

Journal for the New Europe
Volume 1, no.1 (2004): pp. 5-62
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www.cne.org

LUDWIG VON MISES' *HUMAN ACTION* AS A TEXTBOOK OF ECONOMICS

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1. Introduction

The fiftieth anniversary of the publication of the revised third English edition of Ludwig von Mises' most important work, his economic treatise entitled *Human Action*, is, without doubt, a magnificent opportunity to make a series of considerations which place the work in the correct context, explain its scientific importance and manifest its great comparative advantages in the university, academic and intellectual world. In addition, a new fifth Spanish edition of Mises' work at the present time, close to the start of the new century, acquires a deep significance, due not only to the full confirmation of Mises' analysis in all areas by the historic collapse of real socialism in the Eastern European countries, but also to the grave crisis of the neoclassical-Walrasian paradigm which, although it has dominated Economic Science to date, has

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now come to an obscure dead-end.¹ Moreover, from the strictly academic point of view, it is now ten years since we began to recommend *Human Action* as a basic textbook for a course on political economy at the Complutense University of Madrid and, in this time, it has been used as a study and work instrument by more than two thousand students, who have been capable of generating a great wealth of academic and intellectual experiences which should by now be known.

We will, therefore, discuss below the main contributions contained in Mises' *Human Action* and its comparative advantages in respect of most of the economics manuals and textbooks which could be used as alternatives. Subsequently, after a brief intellectual biography of the author, we will explain the evolution of the successive editions of *Human Action* all over the world, together with the stimulus it is providing for the development of Economic Science. Our study will conclude with a series of practical educational recommendations, for both students and teachers, relating to the use of this book as a key instrument for work at university.

II. Main comparative advantages of Human Action

Typical shortcomings of current economics textbooks

Most of the introductory textbooks or manuals on political economy, which are today appearing on the market in ever-increasing numbers, contain significant defects, the majority of which have not, to date, been fully appreciated. However, their consequences for the education of future economists are very negative. *Firstly*, almost all modern manuals are obsessed by the idea of novelty. It is assumed that the best textbook is the most modern one, in other words, the one which includes the latest fashions which have appeared in the academic world and reflects the novelties which have become widely-known through

¹ See Jesús Huerta de Soto, "La crisis del paradigma walrasiano" and "Método y crisis en la Ciencia Económica", in *Estudios de Economía Política*, Unión Editorial, Madrid, 1994, pp. 56-82.

publications in what are considered to be the most prestigious specialized economic journals. This attitude is simply a regrettable manifestation of the old myth of "scientific meliorism", according to which everything recent includes and improves upon previous theoretical developments. This conception, which could have some foundation in the natural science field or in the technical disciplines related to engineering, does not, however, have any justification in the social science field in general or, in particular, in political economy. In fact, our science is based on principles and characteristics essential to the nature of human beings, which cannot be moulded in accordance with the whim of scientific fashion and/or technical stimuli and which, therefore, are very enduring, or even completely unchanging. This means that the construction of the theoretical edifice to be used by our future economists requires our discipline to be built on solid foundations, avoiding, above all at the beginning of their education, any distraction towards aspects which, although they are in fashion or appear attractive in view of their novelty, are really relatively incidental or hide, or tend to hide, the essential principles upon which Economic Science is based and constructed.²

² All those who ingenuously believe that "scientific meliorism" applies to economics fall into the trap of what Murray N. Rothbard appropriately called the "Whig theory of the history of science". According to this viewpoint, "the latest is always the best" in any scientific discipline and, consequently, also in economics. This belief assumes that everything constructed scientifically at any given time is correct or, at least, "better" than what had been constructed previously. This inevitably leads to the self-complacency and unjustified optimism which are so tremendously dangerous in the search for and preservation of the scientific truth. In fact, the "scientific meliorism" position is merely an artificial "safety belt" which the different paradigms implicitly and surreptitiously create in order to invalidate from the outset any possibility that a whole school of economic thought may be based on error, or that the evolution of Economic Science itself may stagnate or, as has often been the case, undergo phases of evident regression over determined time periods. Against this doctrine, Rothbard maintains that "There can be therefore no presumption whatever in economics that later thought is better than earlier, or even that all well-known economists have contributed their sturdy mite to the developing discipline. For it becomes very likely that, rather than everyone contributing to an ever-progressing edifice,

This obsession with novelty explains, *secondly*, the fact that many textbook authors believe that their work is fully completed by preparing a simple compendium of fashionable doctrines, which may be more or less heterogeneous and well-conceived, without making any effort to reflect profoundly on their foundations or taking the trouble to explain in detail or clarify their consistency for the future students and/or readers. Normally, an attempt is made to disguise this lack of reflection and consistency by including mathematical formulas (which always give the layman the impression of a "high" scientific level) and by the use of a large number of visual and statistical elements. This method of compiling manuals is, in spite of appearances, much easier and requires less commitment than preparing a volume on real, consistent economic principles which forces the students (and teachers) to reflect and, above all, reconsider critically, at each step, the foundations of the analytical tools they are using. Very few people engage in a rigorous study of the foundations of economics and those who at least mention them gloss quickly over the subject on the pretext that it is preferable not to "confuse" the students by the study of the "difficult" questions related to the principles, foundations and method of our science.

Thirdly, the above considerations also explain that, on many occasions, writers frivolously simplify the presentation and contents of their works in order to make them "attractive" and comprehensible to the students. Likewise, this objective explains the obsession with including topical examples, numerical charts and detailed statistics in many manuals. The continual decrease in the academic level of the

economics can and has proceeded in contentious, even zig-zag fashion, with later systemic fallacy sometimes elbowing aside earlier but sounder paradigms, thereby redirecting economic thought down a total erroneous or even tragic path. The overall path of economics may be up, or it may be down, over any give time period". Murray N. Rothbard, *Economic Thought before Adam Smith: An Austrian Perspective of the History of Economic Thought*, Edward Elgar, Aldershot, England, 1995, Vol. I, p. x. Illustrations of regression in the evolution of economic thought would be, for example, the revival of the objective theory of value by the neo-Ricardian school, Keynesian economic analysis, the abandonment of the time dimension and the theory of capital in modern macroeconomic thought and the narrow concepts of rationality, maximization and equilibrium upon which neoclassical analysis is constructed.

students who enter university, together with the triumph of "light culture", which is taking over our society, is leading many introductory economics books to be closer to manuals explaining the terminology for use in economic journalism than to true scientific works on economics devoted to the basic principles and foundations of our discipline and, above all, to teaching the students who come into contact with our science for the first time to think in terms of economic logic. The fact that one of the most prestigious current introductory economics manuals categorically states that "price measures scarcity",³ or that another indicates that applying the rule of making prices equal to marginal costs can make a socialist economy achieve and exceed the "optimum" which is difficult to achieve in a capitalist economy⁴, are only two examples which show the extent to which lack of rigour and the obsessive desire to simplify are damaging the education of our students and creating an intellectual handicap for them which it will take many years to overcome, if it does not become completely irreversible.

It would be erroneous to think that the above mentioned defects are due solely to a transient fashion or to the mere whim or lack of criteria of the authors of the manuals in question. On the contrary, the greatest cause for concern is that, to a great extent, these defects are the natural results of the prevalent extension in our science of a narrow scientific and positivist conception of economics. In fact,

³ Joseph E. Stiglitz, *Economics*, W.W. Norton & Company, 1993, Chapter 4, p. 84. As Mises rightly explains, "acting man does not measure utility. He arranges it in scales of gradation. Market prices are not expressive of equivalence, but of a divergence in the valuation of the two exchanging parties". *Human Action*, Henry Regnery, Chicago, 1966, p. 703. (From now onwards, unless otherwise stated, all the quotations from *Human Action* will refer to the aforementioned third English edition of 1966.)

⁴ With regard to the possibility of using the rule "price equal marginal cost" to organize a socialist economy "optimally", it is, for example, set out categorically, among other places, in the well-known textbook by J.C. Gould and C.E. Ferguson, *Microeconomic Theory*, Richard D. Irwin, Illinois, 1980, p. 445. The serious fallacies contained in this idea are demonstrated in detail in Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial* (Unión Editorial, Madrid, 1992, pp. 319 onwards).

fourthly, the image the majority of the manuals present of our science is usually the image of a discipline which it is hoped will develop and proceed in exactly the same way as the natural sciences and engineering. Its developments are based on the assumption that the necessary information on the ends and means of human beings is available or "given", in either certain or probabilistic terms, and that this knowledge or information is *constant* and does not vary, thus reducing economic problems to mere technical exercises of optimization or maximization. This conception has the implicit objective of developing a whole discipline of "social engineering", which aims to reduce the content of our science to a set of practical prescriptions for intervention which, profusely accompanied by functions or graphs (of supply, demand, costs, indifference-preference, production possibilities, etc. etc.), lead the student, without any kind of critical analysis, to the false conviction that there exists an intervention technique which is capable of directing the steps of the "analyst" in respect of any economic problem. The damage to the students' education which results from this approach is enormous. They follow the first introductory economics courses without learning the essential principles and foundations, acquiring the erroneous impression that there is one true answer to each problem which can be found by simply making the correct "diagnosis" and automatically applying the corresponding "prescription". The students' aspirations are reduced to mechanically formulating and finding the solution to the equations that supposedly contain the constant and unchanging information relative to, for example, the demand, supply and "elasticity"⁵ of the corresponding functions. This means that the centres of economic education which apply these criteria are closer to mediocre academies engaged in training (social) "engineers" than to what they should be: *true*

⁵ It is not, therefore, surprising that concepts are constantly used which, like "elasticity", are merely unfortunate transpositions (in this case, by Alfred Marshall) to the economics field of concepts which belong to the world of physics. This has been recently shown by authors who, like Philip Mirowski, have demonstrated that the neoclassical paradigm is simply a bad copy of the (now obsolete) conception of energy in 19th century physics. See Philip Mirowski, *More Heat than Light: Economics as Social Physics, Physics as Nature's Economics*, Cambridge University Press, Cambridge, 1991.

university centres engaged in research into, and the study of, the principles and foundations of economic science.⁶

Fifthly, the above considerations also clarify the reasons why modern manuals usually have, at best, a very ephemeral lifespan. In fact, the obsession with novelties and the excessive simplification mean that, in the successive editions, (which are quickly sold out as they are avidly consumed by whole cohorts of young economists, whom their teachers always "recommend" to acquire the latest editions), theories and explanations which, in earlier editions, supposedly constituted very important parts of the book are abandoned with no kind of explanation from the author. Thus, for example, in one of the most popular textbooks, the treatment which the first thirteen editions gave to the so-called "paradox of saving or frugality" has (fortunately, in our opinion) disappeared and the fourteenth edition silently eliminates the corresponding section with no explanation from the author. We do not, therefore, know whether the teaching provided to previous generations of students was

⁶ Mises refers to the damage that this scientific conception of economics does to the students as follows: "The students are bewildered. In the courses of the mathematical economists they are fed formulas describing hypothetical states of equilibrium in which there is no longer any action. They easily conclude that these equations are of no use whatever for the comprehension of economic activities. In the lectures of the specialists they hear a mass of detail concerning interventionist measures. They must infer that conditions are paradoxical indeed, because there is never equilibrium, and wage rates and the prices of farm products are not so high as the unions or the farmers want them to be. It is obvious, they conclude, that a radical reform is indispensable. But what kind of reform? The majority of the students espouse without any inhibitions the interventionist panaceas recommended by their professors. Social conditions will be perfectly satisfactory when the government enforces minimum wage rates and provides everybody with adequate food and housing, or when the sale of margarine and the importation of foreign sugar are prohibited. They do not see the contradictions in the words of their teachers, who one day lament the madness of competition and the next day the evils of monopoly, who one day complain about falling prices and the next day about rising living costs. They take their degrees and try as soon as possible to get a job with the government or a powerful pressure group". *Human Action*, op. cit., p. 875.

erroneous or whether, on the contrary, it is the readers of the latest edition who are missing an important element in their education.⁷

The mirage of novelty and, therefore, the vice of superficiality are not only detrimental to the rigour and consistency of the manuals and the education of the students, but also usually provoke, *sixthly*, the presentation of a partial vision of Economic Science, characterized because the different approaches and treatments, perhaps with the incorrectly understood objective of not "confusing" the student, are presented without setting forth all the alternative theoretical positions or making an appropriate and complete critical analysis of them. Thus, theoretical positions and developments which, although they are rigorous, reach conclusions other than those explained are concealed by applying the "law of silence", giving the new intake of students the impression that there is a greater degree of consensus among authors than is, in fact the case. Alternatively, a clumsy "democratic" criterion is applied whereby a supposed "majority" of followers makes it legitimate to cast what are considered to be minority positions into oblivion. References to other schools of thought and doctrines are, at best, relegated to brief comments on the history of economic thought, often included in boxes outside the main text, which always give the impression that the parts of them that were correct have been included in the explanation given and that the rest has been left behind by later theoretical developments and that it is not worth wasting time on things which have gone out of fashion or are no longer applicable. How many economic textbooks mention the existence of rigorous analyses demonstrating, for example, that the law of the equality of

⁷ Compare, for example, Paul A. Samuelson and William N. Nordhaus, *Economics*, 12th edition, McGraw Hill, New York, 1986, with Paul A. Samuelson and William N. Nordhaus, *Economics*, McGraw-Hill, 14th edition, New York, 1992. Also in the 14th edition of Samuelson's manual the disgraceful treatment (at least from the standpoint of the events that have taken place in Eastern European countries, which have fully confirmed Mises' theoretical analysis of socialism) which Samuelson had traditionally given to this subject, according to which "the Soviet economy is proof that, contrary to what many sceptics had earlier believed, a socialist command economy can function and even thrive" (Paul A. Samuelson, *Economics*, McGraw-Hill, 13th edition, New York, 1989, p. 837), has disappeared without any explanation.

weighted (by prices) marginal utilities makes no theoretical sense? How many express even a remote doubt on the indiscriminate use of functional analysis in our science or on such generalized tools as, for example, the indifference-preference curves?⁸ How many submit the axiomatic hypotheses of the so-called theory of revealed preference to criticism due to the fact that it is based on the assumption of *constancy* in subjective valuations, which is never the case in real life, rather than on indisputable criteria of "consistency" and "rationality"?⁹ In short, how may we explain that there are important schools of thought in our discipline which develop it aprioristically

⁸ The only examples I know of intellectual honesty in this field are the manuals of Bresciani-Turroni and Röpke, both of whom at least mention the important critical works of Hans Mayer on the neoclassical functional theory of price determination. See C. Bresciani-Turroni, *Corso di Economia Politica*, A. Guiffrè-Editore, Milan, 1960, Chapter 2, and Wilhelm Röpke, *Die Lehre von der Wirtschaft*, Eugen Rentsch, Zurich, 1968, note 2 of Chapter I. With regard to Hans Mayer's work, originally published under the title "Der Erkenntniswert der funktionellen Preistheorien: Kritische und positive Untersuchungen zum Preisproblem", in *Die Wirtschaftstheorie der Gegenwart*, Hans Mayer (ed.), Verlag von Julius Springer, Vol. II, Vienna, 1932, pp. 147-239b, it has fortunately very recently been translated and published in English under the title "The Cognitive Value of Functional Theories of Price: Critical and Positive Investigations concerning the Price Problem" in *Classics in Austrian Economics: A Sampling in the History of a Tradition*, Israel M. Kirzner (ed.), William Pickering, London, 1994, Vol. II, pp. 55-168.

