he argued, were the origin of society and the starting point for the development of civilization.

The rationality of the market economy arises from its ability to allocate the scarce means of production in society for the most efficient satisfaction of consumer wants in a complex division of labor; that is, the market sees to it that the means at people's disposal are applied to their most highly valued uses. This requires some method to discover the alternative uses for which those scarce means can be used and their relative value in those competing applications.

Competitively determined market prices, in an institutional setting of private ownership of the means of production, provides the means for solving this problem, Mises said. On the market for consumers' goods, people express their valuations for commodities in the form of the prices they are willing to pay for various quantities and qualities of finished goods. On the market for producers' goods, entrepreneurs express their appraisal of the relative future profitability of factors of production in the manufacture of various goods through the prices they are willing to pay for those factors.

Those prices, expressed through the common denominator of money, make economic calculation possible. The relative costs and expected revenues from alternative productive activities can be compared with ease and efficiency. The competitive processes of the market tend to assure that none of the scarce means of production are applied to any purpose for which there is a more highly valued use as expressed in a rival entrepreneur's bid for those factors. Through competition among entrepreneurs, the means derive their value from their ability to produce goods desired by consumers. Thus the means available in society are put in the service of people's ends. And the relative values assigned to those means in their alternative uses reflects the relative valuations of the consumers who desire the products that can be manufactured with them.

Mises concisely summarized the role and nature of competition and the competitive process in the market order:

Competitors aim at excellence and pre-eminence in accomplishments within a system of mutual cooperation. The function of competition is to assign to every member of a social system that position in which he can best serve the whole of society and all its members. It is a method for selecting the most able man for each performance. . . .

The pricing process is a social process. It is consummated by an interaction of all members of the society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual.^[11]

Mises's crucial argument against both socialism and interventionism was that they prevented the effective

operation of this market process, and thus reduced the rationality of the social system. The triumph of socialism—with its nationalization of the means of production under government control and central planning—meant the irrationalization of the economic order. Without market-based prices to supply information about the actual opportunity costs of using those resources as estimated by the competing market actors themselves, decision-making by socialist central planners would be arbitrary and “irrational.” The socialist economy, therefore, was fundamentally anti-economic.

Deflecting the Market

Interventionism does not abolish the market economy. Instead, it introduces various forms of controls and regulations that necessarily deflect production from the paths that would have been followed if entrepreneurs had been left free to more fully follow their own judgments concerning the use of the factors of production in the search for profits through the best satisfaction of consumer demand. Price controls, in particular, Mises argued, distort the competitively determined relationships between selling prices and cost-prices, resulting in severe misallocation of resources and misdirected production activities.

Mises also restated and refined the Austrian theory of money and the business cycle in *Human Action*. He developed a dynamic sequence analysis enabling him to explain the process by which changes in the quantity of money brought about redistribution of wealth and relative price changes that modified the allocation of resources; his analysis also explained how monetary changes introduced through the banking system could distort interest rates and generate business cycles. A central conclusion was that business cycles were not a phenomenon inherent in the market economy. Rather, they were caused by government mismanagement of the monetary and banking system. Only a separation of money and the banking system from all government control and influence could reduce, if not eliminate, the recurring patterns of inflation and depression.^[12]

In 1949 Mises's arguments were ignored or scorned as the reactionary misconceptions of a man out of step with the more enlightened ideas and economic policies of the postwar era. But now, in 1999, it is evident that it was Mises who understood far better than the vast majority of his contemporary economists and policy advocates the fundamental flaws in socialism, interventionism, and the welfare state.

Since Mises's death on October 10, 1973, at the age of 92, the world has seen the collapse of socialist central planning and the economic and ideological bankruptcy of the interventionist welfare state. The superiority of the market economy, the competitive process, and private entrepreneurial creativity is widely admitted if, alas, still far from being allowed to freely function. No small credit is due to Mises, the clearest, most uncompromising voice for economic reason and respect for the freedom and dignity of the individual in our century.

It is *Human Action* that for half a century has served as the medium through which tens of thousands have learned these lessons of a society of peace, freedom, and prosperity. Like Adam Smith's *Wealth of Nations*, it stands as one of the great works not only of economics but also of human and social understanding. And like Smith's book, it will remain a classic, as read and as influential in the 21st century as in our own time, because it speaks to and about the most fundamental and universal truths of man and the human condition. []

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1. The first edition of *Human Action: A Treatise on Economics* has recently been reprinted in a handsome edition by the Ludwig von Mises Institute of Auburn, Alabama. The last edition revised by Mises in 1966 is available from the Foundation for Economic Education, prepared by Bettina Bien Greaves.
 2. Henry Hazlitt, “The Case for Capitalism,” *Newsweek*, September 19, 1949.
 3. Henry Hazlitt, “Wrong Diagnosis, Wrong Remedy,” *Newsweek*, August 15, 1949.
 4. F. A. Hayek, review of *Nationalökonomie: Theorie des Handelns und des Wirtschaftens* in *The Economic Journal*, April 1941, pp. 125, 127.
 5. Murray N. Rothbard, *Ludwig von Mises: Scholar, Creator, Hero* (Auburn, Ala.: Ludwig von Mises Institute, 1988), p. 64.

6. See Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978 [1940]) for his own memories of his life, work, and contributions before he left Europe in 1940.
7. Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Classics, 1981). On Mises's contributions to monetary theory and policy, see my "Ludwig von Mises and the Gold Standard," in Llewellyn H. Rockwell, ed., *The Gold Standard: An Austrian Perspective* (Lexington, Mass.: Lexington Books, 1983), pp. 35–59.
8. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," reprinted in Israel M. Kirzner, ed., *Classics in Austrian Economics*, vol. 3 (London: William Pickering, 1994), pp. 3–30; and *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981). On Mises's contribution to the theory of socialism and the planned economy, see my "Economic Calculation Under Socialism: Ludwig von Mises and His Predecessors," in Jeffrey M. Herbener, ed., *The Meaning of Ludwig von Mises* (Norwell, Mass.: Kluwer Academic Press, 1993), pp. 56–101.
9. Ludwig von Mises, *Liberalism: The Classical Tradition* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996 [1985]); and *Critique of Interventionism* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996); also, *Interventionism: An Economic Analysis* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1998 [1940]).
10. Ludwig von Mises, *Epistemological Problems of Economics* (New York: New York University Press, 1981). On Mises's conception of human action and his contributions to the theories of the market economy, socialism, and interventionism, see my "A Rational Economist in an Irrational Age: Ludwig von Mises," in Richard M. Ebeling, ed., *The Age of Economists: From Adam Smith to Milton Friedman*, Champions of Freedom Series, vol. 26 (Hillsdale, Mich.: Hillsdale College Press, 1999), pp. 69–120.
11. Ludwig von Mises, *Human Action: A Treatise on Economics* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996), pp. 117, 338.
12. For an exposition of the Austrian theory of money and the business cycle and its explanation of the causes and duration of the Great Depression of the 1930s, see my "Monetary Central Planning and the State," parts 1–12, *Freedom Daily*, January–December 1997.