

## Preface, 1985

The term "liberalism," from the Latin "liber" meaning "free," referred originally to the philosophy of freedom. It still retained this meaning in Europe when this book was written (1927) so that readers who opened its covers expected an analysis of the freedom philosophy of classical liberalism. Unfortunately, however, in recent decades, "liberalism" has come to mean something very different. The word has been taken over, especially in the United States, by philosophical socialists and used by them to refer to their government intervention and "welfare state" programs. As one example among many possible ones, former U.S. Senator Joseph S. Clark, Jr., when he was Mayor of Philadelphia, described the modern "liberal" position very frankly in these words:

To lay a ghost at the outset and to dismiss semantics, a liberal is here defined as one who believes in utilizing the full force of government for the advancement of social, political, and economic justice at the municipal, state, national, and international levels... A liberal believes government is a proper tool to use in the development of a society which attempts to carry Christian principles of conduct into practical effect. (*Atlantic*, July 1953, p. 27)

This view of "liberalism" was so prevalent in 1962, when the English translation of this book appeared, that Mises believed then that to translate literally the original title, *Liberalismus*, would be too confusing. So he called the English version *The Free and Prosperous Commonwealth*. By the following year, however, Mises had decided that the advocates of freedom and free

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markets should not relinquish "liberalism" to the philosophical socialists. In the Prefaces of both the second (1963) and third (1966) editions of his magnum opus, *Human Action*, Mises wrote that the advocates of the freedom philosophy should reclaim "the term 'liberal'. . . because there is simply no other term available to signify the great political and intellectual movement" that ushered in modern civilization by fostering the free market economy, limited government and individual freedom. It is in this sense that "liberalism" is used throughout this book.

For the benefit of readers who are not familiar with the works of Ludwig von Mises (1881-1973), he was for decades the leading spokesman of the "Austrian" school of economics, so named because Mises as well as his two prominent predecessors—Carl Menger and Eugen von Böhm Bawerk—were all Austrian born. The cornerstone of the "Austrian" school is the subjective value marginal utility theory. This theory traces all economic phenomena, simple and complex, to the actions of individuals, each undertaken as a result of personal subjective values. On the basis of this subjective value theory, Mises explained and analyzed methodology, value, action, prices, markets, money, monopoly, government intervention, economic booms and busts, etc., making especially significant contributions in the fields of money and economic calculation.

Mises earned his doctorate from the University of Vienna in 1906. His thesis, *The Theory of Money and Credit*, published in German in 1912 and in English in 1934, was the first of his many theoretical works in economics. During the interwar years, in addition to writing articles and books, such as the powerful treatise, *Socialism*, Mises worked full time at the Austrian Chamber of Commerce as economic adviser to the Austrian government and taught part time as a Private Dozent (lecturer) at the University of Vienna. He also conducted a private economics seminar for scholars, many of whom became influential worldwide. In 1926 he established the private Austrian Institute for Business Cycle Research which still survives.

After Hitler came to power in Germany, Mises anticipated trouble for Austria. So in 1934 he took a position in Switzerland

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with the Graduate Institute of International Studies. While there he wrote *Nationaloekonomie* (1940). Although there were few German readers for this monumental economic treatise in national socialist Europe, Mises' explanations of sound economic principles have reached a much wider audience through the English-language version of *Nationaloekonomie*, completely rewritten by Mises for American readers under the title of *Human Action*. (1st edition, 1949).

To escape Hitler-dominated Europe, Mises and his wife left Switzerland in 1940 and came to the United States. His reputation had been well established in Europe, but he was little known in this country. Therefore, he had to begin practically all over again to attract students and readers. English-language books began to appear from his pen—*Omnipotent Government* and *Bureaucracy*, both in 1944. And then his masterful economic treatise, ***Human Action***, in 1949. There soon followed *Planning for Freedom* (1952), *The Anti-Capitalistic Mentality* (1952), ***Theory and History*** (1957) and ***The Ultimate Foundations of Economic Science*** (1962), all important books in economic theory.

In 1947, Mises was instrumental in founding the international Mont Pelerin Society. He lectured widely in the U.S. and Latin America and for 24 years he conducted his well known graduate economic seminar at New York University. He also served as a consultant to the National Association of Manufacturers and as adviser to the Foundation for Economic Education.

