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Ludwig von Mises and the Dynamic Conception of the Market

5.1. Introduction

Ludwig von Mises was more successful than any other member of the Austrian school at distilling the essence of the paradigm Menger introduced and applying it to new fields within economics, fields which would give a definitive boost to the Austrian school in the twentieth century. In fact, according to Mises: “What distinguishes the Austrian School and will lend it everlasting fame is its doctrine of economic action, in contrast to one of economic equilibrium or nonaction” (Mises 1978, 36). Mises did a better job than anyone else of applying this dynamic conception of the market to new areas where the analytical Austrian view had not yet been applied, and in doing so, he furthered its development within the theory of money, credit, and economic cycles, built a sophisticated theory of entrepreneurship as the coordinating, driving force in the market, and refined the school’s methodological foundations and the dynamic theory as an alternative to conceptions based on equilibrium. All of these contributions proved extremely stimulating and fruitful, intellectually speaking. So Mises gave the Austrian school a definitive theoretical push, based on which his disciples, lead by Hayek, would bring about the strong Austrian resurgence that began in the last decades of the twentieth century.

5.2. A Brief Biographical Sketch

Ludwig Edler von Mises was born September 29, 1881 in the city of Lemberg, which at the time belonged to the Austro-Hungarian empire. Today Mises's birthplace is called Lviv and forms part of the independent republic of Ukraine. Ludwig's father received his education from Zurich Polytechnic and became an important engineer specialized in railroad construction. Ludwig was the eldest of three brothers, one of whom died as a child and the other, Richard, with whom Ludwig had only a distant personal relationship throughout his life, eventually became a prominent mathematician and logical positivist.

Mises himself reported that he became an economist upon reading Carl Menger's *Principles of Economics* during the 1903 Christmas season (Mises 1978, 33). Mises earned his doctor of law degree on February 20, 1906 and attended Eugen von Böhm-Bawerk's economics seminar at the University of Vienna until 1914. Mises soon distinguished himself as the most brilliant participant in this seminar, together with J.A. Schumpeter, whom Mises always viewed as a particularly confused and frivolous theorist who constantly sought to impress and had fallen into the trap of neoclassical scientism and abandoned the illustrious Austrian tradition.

In 1906, Mises embarked on his teaching career. He taught economics for six years at the Viennese Commercial Academy for Girls, and then, beginning in 1913, he taught for twenty years as a professor at the University of Vienna. In 1934, Mises was appointed Professor of International Economic Relations at the Graduate Institute of International Studies in Geneva, Switzerland. Fleeing Hitler, at the start of World War II Mises moved to the United States, where he became an American citizen and a professor at New York University, where he taught 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 chief of the finance department and general secretary, and where his involvement gave Mises a strong influence over the economic policy of his country. This seminar, which met on Friday afternoons, was attended not only by students who were preparing their doctoral theses under Mises's guidance, but also, via invitation, by highly prestigious economists from all over the world. The seminar meetings were attended regularly by Friedrich A. Hayek, Fritz Machlup, Gottfried von Haberler, Oskar Morgenstern, Paul L.M. Rosenstein-Rodan, Felix Kaufmann, Alfred Schütz, Richard von Strigl, Karl Menger (the mathematician son of Carl Menger, founder of the Austrian school), and Erich Voegelin, among the German-speaking participants. From the United Kingdom and the United States, Lionel Robbins, Hugh Gaitskell, Ragnar Nurske, and Albert G. Hart attended, among others. Later, in the United States, Mises again offered his seminar at New York University, where it met on Thursday afternoons from the autumn of 1948 to the spring of 1969. Among the many participants during this second period, the then future professors Murray N. Rothbard and Israel M. Kirzner stand out.