⁹ As Mises rightly states in his criticism of Samuelson's "revealed preference" theory which appears on page 103 of *Human Action*, "The attempt has been made to attain the notion of a nonrational action by this reasoning: If *a* is preferred to *b* and *b* to *c*, logically *a* should be preferred to *c*. But if actually *c* is preferred to *a*, we are faced with a mode of acting to which we cannot ascribe consistency and rationality. This reasoning disregards the fact that two acts of an individual can never be synchronous. If in one action *a* is preferred to *b* and in another action *b* to *c*, it is, however short the interval between the two actions may be, not permissible to construct a uniform scale of value in which *a* precedes *b* and *b* precedes *c*. Nor is it permissible to consider a later third action as coincident with the two previous actions". See also Murray N. Rothbard, "Toward a Reconstruction of Unity and Welfare Economics", in *Austrian Economics*, Stephen Littlechild, Edward Elgar, Aldershot, England, 1990, Vol. III, pp. 228 onwards. Also see footnote 39 below.

and deductively, without resorting to the old hypotheses of methodological positivism?¹⁰

The importance of treatises on the foundations or principles of Economic Science

The only way in which the insufficiencies we summarize in the preceding section can be avoided consists of returning to the tradition of writing real treatises on the principles or foundations of Economic Science for our students. Instead of preparing simple manuals or textbooks which summarize the latest fashions and scientific novelties, real treatises should be written which, as the fruit of a long scientific reflection and academic experience, bring coherently together the essential principles which constitute the foundations and bases of economics. Thus, the students will be provided with analytical tools of an incalculable value with which they will be able to continue to construct the whole theoretical edifice of economics and which will serve as a guide for them throughout their future professional career. The stability and the durability of treatises on economic principles should be much greater than those of the manuals and textbooks published today. They should be written, therefore, using criteria which are much more timeless and abstract (i.e., avoiding the use of highly topical or quasi-journalistic examples), always providing an integral vision of Economic Science in which all its areas are conveniently inter-related. In any case, the objective of any treatise on principles or foundations should consist of teaching the students to think in terms of the essential elements of the discipline. Moreover, as the

¹⁰ The only exception I am aware of where reference is made to methodological positions other than positivist ones is Richard G. Lipsey who, at least up to the 8th edition of his well-known manual *An Introduction to Positive Economics*, said the following with regard to Mises' *Human Action* and Robbins' *An Essay on the Nature and Significance of Economic Science*: "All specialists in economics should read this interesting book. It sets out a conception of the nature of economic theory and its relationship with empirical observations which directly contradicts the one presented in our book". Richard G. Lipsey, *An Introduction to Positive Economics*, Weidenfeld and Nicolson, London, 1967, footnote 19 of Chapter 16.

preparation and theoretical justification of essential principles must be carried out with great care, detail and analytical rigour, it is necessary to refer to the different approaches and alternative viewpoints, always avoiding a pernicious partiality and providing adequate justification of the theoretical position adopted in comparison with the different alternatives analyzed. This means that, in real treatises on economic principles, far from concealing the different options, they are openly explained to the reader and are analytically dissected in all the detail necessary to reach what is considered to be the most appropriate theoretical conclusion.

As is logical, this typical approach of the treatises on economic principles or foundations is not in any way incompatible with the theoretical analysis of more specific problems which it is felt may have an important practical relevance. On the contrary, a good theoretical and abstract basis is the *sine qua non* requirement, not only for an accurate understanding and interpretation of what occurs in the historical economic reality of any given moment, but also, above all, to correctly guide the theoretical analysis and practical recommendations considered most appropriate in each circumstance.¹¹

From this point of view, Mises' *Human Action* constitutes the most important treatise on the essential principles and foundations of Economic Science written in the last century. Its most characteristic features are its profound analytical rigour and the constant consistency and total logical concatenation which overflow from each of its thirty-nine chapters, in which almost all economic problems are discussed. In short, Mises, in this book, systematically constructs the edifice of economic theory which is integrated into a consistent and unified whole.¹² The Treatise, moreover, is written in

¹¹ Thus, for example, in Chapters XXIX to XXXI of *Human Action*, Mises presents a theoretical analysis of the logic of the concatenation of events in relation to protectionism, interventionist measures and exchange controls which is especially brilliant and shows a great capacity for reflection, wisdom and practical experience.

¹² Friedrich A. Hayek, winner of the Nobel Prize for Economics in 1974, specifically referred to these characteristics of Mises' book in one of the first reviews he made of the first edition published in German, reaching the conclusion that "there appears to be a width of view and an

a very clear and flowing style. It does not only analyze and reach conclusions on the most varied schools which have arisen during the history of economic thought, but also, as is the case with the very few works which, like this one, have rapidly become classic reference points for any economist, shows, in every paragraph, great wisdom and originality and constitutes a real intellectual treasury of ideas and suggestions, each of which, if studied and analyzed in greater depth, easily becomes an entire research topic for a doctoral thesis or even for a new treatise or book.¹³

III. The author and his work: Mises' main contribution to economic science

Although, logically, it is not possible to make even a brief and succinct summary here of all the theoretical contributions of

intellectual spaciousness about the whole book which are much more like that of an eighteenth-century philosopher than of a modern specialist". F.A. Hayek, *The Economic Journal*, April 1941, pp. 124-127. In fact, Mises, with his general treatise on economics *Human Action* aims, among other things, to respond to the intellectual challenge originally launched by Max Weber relating to the need to prepare an integrated theoretical *corpus* which would permit history to be interpreted and made. In other words, a whole *unified social theory* which would make the interpretation of historical reality possible. In the neoclassical field, there have been some recent attempts to draw up this unified scientific *corpus* such as, for example, James Coleman's book *The Foundations of Social Theory* (Harvard University Press, Cambridge, 1990). However, as Coleman works on the basis of the neoclassical paradigm in its School of Chicago version, his book has not only the virtues, but also all the defects and insufficiencies which are typical of this paradigm and which, in our opinion, have been adequately eliminated and overcome by Mises in his Treatise.

¹³ Thus, for example, Toshio Murata, professor of economics at the University of Yokohama in Japan, recently referred to how "Mises' *Human Action* is filled with his precious wisdom, written in a very concise style, extending into many spheres. It is a treasury of thoughts and ideas, any one of which may be explored further and developed into a new thesis or a new book". Toshio Murata, "Fascinated by Mises for Thirty-Five Years", *Shunjo (Shunjo-sha)*, No. 330, July 1991, p. 4.

Human Action, it is nevertheless necessary to place it in its correct intellectual context explaining, above all, the evolution of the author's thought which was finally set forth in his Treatise.

Mises' contributions to the field of Economic Science cover the first two thirds of the last century. In fact, as he himself confesses, Mises became an economist after reading Carl Menger's *Principles of Economics* at Christmas 1903.¹⁴ It was, therefore, from that moment onwards that a very long and fruitful academic life dedicated to economic research and teaching commenced, continuing until 1969, when Mises retired as professor of economics at the University of New York.

Menger's book, which had so much influence on Mises, represented a milestone in the history of economic thought. For the first time, an attempt was made to construct the whole of Economic Science on the basis of the human being, considered as a creative actor with the leading role in every social process. Menger believed it was indispensable to abandon the sterile "objectivity" of the classical Anglo-Saxon school and, following a continental tradition of thought which dated from much earlier, going back as far as the Spanish scholastics of the 16th and 17th centuries,¹⁵ considered that the

¹⁴ "Around Christmas, 1903, I read Menger's *Grundsätze der Volkswirtschaftslehre* for the first time. It was the reading of this book that made an 'economist' of me." Ludwig von Mises, *Notes and Recollections*, Libertarian Press, South Holland, Illinois, 1978, p. 33. See Carl Menger, *Grundsätze der Volkswirtschaftslehre*, Wilhelm Braumüller, Vienna, 1871; translated by James Dingwall and Bert F. Hoselitz, with an Introduction by F.A. Hayek, New York University Press, New York and London, 1981.

¹⁵ The connections between theories of the Austrian School and those of the Spanish scholastics have been studied in detail by two of Mises' students, F.A. Hayek and, particularly, Murray N. Rothbard. See, above all, the latter's article "New Light on the Prehistory of the Austrian School", published in *The Foundations of Modern Austrian Economics*, Sheed & Ward, Kansas City, 1976, pp. 52-74 and, more recently, Vol. I of his posthumous work *Economic Thought before Adam Smith: An Austrian Perspective on the History of Economic Thought*, op. cit., pp. 97-177. Curiously, this intimate relationship between the members of the School of Salamanca and the Austrian School theorists is not expressly mentioned by Mises in the reference which he makes, in passing, to the

scientist should always adopt the subjective viewpoint of the human being who acts, in such a way that this viewpoint would have a determining and inevitable influence on the way in which all economic theories were developed and on their conclusions and practical results. It is, therefore, understandable that Menger considered it indispensable to abandon the sterile objectivity of the classical Anglo-Saxon school, which was always obsessed by the supposed existence of objective external factors (social classes, aggregates, material production factors, etc.). A natural consequence of the "subjectivist"¹⁶ conception, which is readopted thanks to Menger, is not only the development of the subjective theory of value and of its corollary, the law of marginal utility, but also the idea of cost as a subjective valuation of the alternatives which are renounced on acting (opportunity cost).

Menger's seminal contribution was continued by his most brilliant student, Eugen von Böhm-Bawerk (1851-1914),¹⁷ who was

predecessors of the subjective theory of value at the end of point 3 of Chapter XII of *Human Action* (p. 219).

¹⁶ F.A. Hayek stated that "it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism". (*The Counter-Revolution of Science*, Free Press of Glencoe, New York, 1955, p. 31). Hayek adds, referring to Mises (note 24, pp. 209-210), that subjectivism "has probably been carried out most consistently by Ludwig von Mises and I believe that most peculiarities of his views which at first strike many readers as strange and unacceptable are due to the fact that *in the consistent development of the subjectivist approach he has for a long time moved ahead of his contemporaries*. Probably all the characteristic features of his theories, from his theory of money to what he calls his *apriorism*, his views about mathematical economics in general, and the measurement of economic phenomena in particular, and his criticism of planning all follow directly from his central position" (the italics are mine). This subjectivist conception is the most typical stamp of Mises and is the main element which differentiates the Austrian School from the other marginalist schools of Walras and Jevons. See William J. Jaffé, "Menger, Jevons and Walras De-Homogenized", *Economic Enquiry*, No. 14 (4), December 1976, pp. 511-524. Also see note 35 below.

¹⁷ Böhm-Bawerk's *magnum opus* which is, in spite of its title, and economic treatise in the true sense of the term, is *Kapital und Kapitalzins*, Wagner, Innsbruck, 1884-1903. There is an English translation by Hans

professor of economics, first at Innsbruck and then at Vienna. He was also Finance Minister in the government of the Austro-Hungarian Empire on three different occasions. Böhm-Bawerk not only contributed to the dissemination of the subjectivist conception which was originally owed to Menger, but also made a notable extension to its application, especially in the sphere of the theory of capital and interest. Böhm-Bawerk criticized all the theories which had existed prior to the appearance of his work on the emergence of interest (and was especially correct in his critical analysis of the Marxist theory of exploitation and the theories which consider that interest originates from the marginal productivity of capital). He also drew up a whole new theory on the emergence of interest, based on the subjective reality of time preference. Böhm-Bawerk's most brilliant student was, without doubt, Ludwig von Mises, who very soon drew attention for being the most outstanding participant in the seminar run by Böhm-Bawerk at the University of Vienna until just before the First World War. In this seminar, of which theorists of the standing of J.A. Schumpeter also formed part, Mises proposed extending the application of the traditional subjectivist conception of economics, which had been readopted by Menger, to the sphere of money and credit. In 1912, he published the first edition of his first important book on economics under the title of *The Theory of Money and Credit*.¹⁸

Ludwig von Mises and the theory of money, credit and economic cycles

This first seminal contribution of Mises in the monetary sphere implied a great step forward and led to the advance of the subjectivism of the Austrian School by applying it to the field of money and basing the value of the latter on the theory of marginal

Sennholz, published under the title *Capital and Interest*, Libertarian Press, South Holland, Illinois, 1959.

