

Ludwig von Mises as Social Rationalist

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For the most part Ludwig von Mises's writings on society and social evolution have been ignored by the participants in the current revivals of both Austrian economics and classical liberal political philosophy. When his social theory has been addressed, Mises appears to his critics (Barry 1987, p. 59) as "a child of the Enlightenment wrongly deposited in the twentieth century." But this assessment is inaccurate for two reasons. First, Mises severely criticizes the social meliorism of the Enlightenment liberals and demonstrates that their position is inconsistent with one that assigns the central position to human reason in social evolution. Second, in developing his own uniquely rationalist position, Mises has much to say about matters of central importance to modern Austrians, libertarians, and classical liberals who are either critics or adherents of the "spontaneous order" and/or social evolutionist positions staked out by Hayek.

I limit myself here to a systematic exposition of Mises's thinking about society and social evolution. I make no attempt to critically analyze Mises's thought or to explicitly compare it to that of other social thinkers. However, I do employ certain well-known positions of Hayek's work as a foil to facilitate the elaboration of Mises's arguments and to demonstrate their contemporary relevance.

In the following section I present Mises's view that all social interactions and relationships are thought out in advance and that, therefore, society originates and evolves as a product of reason and teleological striving, as a "man-made mode of acting" and a consciously devised "strategy." Section three sets forth Mises's argument that law, normative rules of conduct, and social institutions are at one and the same time the product of a long evolutionary process and the outcome of attempts by individual human beings to rationally and purposively adjust their behavior to the requirements of social cooperation under division of labor.

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Section four highlights the importance which Mises attaches to economic calculation using market prices as the logical precondition of the existence of society. Far from being a “spontaneous” order, society is, for Mises, a “rational” order, because the very possibility of purposive action within the framework of social division of labor depends on the faculty of the human intellect to conceive cardinal numbers and manipulate them in arithmetic operations. Thus, as we shall see in section five, from Mises’s viewpoint, *the* social function of the price system is not to facilitate “the use of knowledge in society” but to render possible “the use of calculation in society.” And it is speculative future market prices as *appraised* by entrepreneurs and not the realized prices of history which serve this function. Mises argues further that the past prices experienced by entrepreneurs, praxeologically, can never embody the knowledge relevant to their necessarily future-oriented production plans in the real world of changing economic data. Indeed, I argue that this is the long neglected negative implication of Mises’s regression theorem of the origin of money.

Section six addresses the question whether and to what extent Mises’s position in the socialist calculation debate actually referred to problems of knowledge rather than of calculation. In fact, as we shall see, the answer to this question is quite clear. Particularly in his later discussions of the issue, Mises explicitly assumed, time and again, that the socialist planners had full knowledge, not only of the latest technology, but of what Hayek calls “the particular circumstances of time and place” relating to consumer value scales and resource availabilities. Even under these conditions of “perfect information,” Mises emphatically contended that the problem of calculation, “the crucial and only problem of socialism,” remains insoluble.

The Misesian approach to social evolution as the outcome of conscious ideological struggle is outlined in the concluding section. Here I present Mises’s speculative hypothesis that continuing ignorance of the remoter consequences of catallactic activity by the masses leads to spreading social maladjustment and spontaneous social disintegration.

Reason and the Origin of Society

For Mises reason is man’s “characteristic feature” (1966, p. 177). Human reason and human action are inseparably linked, because “Every action is always based on a definite idea about causal relations” (Mises 1966, p. 177). In addition reason and action are congeneric, a twin product of man’s efforts to sustain himself and flourish in a universe of scarcity. Thus, beings inhabiting a “universe of

unlimited opportunities ... would never have developed reasoning and thinking. If ever such a world were to be given to the descendants of the human race, these blessed beings would see their power to think wither away and would cease to be human. For the primary task of reason is to cope consciously with the limitations imposed upon man by nature, is to fight scarcity. Acting and thinking man is a product of a universe of scarcity" (Mises 1966, pp. 235-36).

As the fruit of conscious thought and the instrument of action, Mises characterizes knowledge as having an "activistic basis." "[K]nowledge is a tool of action. Its function is to advise man how to proceed in his endeavors to remove uneasiness" (Mises 1987b, p. 35).

Mises (1966, p. 143) defines society as "concerted action" or "cooperation" among human beings that is "the outcome of conscious and purposeful behavior." As such, society is a consciously-devised "strategy," "a man-made mode of acting" in the war against scarcity (Mises 1966, p. 26).¹ Society is therefore a product of human reason and volition: "Reason has demonstrated that, for man, the most adequate means for improving his condition is social cooperation and division of labor. They are man's foremost tool in his struggle for survival" (Mises 1966, p. 176).

The provenance of social cooperation, in Mises's view, is to be found in two fundamental facts. The first is the "natural phenomenon" that human effort expended under the division of labor is more productive than the same quantum of effort devoted to isolated production (1985, pp. 38-39). The second fact is that, through a deliberate exercise of reason, individuals are able to grasp this first fact and *consciously* use it as a means to improve their welfare (1966, pp. 144-45). As Mises writes: "Human society is an intellectual and spiritual phenomenon. It is the outcome of a *purposeful utilization* [my emphasis] of a universal law determining cosmic becoming, viz., the higher productivity of the division of labor. As with every instance of action, the recognition of the laws of nature are put into the service of man's efforts to improve his conditions" (1966, p. 14).

In identifying the division of labor as "the essence of society" and "the fundamental social phenomenon," Mises establishes social evolution as an ontological process amenable to rational investigation (1969, p. 299; 1966, p. 157). Social evolution thus becomes "the development of the division of labor" and this permits us to "... trace the origin of everything concerned with society in the development of the division of labor" (Mises 1969, pp. 301, 303).

As "the great principle of cosmic becoming and evolution," and "the fundamental principle of all forms of life" (Mises 1985, p. 38;

¹Mises employs this term to characterize the market economy in particular.

Mises 1969, p. 291),² the principle of the division of labor has application in both the social and biological worlds. This insight leads Mises in his earlier writings to compare human society to a biological organism, identifying the division of labor as the *tertium comparationis* of the metaphor (1969, pp. 289-92).³

What distinguishes cooperation among individuals within the “social organism,” however, from the cellular interactions of animal and vegetable organisms is that, in the former only, reason and will are the originating and sustaining forces of the organic coalescence. Human society is thus spiritual and teleological. Writes Mises: “Society is the product of thought and will. It does not exist outside thought and will. Its being lies within man, not in the outer world. It is projected from within outwards” (1969, p. 291).

Eagerness for improved living standards in conjunction with the recognition of the higher productivity of social cooperation provides the specific motivation that induces an individual to renounce autarkic economic activity and willingly integrate himself into the social division of labor. Accordingly,

Every step by which an individual substitutes concerted action for isolated action results in an immediate and recognizable improvement in his conditions. The advantages derived from peaceful cooperation and division of labor are universal. They immediately benefit every generation. ... When social cooperation is intensified by enlarging the field in which there is division of labor ... the incentive is the desire of all those concerned to improve their own conditions. In striving after his own—rightly understood—interests the individual works toward an intensification of social cooperation and peaceful intercourse. Society is a product of human action, i.e., the human urge to remove uneasiness as far as possible [Mises 1966, p. 146].