Ludwig von Mises was awarded an honorary doctorate by New York University and, at the request of F.A. Hayek, by the University of Freiburg, in Breisgau, Germany. In addition, in 1962, he received the Austrian medal of honor for science and the arts, and in 1969, he was named a Distinguished Fellow of the American Economic Association. Von Mises passed away in New York on October 10, 1973, just one year before his brightest disciple, F.A. Hayek, received the Nobel Prize in Economics for his contributions to economic science. At the time of his death, Mises had published twenty-two books and hundreds of articles and monographs on economic topics,

writings which Bettina Bien Greaves and Robert McGee have cataloged and commented on in two thick volumes (Bien Greaves and McGee 1993, 1995).

Mises had the good fortune to lead a very long academic life, which extended over nearly seven decades of the twentieth century, and to be recognized during his life as an economist of universal fame (Rothbard 1973). As early as 1944, Henry C. Simons referred to him as the greatest living professor of economics. Even Milton Friedman, a positivist economist of the Chicago school, whom no one would suspect of sympathizing with Mises's theoretical views, described him, shortly after his death in 1973, as one of the greatest economists of all time (Mises 1995, 1). Maurice Allais, another winner of the Nobel Prize in Economics, has written that Mises was “a man of extraordinary intelligence, whose contributions to economic science have all been first-rate” (Allais 1989, 307). Finally, Robbins, in his intellectual autobiography, states of Mises: “But 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...” (Robbins 1971, 108).

5.3. The Theory of Money, Credit, and Economic Cycles

From the start of his academic life, when he began attending Böhm-Bawerk's seminar, Mises recognized the need to extend the application of the subjectivist conception of economics, which Menger had taken up, to the area of money and credit, as well as to analyze the effects which monetary and credit manipulation exerts on the structure of capital goods, as Böhm-Bawerk had studied it. Thus, in 1912, at thirty-one years of age, Mises published the first edition of his book, *The Theory of Money and*

Credit (Mises 1980), which soon became the standard treatise on monetary theory in all of continental Europe.

This first seminal contribution by Mises, in the monetary sphere, was a big step forward, and it advanced subjectivism and the dynamic Austrian conception by applying them to the field of money and basing the value of money on the theory of marginal utility. In fact, Mises was the first to solve the apparently insoluble problem of circular reasoning which up to that point was thought to plague the application of the theory of marginal utility to money. Indeed, the price or purchasing power of money is determined by its supply and demand; the demand for money, in turn, derives from human beings, based not on the direct utility of money, but precisely on its purchasing power. Mises solved this apparent case of circular reasoning with his *regression theorem* (Mises 1996). According to this theorem, the demand for money is determined not by money's purchasing power *today* (which would be circular reasoning, as described above), but instead by the knowledge the actor forms, based on his experience, of its purchasing power *yesterday*. The purchasing power yesterday, in turn, was determined by the demand for money which rested on the knowledge actors formed concerning its purchasing power the day before yesterday. This process leads back to the point in history when demand first arose for a certain good (gold or silver) as a medium of exchange. Therefore, we see that the regression theorem is simply a retrospective application of Menger's theory on the evolutionary emergence of the monetary unit.

As we mentioned above, *The Theory of Money and Credit* soon became the standard work in the monetary field, and as such it was used at all prestigious universities in continental Europe. We speak of "continental Europe" since the work was not translated into English until well into the 1930s, and therefore it unfortunately

exerted little influence within the Anglo-Saxon world. For example, Keynes himself admitted: “I should have made more references to the work of these writers [Mises and Hayek] if their books, which have only come into my hands as these pages are being passed through the press, had appeared when my own thought was at an earlier stage of development, and if my knowledge of the German language was not so poor (in German I can only clearly understand what I know already!—so that new ideas are apt to be veiled from me by difficulties of language)” (Keynes 1971).