¹⁸ Ludwig von Mises, *Theorie des Geldes und der Umlaufsmittel*, Duncker & Humblot, Munich and Leipzig, 1912 (2nd edition in 1924). The best English edition (translated from German by H.E. Batson), was published, with a Foreword by Murray N. Rothbard, by Liberty Classics, Indianapolis, 1981.

utility. Moreover, Mises solved, for the first time, the apparently insoluble problem of circular reasoning which was until then considered to exist in relation to the application of the theory of marginal utility to money. In fact, the price or purchasing power of money is determined by its supply and demand. The demand for money, in turn, is made by human beings, not on the basis of the direct utility provided by money, but in accordance with its purchasing power. Mises resolved this apparent circular reasoning with his regression theorem of purchasing power, which he analyzes and explains in detail in point 4 of Chapter XVII of *Human Action*. According to this theorem, the demand for money is determined, not by its purchasing power *today* (which would give rise to the above mentioned circular reasoning), but by the knowledge of the purchasing power that it had *yesterday*, formed by the actor on the basis of his experience. In turn, yesterday's purchasing power had been determined by a demand for money formed on the basis of knowledge of its purchasing power the day before yesterday. This sequence continues until the moment of history is reached when, for the first time, a certain commodity (gold or silver) began to be demanded as a means of exchange.

The Theory of Money and Credit soon became the standard work in the monetary field¹⁹ and also included an incipient development of an outstanding theory of trade cycles. With time, this theory would become known as the "Austrian theory of the economic cycles". In fact, Mises, by applying the monetary theories of the *Currency School* to Böhm-Bawerk's subjectivist theories of capital and interest, realized that it was not only that the expansive creation of credits without the support of effective saving (*fiduciary means*), to which the banking system based on a fractional reserve and organized by a

¹⁹ Unfortunately, an author of the prestige of John Maynard Keynes could not extract sufficient meaning out of Mises' work because, as he himself confesses, "In German I can only clearly understand what I already know - so that new ideas are apt to be veiled from me by the difficulties of the language". John Maynard Keynes, *A Treatise on Money*, London, 1930, Vol. I, p. 199, note 2. Neither could Paul A. Samuelson take advantage of Mises' contribution, as shown by the comments he makes on von Mises' monetary theory in his *Foundations of Economic Analysis*, Harvard University Press, Cambridge, Massachusetts, 1947, pp. 117-118.

central bank gave rise, generated a cyclical and uncontrolled growth of the monetary supply. In addition, as it resulted in the *ex nihilo* creation of credits at artificially reduced interest rates, it inexorably led to a fictitious and untenable "lengthening" of the productive processes, which thus tended to unduly become excessively capital intensive. Sooner or later, the amplification of any inflationary process by credit expansion will, spontaneously and inexorably, have to revert, giving rise to an economic crisis or recession in which the investment errors induced will produce their results and there will be massive unemployment and the need to liquidate and reassign all the erroneously invested resources. Mises' development of the theory of the cycle, which is studied in detail in Chapters XX and XXXI of *Human Action*, led, for the first time, to the full integration of the "micro" and "macro" aspects of economic theory²⁰ and to the availability of analytical tools able to explain the recurrent phenomena of boom and depression which affect impeded markets. It is not surprising, therefore, that Mises was the main driving force behind the creation of the Austrian Institute of Economic Research, at the head of which he placed F.A. Hayek (winner of the Nobel Prize for Economics in 1974) as the first Director. This Institute was the only one able to predict the coming of the Great Depression of 1929 as the inevitable result of the monetary and credit excesses of the artificially "prosperous" twenties which followed the First World

²⁰ The radical separation between the "micro" and "macro" aspects of Economic Science is another of the insufficiencies characteristic of modern introductory manuals and textbooks on political economy. Instead of providing a unified treatment of economic problems, as Mises does, they always present Economic Science as divided into two different disciplines ("microeconomics" and "macroeconomics") with no connection between them and which, therefore, can be studied separately. As Mises rightly says, this separation originates from the use of concepts which, like the *general price level*, ignore the application of the subjective theory of the value of money and continue to be anchored in the pre-scientific stage of economics, when it was still attempted to make analyses in terms of global classes or aggregates of goods, rather than in terms of incremental or marginal units of them. This explains the fact that, to date, a whole "discipline" based on the study of the mechanical relationships which supposedly exist between macroeconomic aggregates has been developed, the connection of which with individual human action is difficult, if not impossible, to understand.

War.²¹ We should also highlight how Mises and his disciples refined their theory of cycles at the same time as their analysis on the impossibility of socialism which we discuss below. In fact, the Austrian theory of crises is simply a specific application of the disordinating effects of the systematic coercion of governments in the tax, credit and monetary fields (within and between time periods) on the productive structure.

The Misesian analysis of the impossibility of socialism

Mises' third great contribution consists of his theory on the impossibility of socialism. For Mises, from the viewpoint of Austrian subjectivism, this impossibility is evident.²² In fact, if the

²¹ See Mark Skousen, "Who Predicted the 1929 Crash?", included in *The Meaning of Ludwig von Mises*, Jeffrey M. Herbener (ed.), Kluwer Academic Publishers, Amsterdam, 1993, pp. 247-284. Lionel Robbins, in his "Introduction" to the first edition of F.A. Hayek's *Prices and Production* (Routledge, London, 1931, p. xii), also referred to this prediction made by Mises and Hayek of the inexorable advent of the Great Depression, which had appeared expressly in an article by Hayek which was published in 1929 in *Monatsberichte des Österreichischen Instituts für Konjunkturforschung*.

²² "The illusion that a rational order of economic management is possible in a society based on public ownership of the means of production owed its origin to the value theory of the classical economists and its tenacity to the failure of many modern economists to think through consistently to its ultimate conclusions the fundamental theorem of the subjectivist theory ... In truth it was the errors of these schools that made socialist ideas thrive." Ludwig von Mises, *Human Action*, p. 206. Very recently, Joseph E. Stiglitz has also expressed his opinion that the neoclassical paradigm which has prevailed to date has been, to a great extent, the cause for maintaining the erroneous belief that the socialist economic system could work. He concludes that "the standard (neoclassical) models were partly to blame for the disastrous situation in which so many Eastern European countries found themselves. A strong case could be made for the proposition that ideas about economics have led close to half the world's population to untold suffering". J.E. Stiglitz, *Whither Socialism?*, The MIT Press, Cambridge, Massachusetts, 1994, pp. ix-xii. Along the same lines, see the declarations made two years

source of all volition, valuation and knowledge is to be found in the creative capacity of the human being as an actor, all systems based on the use of violent coercion against free human action, as is the case of socialism and, to a lesser extent, of interventionism, will prevent the emergence of the information necessary to coordinate society in the minds of the individual actors. Mises realized that *economic calculation*, understood as any estimated judgement on the result of alternative courses of action which are open to the actor, requires first-hand information and becomes impossible in a system which, like socialism, is based on coercion and impedes, to a greater or lesser extent, voluntary exchange (in which individual valuations are set forth, discovered and created) and the free use of money as a voluntary, commonly-accepted means of exchange.²³ Mises therefore concludes that where there is no free market, free market monetary prices and/or money, no

earlier by Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial*, op. cit., pp. 33 onwards.

²³ The concept and analysis of economic calculation and its importance for human action and interaction constitute one of the most essential aspects of Misesian thought and Mises devotes the whole of the Third Part (Chapters XI-XIII) of *Human Action* to studying it. Perhaps the merit of Mises stems from the fact that he knew how to establish in theoretical terms the connection which exists between the subjective world of individual valuations (ordinal) and the external world of market price estimations fixed in monetary units (cardinal world typical of economic calculation). The *bridge* between the two worlds is made possible whenever an act of interpersonal exchange takes place and, driven by the different subjective valuations of the parties, is set forth in a monetary market price or historical exchange relationship in monetary units with a real determined quantitative existence, which can be subsequently used by the entrepreneur as valuable information to estimate the future evolution of events and take decisions (economic calculation). It becomes, therefore, evident that, if free human action is impeded by force, voluntary interpersonal exchanges will not take place, thus destroying the bridge or connection which they represent between the subjective world of the creation of information and direct valuations (ordinal) and the external world of prices (cardinal). This makes economic calculation totally impossible. See especially Murray N. Rothbard, "The End of Socialism and the Calculation Debate Revisited", *The Review of Austrian Economics*, Vol. 5, No. 3, 1991, pp. 64-65.

"rational" economic calculation is possible, if we understand "rational" to refer to a calculation made when the necessary information (not merely arbitrary information) is available in order to carry it out. Mises' first essential ideas were systematized and included in his great critical treatise on this social system, the first edition of which was published in German in 1922 under the title *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* and subsequently translated into English, French and Spanish.²⁴ Mises' *Socialism* was a work which achieved extraordinary popularity in continental Europe and had, among other consequences, the result of making theorists of the standing of F.A. Hayek, initially a Fabian socialist, Wilhelm Röpke and Lionel Robbins change their opinions after reading it and become converted to libertarianism.²⁵

²⁴ Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus*, Gustav Fischer, Jena, 1922. Translated into English by J. Kahane and published with a Foreword by F.A. Hayek under the title *Socialism: An Economic and Sociological Analysis*, Liberty Classics, Indianapolis, 1981. This treatise includes almost literally Mises' first seminal contribution on socialism, which appeared in his article "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen", published in *Archiv für Sozialwissenschaft und Sozialpolitik*, No. 47, 1920, pp. 106-121. It was translated into English by S. Adler under the title "Economic Calculation in the Socialist Commonwealth" and included in *Collectivist Economic Planning*, F.A. Hayek (ed.), Augustus M. Kelley, Clifton, 1975.

²⁵ See the "Foreword" written by F.A. Hayek for the fourth English edition of Mises' *Socialism* published in 1981 (*Socialism: An Economic and Sociological Analysis*, op. cit., p. xix). Mises, in turn, acknowledges that, when he started university, he was ideologically a great statist and only slowly did his studies in political economy make him change his mind: "When I entered the university, I, too, was a thorough statist (interventionist). But in contrast to my fellow students I was consciously anti-Marxian. My first doubts about the excellence of interventionism came to me when, in my fifth semester, Professor Philippovich induced me to research housing conditions and when, in the following semester in the Seminar on Criminal Law, Professor Löffler asked me to research the changes in law regarding domestic servants, who at that time were still subject to corporal punishment by their employers. It then dawned on me that all real improvements in the conditions of the working classes were the result of capitalism; and that social laws frequently brought about the

Moreover, this book marked the beginning of one of the four great controversies in which the Austrian School theorists have been involved: the controversy on the impossibility of socialist economic calculation.²⁶ Recently, I have had the opportunity to study and re-evaluate in detail, in an extensive work,²⁷ all the aspects of this controversy which, without doubt, as has today finally been generally acknowledged even by the former socialist theorists,²⁸ was won by the members of the Austrian School and is one of the most interesting

very opposite of what the legislation was intended to achieve". Ludwig von Mises, *Notes and Recollections*, op. cit., pp. 16 and 19-20.

²⁶ The other three controversies are, chronologically, the *Methodenstreit*, in which Menger confronted the German historicist school in the 19th century; secondly, the controversy on the concept of capital and the theory of interest, which was originally maintained between Böhm-Bawerk and J.B. Clark and subsequently between Mises, Hayek and Machlup, on one side, and Frank H. Knight and the School of Chicago, on the other; the third is the well-known controversy of Hayek against Keynes during the thirties (see F.A. Hayek, *Contra Keynes and Cambridge: Essays, Correspondence*, Vol. 9 of *The Collected Works of F.A. Hayek*, Bruce Caldwell (ed.), Routledge, London, 1995). The evolution of historical events (the fall of real socialism) and economic thought (crisis of Keynesian economics) are demonstrating how the Austrian theorists were right in these four doctrinal controversies.

²⁷ Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial*, op. cit. Likewise, see Donald A. Lavoie, *Rivalry and Central Planning*, Cambridge University Press, Cambridge, 1985.

²⁸ "Mises was right ... Socialism has been the great tragedy of this century." Robert L. Heilbroner, "The Triumph of Capitalism", *The New Yorker*, January 23, 1989, and "Analysis and Vision in the History of Modern Economic Thought", *Journal of Economic Literature*, Vol. 28, September 1990, pp. 1097 and 1110-1111. The economists Włodzimir Brus and Kazimierz Laski also conclude that Oskar Lange and the socialist theorists "never succeeded in confronting the Austrian challenge" (*From Marx to the Market: Socialism in Search of an Economic System*, Clarendon Press, Oxford, 1985, p. 60). Mises summarises, re-evaluates and gives his final opinion on the impossibility of socialist calculation in the Fifth Part of *Human Action*, Chapters XXV and XXVI.

controversies, with some of the most significant consequences, in the history of economic thought.²⁹

The theory of entrepreneurship

The consideration of the human being as the essential and inevitable protagonist of all social processes constitutes the essence of Mises' fourth contribution to the field of economic science. In fact, Mises realizes that economics, which had firstly arisen centred around a historical *ideal type* in Max Weber's sense of the term, the *homo economicus*, thanks to the subjectivist conception of Menger, becomes generalized and is converted into a whole general theory on human action and interaction (*praxeology*, in Mises' terminology). The essential characteristics and implications of human action and interaction are studied in detail and constitute the basic research matter of the Treatise on Economics which Mises, for this precise reason, entitled *Human Action*.³⁰ Mises considers that any action has an entrepreneurial and speculative component and develops a theory of entrepreneurship, understood as the capacity of the human being to create the subjective opportunities for gain or profit which arise in his environment and to realize that they exist, acting in consequence to take advantage of them.³¹ The Misesian theory of entrepreneurship has been very

²⁹ Mises' great merit is that he was the first person to tackle the problem of the theoretical impossibility of socialism, which nobody before him (from 1848 to 1920) had dared to touch and that he showed that, if it was possible to maintain the socialist idea for so long a period of time, it was the result of the errors of the neoclassical paradigm (see heading 2 of Chapter XXVI) and constructivist rationalism (which Mises calls "rationalistic romanticism"). See *Human Action*, pp. 507 and 702.

³⁰ As Tullio Bagiotti, who was professor of economics at the Bocconi University of Milan, rightly said, "Il titolo non mancherà di sorprendere un poco. Nessun economista prima di lui l'aveva usato, anche se l'economia spesso forzava i suoi cànoni presentandosi com norma all'azione". Tullio Bagiotti, "Presentazione" to the Italian edition of *L'Azione Umana: Trattato di economia*, Union Tipografico-Editrice Torinese, Turin, 1959, p. vi.