The Torrens-Ricardo law of comparative cost, which identifies the causes of trade and specialization among nations, thus becomes for Mises a formal inference from the more general “law of association,”

²Elsewhere, Mises (1966, p. 145) refers to it as “one of the great basic principles of cosmic becoming and evolutionary change.” It is this expression which Butler (1988, p. 336 n.119) cites as “among the most evident” of the “many examples of Mises’s difficulty with English.” This is not “an odd description of the division of labor,” as Butler (1988, p. 336, n.119) suggests, but a felicitous and perfectly fitting description of its central importance in the ontological structures of the biological and social worlds.

³Mises (1966, pp. 143-76) completely drops the biological metaphor in his later discussion of society in *Human Action*, but then reinstates it in *Theory and History* (Mises 1985, pp. 252-53) while criticizing its various misinterpretations. In response to the charge of Butler (1988, p. 108) that Mises at one point “drifts into the organic fallacy,” it should be said that Mises uses the metaphor with complete awareness and with the sole purpose of illustrating the point that the principle of the division of labor operates in the biological as well as the social realm.

which explains the universality and permanence of social cooperation on the individual level. In elucidating the incentives that induce individual human beings of varying productive capacities and without explicit agreement to willingly undertake those actions that engender the social division of labor and tend toward its progressive intensification, the law of association provides the key to understanding social evolution.

According to Mises:

The law of association makes us comprehend the tendencies which resulted in the progressive intensification of human cooperation. ... The task with which science is faced in respect of the origins of society can only consist in the demonstration of those factors which can and must result in association and its progressive intensification. ... If and as far as labor under the division of labor is more productive than isolated labor, and if and as far as man is able to realize this fact, human action itself tends toward cooperation and association; man becomes a social being not in sacrificing his own concerns for the sake of a mythical Moloch, society, but in aiming at an improvement in his own welfare. Experience teaches that this condition—higher productivity achieved under the division of labor—is present because its cause—the inborn inequality of men and the inequality in the geographical distribution of the natural factors of production—is real. Thus we are in a position to comprehend the course of social evolution [1966, pp. 160-61].

The operation of the law of association gives rise to two related tendencies which are detectable in the historical development of society. The first is the progressive extension of the division of labor to encompass greater numbers of individuals and groups. The second is the progressive intensification of the division of labor, as the attainment of an ever increasing variety of individual goals is sought within the social nexus. These evolutionary tendencies are described by Mises in the following terms:

Society develops subjectively and objectively; subjectively by enlarging its membership, objectively by enlarging the aims of its activities. Originally confined to the narrowest circles of people, to immediate neighbours, the division of labour gradually becomes more general until it eventually includes all mankind. This process, still far from complete and never at any point in history completed, is finite. When all men on earth form a unitary system of division of labor, it will have reached its goal. Side by side with this extension of the social bond goes a process of intensification. Social action embraces more and more aims; the area in which the individual provides for his own consumption becomes constantly narrower [1969, p. 324].

The latter tendency for division of labor to intensify effects “the highest possible concentration of the production of each specialty”

consistent with geographical factors, such as the distribution of natural resources and climatic conditions. In the absence of such geographical impediments, social evolution “would finally result in the emergence of one factory supplying the whole oecumene with some particular article” (Mises 1985, p. 23).

As the final and full fruition of social evolution driven by the cosmic ontological principle of division of labor, the “oecumene” embraces all of humanity cooperating in hyperspecialized production processes. At any point in history, the evolving oecumene is the “rational and intended” outcome of an intersubjective process, whose purpose is the amelioration of scarcity. It exists not as a thing unto itself but as a complex of social relations which emerges from a common orientation of individual human actions, i.e., to use the social division of labor as the means to attain individual goals. Because such relations thus emanate from the will, they must be daily affirmed and recreated in human thought and conduct.

The Rationalistic Basis of Rules of Conduct and Social Institutions

If society and social evolution are emanations of the human will, a “will-phenomenon” as Mises says, so are the ancillary social institutions, customs, and rules of conduct which facilitate the establishment and smooth functioning of the system of social relationships. Law, the moral code, marriage and the nuclear family, private property, specialized occupations and professions, linguistic developments, and the market economy itself are the outcome of conscious endeavors by human beings to adjust more effectively to the requirements of the fundamental social relation and thereby make more productive use of the principle of the division of labor in achieving their goals. While these institutions were not created out of whole cloth by a single mind, political fiat or “social contract,” they are indeed the products of rational and intentional planning by human beings, whose thoughts and actions continually reaffirm and reshape them in the course of history (1969, p. 306).

Thus Mises argues that “Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns” (1966, p. 883). In order to reap the benefits of social cooperation, each individual must refrain from seeking ephemeral advantages through actions “detrimental to the smooth functioning of the social system” and, therefore, to his own rightly understood interests (Mises 1966, p. 148).

Law evolves as part of the system of “the rules of conduct indispensable for the preservation of society” (Mises 1966, p. 149). The development of these rules of conduct, like that of society itself, is an evolutionary *and* rational process. Mises emphatically rejects the naive rationalist explanation of society and of the legal order, which construes their origination and development as “a conscious process ... in which man is completely aware of his motives, of his aims and how to pursue them” (1969, p. 43). Nonetheless, Mises affirms that evolution of law is crucially dependent on the fact that the “position of social ends in the system of individual ends is perceived by the individual’s reason, which enables him to recognize aright his own interests” (1969, p. 398). Where the naive rationalist asserts that law sprang into existence full-grown from a set of explicit presocietal contracts, Mises as social rationalist characterizes law as a “settlement, an end to strife” which emerges naturally from the process of social evolution and spreading awareness of the higher productivity of peaceful integration into the social division of labor (1969, p. 44). This explains, furthermore, why “The idea of Law is realized at first in the sphere in which the maintenance of peace is most urgently needed to assure economic continuity ... that is in the relations between individuals [i.e., the realm of private law]” (Mises 1969, p. 46).

As an instrument designed to increase mutual prosperity by facilitating social cooperation, the law has a teleological and rationalistic basis: “Like all other social institutions, the Law exists for social purposes” (Mises 1969, p. 77). As such, “Law and legality, the moral code and social institutions ... are of human origin, and the only yardstick that must be applied to them is that of expediency with regard to human welfare” (Mises 1966, p. 147).

However, the repression of the antisocial conduct of the intellectually defective, the weak-willed, or individuals who heavily discount the future consequences of their actions is not accomplished solely or even mainly by the coercive powers of the legal authorities. Broadly accepted morals and customs evolved as a first line of defense against behavior potentially destructive of social relationships. As Mises points out:

Not every social norm requires that the most extreme coercive measures shall at once be put into force. In many things, morals and custom can wring from the individual a recognition of social aims without assistance from the sword of justice. Morals and custom go further than State law in so far as there may be a difference in extent between them, but no incompatibility of principle [1969, p. 399].

This is the meaning behind Mises’s dictum that “Morality consists

in the regard for the necessary requirements of social existence that must be demanded of each individual member of society. A man living in isolation has no moral rules to follow" (Mises 1987b, p. 33).