Mises’s book also included, though in incipient form, his second important contribution: the development of a brilliant theory of economic cycles, which with time became universally known as the “Austrian theory of the business cycle.” In fact, when he applied the monetary theories of the currency school to Böhm-Bawerk’s subjectivist theories of capital and interest, which we have already discussed, Mises made the following realization: when the fractional-reserve banking system managed by a central bank gives rise to the expansionary creation of loans and deposits unbacked by effective saving (fiduciary media), this creation not only provokes cyclical, uncontrolled growth in the money supply, but also, as loans are created *ex nihilo* at artificially reduced interest rates, it inevitably causes an artificial, unsustainable “lengthening” of production processes, which thus tend to become excessively capital-intensive.

According to Mises, the amplification of any inflationary process via credit expansion will sooner or later spontaneously and inexorably reverse and provoke a crisis or economic recession in which the investment errors committed will be revealed and massive unemployment will emerge along with the need to liquidate and reallocate all of the resources wrongly invested. To eliminate recurrent economic cycles, Mises proposes the establishment of a banking system with a 100-percent reserve requirement for demand deposits and concludes his book with the following assertion: “Now it is

obvious that the only way of eliminating human influence on the credit system is to suppress all further issue of fiduciary media. The basic conception of Peel's Act ought to be restated and more completely implemented than it was in the England of his time by including the issue of credit in the form of bank balances within the legislative prohibition...It would be a mistake to assume that the modern organization of exchange is bound to continue to exist. It carries within itself the germ of its own destruction; the development of the fiduciary medium must necessarily lead to its breakdown” (Mises 1980).

The development by Mises of the theory of the cycle made it possible for the first time to integrate the “micro” and “macro” aspects of economic theory, which until then had been kept separate, since it was thought impossible to apply the theory of marginal utility to money, and therefore all monetary theory was built on aggregate concepts like the general price level. Moreover, Mises provided the analytical tools capable of explaining the recurrent phenomena of boom and recession which have affected controlled markets from the very beginning of the modern fractional-reserve banking system, including the serious episodes of stagflation during the seventies and the recent financial and economic crisis in the Asian markets (Huerta de Soto 2006, 479-503). Thus, it is not surprising that Mises was the driving force behind the creation of the Austrian Institute for Business Cycle Research, of which he appointed F.A. Hayek the first manager, nor that the Institute alone was able to foresee the arrival of the Great Depression of 1929, as the inexorable result of the monetary and credit excesses of the “roaring” twenties, which followed the First World War (Skousen 1993, 247-284). Furthermore, we must stress that Mises and his disciples refined their theory of the cycle in parallel with their analysis on the impossibility of socialism, which we will discuss in the next section. Indeed, the Austrian theory of crises can be viewed as

simply the application of the broader theory to a specific case, that of the disordinating effects of government intervention in the fiscal, credit, and monetary fields, intervention which always systematically discoordinates (both intra- and intertemporally) the real productive structure of the economy.

5.4. The Theorem of the Impossibility of Socialism

Mises's third vital contribution was his theory on the impossibility of socialism.

Mises maintained that from the standpoint of Austrian subjectivism, this impossibility was obvious, and neoclassical authors' failure to notice it followed primarily from the erroneous methodological approach they employed in their research, and specifically, from the fact that they built models of states of equilibrium and assumed all of the information necessary to achieve it was available: "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 the socialist ideas thrive" (Mises 1996).

According to Mises, the source of all volition, valuations, and knowledge lies in the creative capacity of the human actor, and hence any system based on the exercise of violent coercion against free human action, as is the case with socialism, and to a lesser extent, with interventionism, will prevent the emergence, within the minds of individual actors, of the information necessary to coordinate society. Mises realized that *economic calculation*, understood as any judgment of value concerning the results of the different alternative courses of action which open up to the actor, requires the availability of first-

hand information and becomes impossible in a system which, like socialism, rests on coercion and thwarts, to a greater or lesser extent, the voluntary exchange (in which individual valuations are manifested, discovered, and created) and free use of money, understood as a voluntary and commonly accepted medium of exchange.