³¹ Mises expressly states that the essential element of entrepreneurship is its creative capacity ("Only the human mind that directs action and

much developed over recent years by one of Mises' most brilliant students, Israel M. Kirzner (*1930), currently professor of economics at the University of New York.³² The entrepreneurial capacity of the human being not only explains his constant search for and creation of new information on ends and means,³³ but is

production is creative", p. 141). Likewise, he strongly criticizes the popular fallacies that consider that profit is derived from simply assuming risks (when risk only gives rise to an additional cost of the production process, which has nothing to do with entrepreneurial profit, pp. 809-810), and the essentially erroneous idea that entrepreneurship is a management production factor which can be bought and sold on the market. On the contrary, says Mises, "In order to succeed in business a man does not need a degree from a school of business administration. These schools train the subalterns for routine jobs. They certainly do not train entrepreneurs. An entrepreneur cannot be trained. A man becomes an entrepreneur in seizing an opportunity and filling the gap. No special education is required for such a display of keen judgement, foresight and judgement" (p. 314).

³² Kirzner recently told me that his whole academic career was due to the historical accident of having chosen, in order to complete some credits which he needed, to attend the seminar on economics which Mises held at the University of New York from 1949 to 1969, applying the decisive criterion of the number of works published by each lecturer. The basic works of Israel M. Kirzner are the following: *Competition and Entrepreneurship*, Chicago University Press, Chicago, 1973; *Perception, Opportunity and Profit*, Chicago University Press, Chicago, 1979; *Discovery and the Capitalist Process*, Chicago University Press, Chicago, 1985; *Discovery, Capitalism and Distributive Justice*, Basil Blackwell, Oxford, 1989; and *The Meaning of the Market Process*, Routledge, London, 1992.

³³ Mises' emphatic affirmations that economics is a science which deals with means and not ends (p. 15) should be understood to mean that economics never analyzes the specific content or makes value judgements on the ends desired by human beings when they act. However, in economic analysis, the ends, like the means, are taken into account, always in strictly formal terms, as a result of the continuous flow of creation of information which arises from the entrepreneurial process of human interactions. Moreover, economics also studies which established rules or precepts of behaviour are in accordance with the spontaneous process of human coordination driven by the force of entrepreneurship and which, on the contrary, make it difficult or impossible. We are,

also the key to understanding the coordinating tendency which emerges spontaneously and continuously on the market when it is not coercively intervened. This coordinating capacity of entrepreneurship is precisely what makes it possible to draw up a logical *corpus* of economic theory without the need to fall into the vices of scientific (mathematical and statistical) analysis which, based on hypotheses of constancy, comes from and is a bad copy of the alien world of physics and the rest of the natural sciences.

Aprioristic-deductive methodology and the criticism of scientific positivism

Since Menger, methodological and epistemological problems have been treated at length and in depth by the Austrian theorists, particularly by Mises himself, whose contribution in this field is among the most essential contributions made by the great 20th century Austrian economist. Effectively, the fact that the "observing" scientist cannot obtain the practical information which is being constantly created and discovered in a decentralized way by the "observed" actors-entrepreneurs explains the theoretical impossibility of any type of empirical verification in our field. In fact, from this point of view, it may be considered that the same reasons that determine the theoretical impossibility of socialism explain that both empiricism and the cost-benefit analysis, or utilitarianism in its strictest interpretation, are not viable in our science. It is irrelevant whether it is a scientist or a governor who vainly tries to obtain the practical information that is relevant to

therefore, in complete agreement with the position of Murray N. Rothbard (*The Ethics of Liberty*, Humanities Press, Atlantic Highlands, New Jersey, 1982, p. 202) when he criticizes Mises because the latter considers that the ethical principles of behaviour are also purely subjective (see note 72). In addition, it was a reductionist and narrow interpretation of Mises' clear position on the role of ends and means in economic analysis which induced Lionel Robbins to commit the error of considering that the ends are "given" (not in the sense that they should not be judged, but in the sense that they are known and constant) and, therefore, economic behaviour should be reduced to a simple optimization or maximization aimed at getting the maximum of previously fixed ends using means which are also known (p. 21).

each case in order to verify theories or endow his commands with a coordinating nature. If this were possible, it would be viable to use this information either to coordinate society through coercive commands (socialism and interventionism) or to empirically verify economic theories. However, for the same reasons, *first*, in view of the immense volume of information in question; *second*, due to the nature of the relevant information (disseminated, subjective and tacit); *third*, because of the dynamic nature of the entrepreneurial process (information which has not yet been generated by the entrepreneurs in their process of constant innovatory creation cannot be transmitted); and *fourth*, due to the effect of coercion and of scientific "observation" itself (which distorts, corrupts, impedes or simply makes the entrepreneurial creation of information impossible), both the socialist ideal and the positive or strictly utilitarian ideal are impossible from the point of view of economic theory.³⁴

These same arguments are also applicable in order to justify the theoretical impossibility of making specific predictions (i.e., referring to determined coordinates of time and place) in economics. What will happen tomorrow can never be scientifically known today, as it largely depends on knowledge and information which have not yet been entrepreneurially generated and which, therefore, cannot yet be known. In economics, therefore, only general "trend predictions" can be made (what Hayek calls *pattern predictions*), which are of an essentially theoretical nature and relative, at most, to the qualitative forecast of the disorders and effects of social discoordination produced by institutional coercion (socialism and interventionism) on the market.

Moreover, the non-existence of objective facts which may be directly observed in the external world, derived from the circumstance that, according to the subjectivist conception, economic

³⁴ Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial*, op. cit., pp. 150 and 406-407. As Mises states, theory comes before empirical facts and is indispensable in interpreting the social reality that constitutes history. The latter, in order to be formed as a discipline, also requires a non-scientific judgement of relevance (*verstehen* or understanding) which, as it is not objective, varies from one historian to another (Chapter II of *Human Action*).

research "facts" are simply ideas that others have on what they pursue and do,³⁵ which may never be observed directly, but only interpreted in historical terms, together with the constantly variable and very complex nature of social processes and events, in which there are no "parameters" or "constants", but in which everything is a "variable", makes the traditional objective of econometrics impossible and leads to the inviability of any of the versions of the positivist methodological program (from the most ingenuous verificationism to the most sophisticated Popperian falsificationism).

As opposed to the positivist ideal, in *Human Action* Mises shows that the whole of Economic Science can be constructed through apriorism and deduction. The question is, in brief, to prepare an entire logical-deductive arsenal on the basis of self-evident knowledge (axioms such as the subjective concept of human action itself with its essential elements) with which nobody can argue without contradicting himself.³⁶ This theoretical arsenal is indispensable for

³⁵ "Economics is not about things and tangible material objects; it is about men, their meanings and actions. Goods, commodities and wealth and all other notions of conduct are not elements of nature; they are elements of human meaning and conduct. He who wants to deal with them must not look at the external world; he must search for them in the meaning of acting men ... Production is not something physical, material and external; it is a spiritual and intellectual phenomenon" (pp. 92 and 144). Therefore, in economics, the "restrictions" are not imposed by the material factors of the external world (for example, in the energy field, by the oil reserves), but by entrepreneurial human knowledge (the discovery, for example, of a carburettor which doubles the efficiency of the internal combustion engine has the same economic effect as the duplication of the total physical oil reserves).

³⁶ Thus, an outstanding example is the demonstration of the Law of Diminishing Returns which Mises sets out in exclusively logical terms (heading 2 of Chapter VII of *Human Action*). This logical demonstration is based on the fact that, in *sensu contrario*, if the mentioned law were not true in the world of human action, the production factor considered as fixed would have an unlimited production capacity and, therefore, would be a free good. Karl Menger, the son of the great Austrian economist, has tried, in our opinion fruitlessly, to refute Mises' theorem on the strictly praxeological nature of the Law of Diminishing Returns. See Karl Menger, "Remarks on the law of Diminishing Returns. A Study in Meta-Economics", Chapter 23 of *Selected Papers in Logic and Foundations*,

an adequate interpretation of the apparently unrelated mass of complex historical phenomena which constitute the social world, and for drawing up a history of the past, or to predict events in the future (which is the typical mission of the entrepreneur) with a minimum degree of consistency, guarantees and chances of success. It is now possible to understand the great importance which Mises places in his work on history as a discipline, on its relation to theory and on the role of the historian, together with the fact that he defines the entrepreneur as an "acting man [who] looks, as it were, with the eyes of a historian into the future".³⁷

Economics as a theory of dynamic social processes: criticism of the analysis of the equilibrium (general and partial) and of the conception of economics as a mere maximizing technique

Finally, in the sixth place, Mises' work gives a great impetus to the theory of dynamic processes. In fact, for Mises, the mathematical construction of an Economic Science based on the model of equilibrium (general or partial),³⁸ in which all the

Didactics, Economics, D. Reidel Publishing Co., Dordrecht, Holland, 1979, pp. 279-302.

³⁷ Ludwig von Mises, *Human Action*, p. 58. A recent, favourable and objective explanation of the methodological paradigm of Mises is given by Bruce Caldwell, *Beyond Positivism: Economic Methodology in the Twentieth Century*, 2nd edition, Routledge, London, 1994, pp. 117-138. On Mises' methodology in general and, particularly, on the relationships between theory and history, see the 36 bibliographical references contained in my article on "Crisis y método en la Ciencia Económica", *Hacienda Pública Española*, No. 74, 1982 (republished in Jesús Huerta de Soto, *Estudios de Economía Política*, Unión Editorial, Madrid, 1994, pp. 59-84), together with Mises' *Theory and History*, Yale University Press, Yale, 1957, and Hayek's "The Facts of the Social Sciences" in *Individualism and Economic Order*, Henry Regnery, Chicago, 1972 and *The Counter-Revolution of Science*, Liberty Press, Indianapolis, 1979.

³⁸ Mises calls equilibrium an "evenly rotating economy" and considers it an imaginary construction with a strictly instrumental value for improving the analytical comprehension of only two problems in our

information relevant, for example, to the construction of the corresponding functions of supply and demand, is considered constant and "given" (even though it may be in probabilistic terms), makes no sense.

The basic economic problem for Mises is a completely different one: to study the dynamic process of social coordination in which different individuals are continuously entrepreneurially generating new information (which is never "given" or constant) when they seek the ends and means they consider relevant under each specific circumstance, thus establishing, without realizing it, a spontaneous process of coordination. In contrast to the world of physics and the natural sciences, functional relations (and, therefore, functions of supply, demand, costs or of any other type) do not exist in economics. Let us remember that, mathematically, according to set theory, a function is merely a one-to-one (bijective) correspondence between the elements or points of two sets which are called the "initial set" and the "final set". Given the innate creative capacity of the human being, who is continuously generating and discovering new information in each specific circumstance in which he acts in respect of the ends he aims to pursue and the means to attain them he

science: the emergence of entrepreneurial profits in a dynamic environment and the relationship that exists between the price of consumer goods and services and the price of the production factors necessary to produce them (p. 248). In this specific aspect, I would go even further than Mises himself, as I believe that it is perfectly possible to explain the emergence of entrepreneurial profits and the trend toward fixing the prices of the production factors in accordance with the discounted value of their marginal productivity, without any reference to models of equilibrium (either general or partial), but merely to the dynamic process which tends towards what Mises calls a "final state of rest" (which is never reached). In any case, it must be stressed that, according to Mises, "What distinguishes the Austrian School and will lend it immortal fame is precisely the fact that it created a theory of economic action and not of economic equilibrium or non action". Ludwig von Mises, *Notes and Recollections*, op. cit., p. 36. Moreover, according to Mises, "The imaginary construction of the final state of rest is marked by paying full regard to change in the temporal succession of events (p. 246). This is what differentiates it from the model of equilibrium or "evenly rotating economy" in which the time factor is radically eliminated (p. 247).

considers to be within his reach, it is evident that there is none of the three elements necessary for a functional relationship to exist: a) the elements of the initial set are not given or constant; b) the elements which constitute the final set are not given or constant; and c), and this is the most important point, *neither are the correspondences between the elements of the two sets given or constant, but rather they vary continuously as a result of the action and creative capacity of the human being.*³⁹ Thus, in our science, the use of functions requires a *presupposition of constancy* be introduced into the information, eliminating the protagonist of the whole social process: the human being endowed with an innate creative entrepreneurial capacity. Mises' great merit consists of having shown that it is perfectly possible to create Economic Science in its entirety logically, without any need to use functions and, therefore, to establish hypotheses of constancy which are contrary to the nature of the human being, that is, of the protagonist of the whole of the social process which it is aimed to study.⁴⁰

³⁹ "There are, in the field of economics, no constant relations, and consequently no measurement is possible". Ludwig von Mises, *Human Action*, op. cit., p. 55. Furthermore, as we have already seen in note 9, the axiomatic criteria of rationality proposed by Samuelson and other mathematical economists do not make sense either, as, if an actor prefers *a* to *b* and *b* to *c*, he may perfectly well prefer *c* to *a*, without ceasing to be "rational" or consistent, if he has simply changed his mind (although it has only occurred during the hundredth of a second for which he has considered this problem in his own reasoning).