Mises received many honors throughout the course of his lifetime—honorary doctorates from Grove City College (1957), New York University (1963), and the University of Freiburg (1964) in Germany. His accomplishments were recognized in 1956 by his alma mater, the University of Vienna, when his doctorate was memorialized on its 50th anniversary and "renewed," a European tradition, and in 1962 by the Austrian government. He was also cited in 1969 as "Distinguished Fellow" by the American Economic Association.

Mises' influence continues to spread among thoughtful persons. His most prominent student from his European days, Nobel Laureate F. A. Hayek, has written: "Mises's influence

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now reaches beyond the personal sphere.... The torch which you [Mises] have lighted has become the guide of a new movement for freedom which is gathering strength every day." And one of his leading students in the United States, Professor Israel Kirzner of New York University, has described his impact on modern students: "[T]o the ferment and sense of excitement now evident in the resurgence of interest in this Austrian perspective, Mises's contributions have been crucial and decisive."

Mises was always the careful and logical theoretician, but he was not only an ivory tower theoretician. Driven by the logic of his scientific reasoning to the conclusion that a liberal society with free markets is the only road to domestic and international peace and harmony, he felt compelled to apply the economic theories he expounded to government policy. In *Liberalism* Mises not only offers brief explanations of many important economic phenomena, but he also presents, more explicitly than in any of his other books, his views on government and its very limited but essential role in preserving social cooperation under which the free market can function. Mises' views still appear fresh and modern and readers will find his analysis pertinent.

Mises' message, that ideas rule the world, runs as a constant refrain throughout all his books. But it comes through especially strong in *Liberalism*. "The ultimate outcome of the struggle" between liberalism and totalitarianism, he wrote in 1927, "will not be decided by arms, but by ideas. It is ideas that group men into fighting factions, that press the weapons into their hands, and that determine against whom and for whom the weapons shall be used. It is they alone, and not arms, that, in the last analysis, turn the scales."

In fact, the only hope of keeping the world from plunging still further into international chaos and conflict is to convince the people to abandon government intervention and adopt liberal policies.

Bettina Bien Greaves  
Foundation for Economic Education, Inc.  
August, 1985

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The importance of this little book is far greater, I believe, than one would expect from its modest size and unpretentious language. It is, very simply, a book about the free society; about what would now-a-days be termed the "policy implications" for such a society in the conduct of both its internal and external affairs; and very especially about some of the obstacles and problems, whether real or imagined, lying in the way of establishing and maintaining that form of social organization.

Now, while there is nothing extraordinary in all this, the surprising fact is that virtually none of those who have advocated some alternative form of social economic organization offered a similar discussion of their respective proposals. Even now, the growing band of writers who regale us with detailed criticisms of capitalism and with forecasts of its impending demise are strangely reticent in treating any "contradictions" or other difficulties that might occur in the operation of the system they prefer or predict.

The Significance of this omission, however, has too easily been brushed aside only because the responsibility for it is usually somewhat misplaced. To accuse Marx—to take the most frequent example—of failure to describe the operating details and the implications of a socialist society in *Das Kapital* is indefensible; for that work is exactly what it was intended to be: a highly critical examination of the workings of capitalism as Marx conceived the latter to be. It would be just as vacuous to accuse Mises of neglecting to include, in his *Socialism*, a discussion of the principles of an enterprise system. But the essential point is that Mises *did* address himself to just such a task in a separate book—this one—whereas Marx never did. This, then, is the book which Marx failed to write and

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which his followers and other critics of liberalism also neglected to do.

The real importance of this book, however, is not to be found in this narrower and more polemical sense, but in a much more fundamental and constructive one. Despite its brevity, this essay manages to speak to a fairly large number of the questions, doubts, and confusions most people face in the course of making up their minds on controversial—often emotional—social and economic issues. Its particular merit is that on all of the questions taken up, Mises provides insights and alternative views that are sure to be useful.

Since the reader will surely want to proceed at once to examine and consider some of these, I shall not intrude with comments of my own, except for one or two irrepensible reflections with which this foreword will close. Instead, we shall next take up a sampling of those (questions and opinions commonly On the minds of people considering controversial issues on which Mises has things to say here that are worth taking into account. For convenience, these are listed more or less in the order in which reference to them occurs in the text.