Like law and normative rules of conduct, private property is, at the same time, an "outgrowth of an age old evolution" and "a human device" (Mises 1966, pp. 654, 683). It originated as a rational response to scarcity, when, encountering lowered productivity due to increased population density, people deliberately decided to abandon "predatory methods" of hunting and gathering and to permanently appropriate to themselves the most productive land factors (Mises 1966, pp. 656-57). Moreover, the historical development of private property was powerfully conditioned by ideology, which, as we shall see below, is the product of conscious human thought.

Monogamous marriage and the nuclear family are also social institutions that evolved as products of rational insight into the requirements of the division of labor. "As a social institution marriage is an adjustment of the individual to the social order by which a certain field of activity, with all its tasks and requirements, is assigned to him" (Mises 1969, p. 99). In this sense, it is the application of the principle of the division of labor to those extra-catalactic tasks that are immediately prerequisite to the enjoyment of consumption goods, whether acquired on the market or produced within the household, e.g., the bearing and raising of children. It is a chosen form of social cooperation in the face of the pervasiveness of scarcity in human life.

Marriage and family life are therefore not products of innate sexual drives or natural instincts. These institutions originated and continue to exist as an integral part of social life because ratiocination of individual human beings daily affirms their benefits. In Mises's words, "neither cohabitation, nor what precedes it and follows, generates social cooperation and societal modes of life. The animals too join together in mating, but they have not developed social relations. Family life is not merely a product of sexual intercourse. It is by no means natural and necessary that parents and children live together in the way in which they do in the family. The mating relation need not result in a family organization. The human family is an outcome of thinking and acting" (Mises 1969, p. 168).

Nor is the modern ideal of monogamous marriage a creation of ecclesiastical directives. Modern marriage is a product of the evolution of contract law and its deliberate extension into matters of family life. Monogamy historically wins out over polygamy as conflict over control and disposition of the property that a woman brings to a marriage, including the identification of her proper heirs, is resolved

through recourse to the idea of contract. This process is described by Mises in the following passage:

Thus monogamy has been gradually enforced by the wife who brings her husband wealth and by her relatives—a direct manifestation of the way in which capitalist thought and calculation has penetrated the family. In order to protect legally the property of wives and their children a sharp line is drawn between legitimate and illegitimate connection and succession. The relation of husband and wife is acknowledged as a contract.

As the idea of contract enters the Law of Marriage, it breaks the rule of the male, and makes the wife a partner with equal rights. From a one-sided relationship resting on force, marriage thus becomes a mutual agreement; the servant becomes the married wife entitled to demand from the man all that he is entitled to ask from her. ...

This evolution of marriage has taken place by way of the law relating to the property of married persons. Woman's position in marriage was improved as the principle of violence was thrust back, and as the idea of contract advanced in other fields of the Law of Property it necessarily transformed the property relations between the married couple. The wife was freed from the power of her husband for the first time when she gained legal rights over the wealth that she brought into marriage and which she acquired during marriage. ...

Thus marriage, as we know it, has come into existence entirely as a result of the contractual idea penetrating into this sphere of life. All our cherished ideals of marriage have grown out of this idea. That marriage unites one man and one woman, that it can be entered into only with the free will of both parties, that it imposes a duty of mutual fidelity, that a man's violations of the marriage vows are to be judged no differently from a woman's, that the rights of husband and wife are necessarily the same—these principles develop from the contractual attitude to the problem of marital life [1969, pp. 95-96].

In sum, family life in its modern form, as well as the morals and rules of conduct that sustain and make it possible, are the outcome of a historical process directed by reason and fueled by the eagerness of individual human beings to establish living arrangements compatible with the fullest possible satisfaction of their desires under the evolving division of labor. Thus, as Mises concludes, modern marriage “is the result of capitalist, and not ecclesiastical, development” (1969, p. 97).

Like the morals underlying marriage, all spiritual or intellectual phenomena, including religion and culture, are powerfully conditioned by the development of the social division of labor. As Mises points out, “all inner culture requires external means for its realization, and these external means can be attained only by economic effort. When the productivity of labor decays through the retrogression of social co-operation the decay of inner culture follows” (1969, p. 310).

Mises illustrates this historically by noting the decline of the Roman Empire, which “was only a result of the disintegration of ancient society which after reaching a high level of division of labor sank back into an almost moneyless economy” (1969, p. 309). The “disintegration” of the social division of labor delivered a devastating setback not only to human population, productivity, and prosperity, but also to scientific, technical, and artistic pursuits. In short, “The Classical culture died because Classical society retrogressed” (Mises 1969, p. 309).

Linguistic evolution is also intimately connected with changes occurring in the division of labor. Language is “a tool of thinking and acting” and, as such, “changes continually in conformity with changes occurring in the minds of those who use it” (Mises 1985, p. 232). When communication between members of a linguistically homogeneous group is impaired or altogether cut off, the consequence is a divergent evolution of the language among the isolated groups from that point onward. Thus Mises explains the emergence of local dialects as a “disintegration of linguistic unity” that results “When communication between the various parts of a nation’s territory was infrequent on account of the paucity of the interlocal division of labor and the primitiveness of transportation facilities ...” (1985, p. 233).

Along with genetic endowment and natural environment, Mises identifies the social division of labor as an important factor operating to constrain the possibilities of the individual’s “being and becoming” at any point in history (1969, pp. 314-15). The individual is born into a social environment characterized by pre-existing rules of conduct, linguistic conventions, legal and moral codes, customs, and social institutions whose *raison d’être* is to render possible human cooperation under the division of labor. In choosing to integrate himself into society, the individual must consciously adapt himself to the division of labor both physically and spiritually: physically, by forgoing the exercise and development of his abilities and skills in a whole range of tasks designed to serve directly his own wants and by pursuing a highly specialized profession or occupation oriented to satisfying the wants of other human beings; and spiritually, by adopting behavior in accordance with social norms and institutions.

Thus, according to Mises (1969, p. 304), “The most important effect of the division of labor is that it turns the independent individual into a dependent social being. Under the division of labor, social man changes. ... He adapts himself to new ways of life, permits some energies and organs to atrophy and develops others. He becomes one-sided.”

Moreover, as Mises points out, the very concept of an isolated human being is a fiction, a useful mental construct for the elaboration of economic theory but impossible of realization in history (Mises

1966, pp. 243-44; Mises 1969, pp. 291-92). *Homo sapiens* is necessarily a creature of social cooperation under division of labor, because language, the prerequisite of conscious thought, cannot be developed by an isolated being. As Mises expresses it:

The biological passing of a species of primates above the level of a mere animal existence and their transformation into primitive men implied the development of the first rudiments of social cooperation. *Homo sapiens* appeared on the stage of earthly events neither as a solitary food-seeker nor as a member of a gregarious flock, but as a being consciously cooperating with other beings of his own kind. Only in cooperation with his fellows could he develop language, the indispensable tool of thinking. We cannot even imagine a reasonable being living in perfect isolation and not cooperating at least with members of his family, clan, or tribe. Man as man is necessarily a social animal. Some sort of cooperation is an essential characteristic of his nature [1985, p. 252].