⁴⁰ The critical analysis of the use of mathematics in economics is included under heading 5 of Chapter XVI of *Human Action* and is one of the most important parts of the book. Mises' contributions on this subject were, in turn, parallel to those which were also developed by the Austrian economist Hans Mayer, who succeeded Menger and Wieser as professor of economics at Vienna. For Mayer, the neoclassical theory of functional or mathematical price determination does not make sense, as it presupposes that a system of equations should integrate, *simultaneously*, information on the prices and quantities of goods and services produced in the market. In reality, these are heterogeneous magnitudes which are never given at the same time in society, but rather emerge *sequentially* throughout a process, as a result of specific human actions driven by the force of entrepreneurship. Hans Mayer's essential work is the previously mentioned "Der Erkenntniswert der funktionellen Preistheorien", in *Die*

It has, therefore, been demonstrated that the basic economic problem is not of a technical or technological nature, as it is usually set out by the mathematical economists of the neoclassical paradigm, when they assume that the ends and means are "given" and that the rest of the information necessary is constant, thus considering the economic problem as if it were a mere technical problem of optimization or maximization.⁴¹ In other words, the basic economic problem is neither technical nor a problem of maximization of an objective function which is "known" and constant, subject to constraints which are also "known" and constant. It is, on the contrary, strictly economic: *it emerges when there are many ends and means competing among themselves, when knowledge of them is neither given nor constant, but is dispersed over the minds of innumerable*

Wirtschaftstheorie der Gegenwart, Springer, Vol. 2, Vienna, 1932, pp. 147-239b (translated into English under the title "The Cognitive Value of Functional Theories of Price" and published in Vol. II of *Classics in Austrian Economics: A Sampling in the History of a Tradition*, Israel M. Kirzner (ed.), William Pickering, London, 1994, pp. 55-71). The mathematicians are left with the challenge of conceiving and developing a new "mathematics" capable of including and permitting the analysis of the human being's creative capacity and its implications, without resorting, therefore, to the hypotheses of constancy which come from the world of physics and upon which all the mathematical languages known to date are based. In our opinion, however, the ideal scientific language for including this creative capacity is precisely the language that human beings have spontaneously created in their day-to-day entrepreneurship, which materializes in the different languages and forms of speech which prevail in the world today.

⁴¹ Economic problems would be eliminated and substituted by strictly technological problems if, as Mises rightly states (pp. 206-207), a relationship of perfect substitution existed between all the production factors in given proportions, or if all the production resources were completely specific. Apart from these cases, all problems are economic according to our definition in the main text unless, as is the case of the neoclassical economists, the functions of supply and demand and the corresponding prices of equilibrium are presupposed. In this case, although there are no relationships of perfect substitution in fixed proportions between the production factors, and the latter are not completely specific, the economic problems which occur in the real world are also reduced to strictly technical problems of maximization.

human beings who are continuously creating and generating it ex novo and, therefore, all the possible alternatives which exist, all those which will be created in the future, and the relative intensity with which each of them will be pursued cannot even be known. Perhaps Mises' most important and fruitful contribution to Economic Science consists precisely in the definitive eradication of this erroneous conception of our science as a mere maximization technique.⁴²

⁴² The conversion of Mark Blaug, who has recently deserted the model of general equilibrium and the static neoclassical-Walrasian paradigm, has caused a great sensation. He concludes that "I have come slowly and extremely reluctantly to view that they (the Austrian School) are right and that we have all been wrong". See *Appraising Economic Theories*, Mark Blaug and Neil de Marchi (eds.), Edward Elgar, London, 1991, p. 508. In the same respect, see also his *Economics through the Looking-Glass*, Institute of Economic Affairs, Occasional Paper 78, London, 1988, p. 37. Even more recently, in the *Economic Journal* (November 1993, p. 157), Blaug again referred to the neoclassical paradigm in relation to its application in order to justify the socialist system as something "so administratively naive as to be positively laughable. Only those drunk on perfectly competitive static equilibrium theory could have swallowed such nonsense. I was one of those who swallowed it as a student in the 1950s and I can only marvel now at my own dim-wittedness". It is not even necessary to mention the fact that the neoclassical analysis of "imperfect" information which emerges from G.J. Stigler's article on "The Economics of Information" (*Journal of Political Economy*, No. 69, June 1961, pp. 213-225) is not capable of including the true creative capacity of the human being, or the ineradicable ignorance which characterizes him in the analysis, as it considers that both the possible alternatives of future events and their distribution of probabilities are known. In fact, in real processes of human interaction, not even the possible alternatives are known, and much less their distribution of probabilities (entrepreneurial creativity continuously generates new options). Therefore, the neoclassical theory is a caricature of the concept of entrepreneurial information in the market and, although it claims that its models include the "imperfect" nature of the information, it continues, in fact, to be anchored in the presupposition of constancy and complete information (even though in probabilistic terms) in respect of the possible alternatives. See, for example, Israel M. Kirzner, "Economics and Error", Chapter 8 of *Perception, Opportunity and Profit*, op. cit., pp. 120-136.

Brief summary of the biography of Ludwig von Mises

Ludwig Edler von Mises was born on September 29, 1881 in the city of Lemberg, located, at the time, within the Austro-Hungarian Empire. Today, this city is called Lvov and forms part of the new Independent Republic of the Ukraine. Ludwig's father studied at the Zurich Polytechnic College and became an important engineer who specialized in the construction of railways. Ludwig was the eldest of three brothers, one of whom died when he was a child. The other, Richard, became a well-known mathematician and logical positivist. Throughout his life, Ludwig only maintained a cold personal relationship with his brother.

Ludwig von Mises obtained a doctorate in law on February 20, 1906 and, until 1914, was one of the most outstanding participants in the economics seminar held by Eugen von Böhm-Bawerk at the University of Vienna. Another participant in this seminar was J.A. Schumpeter, whom Mises considered to be an excessively confused and frivolous theorist who had fallen into the trap of neoclassical scientism and whose constant desire was to astonish.

In 1906, Mises commenced his teaching activities, first, for six years, teaching economics at the *Wiener Handelsakademie für Mädchen* (Vienna School of Mercantile Studies for Young Ladies) and later, for twenty years, from 1913 on, as a professor at the University of Vienna. In 1934, he was appointed professor of International Economics at the *Institute des Hautes Études Internationales* in Geneva, Switzerland and, at the outbreak of the Second World War, he fled from Hitler to the United States, where he acquired American nationality and was appointed professor at the University of New York, where he remained until his retirement in 1969. Between 1920 and 1934, Mises organized, directed and held a famous economics seminar (*Privatseminar*) in his official office at the Vienna Chamber of Commerce, where he was head of the Economics Department and through which he acquired great influence over his country's economic policy. Not only the students who were preparing their doctoral theses under the direction of Mises attended this seminar, which took place on Friday evenings, but also, by invitation, very prestigious economists from all over the world. Among the German speakers who regularly attended this seminar were Friedrich A. Hayek, Fritz Machlup, Gottfried von Haberler, Oskar Morgensten, Paul N. Rosenstein-Rodan, Felix Kaufman,

Alfred Schutz, Richard von Strigl, Karl Menger (the mathematician, son of Carl Menger, the founder of the Austrian School) and Erich Voegelin. From the United Kingdom and United States came Lionel Robbins, Hugh Gaitskell, Ragnar Nurske and Albert G. Hart, among others. Subsequently, in the United States, Mises recreated his seminar at the University of New York and the meetings took place on Thursday evenings from autumn 1948 until spring 1969. Murray N. Rothbard (R.I.P.) and Israel Kirzner, who would later become professors, stand out among the numerous participants in this second stage. Ludwig von Mises was awarded doctorates *honoris causa* by the University of New York and, at the request of F.A. Hayek, the University of Freiburg (Brigovia, Germany). In 1962, he received the Medal of Honour for Sciences and Arts of the Republic of Austria and, in 1969, was appointed a Distinguished Fellow of the American Economic Association. He died in New York on October 10, 1973, having published 22 books and hundreds of articles and papers on economic matters.⁴³

Mises had the good fortune to be able to lead a long academic life which covered almost seven decades of this century and was acknowledged, during his lifetime, as an economist of universal fame. This, as early as 1944, Henry C. Simons described him as "the greatest living teacher of economics".⁴⁴ Nobel Prizewinner Milton

⁴³ The definitive bibliographical work on Mises is by Bettina Bien Greaves and Robert McGee, published under the title *Mises: An Annotated Bibliography*, The Foundation for Economic Education, New York, 1993, 391 pages. On Mises' life and intellectual evolution, apart from his valuable autobiography (*Notes and Recollections*, op. cit.), we can read the interesting works of Murray N. Rothbard, among which his article "Ludwig Edler von Mises", *The New Palgrave: A Dictionary of Economics*, Macmillan, London, 1987, Vol. III, pp. 479-480; his monographic work *Ludwig von Mises: Scholar, Creator, Hero*, The Ludwig von Mises Institute, Auburn University, Auburn, Alabama, 1988; and *The Essential von Mises*, Oakler R. Bramble, Michigan, 1973 stand out. Other very interesting works include the biography written by his wife, Margit von Mises, *My Years with Ludwig von Mises*, Arlington House, New York, 1976, and the Glossary on *Human Action* prepared by Percy L. Greaves, entitled *Mises Made Easier: A Glossary for Ludwig von Mises' Human Action*, Free Market Books, New York, 1974.

⁴⁴ *The Annals of the American Academy of Political and Social Science*, No. 239, November 1944, pp. 192-193.

Friedman, a positivist economist of the School of Chicago, who cannot be suspected of any sympathy with Mises' theoretical positions, spoke of him shortly after his death in 1973 as "one of the greatest economists of all time".⁴⁵ Another winner of the Nobel Prize for Economics, Maurice Allais, has written that Mises was "un homme d'une intelligence exceptionnelle dont les contributions à la science économique ont été de tout premier ordre".⁴⁶ Finally, Lord Robbins, remembering Mises in his intellectual autobiography, concluded that "I fail to comprehend how anyone not blinded by political prejudice can read his main contributions and the magisterial general treatise *Human Action*, without experiencing at once a sense of rare quality and an intellectual stimulus of a high order."⁴⁷

IV. The successive editions of *Human Action*

In spite of the fact that Mises' *Human Action* is not an easy book to read but is, rather, a long and profound treatise on political economy, it has been one of the most notable publishing successes of this century for a book of this nature. Up to the date of writing this article, there have been a total of twenty-two reprints of the book, corresponding to the three successive editions corrected and revised by the author during his lifetime. It may be estimated that between one hundred and one hundred and fifty thousand copies of

⁴⁵ *The University of Chicago Magazine*, No. 67, Autumn 1974, p. 16.

⁴⁶ "A man of an exceptional intelligence whose contributions to economic science have all been of the first order." See Maurice Allais, *L'Impôt sur le capital et la réforme monétaire*, Hermann Editeurs, Paris, 1989, p. 307. This praise from Allais is of special value as it comes from a mathematical economist who is very distant from Misesian methodology, although it should be pointed out that Allais, from the beginning, recognized the importance of the Misesian theory on the impossibility of socialist economic calculation and the need to develop a dynamic theory of social processes in disequilibrium. See, for example, Maurice Allais, *Traité D'Économie Pure*, 3rd edition, Clément Juglar, Paris, 1994, pp. 549-551 and 653-657 (which includes more than five literal quotations from Mises).

⁴⁷ Lord Robbins, *Autobiography of an Economist*, Macmillan, London, 1971, p. 108.

Human Action have been sold to date.⁴⁸ The book has been published in eight different languages, English, German, Italian, French, Spanish, Portuguese, Japanese and Chinese, and is one of the most widely quoted treatises, above all in monographic works and specialized articles on economic matters in general and, particularly, on the methodology of Economic Science and the economic analysis of socialism. We will briefly summarize the different editions of *Human Action* published to date and its evolution below.

"Nationalökonomie": an immediate forerunner of "Human Action" written in German

*Nationalökonomie: Theorie des Handelns und Wirtschaftens*⁴⁹ is the first systematic economic treatise written by Mises and may be considered as the immediate forerunner of *Human Action*. It was written during the happy years that Mises was teaching in Geneva and was published in May 1940. Due to the outbreak of the Second World War, its publication had little influence on the academic world. When he wrote this first version of his Treatise, Mises aimed to systematically and comprehensively cover all the economic theory of human behaviour using a language which could be understood by any educated person.⁵⁰

⁴⁸ This is a conservative estimate, considering an average of five thousand copies for each reprint in English and an average of three thousand copies for each reprint in other languages.

⁴⁹ Ludwig von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens*, Editions Union, Geneva, 1940, 756 pp.

⁵⁰ "My objective in writing the treatise was to provide a comprehensive theory of economic behaviour which would include not only the economics of a market economy (free-enterprise system) but no less the economics of any other thinkable system of social cooperation, viz., socialism, interventionism, corporativism and so on. Furthermore I deemed it necessary to deal with all those objections which, from various points of view have been raised against the validity of economic reasoning and the soundness of the methods hitherto applied by economists of all schools and lines of thought. Only such an exhaustive

To date, no English translation of *Nationalökonomie* has been published. This is a pity from the academic point of view, because it does not fully coincide with *Human Action* in many important aspects. In fact, *Nationalökonomie* may provide the researcher with better guidelines, as its footnotes are more profuse and, therefore, it gives greater details on the sources which had most influence on the author. Moreover, there are entire sections of *Nationalökonomie* of great interest which were not included in the English edition of *Human Action*, such as those which refer, for example, to the criticism of Böhm-Bawerk's theory of interest.⁵¹

The need to make Mises' treatise available again in the German-speaking world led to a further publication of *Nationalökonomie*, this time in Germany, under the auspices of the *International Carl Menger Library*.⁵² Many very favourable reviews of this second edition were published in Austria and Germany.⁵³

treatment of all critical objections can satisfy the exacting reader and convince him that economics is a science both conveying knowledge and able to guide conduct. The treatise is purely scientific and certainly not a popular book. However, as it does not use any technical terms but those precisely defined and explained, it can be understood by every educated man." Ludwig von Mises wrote these words in December 1944 to his American publisher Norman V. Davidson of Yale University Press. They are quoted by Margit von Mises, *My Years with Ludwig von Mises*, op. cit., pp. 105-106.

⁵¹ This appears, specifically, on pp. 439-444 of the German edition of *Nationalökonomie* which have been translated into English by Percy L. Greaves and published in his book *Mises Made Easier: A Glossary for Ludwig von Mises' Human Action*, op. cit., pp. 150-157.

⁵² Ludwig von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens*, 2nd edition, The International Carl Menger Library, Philosophia Verlag, Munich, 1980.

⁵³ See, among others, the reviews published by E. Tuchtfeldt in the *Neue Zürcher Zeitung* (No. 207) on September 8, 1981; in the *Unsere Wirtschaft* (Düsseldorf, August 1981); the review by Wilhelm Seuss in the *Frankfurter Allgemeine Zeitung* (December 9, 1980); and the one by Karl Graber, *Die Presse*, Vienna (November 23, 1981).