1. The free market system has been in full operation, and over a long time, but has proved to be unworkable.<br />
2. Liberalism suffers from a fixation on the desirability of increasing production and material well-being and persistently overlooks man's spiritual needs.
3. Since people don't always act perfectly rationally, might we not do better, on some issues, to put less reliance on strictly logical arguments and to trust more to our intuitions, impulses, and so-called "gut" feelings?
4. There can be no denying that capitalism is essentially a system that is structured to favor the rich and propertied people at the expense of other classes.
5. Why defend a social system that does not enable each and every individual to realize what he dreams of, or to achieve everything he works for?
6. Is the private ownership of the means of production an obsolete piece of

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- "excess baggage" carried over from earlier periods by people who find it difficult to accept and accommodate to changed conditions?
7. By its very nature, doesn't a competitive market economy at best tend to work against international peace, and at worst, actually to promote wars?
  8. What possible defense can there be for a socio-economic system that produces such great inequalities in income and consumption?
  9. Pragmatism aside, can there be a *morally* defensible justification for private property rights?
  10. In opposing government interventions, is liberalism not implicitly bound to advocate some form of anarchy in the end?
  11. It is not self-evident that a stable, democratic society is any more possible under a system of decentralized planning, and decision-making than under a centrally planned economy.
  12. What reason is there to expect that a capitalist Society will necessarily be any more tolerant of dissension than a socialist one?
  13. Capitalism creates and preserves a preferential position for a "leisure class" of resource owners who do not work or contribute in any significant way to the society.
  14. The reason the institution of private property has survived for so long is that it has been protected by the state; indeed, as Marx argued, the preservation of private property is the one and only function of the state.
  15. The argument that socialism cannot work by itself because it lacks the means of making the required economic calculations is interesting, but are there specific, concrete illustrations of this?
  16. Also interesting is the suggestion that government interventions in the operation of private enterprise necessarily lead to distortions and are therefore self-defeating, but can it be shown by specific example that this is necessarily the case?
  17. Apart from arguing that alternative proposed systems can be shown to be inferior, are there any direct and positive reasons for advocating a free-enterprise system?

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18. Since in order to be workable, all enterprise system requires a large number of relatively small firms in very active competition with each other, has it not been rendered largely obsolete by the development of giant corporations, monopolies, and the like?
19. Inasmuch as the managements of large Corporations tend to develop into bureaucracies, too, isn't the issue Of private versus public control largely a distinction without a difference?
20. Is the coordination between domestic and foreign policies any more feasible or consistent under Liberalism than under some other system?
21. Isn't the existence and protection of rights of private ownership a hindrance rather than a help in achieving and maintaining international peace and understanding?
22. It seems obvious that nationalism, colonialism, and imperialism could have evolved only under capitalism.
23. The self-interest of private enterprises is the main impediment in the way of developing a freer movement of goods and people among the world's regions.
24. Since it represents and fosters the special interests of one class—the resource-owners or capitalists—Liberalism made a serious tactical blunder in not constituting itself a political party and in not pursuing its aims through compromise and accordance with political expediency.

Anyone who has been in a position to observe at close range how certain presuppositions, half-truths, and seemingly self-evident "values" often prevent people from giving full and fair considerations to unfamiliar or unfashionable views in economics will recognize many of the points mentioned in this list. What Mises has to say on each of these should help the general reader (and the beginning student) toward a more comprehensive perspective on social issues and also to deal with his own doubts and suspicions. The suppression of the book in East Germany, to which Mises refers in his preface becomes understandable In this light and is another —and unintended—indication of its importance.

Finally, there are two points on which I should like to make

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some brief comment. The first is one which occurs a number of times in the book but in such very different contexts and so far apart that its generality and importance may not be noticed.

This is the idea—so essential to the logic of true Liberalism that it is often wise and productive to make what Mises in one place calls "provisional sacrifices." To claim an immediate benefit, however attractive it may seem, is an act of folly, if, by so doing one shuts off a disproportionately greater later benefit; that is, one so much greater that it more than makes up both for forgoing the present gain and for the trouble of waiting.

Of Course, few reasonable people making this sort of "calculation" would be likely to choose the present benefit under the conditions stipulated. But—and this is the heart of the difficulty—people sometimes do not calculate prudently, nor are they encouraged to do so. The same type of omission occurs under very different circumstances and is far from being true, only of the "ordinary" citizen or consumer. It may apply to businessmen in their pursuit of short-run profits or competitive advantage; to the legislator who favors an immediate increase in minimum-wage rates, in social security benefits, in tariffs, or other taxes; to economists who counsel increasing the money supply or a redistribution of incomes; and to an endless list of others. Indeed, it would be an excellent exercise for the reader to search for further examples both in the major sections of the present book and especially in thinking about contemporary issues and controversies.