These considerations lead Mises to conclude that “The development of human reason and human society are one and the same process” (1969, p. 291). Elsewhere Mises affirms “the inner and necessary connection between evolution of the mind and evolution of society” (1969, p. 300). But if social cooperation is a necessary precondition of the origination of the human mind, the existence and evolution of the social division of labor beyond the rudimentary level depends on the ability of the human intellect to operate with cardinal numbers in order to calculate the outcome of social production processes. This is another sense in which, for Mises, society can be considered a rational phenomenon.

Economic Calculation, Market, and Society

Mises characterizes the market as “the foremost social body” (1966, p. 315). As such the market economy is “the product of a long evolutionary process” (Mises 1966, p. 265). This does not imply, however, that market relations are a nonteleological or undesigned outcome of tropistic and nonrational cultural selection processes. To the contrary, Mises argues that the market economy is the product of conscious reason and teleological striving, it is “the outcome of man’s endeavors to adjust his action in the best possible way to the given conditions of his environment that he cannot alter” (1966, p. 265). In this spirit, Mises refers to the market economy both as “a man-made mode of acting under the division of labor” and as a “strategy” for achieving social and economic progress (1966, p. 265).

Moreover, the market originates and evolves through individual exchanges, which involve “intentional mutuality” and “conscious and purposeful cooperation” (Mises 1966, p. 194). As Mises writes, “The

recurrence of individual acts of exchange generates the market step by step with the evolution of the division of labor within a society based on private property" (1966, p. 327). It follows then that "The exchange relation is the fundamental social relation. Interpersonal exchange of goods and services weaves the bond which unites men into society. The societal formula is: *do ut des*" (Mises 1966, p. 194).

By virtue of the fact that it subsists in the network of exchanges continually recurring among purposeful human actors, the market and its configuration at any moment in time is to be explained by the human values and choices which give rise to these exchanges. In this sense, certainly, market society is a purposeful creation, an intended consequence of consciously chosen behavior. According to Mises:

The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor. The forces determining the—continually changing—state of the market are the value judgments of these individuals and their actions as directed by these value judgments. ... The market is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society. ...

... [T]he only factors directing the market and the determination of prices are the purposive acts of men. There is no automatism; there are only men consciously and deliberately aiming at ends chosen. There are no mysterious mechanical forces; there is only the human will to remove uneasiness [1966, pp. 257-58, 315].

But while market phenomena are to be explained completely in terms of conscious human choices, the successive price structures which emerge in the course of the market process are genuinely "social" phenomena. They are social in the sense that, although every individual transactor contributes to their formation, they represent more than any particular individual's contribution. The result is that each individual when planning his market activities takes prices into account as if they were uninfluenced by his own actions. As Mises writes:

The market phenomena are social phenomena. They are the resultant of each individual's active contribution. But they are different from each such contribution. They appear to the individual as something given which he himself cannot alter. ...

... [Prices] are social phenomena as they are brought about by the interplay of the valuations of all individuals participating in the operation of the market. Each individual, in buying or not buying and in selling or not selling, contributes his share to the formation of the market prices. But the larger the market is, the smaller is the weight of each individual's contribution. Thus the structure of market prices appears to the individual as a datum to which he must adjust his own conduct [1966, pp. 315, 331].

Mises emphasizes that it is not any particular price but the momentarily prevailing complex of interrelationships among prices that constitutes the social aspect of the market:

It would be absurd to look upon a definite price as if it were an isolated object in itself. A price is expressive of the position which acting men attach to a thing under the present state of their efforts to remove uneasiness. It does not indicate a relationship to something unchanging, but merely the instantaneous position in a kaleidoscopically changing assemblage. In this collection of things considered valuable by the value judgments of acting men each particle's place is interrelated with those of all other particles. What is called a price is always a relationship within an integrated system which is the composite effect of human relations [1966, p. 392].

In determining the price structure, the market also determines, as part of the same social process, the allocation of labor and other resources among various lines of production and the "distribution" of income among the various individuals contributing to production. Writes Mises:

The pricing process is a social process. It is consummated by an interaction of all members of society. All collaborate and cooperate, each in the particular role he has chosen for himself in the framework of the division of labor. Competing in cooperation and cooperating in competition all people are instrumental in bringing about the result, viz., the price structure of the market, the allocation of the factors of production to the various lines of want-satisfaction, and the determination of the share of each individual. These three events are not different matters. They are only different aspects of one indivisible phenomenon. ... In the market process they are accomplished *uno acto* [1966, p. 338].

It is thus that the market process gives rise to "not only the price structure but no less the social structure, the assignment of definite tasks to the various individuals" (Mises 1966, p. 311). It is the market and the market alone which permits the development and persistence of a meaningful and purposeful social order. Under the guidance of the market, each individual chooses purposefully to integrate himself with greatest advantage to himself and to his fellows into the social division of labor. In this way, the social system "is steered by the market. ... The market alone puts the whole social system in order and provides it with sense and meaning" (Mises 1966, p. 257).

In Misesian social theory, therefore, the hallmark and *sine qua non* of market society and of social being itself is not its "spontaneity" (whatever that may mean) but its purposefulness. When the social steering mechanism of the market is destroyed, as it is under socialist central planning, systematic and meaningful social cooperation

becomes impossible and is replaced by “a system of groping about in the dark. What is called conscious planning is precisely the elimination of *conscious purposive action* [emphasis is mine]” (Mises 1966, pp. 700-01).

While human cooperation in the division of labor is made possible by the social resultant of market exchange relationships, i.e., the price structure, the market itself is predicated upon an intellectual operation consciously originated and performed by the individual human mind. This operation is what Mises calls “economic calculation in monetary terms” or simply “monetary calculation.” According to Mises monetary calculation is “the intellectual basis of the market economy” and “the guiding star of action under the social system of division of labor” (1966, pp. 229, 259). It is a “method of thinking” purposefully created by “acting man,” which “made it possible to calculate his actions” (Mises 1966, p. 231).

Calculation is absolutely necessary for an actor to determine the most advantageous allocation of scarce resources in a world in which resources are neither purely nonspecific nor absolutely specific to a wide variety of possible production processes (Mises 1966, pp. 207-08). Under these conditions, therefore, monetary calculation:

is the compass of the man embarking upon production. He calculates in order to distinguish the remunerative lines of production from the unprofitable ones. ... Every single step of entrepreneurial activities is subject to scrutiny by monetary calculation. The premeditation of planned action becomes commercial precalculation of expected costs and expected proceeds. The retrospective establishment of the outcome of past action becomes accounting of profit and loss [Mises 1966, p. 229].

Capital, “the fundamental concept of economic calculation,” and the correlative concept of income enable the actor to mentally grasp the distinction between means and ends “with regard to the perpetually changing conditions of highly developed processing industries and the complicated structure of the social cooperation of hundreds of thousands of specialized jobs and performances” (Mises 1966, pp. 260-61). Capital accounting is thus the indispensable precondition of the expression of individual rationality and purpose within the context of the social division of labor, because, without recourse to this intellectual operation, men and women would be unable to evaluate the outcomes, whether consummated or expected, of their actions. According to Mises: “Monetary calculation reaches its full perfection in capital accounting. It establishes the money prices of the available means and confronts this total with the changes brought about by action and by the operation of other factors. This confrontation shows

what changes occurred in the state of the acting man's affairs and the magnitude of those changes; it makes success and failure, profit and loss ascertainable" (1966, p. 230).