English editions of "Human Action"

The first edition of *Human Action* in English was published under the title *Human Action: A Treatise on Economics* by Yale University Press in 1949. It is, without any doubt, the *magnum opus* which crowned the whole of Ludwig von Mises' academic life. As we say above, it is not merely an English translation of *Nationalökonomie*. On reaching the United States, Mises, over a five-year period, completely revised and almost entirely rewrote a new book. *Human Action* immediately became an important publishing success and the first edition, which was published simultaneously in the United States and England,⁵⁴ was reprinted six times in the following ten years.

In 1963 Yale University Press published the second edition of *Human Action*, revised and expanded by Mises himself. The most notable modifications and additions refer to the treatment of the concept of freedom and government included under heading 6 of Chapter XV; to the theory of monopoly developed under heading 6 of Chapter XVI; and, finally, to the analysis of corruption which is included as heading 6 of Chapter XXVII. Mises was very annoyed by the number of errata and typographical mistakes in this edition and, in general, by the negligent (if not fraudulent) behaviour of his publisher (Yale University Press)⁵⁵ and, therefore, reached an agreement for the publication of a third edition in which all the errors committed in the previous one would be corrected. It was published in 1966 by the publisher Henry Regnery and was to become the definitive edition of this *magnum opus*.⁵⁶ To date, three reprints of the third English edition of *Human Action* have been issued: the first in 1978; the second in a luxury edition of 1985, and the third, for the

⁵⁴ Ludwig von Mises, *Human Action: A Treatise on Economics*, published by Yale University Press, New Haven, 1949, 889 pages plus the index. The British edition also appeared in 1949 with the same title and format, published by William Hodge in London.

⁵⁵ Margit von Mises gives full details of the headaches which the errors in the second edition of *Human Action* caused to Ludwig von Mises. See *My Years with Ludwig von Mises*, op. cit., Chapter 8.

⁵⁶ Ludwig von Mises, *Human Action: A Treatise on Economics*, 3rd revised edition, Henry Regnery, Chicago, 1966, 907 pp. plus the index.

first time in paperback, in 1990. Finally, we should mention that, also in 1990, a taped version of *Human Action* in English, occupying thirty cassettes, was issued, read by Bernard Mayes.⁵⁷

Translations of "Human Action" into languages other than Spanish

The success of *Human Action* soon led to the publication of translations of the book into other languages. Apart from the successive editions of the Spanish translation, to which we will refer in the following section, we will briefly mention, in strict chronological order, each of the translations published to date.

The first version of *Human Action* outside the United States and England was published in 1959 in Italy under the title *L'Azione Umana: Trattato di economia*. This edition was translated and published in Italian due to the efforts of Tullio Bagiotti, professor of Political Economy at the Bocconi University of Milan, who also wrote a "Presentazione" which included a brief biographical note on Mises and reference to his different works.⁵⁸

The first translation of *Human Action* into Chinese appeared in 1976. It was translated by professor Tao-Ping Hsia from the third English edition of 1966 and published in two volumes. This translation, revised by professor Hui-Lin Wu was later published in Taiwan in 1991, also in two volumes.⁵⁹

⁵⁷ Ludwig von Mises, *Human Action: an abridged audiotape version*, Classics on Tape, Ashland, Oregon, 1990, read by Bernard Mayes.

⁵⁸ Ludwig von Mises, *L'Azione Umana: Trattato di economia*, translation and foreword by Tullio Bagiotti, Unione Tipografico-Editrice Torinese, in the collection *Sociologi ed Economisti*, Turin, 1959, 861 pp. In 1988 a book in homage to the memory of Tullio Bagiotti was published, *Studi in memoria de Tullio Bagiotti*, Padova, 1988.

⁵⁹ Chinese translation of *Human Action* by Tao-Ping Hsia, revised by Hui-Lin Wu, Yuan Liu Publishing, Taipeh, Taiwan, 1991, Nos. 1 and 2 of the series "Famous Books on Libertarianism", two volumes, the first of which includes pp. 1 to 506 and the second pp. 507-1074.

The French translation of *Human Action* is published in 1985 under the title *L'action humaine: Traité d'économie*. This edition was translated from the third English edition of 1966 by Raoul Audouin and was published in the prestigious collection "Libre Échange" of Presses Universitaires de France, directed by Florin Aftalion.⁶⁰

In 1990, the Portuguese translation of the third edition of *Human Action* was published in Brazil under the title *Ação humana: um tratado de economia*. The translation was made by Donald Stewart, Jr. and published by the Instituto Liberal of Rio de Janeiro.⁶¹ The high standard of Stewart's Portuguese translation should be highlighted, although his edition, unlike the others, is more difficult to read, as he transfers the footnotes to the end of each chapter.

Lastly, in 1991, the Japanese translation of the third English edition of *Human Action* was published under the title of *Ningen-Kōi-Gaku*. This Japanese version was meticulously prepared over many years by Toshio Murata, who was one of Ludwig von Mises' students in New York and is currently professor of economics at the University of Yokohama.⁶² Murata, who learned Spanish from a Jesuit priest, was stationed with the General Staff of the 13th Japanese Army which occupied Shanghai during the Second World War. There, he was a first-hand witness of the impossibility of coercively organizing the flourishing market economy which then prevailed in that part of China and of the serious hyperinflation provoked by the monetary policy of the occupiers. These problems put him in touch with the economic theories of Mises, the study and

⁶⁰ Ludwig von Mises, *L'action humaine: Traité d'économie*, translation by Raoul Audouin, Presses Universitaires de France, Paris, January 1985, 942 pp. Raoul Audouin has also translated the main works of Hayek into French, including *La présomption fatale: les erreurs du socialisme*, PUF, Paris, 1988, and *La constitution de la liberté*, Litec, Paris, 1994 (the latter was translated into French in collaboration with professor Jacques Garelli).

⁶¹ Ludwig von Mises, *Ação humana: um tratado de economia*, translated into Portuguese by Donald Stewart, Jr., Instituto Liberal, Rio de Janeiro, 1990, 972 pp. plus indices.

⁶² Ludwig von Mises, *Ningen-Kōi-Gaku*, Shunjū Sha, Tokyo, 1991, 995 pp. plus the index. Furthermore a new Russian edition has been published recently (translation by A.B. Kuriaev, *Economica*, Moscow 2000).

popularization of which he has not ceased to foment in Japan throughout his academic career.

The five Spanish editions of "Human Action"

The history of the Spanish editions of "*Human Action*" cannot be understood without reference to their translator, Joaquín Reig Albiol. Joaquín Reig obtained his doctorate in law on February 15, 1958 reading a doctoral thesis the title of which was "Los modernos problemas sociales a la luz del ideario económico de Ludwig von Mises" ("Modern social problems from the point of view of Ludwig von Mises' economic thought"). This thesis was the first monographic work written in Spanish on the first English edition of *Human Action*, which had appeared in the United States a few years earlier.⁶³

Two years later, the first Spanish version appeared, translated by Joaquín Reig Albiol from the first English edition of *Human Action* published in 1949. The Spanish edition was published in two volumes by the Fundación Ignacio Villalonga of Valencia (Spain).⁶⁴

⁶³ As an anecdote, we should mention that the censorship which then prevailed in the Spain of General Franco issued an official communication dated April 25, 1958 of the Directorate General of Information of the Ministry of Information and Tourism, Inspection of Books (file 842-58) stating that, before publishing the thesis, "the indicated parts of pages 13, 34-36 and 42-44, the whole of page 56, and the indicated parts of pages 62-65, 72-78, 96-125 and 142-197 should be deleted, ordering the submission of printed galley proofs which included the deletions ordered by the authority".

⁶⁴ Ludwig von Mises, *La acción humana (tratado de economía)*, Fundación Ignacio Villalonga, Valencia, 1960, Vol. I and Vol. II. I have a copy which was revised by the censorship authorities, in which instructions are also given to delete several paragraphs of Mises' work which were considered politically dangerous for the regime of General Franco, then in power in Spain. The Foundation created by the entrepreneur Ignacio Villalonga, who in his youth had been a deputy for Francesc Cambó's *Lliga Regionalista*, was a pioneer in the difficult task of publishing, in Franco's Spain, a magnificent collection of books on libertarianism, democracy and market economy, which was directed by Joaquín Reig Albiol in the 1960s.

Joaquín Reig also included an extensive preliminary study, which appears on pages 26 to 62 of Volume I, introducing Mises' work to Spanish-speaking readers.

Eight years later, the second Spanish edition of *Human Action* appeared, published by Editorial Sopec in a single volume. This was the first Spanish translation of the third English edition of 1966. This new Spanish edition included, like the first one, a foreword "for Spanish-speaking readers", also written by Joaquín Reig (pages 17-19), but much briefer and more concise than in the first edition.⁶⁵

From the 1970s onwards, Unión Editorial took over the Spanish reprints of the works of Mises and the third edition of *Human Action* was published in 1980.⁶⁶ This edition, which was of a very high quality and excellent typographical presentation, included, apart from a brief foreword by the translator, a series of footnotes in which Joaquín Reig, basically following the guideline of the glossary prepared and published in English by Percy Greaves in 1978, explained to the reader the concepts which are most complex or difficult to understand in the book. The 1980 edition sold out rapidly and was followed by a fourth edition, also published by Unión Editorial, in 1985.⁶⁷

⁶⁵ Ludwig von Mises, *La acción humana (tratado de economía)*, 2nd edition in Spanish, Editorial Sopec, Madrid, 1968, translated by Joaquín Reig Albiol, 1066 pages. This is the edition that I first read more than twenty years ago, when I began my studies in economics at the Complutense University of Madrid.

⁶⁶ Other important books by Mises translated into Spanish and published by Unión Editorial are: *Burocracia*, translated by Dalmacio Negro Pavón, Unión Editorial, Madrid, 1974; *Teoría e Historia*, Translated by Rigoberto Juárez Paz, Unión Editorial, Madrid, 1975; and *Sobre liberalismo y capitalismo* (a collection of essays which includes *Liberalism, The Anticapitalist Mentality* and *Economic Policy: Thoughts for Today and Tomorrow*), Unión Editorial, Madrid, 1995.

⁶⁷ Ludwig von Mises, *La acción humana: tratado de economía*, Unión Editorial, Madrid, 1980, 3rd edition, 1302 pages; 4th edition of 1985, 1302 pages. These are the two editions which have basically been used as a text-book by my students over the last ten academic years in which I have been teaching political economy at the School of Law of the Complutense University of Madrid.

Lastly, in November 1995, the fifth and, to date, latest Spanish edition of *Human Action* was published, with a carefully revised, corrected and updated translation. As the original translator, Joaquín Reig Albiol, died in 1986, he was not able to collaborate in this important revision which, respecting the original translation to the greatest possible extent, consisted basically of the modernization and simplification of certain expressions and the introduction of terms which have now come into common use in Economic Science. Likewise, the most important notes of those prepared by Joaquín Reig for the previous editions have been maintained, the bibliography has been completed with the corresponding bibliographical references published in Spanish and an extensive Preliminary Study, written by the author of the present article, has been included.

In order to complete this section, it is necessary to note that Ludwig von Mises always enjoyed a high prestige in Spanish-speaking countries. In the first place, not only is the number of editions of *Human Action* published in Spanish far higher than in any country outside the United States, but also, moreover, Mises himself made several academic tours to different Latin American Countries (Mexico, Peru and Argentina), where he spoke of his ideas at the most important universities and created a very significant number of disciples and students of his works. It is also interesting to emphasize how, in the "Preface" to the third English edition, the only Spanish-speaking person whose help in preparing his Treatise is acknowledged by Mises is precisely Dr. Joaquín Reig Albiol.⁶⁸

⁶⁸ As Margit von Mises points out in her biography of her husband, "Ludwig's most ardent readers and admirers always have been in the Spanish-speaking countries. Apparently, the more subjugated the country is, the deeper the longing for freedom". Margit von Mises, *My Years with Ludwig von Mises*, op. cit., p. 109. The main academic trips made by Mises to Latin America were the following: from July 30 to August 28, 1949, to the School of Economics of the University of Mexico; from March 31 to April 16, 1950, to the University of Peru, under the auspices of the Peruvian Banco Central; from September 19-28, 1958, again to Mexico, under the auspices of the Instituto de Investigaciones Sociales y Económicas; and, lastly, the important visit made from 2 to 15 July, 1959 to the University of Buenos Aires, under the auspices of the Centro de Estudios para la Libertad. The speeches he made on this trip were transcribed and published in English under the title *Economic Policy*:

V. The impetus given by *Human Action* to the development of economic science

If anything is characteristic of Mises' Treatise on Economics, it is its profound seminal nature. As we have said, practically every paragraph of the book is full of ideas and suggestions which could serve as a basis for the research for a doctoral thesis. It is not, therefore, surprising that, over the years which have elapsed since it was first published, *Human Action* has contributed to important advances in the edifice of Economic Science. We will discuss briefly below the fields in which the most interesting improvements have taken place.

Mises and the theory of evolution

Although it cannot be doubted that Mises fully accepted the evolutionary theory on the emergence of the institutions which we owe to Carl Menger and, in fact, expressly states his agreement, without any reservations, at several points of his Treatise,⁶⁹ it should be acknowledged, however, that *Human Action* contains a

Thoughts for Today and Tomorrow, Henry Regnery, Chicago, 1979. Subsequently translated into Spanish by Joaquín Reig Albiol, they were published under the title *Seis lecciones sobre el capitalismo*, Instituto de Economía de Mercado & Unión Editorial, Madrid, 1981, 107 pages (republished in 1991 in the book *Sobre liberalismo y capitalismo*, op. cit.).

