by Richard M. Ebeling

IDEAS ON LIBERTY
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Ludwig von Mises: A Voice for Freedom and Principle

October 10 marks 30 years since the death of Austrian economist Ludwig von Mises. (He passed away at age 92.) For more than six decades in the twentieth century Mises was one of the leading voices for individual freedom and the market economy. During a time when socialist and interventionist ideas and policies seemed to be the almost inescapable wave of the future, he consistently and uncompromisingly defended human liberty, private property, the free market, and limited government.

Ludwig von Mises was an original scholar, an insightful policy analyst, and an influential teacher in both Europe and the United States. Without exaggeration, his books, essays, lectures, and personal impact on others were crucial in stemming the intellectual trends toward various forms of collectivism during the last 100 years. Mises's most famous protégé, the Austrian economist and Nobel laureate F. A. Hayek, once said, "There is no single man to whom I owe more intellectually. . . . He certainly had more influence on my outlook of economics than any other man."

Mises was born in Lemberg (now Lvov) in the old Austro-Hungarian Empire on September 29, 1881. He attended the University of Vienna and earned a doctoral degree in jurisprudence in 1906, with an emphasis on economics. He made his living, however, not in academia but in the world of public policy, in the role of economic analyst for the Vienna Chamber of Commerce, Crafts, and Industry, a position he held from 1909 until 1934.

In the Austria between the two world wars he was a leading figure in bringing the Great Austrian Inflation to a halt and assisted in reorganizing the Austrian National Bank on a non-inflationary, gold-backed basis. He was an influential voice in preventing the Austrian socialists from nationalizing commerce and industry and was in charge of a department of the League of Nations' Reparations Commission in Austria. During these years Mises also founded the Austrian Institute for Business Cycle Research, taught a highly acclaimed seminar each term at the University of Vienna, was the Austrian representative of the European Free Trade Association, and led a world-renowned private seminar for Austrian and visiting scholars at his office at the Chamber of Commerce.

But his international recognition during these years and the remainder of his life was the result of his profoundly important contributions to economics and social philosophy. Even before World War I he developed what became known as the Austrian theory of money and the business cycle in *The Theory of Money and Credit* (1912); he showed that inflations and depressions had their origin in government mismanagement of the monetary and banking systems.

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But Mises's most famous contribution in the period immediately following World War I was his demonstration, in his 1920 article "Economic Calculation in the Socialist Commonwealth" and in his treatise *Socialism: An Economic and Sociological Analysis* (1922), that socialist central planning was inherently unworkable for any rational use and allocation of the goods and resources in society. The abolition of private property, the elimination of monetary transactions, and the end of market-based competition meant the loss of the price system. But market-generated prices were the essential social tools by which all the goods and services, resources, and capital could be reduced to a relatively simple and useable common denominator for purposes of economic calculation by consumers, producers, and resources owners.

In his 1927 work, *Liberalism*, Mises defended the institutions and workings of the free-market economy. He warned of the inherent contradictions and inevitable distortions resulting from various types of government regulation in *Critique of Interventionism* (1929). And he defended the logic and essential value of economic theory for sound thinking about economic policy in *Epistemological Problems of Economics* (1933).

Magnum Opus

But his greatest contribution, in which he synthesized all these earlier works into a comprehensive vision and logic of freedom and the market economy, was *Human Action: A Treatise on Economics* (1949). Here the reader finds a detailed and well-grounded conception of man, human nature, and society. Mises formulates a theory of social cooperation arising from the benefits from division of labor. He explains the institutional prerequisites for freedom and prosperity, and the workings of the market process, competition, the price system, and the role of the creative entrepreneur. He also restates in a refined exposition his criticisms of socialism, interventionism, and government monetary and fiscal policies.

In his review Hayek said the book "ranges from the most general philosophical problems raised by all scientific study of human action to the major problems of economic policy of our own time."

Mises elaborated further on many of these themes in a number of other books, including *Planning for Freedom* (1952), *Theory and History* (1957), and *The Ultimate Foundation of Economic Science* (1962).