The concept and analysis of economic calculation, and its importance in the sphere of economic theory, make up one of the most essential aspects of Misesian thought. Perhaps Mises's greatest merit in this area consists of having outlined, in theoretical terms, the connection between the subjective, internal realm of individual valuations (ordinal) and the external realm of market-price estimates in the form of monetary units (the cardinal realm of economic calculation). The "bridge" between the two becomes possible whenever the different subjective valuations of the parties prompt an interpersonal exchange which is embodied in a monetary market price or historical ratio of exchange in monetary units, a price with a certain, quantitative, real nature, and one that the entrepreneur can later refer to as valuable information to help him predict the future course of events and make decisions (economic calculation). Therefore, it is clear that if free human action is prevented by force, voluntary interpersonal exchanges will not occur, and the result will be the destruction of the bridge or connection they represent between the subjective, internal realm of direct valuations and the creation of information (ordinal), and the external realm of prices (cardinal). Furthermore, the destruction of this connection will render economic calculation totally impossible (Rothbard 1991, 64-65).

Hence, Mises concludes that in the absence of market freedom, free market prices, and/or money, no "rational" economic calculation is possible, where "rational" calculation is understood to be that performed with the necessary (non-arbitrary) information available.

Mises systematized his fundamental ideas on socialism and included them in his remarkable critical treatise on this social system, the first edition of which appeared in German in 1922, followed by the English, French, and finally, Spanish translations. The work is entitled *Socialism: An Economic and Sociological Analysis* (Mises 1981).

Mises's *Socialism* also acquired immense popularity in Europe and, among other effects, it had that of moving theorists of the stature of F.A. Hayek, initially a Fabian socialist, Wilhelm Röpke, and Lionel Robbins to change their minds after reading it and convert to liberalism. Moreover, this work sparked off the third important debate (after the *Methodenstreit* and the controversy over the concept of capital) in which Austrian theorists participated: the debate about the impossibility of socialist economic calculation. This is one of the most momentous debates in the history of economic thought; it extended over several decades and has exerted a strong impact in terms of delineating and refining the different distinguishing features of the Austrian school of economics. Furthermore, today it is widely recognized, even by former socialist theorists, that the Austrians won the debate on the impossibility of socialism. Thus, for example, Robert L. Heilbroner has come to assert: "Mises was right...Socialism has been a great tragedy this century" (Heilbroner 1990, 1110-1111). Also, Oskar Lange's disciples, Brus and Laski, have concluded that Lange and the socialist theorists "never succeeded in confronting the Austrian challenge" (Brus and Laski 1985, 60; Huerta de Soto 1992).

It is important that we close this section by stressing that Mises's argument on the impossibility of socialism is a theoretical argument concerning the *intellectual error* involved in any socialist idea, since it is impossible to organize society via coercive commands, given that the supervisory agency cannot possibly obtain the information necessary to do so. Thus, Mises's argument is a *theoretical argument* regarding the

practical impossibility of socialism. We might even say it is the quintessential theoretical argument, since theory is simply an abstract, formal, and qualitative analysis of reality, one that nevertheless must never lose its connection with reality, but instead must be as relevant as possible to real-world events and processes. Therefore, it is totally incorrect to view Mises's analysis as referring to the impossibility of socialism from the standpoint of the formal model of equilibrium or "pure logic of choice," as many prominent neoclassical authors incapable of distinguishing between "theory" and equilibrium analysis mistakenly believed. In fact, as early as 1920, Mises himself took great care to expressly deny that his theorem was applicable to the equilibrium model. As this model, in its very formulation, assumes that all necessary information must be available, it portrays the fundamental economic problem socialism poses as solved *ab initio* by definition, and thus, neoclassical theorists fail to notice the problem. Quite the reverse is true, according to Mises, who identifies the root of the problem in the fact that when the supervisory agency issues an edict or command in favor of or against a certain economic project, it lacks the information necessary to ascertain whether it has acted correctly or not, and therefore it cannot make any economic calculation or estimate. If we assume that the supervisory agency has at its disposal all the necessary information and that furthermore, no changes occur, then obviously no economic-calculation problem arises, since it is assumed from the beginning that no such problem exists. Thus, Mises writes: "The static state can dispense with economic calculation. For here the same events in economic life are ever recurring; and if we assume that the first disposition of the static socialist economy follows on the basis of the final state of the competitive economy, we might at all events conceive of a socialist production system which is rationally controlled from an economic point of view. But this is only conceptually possible. For the moment, we leave aside the fact that a static state is