⁶⁹ See pp. 405-408 and, particularly, pp. 264-267, where Mises expressly states that "The market economy is the product of a long evolutionary process". What is more, on p. 33, Mises explains how the aprioristic nature of thought categories is perfectly compatible with the theory of evolution, coinciding with the thesis that Hayek develops *in extenso* in his book *The Sensory Order*, The University of Chicago Press, Chicago, 1976. In the light of these passages from *Human Action*, perhaps Hayek's criticism of the utilitarian rationalism of Mises in the "Foreword" he wrote for the latest English edition of *Socialism* is somewhat exaggerated. See F.A. Hayek, "Foreword", *Socialism: An Economic and Sociological Analysis*, Liberty Classics, Indianapolis, 1981, pp. xxiii-xxiv, and Jesús Huerta de Soto, *Estudios de Economía Política*, Unión Editorial, Madrid, 1994, pp. 114-115.

series of affirmations which could induce an error and be incorrectly interpreted in terms of an exaggerated and strictly utilitarian rationalism. Thus, for example, on page 179 of *Human Action*, Mises excessively praises Bentham and his utilitarian doctrine and, on pages 187 and 500, we read that "Any given social order was thought out and designed before it could be realized" and that "Laws were not an outgrowth of chance, historical accidents and geographical environment. They were the product of reason". Although it is clear that these statements made by Mises cannot be taken out of context, it is obvious that *Human Action* was not able to fully incorporate the important impetus which was subsequently given to the theory of the evolutionary emergence of institutions by his most brilliant student, F.A. Hayek, winner of the Nobel Prize for Economics in 1974. Hayek, continuing the research program initiated in this field by Carl Menger, showed how institutions in general, understood as repetitive patterns of behaviour, and laws in particular, far from being a result which was expressly designed by human reason, developed spontaneously through evolution over a very prolonged process in which many generations of human beings participated. Therefore, we consider it advisable to combine the study of *Human Action* with a careful reading of the most important works written by Hayek on the theoretical analysis of social institutions, among which, for example, his *Law, Legislation and Liberty* and the last work he published before his death in 1992, *The Fatal Conceit: The Errors of Socialism* stand out.⁷⁰

The theory of Natural Law

In the different critical references to the doctrine of Natural Law which Mises makes in *Human Action*, his position is even clearer. Firstly, he expresses the opinion that the principles of moral behaviour are purely subjective (page 95) and, secondly, he does not only defend a strictly utilitarian position on moral

⁷⁰ F.A. Hayek, *Law, Legislation and Liberty*, The University of Chicago Press, Chicago, 3 volumes, 1973, 1976 and 1979, and *The Fatal Conceit: The Errors of Socialism*, Routledge, London, 1988.

principles,⁷¹ but is also very critical of the doctrine of Natural Law (p. 175 and Chapter XXVII, heading 3). However, economics scholars have been placing increasing importance on the analysis of moral principles in general and, in particular, of Natural Law. Thus, for example, one of Mises' most brilliant students, Murray N. Rothbard, adopted a position clearly favourable to Natural Law, defending the idea that moral principles have an objective validity which is determined by the essence of human nature and, therefore, they are the only principles which make the social process of coordination possible.⁷² Along the same lines, Hans-Hermann Hoppe, following Rothbard and using the Habermasian axiom of interpersonal argument as a starting point, logically deduces the moral need for property law and the capitalist system.⁷³ Lastly, Israel M. Kirzner has set forth a whole new concept of distributive justice under capitalism based on the principle that every human being has the natural right to take possession of the results of his entrepreneurial creativity.⁷⁴ In any case, we consider that it is both possible and advisable to make a synthesis between the three points of view, the rational-utilitarian viewpoint defended by Mises, the evolutionary viewpoint developed by Hayek, and the Natural Law position which defends the existence of an objective theory of social morality and is fomented by Rothbard and Hoppe. Each of the three levels has its own scope of application and enriches and complements the other two, offsetting their possible excesses.⁷⁵

⁷¹ "The moral precepts and the laws of the country are means by which men seek to attain certain ends." *Human Action*, op. cit., p. 761.

⁷² "Economics does currently inform us, not that *moral principles* are subjective, but that utilities and costs are indeed subjective." Murray N. Rothbard, *The Ethics of Liberty*, Humanities Press, Atlantic Highlands, New Jersey, 1982, p. 202.

⁷³ See Hans-Hermann Hoppe, *A Theory of Capitalism and Socialism*, Kluwer Academic Publishers, Holland, 1989 (especially Chapter 7, pp. 127-144), and *The Economics and Ethics of Private Property*, Kluwer Academic Publishers, Holland, 1993 (Chapters 8-10, pp. 173-208).

⁷⁴ See Israel M. Kirzner, *Discovery, Capitalism and Distributive Justice*, Basil Blackwell, London, 1989.

⁷⁵ I set out my theory of the three levels (theoretical, historical-evolutionary and moral) of approach to the study of the social reality in

The distinction between practical knowledge and scientific knowledge

Perhaps one of the most important seminal ideas contained in *Human Action* is the introduction of the concept of practical knowledge⁷⁶ of an entrepreneurial nature which is essentially different from scientific knowledge. However, the detailed analysis of the differences between the two types of knowledge and of their implications for economic science has been made by other authors who have continued in greater depth with this seminal idea of Mises'. Thus, we have integrated Mises' idea on the development of the market on the basis of the "division of intellectual labor" (p. 709), which we interpret in terms of the division of the information or practical knowledge which is expansively generated by the open society.⁷⁷

The theory of monopoly

One of the fields of economics in which advances have been made as a result of the impetus provided by Mises' *Human Action* is, precisely, the theory of monopoly. Even though Mises, in *Human Action*, pioneers the attempt to abandon the strictly static framework which, to date, has dominated the analysis of competition and monopoly, some of his considerations are still too much influenced by this framework. Fortunately, two of Mises' most brilliant students in the United States, Israel M. Kirzner and

"Historia, ciencia económica y ética social", Jesús Huerta de Soto, *Estudios de Economía Política*, Unión Editorial, Madrid, 1994, Chapter VII, pp. 105-110. See also my note on "Conjectural History and Beyond", "'The Fatal Conceit' by F.A. Hayek. A Special Symposium", *Humane Studies Review*, Vol. 6, No. 2, Winter 1988-1989, p. 10.

⁷⁶ For Mises, practical knowledge as a "specific anticipative understanding of the conditions of the uncertain future defies any rules and systematization. It can be neither taught nor learned." *Human Action*, op. cit., p. 585. Also see Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial*, op. cit. pp. 52-85.

⁷⁷ See Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial*, op. cit. pp. 80-82.

Murray N. Rothbard,⁷⁸ have given a great thrust forward to the theory of monopoly, concentrating their analysis, more than on the number of enterprises "existing" in each "sector" and on the form or "elasticity" of their supposed demand curves, on the study of the dynamic process of competition and, therefore, on whether the free practice of entrepreneurship is prevented by force in any part of the market. Rothbard, moreover, hit the weak point of the neoclassical theory of monopoly, stating that its whole analysis is based on the static comparison between the "monopoly price" and the "price of perfect competition" which, as it is a price of equilibrium which never exists in the real market, cannot be known or, therefore, serve as a reference point to decide, in practice, whether or not there is a "situation of monopoly". It is important to highlight the fact that Mises, during his own lifetime, had the opportunity to see these studies on the theory of monopoly, which in some way culminated his own studies, flourish; and, fortunately, we have a direct testimony which indicates that he was in complete agreement with these new theoretical developments.⁷⁹

⁷⁸ Murray N. Rothbard, "Monopoly and Competition", Chapter 10 of *Man, Economy and State*, Nash Publishing, Los Angeles, 1970, pp. 560-666, and Israel M. Kirzner, "Competition and Monopoly", Chapter 3 of *Competition and Entrepreneurship*, The University of Chicago Press, Chicago and London, 1973, pp. 88-134.

⁷⁹ Effectively, Margit von Mises, in her biography of her husband, tells us that "in Stresa, during the 1965 Mont Pèlerin meeting, Joaquín Reig once spoke to Ludwig von Mises about monopoly and Rothbard's *Man, Economy and State*, which had been published in 1962. Reig directed Ludwig's attention to the fact that Rothbard, one of Ludwig's most able and admiring pupils, did not completely agree with Ludwig's analysis of monopoly. Ludwig replied: 'I would subscribe to every word Rothbard has written in his study'. About this Reig told me: 'That was such a generous statement of Ludwig von Mises to say that one of his own students had exposed one of his own ideas better than he himself had been able to do it, that my admiration for this man jumped sky-high'. Margit von Mises, *My Years with Ludwig von Mises*, op. cit., p. 158. Another explicit acknowledgement of having committed an error which shows Mises' great humility and intellectual generosity, in strong contrast to the arrogance of modern authors, appears on p. 786, where, referring to the gold standard (with a fractional reserve and controlled by the State), Mises regrets having been unable to see from the beginning that this

Socialism and the theory of interventionism

Another of the characteristics of Misesian thought is the clear theoretical separation between the socialist economic system and the interventionist system (for example, on pp. 258-259). For Mises, socialism is any system of social organization based on the public property of the production means, whilst interventionism aims to be a compromise system, characterized by coercive State intervention in different economic fields but which, according to Mises, permits at least the most indispensable rudiments of economic calculation to be maintained. Theoretical research into socialism over recent years has shown that the differences which exist between the interventionist economic regime and the socialist one are much fewer than Mises thought. Both are characterized by coercive State intervention which impedes, to a greater or lesser extent, the free practice of entrepreneurship, although it is true that there are important differences in degree between the two systems. However, in the areas in which the State intervenes coercively, the entrepreneurial generation of information and, therefore, the estimation of the value of the different alternative courses of action (i.e., economic calculation) are made more difficult. The result is that important social disorders and discoordination arise in the market. From this point of view, there is a current trend towards treating institutional coercion as a whole (regardless of whether it is all-embracing, as in the case of "real" socialism, or only relates to specific areas, as occurs in the case of interventionism), as it has been shown that the perverse effects of discoordination of both of them are the same from a qualitative viewpoint.⁸⁰

system made it excessively easy for the governments to manipulate the monetary supply as they wished: "In dealing with the problems of the gold exchange standard all economists -including the author of this book- failed to realize the fact that it places in the hands of governments the power to manipulate their nation's currency easily".

⁸⁰ See Jesús Huerta de Soto, "Entrepreneurship and the Economic Analysis of Socialism" in *New Perspectives on Austrian Economics*, Gerrit Meijer (ed.), Routledge, London and New York, 1995, especially pp. 247-250.

The theory of credit and the banking system

In *Human Action*, Mises affirms that he is in favour of a completely free banking system as the best possible procedure for achieving a stable monetary system which frees market economies from economic crises. He makes no detailed express reference in *Human Action* to the proposal of re-establishing the 100 per cent cash ratio for demand deposits in banks which, however, he explicitly defends in the rest of his works.⁸¹ The position that Mises upholds in *Human Action* has led to the division of the later Austrian School theorists into two large groups. On the one hand, there are those who defend a system of complete free banking, even with a fractional reserve. This group includes Lawrence White, George Selgin and Kevin Dowd, among others. A second group, led by Murray N. Rothbard, Hans-Hermann Hoppe, Joseph T. Salerno and the author of the present article, considers that the most appropriate solution would consist of the defence of the traditional legal principles of banking (that is, the requirement of a 100 per cent cash ratio for demand deposits) as a necessary condition for the correct functioning of the whole system of free banking.⁸²

⁸¹ Thus, for example, in Part Four, "Monetary Reconstruction", which he included in the English republication of *The Theory of Money and Credit* in 1953, four years after the publication of the first edition of *Human Action*, he concludes that: "The main thing is that the government should no longer be in a position to increase the quantity of money in circulation and the amount of chequebook money not fully -that is, 100 percent- covered by deposits paid in by the public". Ludwig von Mises, *The Theory of Money and Credit*, Liberty Classics, Indianapolis, 1981, pp. 481 and 491.

⁸² The most important bibliography of the mentioned authors may be consulted in Jesús Huerta de Soto, "A Critical Analysis of Central Banks and Fractional-Reserve Free Banking from the Austrian School Perspective", *The Review of Austrian Economics*, Vol. 8, No. 2, 1995, pp. 25-38. It is important to clarify that Mises and the Austrian School economists who favour a free banking system based on a 100 per cent cash ratio are really upholding a position which is radically different to that of the School of Chicago theorists, who also defended a 100 per cent cash ratio for demand bank deposits. In fact, the theorists of the School of Chicago defend the need for the existence of a monopolistic central bank

The theory of the population

Another aspect which has undergone an important theoretical development is the theory of population. In this field, although Mises' analysis in *Human Action* (Chapter XXV, heading 2) is still too much influenced by Malthusian doctrines, he nevertheless expressly states that, if a market economy system exists, the growth in the population, far from implying a drawback for economic development, increases wealth and provides an enormous impetus to the development of civilization.⁸³ This seminal idea was developed by Friedrich A. Hayek, especially in his last book, *The Fatal Conceit: The Errors of Socialism*, where he argues that, as the human being is not a homogenous production factor and is endowed with an innate entrepreneurial creative capacity, the growth of the population, far from placing a brake on economic development, is both the engine and the necessary condition for it to take place. Moreover, it has been shown that the development of civilization implies a constantly growing

which is responsible for monetary supply and, if they propose a 100% cash ratio, it is precisely to make the monetary policy of the governments easier and its effects more "predictable". On the contrary, the Austrian economists defend the complete disappearance of State intervention in the monetary and credit fields, together with the reprivatization of the banking system with a cash ratio of 100 per cent for demand deposits of the commodity used as money which, depending on the evolutionary process, prevails in the market (gold and, to a lesser extent, silver). The Austrian position is, therefore, contrary to the monetarist (general equation of exchange) and Keynesian hypotheses, as both the latter share the macroeconomic approach and ignore the application of the theory of marginal utility to money and the effects of microeconomic discoordination of inflation on capital goods. See Jesús Huerta de Soto, "Crítica de las doctrinas monetarista y keynesiana", Chapter VII of *Dinero, crédito bancario y ciclos económicos*, Unión Editorial, Madrid, 1996.