All these works were written at a time when freedom and the free society appeared destined for defeat, reduced to a soon-to-be-forgotten chapter of human history. Especially after Mises moved to the United States in 1940 during World War II, socialism, interventionism, and Keynesian economics all seemed to be heading for triumph throughout the world. Voices like Mises's were increasingly marginalized and often ignored.

But while many chose to remain silent or compromised their classical-liberal views for acceptance or recognition in academic and public-policy circles, Ludwig von Mises did not. He did not consider logic, truth, and right to be matters of mere "opinion." These were invariant elements in the world and for man. Illogic, deceptions, and error all finally led to outcomes quite different from what had been hoped for or promised. And many policies emanating from such misguided thinking resulted in disasters for millions of people. Each of us as members of a common humanity, he argued, were called on to speak up and work to stop the tide of socialist and interventionist destruction.

Now that the twentieth century has ended, it is clearer than ever before that Ludwig von Mises, during those darkest decades of collectivism, understood and explained far better than most the dangers that humanity faced and the path to human freedom and economic progress. Our task in the 21st century is to take his legacy of ideas and see that the next hundred years is better than the last. ☐

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Deregulation Caused the Great Blackout of 2003?

It Just Ain't So!

As I sat in New York during the blackout, I wondered who would succeed at producing the first predictable polemics blaming "deregulation." Every crisis unsurprisingly is used to further the agendas of anyone remotely concerned. Every interest group claimed that had its agenda been accepted the crisis could have been avoided. The Northeast power outage followed true to form. Blaming deregulation apparently began while my power was still out.

Blaming anything may be totally wrong. However electricity is generated and transmitted, a complex system must exist. Nothing can be made foolproof, and it will be unclear, at least until the investigations cease, whether the causes were readily predictable and easily corrected, according to a cost criterion. The possibility remains that the blackout could not have been prevented.

Even if a prevention strategy were available, the failure to adopt it is not clearly due to neglect of the many alternatives that might have been adopted. What is involved is a long-standing crisis in electric power that the so-called deregulation process sought to remedy. To the extent the effort failed, it was precisely because deregulation was a fraudulent description.

The situation has a long history. In the early decades of the twentieth century, the electric-power industry urged the states to institute regulation. The system worked to the satisfaction of companies, customers, and the regulators until the early 1970s. Stable fuel prices and improved technology allowed selling prices to fall (from 2.71 cents per kilowatt hour in 1926 to 1.59 cents in 1970) despite inflation.

The 1970s brought the unhappy combination of rising fuel costs, soaring construction costs, lessened technical progress, and increased environmental requirements. Suddenly, the regulators had the new task of adjusting to upward pressures on rates. They acted with, at best, equivocation and, at worst, with disastrous expedients. Several states, notably New York and California, saw non-utility generation as a miracle cure and pressured utilities to sign long-term contracts based on the expectation of continued energy price rises. A further problem was that the utilities had embarked on expensive expansion programs, much but not all nuclear. A growth slowdown produced by rising rates and the spurt in construction costs made these expansions expensive and premature. These plants and the contracts for non-utility generation became severe burdens when energy prices softened.

Utilities naturally sought reversal. Some proclaimed that they had lived under a regulatory compact that could and should be restored. Others sought whatever relief they could find. In several states, major initiatives were undertaken. The details differed greatly. The main common feature was that generation of electricity was freed from wholesale price regulation. Generally, a further step was a phased removal of regulated rates to final consumers. A third step in some states was to require divestiture of generating capacity. New York required total divesting; California confined the sell-off to fossil-fuel plants within the state.

Several critical points emerge. First, not all states instituted such changes. Second, those imposing restructuring each adopted a unique approach. Third and most critically, the liberation was limited. The guts of the California crisis, for example, was simply that uncontrolled wholesale prices soared in response to rising natural gas prices, and retail prices were not allowed to rise in response. (The charges of manipulation will