impossible in real life, as our economic data are forever changing, so that the static nature of economic activity is only a theoretical assumption corresponding to no real state of affairs” (Mises 1935, 109).

Mises’s argument, then, is a theoretical argument on the logical impossibility of socialism, yet it rests on the theory and logic of human action and the real social, dynamic, and spontaneous processes it sets in motion, and not on a theory or logic of mechanical action performed in a context of perfect equilibrium by “omniscient” beings who are as inhuman as they are removed from reality. As Mises explains even more clearly in his book about socialism: “That is to say, under stationary conditions there no longer exists a problem for economic calculation to solve. The essential function of economic calculation has *by hypothesis* already been performed. There is no need for an apparatus of calculation. To use a popular but not altogether satisfactory terminology we can say that the problem of economic calculation is of economic dynamics: it is no problem of economic statics” (Mises 1981). This statement of Mises’s fits in perfectly with all the most characteristic features of the Austrian tradition, as begun by Menger, developed later by Böhm-Bawerk, and fostered in its third generation by Mises himself. Hence, because no economic calculation is required in a state of equilibrium, it is not surprising that the only theorists who managed to discover the theorem of the impossibility of socialist economic calculation were the adherents of a school which, like the Austrian, from the beginning centered its scientific research program on the theoretical analysis of the real dynamic processes that work in the market, and not on the development of partial or general mechanistic models of equilibrium.

Therefore, to all of those neoclassical theorists who, like members of the Chicago school, confuse theory with the static analysis of equilibrium models, socialism

does not appear to pose any theoretical problem, to the extent these theorists assume in their models that all the necessary information is already available. For instance, we could again mention the founder of the Chicago school, Frank H. Knight, who actually asserted: “Socialism is a political problem, to be discussed in terms of social and political psychology, and economic theory has relatively little to say about it” (Knight 1938, 267-268). The same error was committed by neoclassical socialist economists, like Oskar Lange and his followers (Lippincot, Dickinson, Durbin, Taylor, Lerner), when they argued that economic equilibrium analysis proved Mises wrong, since Walras’s system of simultaneous equations showed that a given solution existed to the problem of economic coordination Mises had raised. None of these equilibrium theorists grasped the essence of Mises and Hayek’s challenge, nor did they realize that their failure to adopt the dynamic Austrian perspective completely blinded them to the theoretical problems Mises and Hayek had discovered. Perhaps no other area of economic science offers a clearer example of the devastating effects which neoclassical positivist methodology has had in terms of preventing theorists of great worth from perceiving the problems of true importance which arise in the real economic world.

5.5. The Theory of Entrepreneurship

The view of human beings as the inevitable protagonists of all social processes lies at the heart of Mises’s fourth essential contribution to the field of economic science. Indeed, Mises realized that economics, which had initially emerged around a historical *ideal type* à la Max Weber, the *homo economicus*, becomes, through the lens of Menger’s subjectivist conception, an entire general theory of human action and interaction (*praxeology*, in Mises’s terminology). The essential characteristics and implications of human action and interaction are closely examined and constitute the

basic object of research in Mises's all-encompassing economic treatise, which he entitled precisely *Human Action* (Mises 1996). Mises believes all action has an entrepreneurial, speculative component, and he develops a theory of entrepreneurship, understood as the capacity of human beings to create and recognize the subjective opportunities for profit which arise in their environment and to act accordingly to seize them.