⁸³ "As far as there is unhampered capitalism, there is no longer any question of poverty in the sense in which this term is applied to the conditions of a non-capitalist society. The increase in population figures does not create supernumerary mouths, but additional hands whose employment produces additional wealth." Ludwig von Mises, *Human Action*, op. cit., p. 836.

horizontal and vertical division of practical knowledge, which is only possible if, at the same time as civilization advances, there is an increase in the number of human beings able to support the growing volume of practical information used at a social level.⁸⁴ Hayek's ideas have been, in turn, developed by other scholars who, like Julian L. Simon, have applied them to the theory of demographic growth of the third-world countries and the analysis of the beneficial economic effects of immigration.⁸⁵

"Human Action" as a forerunner of the Public Choice School

Ludwig von Mises was one of the most important forerunners of the School of Public Choice, which studies, using economic analysis, the combined behaviour of politicians, bureaucrats and voters. This approach, which today has reached a high level of development under the auspices of theorists like James M. Buchanan (winner of the Nobel Prize for Economics in 1986), fits in perfectly with the broad praxeological conception of economics developed by Mises, who considered that the goal of our science was to build a general theory of human action in all its varieties and contexts (including, therefore, political actions).

Thus, Mises is one of the first authors to criticize the traditional assumption of political and economic analysis which considers that the governors are always "wise and impartial" and that their servants, the civil servants or bureaucrats, are almost angelic creatures. On the contrary, for Mises, "the politician is always selfish no matter whether he supports a popular program in order to get an office or whether he firmly clings to his own convictions" (p. 735) and "unfortunately the office-holders and their staffs are not angelic" (p.

⁸⁴ See F.A. Hayek, *The Fatal Conceit: The Errors of Socialism*, Routledge, London, 1988, pp. 120-134; and Jesús Huerta de Soto, *Socialismo, cálculo económico y función empresarial*, op. cit., pp. 80-82.

⁸⁵ See Julian L. Simon, *The Economic Consequences of Immigration*, Basil Blackwell, London, 1989, and *The Ultimate Resource*, Princeton University Press, Princeton, 1994 (2nd edition).

735).⁸⁶ In contrast to the idyllic image of the governor as a "man no less benevolent than wise sincerely dedicated to the promotion of his subjects' lasting welfare", Mises puts forward the figure of the real governor who "turns out to be a mortal man who first of all aims at the perpetration of his own supremacy and that of his kin, his friends and his party" (p. 850).

Mises' reference to pressure groups should also be highlighted. He defines them as the "alliance of people eager to promote their own material well-being by the employment of all means", always "anxious to justify its demands as beneficial to the general public welfare" (p. 318).

The combined action of the behaviour of the bureaucrats, politicians and pressure groups disturbs the functioning of democracy and prevents many majority decisions from being correct and fitting, as public opinion is debased by erroneous and demagogic ideas.⁸⁷ The existence of institutions which, like the gold standard, eliminate decisions relative to monetary issues from the political arena is, therefore, of so much importance to Mises.⁸⁸

⁸⁶ Also see Mises' detailed study of *Bureaucracy* (the first English edition was published by Yale University Press in 1944), where he concludes that: "It was a purposeful confusion on the part of the German metaphysicians of statolatry that they clothed all men in the government service with the gloriole of such altruistic self-sacrifice" (p. 78). The Misesian analysis had such a great influence on William A. Niskanen that, in his now classic book on economic analysis of bureaucracy, he profusely quotes Mises' pioneering study. See William A. Niskanen, *Bureaucracy and Representative Government*, (2nd edition included in *Bureaucracy and Public Goods*, Edward Elgar, Aldershot, England, 1994), pp. 3, 7-9, 19, 36, 68-69, 201 and 208.

⁸⁷ "Democracy guarantees a system of government in accordance with the wishes and plans of the majority. But it cannot prevent majorities from falling victims to erroneous ideas and from adopting inappropriate policies which not only fail to realize the ends aimed at but result in disaster." Ludwig von Mises, *Human Action*, op. cit., p. 193.

⁸⁸ "The gold standard makes the determination of money's purchasing power independent of the changing ambitions and doctrines of political parties and pressure groups. This is not a defect of the gold standard; it is its main excellence." Ludwig von Mises, *Human Action*, op. cit., p. 474.

It is not surprising, therefore, that James Buchanan, in homage to Mises and the Austrian School, which have so much influenced his thought, has said that "I have often argued that the Austrians seem to be more successful in conveying the central principles of economics to students than alternative schools or approaches".⁸⁹

V. Method for the study and teaching of *Human Action*

Potential readership for this treatise

We have mentioned above that Mises, when conceiving his work *Human Action*, set himself the fundamental objective of writing an all-embracing Treatise on Economics for any educated person interested in the analysis of the most pressing problems of our time. In effect, according to Mises, "Economics must not be relegated to classrooms and statistical offices and must not be left to esoteric circles. It is the philosophy of human life and action and concerns everybody and everything. It is the pith of civilization and of man's human existence" (p. 878). Therefore, if Mises is right, his Treatise on Economics is a tool for intellectual work that should be present in the libraries of all educated men in the modern world.

However, there is no doubt that the most important mission which Mises' *Human Action* can and should fulfil is related to university education. In this respect, it may be considered that the work is addressed to two large groups of students. Firstly, the students of political economy within the law schools, who need to receive a general education in Economic Science using a conception

⁸⁹ Quoted by Thomas J. DiLorenzo, "The Subjective Roots of James Buchanan's Economics", *The Review of Austrian Economics*, Vol. 4, 1990, p.108. DiLorenzo acknowledges, notwithstanding, that the School of Public Choice is not fully influenced by subjectivism and that a large amount of its analysis is still very much influenced by the positivist and scientific methodology of the neoclassical school. Also see Thomas J. DiLorenzo, "Competition and Political Entrepreneurship: Austrian Insights into Public Choice Theory", *The Review of Austrian Economics*, Vol. 2, pp. 59-71.

and methodology which are both rigorous and strongly humanist. In this respect, we should highlight the very positive experience of the last ten academic years, during which *Human Action* has been the main textbook for my students of political economy at the Law School of the Complutense University of Madrid. The law students understand the concatenation which exists between the knowledge of economics and the rest of the juridical disciplines, which they study for their degree, more clearly from Mises, acquiring knowledge of the essential principles and foundations of our science which is invaluable for the future of their professional career. The situation of students in the schools of economics is different and, given the current circumstances of the academic world, they receive an education which is strongly conditioned by the positivist and scientific methodology of which Mises was so critical. In our opinion, it is indispensable, in order to provide these students with a balanced education and provide them with an alternative viewpoint different to the one they have traditionally received, that all economic science students should study Mises' *Treatise on Economics* in depth. In this way they will enrich their knowledge of the subject and will be able to compare and enter into contact with new points of view which they will find challenging, new and original. All of this will lead to a better and more complete professional education that will allow them to take up a healthier, more informed and critical intellectual position in respect of the different alternative theories.⁹⁰

⁹⁰ In short, to use a not very appropriate expression which is today in common use among economists, the detailed study of *Human Action* will mean a very profitable "investment in human capital" for them. Incidentally, the pioneering nature of Mises' contributions to what is inappropriately called the theory of "human capital" and the processes of investment in education and training and its eminently speculative and entrepreneurial nature may also be seen on pp. 624 and 625 of *Human Action*. The same may be said in respect of the small amount of truth contained in the so-called "theory of rational expectations" (*Human Action*, p. 797, and also Mises' article "Elastic Expectations in the Austrian Theory of the Trade Cycle", *Economica*, August 1943, pp. 251-252), the errors of which are pointed out by Mises on p. 871 and have been subsequently clarified even further by, among others, Gerald P. O'Driscoll and Mario J. Rizzo in *The Economics of Time and Ignorance*, Basil Blackwell, Oxford, 1985, pp. 222 onwards, and Jesús Huerta de

The fourth and last group of readers who may make good use of *Human Action* are the researchers specialized in Economic Science, who are showing an increasing interest in the theories of the Austrian School of Economics, especially after the fall of real socialism and the crisis of the welfare state have shown that the interventionist theories upheld to date lack a solid theoretical basis. Moreover, the crisis of the neoclassical-Walrasian paradigm makes it inevitable that the theoretical *corpus* should be enriched by a much more humanist and dynamic conception, such as that which has always been developed by the Austrian theorists in general and, in particular, by Ludwig von Mises.

The course of political economy taught using "Human Action" at the Complutense University of Madrid

According to our teaching experience, *Human Action* may be studied without any great problem over a period of one academic year. Thus, assuming three classes of forty-five minutes each a week from October to June, which is how the political economy courses have been organized to date at the Spanish universities, there is no great difficulty in explaining the thirty-nine chapters contained in *Human Action*. In this respect, it is advisable to recommend the student to read the corresponding chapter of *Human Action* with effort, dedication and constancy before the teacher explains each subject, even though he may have some comprehension difficulties. Experience has shown that this makes the teacher's explanation much more fruitful and subsequently leads to an easier assimilation of the most important ideas contained in each chapter by the student.

The teaching of the book may also be organized over two four-month periods, dividing it into two parts: the first, up to Chapter XVII, inclusive, and the second, from Chapter XVIII until the end. This division does not correspond, as is usual in economics textbooks, to the separation of "microeconomics" and "macroeconomics" into two watertight compartments since, as we

Soto, *Dinero, crédito bancario y ciclos económicos*, Unión Editorial, Madrid, 1996, Chapter VII.

have already said, for Mises there was no sense in making a radical distinction between the two areas. However, it does seem advisable to leave the analysis of the theory of capital, interest and trade cycles for the second part as, to a certain extent, from the standpoint of the subtle subjectivist conception based on methodological individualism which is traditional in Mises, this second part includes the most practical and general problems related to the economy. In addition, it is also possible, if only four months are available, to make a sufficiently extensive study of *Human Action*, although the degree of detail and depth which can be achieved will obviously have to be less than in longer courses.⁹¹

With regard to the complementary bibliography required for the reading of *Human Action*, it should be pointed out that, in relation to two specific areas (the genetic-causal theory of the determination of market prices and the analysis of the formation of the price of the production factors), Mises takes it for granted that the students have prior knowledge of its most elementary development. Thus, in the case of the theory of price determination, Mises expressly states (p. 201, note 1) that the elementary knowledge that he is assuming is developed by Böhm-Bawerk in Volume II of his economic treatise entitled *Capital and Interest*,⁹² although he provides no guideline at all with reference to the theory of the formation of the prices of the production factors.⁹³ In order to provide the students with prior knowledge of these areas, I have published *Lecturas de Economía Política*, which completes the teaching of *Human Action* and which it is recommendable to read at the same time as the latter is studied.⁹⁴

⁹¹ With regard to the study of *Human Action* at a strictly individual level, I can say from my own experience that it can be done intensively over a one-month period, with some three hours a day of detailed reading.

⁹² Eugen von Böhm-Bawerk, *Capital and Interest*, Vol. II, *Positive Theory of Capital*, Book III, "Value and Price", Libertarian Press, South Holland, Illinois, 1959, pp. 207-256.

⁹³ This gap may easily be filled by referring to Murray N. Rothbard, "General Pricing of the Factors", Chapter 7 of *Man, Economy and State*, Nash Publishing, Los Angeles, 1970, pp. 387-433 (4th edition by the Ludwig von Mises Institute, Auburn University, 1994).

⁹⁴ See Jesús Huerta de Soto (ed.), *Lecturas de Economía Política*, 3 Vols., Unión Editorial, Madrid, 1986-1987. This includes, among other

Lastly, in respect of the complementary bibliography, not only the works of F.A. Hayek should be recommended, especially the previously quoted *Law, Legislation and Liberty* and *The Fatal Conceit: The Errors of Socialism*, but also my own books on *Socialismo, cálculo económico y función empresarial* and *Dinero, crédito bancario y ciclos económicos*. Finally, we should mention that the very recent work on the history of economic thought published posthumously by Murray N. Rothbard has not yet been translated into Spanish. In view of its approach and breadth, it should also become a very valuable complement to the study of *Human Action*.⁹⁵

VI. Conclusion

Mises' *Human Action* will continue to have an important influence on economic thought and will be considered in years to come as one of the most important classics of our science. We hope that its readers all over the world will continue to get the most out of this extraordinary intellectual tool and will continue to popularize Mises' ideas with the same enthusiasm as has been the case up to now. Thus, the edifice of Economic Science will become increasingly consolidated and will continue to advance, thus being able to fulfil its momentous mission of serving as theoretical support for the development of civilization, avoiding the crises and conflicts which may place the latter in danger. Moreover, the evolution of economic thought itself will make it inevitable that, in what we hope will be a not too distant future, there will appear a new treatise on the principles and foundations

things, Spanish versions of the works quoted in the two preceding footnotes, Eugen von Böhm-Bawerk, "La ley básica de determinación del precio" (Vol. I, pp. 99-142) and Murray N. Rothbard, "La fijación general del precio de los factores de producción" (Vol. II, pp. 21.48).

⁹⁵ Murray N. Rothbard's posthumous work on the history of economic thought from the standpoint of the Austrian School is made up of the two volumes of *An Austrian Perspective on the History of Economic Thought*, *Economic Thought before Adam Smith* (Vol. 1) and *Classical Economics* (Vol. 2), Edward Elgar, Aldershot, England, 1995.

of Economic Science which covers and, as far as possible, exceeds and improves on, the contributions made by Mises in *Human Action*. We are certain that this very ambitious intellectual project which, in any case, will have to be carried out on the basis of the solid foundations laid by Ludwig von Mises, will be the best monument to this magnificent researcher which can be built in the future.⁹⁶

⁹⁶ We cannot leave aside, in this respect, the notable economic treatise written by Murray N. Rothbard, *Man, Economy and State*, of which four editions have been published to date (Van Nostrand, New Jersey, 1962; Nash Publishing, Los Angeles, 1970; New York University Press, 1979; and Ludwig von Mises Institute, Auburn University, 1994) and which is completed by the book *Power and Market* (Institute for Humane Studies, 1970 and New York University Press, 1977). Although Rothbard's treatise provides extraordinary clarification of many issues and, in many aspects, even exceeds *Human Action*, we feel, notwithstanding, that there still exists the challenge of writing *A Treatise on Modern Political Economy* which incorporates and integrates the latest contributions of the Austrian School, providing an even greater impetus for its development in the next century.