Without the possibility of economic calculation, even a human actor in perfect isolation would find his range of purposeful activities or "autistic exchanges" restricted to less than the full range of production possibilities determined by the purely external elements of his environment (including his labor capacities). In characterizing the economies of the isolated individual and of the isolated socialist society as unrealizable "imaginary constructions," Mises declares: "Robinson Crusoe, who ... may have existed, and the general manager of a perfectly isolated socialist commonwealth that never existed would not have been in a position to plan and to act as people can only when taking recourse to economic calculation" (1966, p. 243).

Market and therefore society are impossible without calculable action. Mises is emphatic on this point: "The tasks set to acting within any system of the division of labor cannot be achieved without economic calculation. ... That [the market] is capable of such calculation was instrumental in its evolution and conditions its present-day operation. *The market economy is real because it can calculate* [emphasis mine]." Thus logic dictates that a treatment of the problem of economic calculation precede the systematic elaboration of a theory of the market economy. Catallactics, in turn, must precede the analysis of alternative economic systems, such as socialism, that provide no scope for calculable action. These latter systems of economic organization cannot even be conceptualized without recourse to the calculational modes of thought developed within the market economy. To quote Mises:

The analysis of the problems of the market society, the only pattern of human action in which calculation can be applied in planning action, opens access to the analysis of all thinkable modes of action and of all economic problems with which historians and ethnographers are confronted. All noncapitalistic methods of economic management can be studied only under the hypothetical assumption that in them too cardinal numbers can be used in recording past action and planning future action. This is why economists place the study of the pure market economy in the center of their investigation [1966, pp. 266-67].

But, as Mises points out, economic calculation involves arithmetic computation and "computation requires a common denominator to which all items entered are to be referable" (1966, p. 214). It is for this reason that economic calculation can only be calculation in terms of money prices and that the development of economic calculation as

well as of the application of cardinal numbers in all areas of human life is logically and historically inseparable from the evolution of money and the market economy. As Mises writes:

Thus money becomes the vehicle of economic calculation. ... only because money is the common medium of exchange, because most goods and services can be sold and bought on the market against money, and only as far as this is the case, can men use money prices in reckoning. The exchange ratios between money and the various goods and services as established on the market of the past and as expected to be established on the market of the future are the mental tools of economic planning. Where there are no money prices there are no such things as economic quantities. ... There is no means for man to find out what kind of action would best serve his endeavors to remove his uneasiness as far as possible ... [1966, pp. 208-09]

... [Monetary calculation] developed in the frame and was gradually perfected with the improvement of the market mechanism and with the expansion of the scope of things which are negotiated on markets against money. It was economic calculation that assigned to measurement, number, and reckoning the role they play in our quantitative and computing civilization. The measurements of physics and chemistry make sense for practical action only because there is economic calculation. It is monetary calculation that made arithmetic a tool for a better life. It provides the mode of using achievements of laboratory experiments for the most efficacious removal of uneasiness. ... Our civilization is inseparably linked with our methods of economic calculation. It would perish if we were to abandon this most precious intellectual tool of acting [1966, p 230].

Use of Calculation versus Use of Knowledge: The Social Function of Prices

In Mises's view, then, human society is a profoundly rational phenomenon, a product of the capacity of the human intellect to conceive cardinal numbers and manipulate them in arithmetic operations. To assert therefore that the primary function of the market's price system is to effectuate "the use of knowledge in society" is to seriously misconceive the nature of the social problem. *The problem of society* is first and foremost one of calculating the outcome of purposive action undertaken within the framework of the division of labor. As the only possible tool of calculable action, money prices do not merely permit people to utilize their individual "knowledge of particular circumstances of time and place" to enhance the efficiency with which goods are produced in society, prices render possible the very existence of social production processes. For Mises, therefore, the market provides for far more than a "division of knowledge," it produces "the intellectual division of labor that consists in the cooperation of all

entrepreneurs, landowners, and workers as producers and consumers in the formation of market prices. [W]ithout it, rationality, i.e., the possibility of economic calculation, is unthinkable" (1985b, p. 75).

In fact Mises presents a penetrating critique of the Walrasian view that, in the plans of producers, prices substitute for knowledge of the economic data or, rather, for entrepreneurial understanding and appraisal of future variations of these data. Mises's critique is grounded on the incontrovertible fact that "The prices of the market are historical facts expressive of a state of affairs that prevailed at a definite instant of irreversible historical time" (Mises 1966, p. 223). As such, realized prices can never serve as an unambiguous guide to production, which is always aimed at supplying a market of the more or less remote future involving a different configuration of the economic data. Indeed, if producers were certain that the data underlying future markets would never differ from those determining the present or immediately past state of the market, they could completely dispense with prices and calculation and simply perform the same productive activities over and over again. For, as Mises reminds us, "the main task of economic calculation is not to deal with the problems of unchanging or only slightly changing market situations and prices, but to deal with change" (1966, p. 212). Ironically, a world in which prices (of previously consummated exchanges) convey knowledge upon which to base future-oriented production decisions is a world in which the price system is, as Mises might say, "supererogatory and otiose."

In the real world of action and change, on the other hand, "Exchange ratios are subject to perpetual change because conditions which produce them are perpetually changing. The value that an individual attaches both to money and to various goods and services is the outcome of a moment's choice" (Mises 1966, p. 217). The result, according to Mises, is that "The planning businessman cannot help employing data concerning the unknown future; he deals with future prices and future costs of production" (1966, p. 224). Moreover, since past prices are not causally linked to the emergence of future prices, they cannot embody knowledge relevant to the drafting of present production plans. This is an irrefutable conclusion of praxeological analysis, the neglected negative implication of Mises's regression theorem.

Explains Mises:

In drafting their plans entrepreneurs look first at the prices of the immediate past which are mistakenly called *present* prices. Of course, the entrepreneurs never make these prices enter into their calculations without paying regard to anticipated changes. The prices of the

immediate past are for them only the starting point of deliberations leading to forecasts of future prices. The prices of the past do not influence the determination of future prices. It is, on the contrary, the anticipation of future prices of the products that determines the state of prices of the complementary factors of production. *The determination of prices has, as far as the mutual exchange ratios between various commodities are concerned, no direct causal relationship whatever with the prices of the past* [emphasis mine; 1966, p. 336].

In a qualifying footnote to this passage, Mises notes that, in the case of the exchange ratio between money and other economic goods, the emphasized statement does not apply. This is a reference to Mises's regression theorem, according to which the money unit's past purchasing power is a causal factor in the determination of its current purchasing power (1966, p. 336 fn. 2).

It is clear therefore that in Mises's view the information yielded by the price system does not obviate entrepreneurial forecasting and interpretative understanding of the constellation of data underlying the markets of the future. What role then does the knowledge of past prices play in today's decisions about the allocation of resources? According to Mises, past prices are useful to entrepreneurs in "appraising" the future prices that will emerge in the wake of forecast data changes. Or, put another way, yesterday's prices do not "economize knowledge" but save on the mental effort expended by the entrepreneur in striving to "understand" the effects of anticipated change on tomorrow's price structure, the elements of which serve as the cardinal numbers in today's economic calculations. Recourse to their experience of past prices eliminates the need for entrepreneurs to mentally reconstruct *ab initio* the price structure and the pattern of resource allocation every time there occurs an anticipated shift in the data requiring the calculation of new production decisions. Entrepreneurial appraisalment is enormously simplified when it may proceed by estimating the effects of anticipated variations of the data on a preexisting price structure. As Mises writes:

Numbers applied by acting man in economic calculation do not refer to quantities measured but to exchange ratios as they are expected—on the basis of understanding—to be realized on the markets of the future to which alone all acting is directed and which alone counts for acting man. ... As acting is always directed toward influencing a future state of affairs, economic calculation always deals with the future. As far as it takes past events into consideration, it does so only for the sake of an arrangement of future action. ...