Finally, a word of explanation is called for concerning the title of the book. The original work, published in 1927, was entitled *Liberalism* and so complemented, as indicated earlier, Mises' book on socialism. That it was deemed desirable or necessary, when the English translation was prepared in the early sixties, to re-title it *The Free and Prosperous Commonwealth* illustrates pointedly what I believe to be a real tragedy in intellectual history: the transfer of the term Liberalism.

The underlying issue is not merely terminological; nor can it be brushed aside as just another instance of the more general degeneration of language—an entropy of words, so to say—in which earlier distinctions of meaning and tonalty have tended to be lost. There

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is more here than a devaluation of terms, important as that may be; involved are substantive matters of the greatest practical as well as intellectual significance.

To begin with, the word "liberal" has clear and pertinent etymological roots grounded in the ideal of individual liberty. It also has a valuable historical foundation in tradition and experience, as well as the patrimony of a rich and extensive literature in social philosophy, political thought, belles-lettres, and elsewhere. For these and many other reasons, it is inconceivable that the point of view which this book illustrates should not have exclusive and unassailable claim on the liberal label.

Yet, for all of this, the term Liberalism proved unable to go beyond the nineteenth century or the Atlantic without changing its meaning—and not just slightly but virtually to that of its contrary! The resulting confusions and imprecision are such that one finds it hard to conceive of a deliberate plan that could have succeeded more in obfuscating its content and meaning.

The sadness of all this is compounded by at least two more considerations. One is the astonishing agreeableness with which the titular heirs of liberalism not only let the title slip away, but actually repelled it by their willingness to use it as a term of opprobrium for crypto-Socialists, for whom a more relevant label already existed. In comparison to this spectacle, the ancient fable of the Camel and the Tent looks like a mild case of re-zoning.

The other reason for regret is that the loss of term "liberal" made it necessary to have recourse to any number of contrived surrogate terms or tortured circumlocutions (e.g. "libertarian," "nineteenth century liberalism," or "classical" liberalism. Is there, incidentally, a "neo-classical" liberalism to which anyone claims memberships).

Is the liberal label by now irreversibly lost to us? In an appendix to the original German edition (and included in the translation), Mises discusses the changing meaning of the term and alludes to the possibility of recapturing it. But by 1962, in his preface to the English translation, he appears to have abandoned any hope of doing so.

I must respectfully disagree. Because, by any reasonable standard,

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Liberalism belongs to us, I believe we are bound to try to take it back—as a matter of principle, if for no other reason. And there are other reasons. For one thing inasmuch as Liberalism, as Mises points out, includes more than economic freedom, it is really needed as the most suitable and inclusive term. For another, the need to communicate clearly and unambiguously with the general public—whose support is ultimately essential—we need a single, straightforward term and not some verbal contrivance that must sound "mealy-mouthed" to the man in the street. Furthermore, the present time and circumstances are relatively propitious—a growing general disenchantment with government interventions and the reviving awareness of individual freedom of choice can identify more readily with a respected and comprehensive name.

How can we proceed to reclaim our own name? Most probably by simply reversing the process by which we have been losing it; first by ceasing, ourselves using it in its incorrect meaning; then by insistently re-enforcing its correct use (the term has not completely passed over in some parts of the world); and finally by refusing as often as is necessary to go along with its continued occupancy by those with less than no legitimate claim to it—they should be urged to seek a label that fits their views as well as Liberalism does ours.

Some will fret unduly about the inevitable confusion of doctrines—I suspect this concern was partly responsible for our earlier unseemly haste in vacating the tent—but this is a price we should be ready to pay this time. For one thing some confusion still exists as matters stand now, so that a bit more, temporarily, is not intolerable. Also, confusion cuts both ways, so others will share the cost and this time, perhaps, the discomfort will cause the *camel* to withdraw.

Thus it is that the present reprint reverts to the original title of the book. It is to be hoped that others will concur in using the term without apology or qualification—it needs none—so that Liberalism may ultimately resume its traditional and correct meaning.