Thus, Mises expressly states that the essential element of entrepreneurship is the human capacity for creativity: "Only the human mind that directs action and production is creative" (Mises 1996). In addition, he strongly criticizes the popular fallacies which depict entrepreneurial profit as an outcome of the simple assumption of risks, when risk generates nothing more than an ordinary cost of the production process, a cost which bears no relation to entrepreneurial profit (Mises 1996). Mises also discusses the fundamentally mistaken idea that entrepreneurship is a managerial factor of production which can be bought and sold in the market as a result of a maximizing decision. On the contrary, Mises asserts: "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" (Mises 1996).

The Misesian theory of entrepreneurship has been extensively developed in recent years by one of Mises's most brilliant students, Israel M. Kirzner, Professor of Economics at New York University, a man whose contributions we will have a chance to comment on in chapter 7.

The entrepreneurial capacity of human beings not only explains their constant pursuit and creation of new information regarding ends and means, but is also the key to

understanding the tendency toward coordination which continuously and spontaneously arises in the market in the absence of coercive intervention. It is entrepreneurship's capacity for coordination which, as we explained in chapters 1 and 2, permits the development of a logical *corpus* of economic theory, one without the errors of the scientific (mathematical and statistical) analysis, which rests on assumptions of constancy and derives from the foreign world of physics and the rest of the natural sciences, of which it is a poor copy (Mirowski 1991).

5.6. Method in Economics: Theory and History

Last and fifth, Mises is the Austrian theorist who has dealt with the issue of method in economics in the most systematic, integrated manner. Mises maintains that the social sciences, or rather, the sciences of human action, comprise two main branches: praxeology (the general theory of human action, the most developed branch of which is economics) and history. The province of praxeology is the application of the conceptual category of "human action," for which it is merely necessary to deduce praxeological theorems from the essence of human action. Hence, economic theory is constructed in an aprioristic, deductive manner, based on the concept and category of action. A few fundamental axioms inherent in the concept of action serve as the starting point. The most important of them all is the very category of action, in the sense that people choose their ends by trial and error, and they seek means suitable for achieving them, all according to their own value scales. Another axiom informs us that because means are scarce, they will first be devoted to the accomplishment of the most highly valued ends, and only afterward to the satisfaction of others which are less urgently desired (the "law of diminishing marginal utility"). Yet another tells us that between two goods of identical characteristics, which are available at different points in time, the

actor will always prefer the good available sooner (the “law of time preference”). Other essential elements of the concept of human action include the following: action always takes place in time; time is scarce; and people act with the purpose of moving from one state to another which affords them greater satisfaction.

Upon the foundations of logical-deductive reasoning, and starting from these axioms, Mises builds economic theory, centers it on the problems which occur in real life, and introduces where appropriate in the corresponding chain of logical-deductive arguments those facts from experience which are relevant. Thus, facts from experience, which are known and interpreted in light of the theory of human action, are later reused within its framework as “suppositions” for building theorems that more faithfully reflect real life.

Hence, from the perspective of Mises, experience serves only to direct the curiosity of the researcher toward certain problems. It tells us what we should research, but it does not reveal the methodological path we should follow in search of our knowledge. At any rate, according to Mises, two points should be very clear: first, that no real phenomenon can be known unless reality has first been interpreted in view of the concepts and theorems of human action; and second, that thought alone, and never experience, can direct research toward those hypothetical types of human actions and problems which, without ever having occurred in the past, can conceivably be viewed as potentially crucial in the future.

The other branch of the sciences of human action is history. History is simply the systematic gathering and study of the facts of experience concerning human action. Therefore, it deals with the specific content of human action in the past.

So to practice his discipline, the historian must first have at his disposal a body of theory which enables him to interpret reality. Moreover, he needs a special judgment

of relevance to determine which factors most heavily influenced the past events he studies (*Verstehen* or understanding), and this judgment of relevance makes his discipline a true art.