The prices of the past are for the entrepreneur, the shaper of future production, merely a mental tool. The entrepreneurs do not construct afresh every day a radically new structure of prices or allocate anew

the factors of production to the various branches of industry. They merely transform what the past has transmitted in better adapting it to the altered conditions. How much of the previous conditions they preserve and how much they change depends on the extent to which the data have changed. ... In order to see his way in the unknown and uncertain future man has within his reach only two aids: experience of past events and his faculty of understanding. Knowledge about past prices is a part of this experience and at the same time the starting point of understanding the future [1966, pp. 210, 337].

As one component of experience, past prices are therefore an important, but by no means indispensable, auxiliary for entrepreneurial understanding of the future course of prices. However, since it is, in the final analysis, *future* prices which concern entrepreneurs, Mises concludes that economic calculation and rational allocation of resources could still take place even in the event of a complete obliteration of the memory of past prices:

If the memory of all prices of the past were to fade away, the pricing process would become more troublesome, but not impossible as far as the mutual exchange ratios between various commodities are concerned. It would be harder for the entrepreneurs to adjust production to the demand of the public, but it could be done nonetheless. It would be necessary for them to assemble anew all the data they need as the basis of their operations. They would not avoid mistakes which they now evade on account of experience at their disposal. Price fluctuations would be more violent at the beginning, factors of production would be wasted, want-satisfaction would be impaired. But finally, having paid dearly, people would again have acquired the experience needed for a smooth working of the market process [1966, p. 337].

Let me summarize Mises's position on the social function of prices and the acquisition and use of knowledge in society. The price system is not—and praxeologically cannot be—a mechanism for economizing and communicating the knowledge relevant to production plans. The realized prices of history are an accessory of appraisalment, the mental operation in which the faculty of understanding is used to assess the quantitative structure of price relationships which corresponds to an anticipated constellation of the economic data. Nor are anticipated future prices tools of knowledge; they are instruments of economic calculation. And economic calculation itself is not the means of acquiring knowledge, but the very prerequisite of rational action within the setting of the social division of labor. It provides individuals, whatever their endowment of knowledge, the indispensable tool for attaining a mental grasp and comparison of the means and ends of social action. As Mises says: "It is not the task of economic calculation to expand man's information about future conditions. Its task

is to adjust his actions as well as possible to his present opinion concerning want-satisfaction in the future" (1966, p. 214).

The Problem of Socialism: Calculation or Knowledge?

It is therefore clear that Mises's critique of the possibility of socialism is not about knowledge but about calculation. It proceeds ineluctably from his insight that, although cardinal numbers and their arithmetic properties are "eternal and immutable categories of the human mind," economic calculation is "only a category inherent in acting under special conditions" or what the German Historical School referred to as an "historical category" (Mises 1966, pp. 199, 201). Thus "The system of economic calculation in monetary terms is conditioned by certain social institutions. It can operate only in an institutional setting of the division of labor and private ownership of the means of production, in which goods and services of all orders are bought and sold against a generally used medium of exchange, i.e., money" (Mises 1966, p. 229). Should these preconditions of calculable action disappear in the further course of social evolution, due, for example, to the abolition of private ownership of the nonhuman means of production, rational social action will become impossible and social division of labor will literally disintegrate into its component parts, into primitive household economies.

Simply and starkly put, Mises's position is that "Human cooperation under the system of the social division of labor is possible only in the market economy. Socialism is not a realizable system of society's economic organization because it lacks any method of economic calculation. ... The choice is between capitalism and chaos" (Mises 1966, pp. 679-80). Elsewhere Mises declares "economic calculation" to be "the essential and unique problem of socialism" (1966, p. 703).

Nor did Mises ignore the so-called "knowledge problem" faced by central planners. In fact, in his later discussion of socialism in *Human Action*, he carefully and repeatedly distinguished between the problem of calculation and that of knowledge, by explicitly assuming that the economic planners possessed full knowledge of the relevant economic data (Mises 1966, pp. 689-715).

For example, Mises prefaces his chapter on the "Impossibility of Economic Calculation under Socialism" with the following list of assumptions: "We assume that the director has at his disposal all the technological knowledge of his age. Moreover, he has a complete inventory of all the material factors of production available and a roster enumerating all manpower employable. In these respects the crowd of experts and specialists which he assembles in his offices

provide him with perfect information and answer correctly all questions he may ask them. We assume that the director has made up his mind with regard to the valuation of ultimate ends. ... We may assume, for the sake of argument, that a mysterious power makes everyone agree with one another and with the director in the valuation of ultimate ends" (1966, p. 696).

The planner thus possesses "perfect information" about the general rules of technology and about the particular circumstances of time and place relating to each consumer's value scale and to the availability of each of the variety of factors. Now consider, as Mises does, the planner's decision to build a house under these conditions. Mises argues that the planner still faces the insoluble problem of which of the various known technical methods for realizing his project he should select. Each of the methods employ the given factors in different quantities, each absorbs a different period of production, and each yields a building with a different physical durability.

Mises elaborates the problem confronting the planner in this situation in the following terms:

Which method should the director choose? He cannot reduce to a common denominator the items of various materials and various kinds of labor to be expended. Therefore he cannot compare them. He cannot attach either to the waiting time (period of production) or to the duration of serviceableness a definite numerical expression. In short, he cannot, in comparing costs to be expended and gains to be earned, resort to any arithmetical operation. The plans of his architects enumerate a vast multiplicity of items in kind; they refer to the physical and chemical qualities of various materials and to the physical productivity of various machines, tools, and procedures. But all their statements remain unrelated to each other. There is no means of establishing any connection between them. ... Eliminate economic calculation and you have no means of making a rational choice between the various alternatives [1966, pp. 698-99].

For Mises, therefore, "the crucial and only problem of socialism ... is a purely economic problem, and as such refers merely to means and not to ultimate ends" (1966, p. 697). In other words, it is the problem purely of Robbinsian maximizing, of deciding how *given* means are to be allocated in light of a *given* structure of ends.

In responding to the socialist criticism that capitalist calculation is fallible because it takes place under conditions of uncertainty, Mises leaves no doubt that inability to calculate and lack of knowledge are logically distinct problems and that the former is the rock upon which the socialist ship founders. Writes Mises:

all human action points to the future and the future is always uncertain. The most carefully elaborated plans are frustrated if

expectations concerning the future are dashed to the ground. However, this is a quite different problem. Today we calculate from the point of view of our present knowledge and of our present anticipation of future conditions. We do not deal with the problem of whether or not the director will be able to anticipate future conditions. What we have in mind is that the director cannot calculate from the point of view of his own present value judgments and his own present anticipation of future conditions, whatever they may be. If he invests today in the canning industry, it may happen that a change in consumers' tastes or in hygienic opinions concerning the wholesomeness of canned food will one day turn his investment into a malinvestment. But how can he find out *today* how to build and equip a cannery most economically [1966, pp. 699-700]?