Louis M. Spadaro  
Fordham University, August, 1977

## Preface to the English-Language Edition

The social order created by the philosophy of the Enlightenment assigned supremacy to the common man. In his capacity as a consumer, the "regular fellow" was called upon to determine ultimately what should be produced, in what quantity and of what quality, by whom, how, and where; in his capacity as a voter, he was sovereign in directing his nation's policies. In the precapitalistic society those had been paramount who had the strength to beat their weaker fellows into submission. The much decried "mechanism" of the free market leaves only one way open to the acquisition of wealth, viz., to succeed in serving the consumers in the best possible and cheapest way. To this "democracy" of the market corresponds, in the sphere of the conduct of affairs of state, the system of representative government. The greatness of the period between the Napoleonic Wars and the first World War consisted precisely in the fact that the social ideal after the realization of which the most eminent men were striving was free trade in a peaceful world of free nations. It was an age of unprecedented improvement in the standard of living for a rapidly increasing population. It was the age of liberalism.

Today the tenets of this nineteenth-century philosophy of liberalism are almost forgotten. In continental Europe it is remembered only by a few. In England the term "liberal" is mostly used to signify a program that only in details differs from the totalitarianism of the socialists.\* In the United States "liberal" means today a set of ideas and political postulates that in every regard are the opposite of all that liberalism meant to the preceding

\* Yet one should mention the fact that a few eminent Englishmen continue to espouse the cause of genuine liberalism.

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generations. The American self-styled liberal aims at government omnipotence, is a resolute foe of free enterprise, and advocates all-round planning by the authorities, i.e., socialism. These "liberals" are anxious to emphasize that they disapprove of the Russian dictator's policies not on account of their socialistic or communistic character but merely on account of their imperialistic tendencies. Every measure aiming at confiscating some of the assets of those who own more than the average or at restricting the rights of the owners of property is considered as liberal and progressive. Practically unlimited discretionary power is vested in government agencies the decisions of which are exempt from judicial review. The few upright citizens who dare to criticize this trend toward administrative despotism are branded as extremists, reactionaries, economic royalists, and Fascists. It is suggested that a free country ought not to tolerate political activities on the part of such "public enemies."

Surprisingly enough, these ideas are in this country viewed as specifically American, as the continuation of the principles and the philosophy of the Pilgrim Fathers, the signers of the Declaration of Independence, and the authors of the Constitution and the Federalist papers. Only few people realize that these allegedly progressive policies originated in Europe and that their most brilliant nineteenth-century exponent was Bismarck, whose policies no American would qualify as progressive and liberal. Bismarck's *Sozialpolitik* was inaugurated in 1881, more than fifty years before its replica, F.D. Roosevelt's New Deal. Following in the wake of the German Reich, the then most successful power, all European industrial nations more or less adopted the system that pretended to benefit the masses at the expense of a minority of "rugged individualists." The generation that reached voting age after the end of the first World War took statism for granted and had only contempt for the "bourgeois prejudice," liberty.

When, thirty-five years ago, I tried to give a summary of the ideas and principles of that social philosophy that was once known under the name of liberalism, I did not indulge in the vain hope that my account would prevent the impending catastrophes to which the policies adopted by the European nations were manifestly

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leading. All I wanted to achieve was to offer to the small minority of thoughtful people an opportunity to learn something about the aims of classical liberalism and its achievements and thus to pave the way for a resurrection of the spirit of freedom *after* the coming debacle.

On October 28, 1951, Professor J. P. Hamilius of Luxembourg ordered a copy of *Liberalismus* from the publishing firm of Gustav Fischer in Jena (Russian Zone of Germany). The publishing firm answered, on November 14, 1951, that no copies of the book were available and added: "Die Vorräte dieser Schrift mussten auf Anordnung behördlicher Stellen restlos makuliert werden." (By order of the authorities all the copies of this book had to be destroyed.) The letter did not say whether the "authorities" referred to were those of Nazi Germany or those of the "democratic" republic of East Germany.

In the years that elapsed since the publication of *Liberalismus* I have written much more about the problems involved. I have dealt with many issues with which I could not deal in a book the size of which had to be limited in order not to deter the general reader. On the other hand, I referred in it to some matters that have little importance for the present. There are, moreover, in this book various problems of policy treated in a way which can be understood and correctly appreciated only if one takes into account the political and economic situation at the time in which it was written.

I have not changed anything in the original text of the book and did not influence in any way the translation made by Dr. Ralph Raico and the editing done by Mr. Arthur Goddard. I am very grateful to these two scholars for the pains they took in making the book available to the English-reading public.

Ludwig von Mises  
New York, April, 1962