These value judgments of understanding are also those the actor uses whenever he must make a prediction about the evolution of his environment which affects the concrete actions in which he is involved. Nevertheless, Mises maintains that in economics one cannot make “scientific” predictions; that is, predictions similar to those of the natural sciences. On the contrary, the laws of our discipline are purely logical-deductive, and, as it were, they allow of only “qualitative” predictions. These have nothing in common with the ones scientists make in the fields of physics and engineering, and certainly, it is impossible to formulate precise predictions concerning concrete future events. It is true that man, in his daily life, is constantly forced to plan his action and to act in light of certain beliefs regarding the unfolding of future events. To make these “predictions,” man employs the tool of his theoretical knowledge, interprets the facts of immediate reality in light of it (always relying on his understanding, i.e. his knowledge of the particular circumstances of the case in which he is involved), and “predicts” the course of events which could affect his action.

Therefore, man faces very great uncertainty with respect to future events; he can only minimize it (yet never dispel it completely) if he has considerable knowledge of theory and a wealth of experience concerning the value judgments and motivations which prompt people to perform certain actions and to behave in certain ways. Thus, it is a fact of experience that some people are better prepared than others to entrepreneurially plan their future action. Specifically, an entrepreneur is anyone who acts in view of what he believes will be the future course of events. In this sense, according to Mises, we are all entrepreneurs, since every day all people must undertake

actions while considering what they believe will happen in the future. Hence, as all men are equipped with an innate entrepreneurial ability, it falls to them to make predictions about the unfolding of concrete events, and to use their theoretical knowledge and experience for the task. However, the economic scientist as such can never make any specific prediction, i.e. one of a particular quantitative, geographical, and temporal nature. If the economist insists on making such predictions, he clearly and immediately abandons the scientific field of economics for the human, entrepreneurial field of prediction. According to Mises, to expect economics to provide scientific predictions on a par with those offered by the natural sciences betrays a gross ignorance of the world in which we live and of human nature in general, as well as an erroneous methodological conception of economic science in particular (Mises 1996).

5.7. Conclusion

Ludwig von Mises is considered the most important Austrian economist of the twentieth century. Furthermore, he was able to complete the most momentous all-encompassing, systematic economic treatise written within the Austrian school, a work in which he explains in detail all of the significant contributions he made in the field of economic science throughout his life. The work is entitled *Human Action: A Treatise on Economics*, and Mises wrote the first German edition while a professor in Geneva around the start of the Second World War. The first English edition appeared on September 14, 1949; that is, well over fifty years ago. Since then, the 1000-page work, which covers all the fundamental aspects of economic science from the viewpoint of the subjectivist, dynamic Austrian conception, has been translated into eight different languages, including English, German, Italian, French, Spanish, Portuguese, Japanese, and Chinese. In addition, it is one of the most widely cited treatises in our discipline,

principally in monographs and specialized articles on economic topics in general, and on the methodology of economics and the economic analysis of socialism in particular. It can be estimated that to date, over 150,000 copies of this true masterpiece of economic science have been printed. Anyone interested in acquiring a deeper knowledge of the Austrian school of economics should begin by reading it (Huerta de Soto 1995, 1-lvii; Salerno 1999).

Economic science should center precisely on the study of this social process as defined above. Austrian economists feel that the essential purpose of economics is to analyze how the spontaneous social order enables us to take advantage of a huge volume of practical information which is not available anywhere in a consolidated form, but rather is dispersed or diffused throughout the minds of millions of individuals. The object of economics is to study this dynamic process by which information is discovered and transmitted, a process which entrepreneurship constantly drives and which tends to adjust and coordinate people's plans, and thereby makes life in society possible. This and this alone is the essential economic problem, and thus we must be particularly critical of the study of the equilibrium model, which engages those of the dominant, neoclassical paradigm. Hayek deems such a focus devoid of scientific interest, since it is premised on the assumption that all information is *given* and that therefore the essential economic problem has already been resolved (Hayek 1972, 51, 91).