It is because socialism lacks the means to calculate, therefore, that Mises emphatically denies that men "are free to adopt socialism without abandoning economy in the choice of means" or that "Socialism does not enjoin the renunciation of rationality in the employment of the factors of production" (1966, p. 702).

Mises approaches the knowledge versus calculation issue from still another angle. He assumes that human history has, in effect, come to an end and that all further changes in the economic data have ceased. He assumes in addition that the socialist central planner is miraculously endowed with perfect knowledge relating to the full data of this final equilibrium state. Even in this situation the planner confronts a problem requiring economic calculation. The planner must decide how to utilize most economically the means of production bequeathed by the past, e.g., the existing capital structure and acquired skills and location of the labor force, which are not yet adjusted to their equilibrium configurations. For, as Mises points out,

as long as the equilibrium is not yet attained, the system is in a continuous movement which changes the data. The tendency toward the establishment of equilibrium, not interrupted by the emergence of any changes in the data coming from without, is in itself a succession of changes in the data. ... The knowledge of conditions which will prevail under equilibrium is useless for the director whose task it is to act today under present conditions. What he must learn is how to proceed in the most economical way with the means available today which are the inheritance of an age with different valuations, a different technological knowledge, and different information about problems of location. He must know which step is the next he must take. ... [Thus] even if ... we assume that a miraculous inspiration has enabled the director without economic calculation to solve all problems concerning the most advantageous arrangement of all production activities and that the precise image of the final goal he must aim at is present to his mind, there remain essential problems which cannot be dealt with without economic calculation [1966, pp. 712-13].

There is a significant implication of our interpretation of Mises's critique of socialism. Although the market economy has perfectly solved the problem of economic calculation—its very existence attests to the veracity of this conclusion—praxeologically, at least, it is on all fours with socialism with regard to the knowledge problem. For the imperfection of knowledge deriving from uncertainty of the future is a category of all human action, which cannot be overcome by recourse to the market price system, entrepreneurial alertness, the competitive discovery process, and so on. In any event, comparisons between centrally planned and market economies on the basis of their alternative mechanisms for discovering and disseminating knowledge have little more than heuristic value, precisely because, even assuming conditions of perfect knowledge, calculable, and therefore purposeful, action is logically impossible under central planning. On the other hand, a market economy in which relatively obtuse and mentally inert entrepreneurs appraise and plan on the basis of spotty and inaccurate knowledge of future conditions could still exist and operate because it would permit the calculations necessary for the Robbinsian economizing of scarce productive factors.

On this basis, we are led to reject the revisionist "discovery-process view" of the socialist calculation debate at least as it applies to Mises's contribution (Hayek's is another matter). This view has been recently enunciated by Israel Kirzner (1988) and Don Lavoie (1985) and basically concludes that the Austrian position in the debate "represented a critique of socialism only because and to the extent that markets under capitalism indeed constitute such a dynamic process of entrepreneurial discovery" (Kirzner 1988, p. 3). But this ignores Mises's key insight that the theory of monetary calculation and calculable action does not belong to the theory of catallactics. As a logical inference from categorial uncertainty, "It is part of the general theory of praxeology" (Mises 1966, p. 398, fn.1) and, as such, is a logical antecedent of catallactic theorems relating to the dynamic role of the entrepreneur-promoter in the functioning of the market process.

The Kirzner-Lavoie approach also errs in distinguishing the advantages of economic calculation from "the broader issue of the social advantages of the price system" (Kirzner 1988, p. 12). As we have documented in great detail above, however, Mises never made this distinction, even in his most mature view of the market process as presented in *Human Action*. In fact Mises conceived *the* social advantage of the price system to be that it made practicable human society itself by providing the cardinal numbers for computing the costs and benefits of purposive action undertaken within the social division of labor.

Finally, Mises, in sharp contrast to the discovery-process approach, denied that prices are directly relevant to the entrepreneurial discovery of information about future market conditions. On the one hand, according to the regression theorem, relative prices of the past are logically unrelated to relative prices which will emerge on future markets. On the other hand, future prices themselves must be appraised in light of the logically prior process of entrepreneurial discovery or, more accurately, “understanding” of yet to emerge market conditions.

Social Evolution as Ideological Struggle

Mises’s recognition of the ability of human reason to grasp the benefits of social cooperation and to identify and implement its intellectual and institutional preconditions leads him to affirm that “human action itself tends toward cooperation and association” (Mises 1966, p. 160). The progressive extension and intensification of the division of labor and the concomitant flowering of society is only a tendency in social evolution, however, subject to reinforcement, retardation, or even reversal by ideology. As Mises notes, “There is no evidence that social evolution must move steadily upwards in a straight line. Social standstill and social retrogression are historical facts which we cannot ignore. World history is the graveyard of dead civilizations” (1969, pp. 309-10).

Ideology, as defined by Mises, is the “totality of our doctrines concerning individual conduct and social relations” (1966, p. 178). Since all social interactions and relationships involve conscious human behavior necessarily guided by specific ideas, human society itself, at any point in its history, is an ideological, which is to say rational, creation. Mises is emphatic on this point, declaring:

Society is a product of human action. Human action is directed by ideologies. Thus society and any concrete order of social affairs are an outcome of ideologies. ...

Any existing state of social affairs is the product of ideologies previously thought out. Within society new ideologies may emerge and supersede older ideologies and thus transform the social system. However, society is always the creation of ideologies temporally and logically anterior. Action is always directed by ideas; it realizes what previous thinking has designed [1966, pp. 187-88].

For Mises, then, the complex of human social relations is, in a fundamental sense, the product of rational design. Society is hardly a “spontaneous” or “undesigned” formation, because it is inevitable that each individual excogitate and compare before hand the prospective benefits and costs of his participation in exchange relations and

the social division of labor. Nevertheless, as is clear from his discussion of the market's price structure, Mises does not deny that there may be some unintended, and, at the same time, quite momentous consequences associated with deliberate yet decentralized choices to cooperate catallactically:

Any given social order was thought out and designed before it could be realized. This temporal and logical precedence of the ideological factor does not imply the proposition that people draft a complete plan of the social system as the utopians do. What is and must be thought out in advance is not the concerting of individual actions into an integrated system of social organization, but the actions of individuals with regard to their fellow men and of already formed groups of individuals with regard to other groups. ... Before any act of barter takes place, the idea of mutual exchange of goods and services must be conceived. It is not necessary that the individuals concerned become aware of the fact that such mutuality results in the establishment of social bonds and in the emergence of a social system. The individual does not plan and execute actions intended to construct society. His conduct and the corresponding conduct of others generate social bodies [1966, p. 188].

As a social rationalist, however, Mises leaves no doubt that he considers such ignorance of the remoter consequences of catallactic activity not as a virtue to be hailed in the name of "spontaneity," but as a vice which may ultimately prove destructive of the social division of labor. The reason is that the failure of participants in the division of labor to correctly comprehend the links between their individual actions and social outcomes invites the adoption of ideologies based on erroneous accounts of the nature of society and of social progress. Such falsely-grounded ideologies, in turn, may lead to conduct inconsistent with the continued maintenance of social relations. For example, the struggle for neomercantilist privileges by special interest groups, based on the ideology of interventionism or the "mixed economy," constitutes, according to Mises,

antisocial conduct which shakes the very foundations of social cooperation. ... It is the outcome of a narrow-mindedness which fails to conceive the operation of the market economy and *to anticipate the ultimate effects of one's own actions.*

It is permissible to contend that the immense majority of our contemporaries are mentally and intellectually not adjusted to life in the market society although they themselves and their fathers have *unwittingly created this society by their actions.* But this maladjustment consists in nothing else than in the failure to recognize erroneous doctrines as such. [Emphases mine; 1966, p. 319].

Social maladjustment, which is inspired by fallacious ideology, carries in its wake the possibility of social disintegration and is more likely

to result the greater the degree to which the consequences of human actions are unintended, or, to use Mises's term, "unwitting." To the extent that social norms, policies, and institutions are "undesigned," are not completely and correctly thought out in advance and accounted for in a logically consistent ideology, to that extent does the continued existence of society become problematic. Following up on this insight, Mises advances a speculative theory of spontaneous social disintegration which links up unwitting consequences with ideological failure:

The liberal conception of social life has created the economic system based on the division of labor. The most obvious expression of the exchange economy is the urban settlement, which is only possible in such an economy. In the towns the liberal doctrine has been developed into a closed system and it is here that it has found most supporters. But the more and the quicker wealth grew and the more numerous therefore were the immigrants from the country into the towns, the stronger became the attacks which Liberalism suffered from the principle of violence. Immigrants soon find their place in urban life, they soon adopt, externally, town manners and opinions, but for a long time they remain foreign to civic thought. One cannot make a social philosophy one's own as easily as a new costume. It must be earned—earned with the effort of thought. Thus we find, again and again in history, that epochs of strongly progressive growth of the liberal world of thought, when wealth increases with the development of the division of labor, alternate with epochs in which the principle of violence tries to gain supremacy—in which wealth decreases because the division of labor decays. The growth of the towns and of the town life was too rapid. It was more extensive than intensive. The new inhabitants of the towns had become citizens superficially, but not in ways of thought. ... On this rock all cultural epochs filled with the bourgeois spirit of Liberalism have gone to ruin. ... More menacing than barbarians storming the walls from without are the seeming citizens within—those who are citizens in gesture, but not in thought [1969, p. 49].

If social disintegration may occur "spontaneously," due to an ignorance of the remoter consequences of social action, social progress can only be assured by the widespread adoption of an ideology of social life which *consciously* and correctly accounts for these consequences. This ideology is liberalism. According to Mises:

In Liberalism humanity becomes conscious of the powers which guide its development. The darkness which lay over history recedes. Man begins to understand social life and allows it to develop consciously. ...

... History is a struggle between two principles, the peaceful principle, which advances the development of trade, and the militarist-imperialist principle, which interprets human society not as a friendly division of labor but as the forcible repression of some of its members

by others. The imperialistic principle continually regains the upper hand. The liberal principle cannot maintain itself against it until the inclination for peaceful labour inherent in the masses shall have struggled through to full recognition of its own importance as a principle of social evolution [1969, pp. 48, 302].

The insight that social progress is contingent on the formulation and acceptance of a correct ideology of social life prompts Mises to emphatically reject the social meliorism of older or Enlightenment liberals, which optimistically projected a continuous, uninterrupted improvement in social conditions into the future. To Mises, this—and not the attempt to *rationaly design and construct* the institutional framework proper to man's nature as a cooperant in the social division of labor—constitutes the supreme abuse of reason (1966, pp. 864-65). A similar abuse was also committed by the social evolutionists of the nineteenth century—and, one might add, latter-day social evolutionists—who “smuggled into the theory of biological transformation the idea of progress” (Mises 1966, p. 192).

In contrast to the social meliorists and evolutionists, Mises, the social rationalist maintains that “Men are not infallible; they err very often. ... The good cause will not triumph on account of its reasonableness and expediency. Only if men are such that they will finally espouse policies reasonable and likely to attain the ultimate ends aimed at will civilization improve. ... Man is free in the sense that he must daily choose anew between policies that lead to success and those that lead to disaster, social disintegration, and barbarism” (1966, p. 193).

The rationalist view of social evolution, therefore, is not one of placid and automatic improvement insured by “unintended” consequences, “undesigned” institutions, “tacit” knowledge, and “natural selection” of rules of conduct. Social rationalism implies, instead, that human history is the outcome of a conflict between ideologies, which are consciously formulated and adopted by reasoning human beings. Whether an epoch is characterized by social progress, social retrogression, or even social disintegration depends upon which particular ideologies have become current and which individuals have attained ideological “might,” defined by Mises as “the power to influence other people's choices and conduct” (1966, p. 188). Thus, according to Mises, “The power that calls into life and animates any social body is *always* ideological might, and the fact that makes an individual a member of any social compound is always his own conduct” (1966, p. 196).

The course of social evolution and the fortunes of humanity therefore are inextricably bound up with the fortunes of the ongoing ideological struggle. No social institution can or ever does evolve in

a wholly spontaneous or unreflective way, unsullied, as it were, by ideological influences.

A case in point is language, generally cited by social evolutionists as the archetype of a social institution that develops in a basically unconscious fashion. But, as Mises argues, men's conscious reflections on social relationships and their deliberate attempts to redesign them according to the ideologies such reflections give rise to, have a powerful impact on linguistic development. This is so because language, "the most important medium for social cooperation," is at bottom ideological: "[I]t is a tool of thinking as it is a tool of social action" (Mises 1969, p. 321; Mises 1966, p. 177). As such, the abstract terms contained in a living language are "the precipitate of a people's ideological controversies, of their ideas concerning issues of pure knowledge and religion, legal institutions, political organization, and economic activities. ... In learning their meaning the rising generation are initiated into the mental environment in which they have to live and to work. This meaning of the various words is in continual flux in response to changes in ideas and conditions" (Mises 1985, p. 232).

In addition, many momentous linguistic changes in history are directly attributable to ideological causes such as political and military events (Mises 1985, pp. 228-30). Gaelic is just one example of a language that first fell into oblivion and then was partially revived as a result of ideological factors (Mises 1944, p. 85; Mises 1985, pp. 229-30). Even in the case in which a particular language is entirely the outcome of peaceful evolution, it would still be the product of a conscious commitment to liberalism, which is the ideological framework necessary to secure the peaceful development of the social division of labor. For, as Mises (1969, pp. 302, 310-11) repeatedly argues, the "oecumenical society" itself, the product of the historical unfolding of social division of labor, is essentially an ideological creation, which has been "slowly forming itself during the last two hundred years under the influence of the gradual germination of the liberal idea. ... only when the modern liberal thought of the eighteenth century had supplied a philosophy of peace and social collaboration was the basis laid for the astonishing development of the economic civilization of that age."

Ultimately, then, the degree and the direction of social evolution is governed wholly by ideological considerations. In Mises's words "The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority" (Mises 1966, p. 864).

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