Austria-Hungary's Economic Policies in the Twilight of the "Liberal" Era:

Ludwig von Mises' Writings on Monetary and Fiscal Policy Before the First World War

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Austria-Hungary and the 19th Century Liberal Era

Those who lived through the First World War and then experienced the rise of political and economic collectivism in the years following 1918 often had a deep nostalgia for the epoch that came to an end in 1914. They looked back at that earlier liberal era with remembrance of a time of international peace, growing economic prosperity, and wide respect for the liberty of the individual. There was a sense that man, before the opening shots of those guns of August in 1914, had freed himself from the old political and social superstitions of the past; and with all of his very human frailties was on the path of slow but certain improvement.

For example, in 1934, the famous British historian, G. P. Gooch, expressed this nostalgia with a lament about the world in which he now lived:

> Only men and women who, like myself, were adult citizens at the turn of the [20th] century can realize the enormous contrast between the years preceding and following the World War. I grew to manhood in an age of sensational progress and limitless self-confidence. Civilization was spreading across the earth with giant strides; science was tossing us miracle after miracle; wealth was accumulating at a pace undreamed of in earlier generations; the amenities of life were being brought within the range of an ever greater number of our fellow-creatures . . .There was a robust conviction that we were on the right track; that man was a teachable animal who would work out his salvation if given his chance; that the nations were on the march toward a larger freedom and a fuller humanity; that difficulties could be taken in their stride. . .. Some of the ruling

> conceptions of the time, such as national and political liberty, equality before the law, religious toleration and a minimum standard of life, were the ripe fruit of a long process of evolution . . . No one spoke of a possible return to the Dark Ages or wondered whether we could keep civilization afloat. We realize today that we were living in a fool's paradise . . . The Europe that emerged from the four years of carnage contrasted sensationally from that which we had known . . . Half of Europe is ruled by dictators who scoff at democracy and trample human rights under their feet. Meanwhile the Communists look on with grim satisfaction awaiting their hour.[i]

The decades before the First World War *were* a liberal epoch. The people of 19th century Europe, particularly after the 1850s, enjoyed a degree of freedom and prosperity unimaginable under the Mercantilism of the 18th century. It was a period of the "three freedoms," as German economist Gustav Stolper expressed it: the free movement of goods, the free movement of money, and the free movement of men.[ii]

War occurred in 19th century Europe, but they were usually limited and of relatively short duration, and increasingly constrained by international agreements on the "rules of war" and the treatment of non-combatants. Political corruption still existed, and interest groups still plied the halls of power for favors and privileges. Censorship, taxes, and regulations still pinched the freedoms of thought and enterprise. And as the century progressed, friends of liberty increasingly expressed concerns that the interventionist state was making a comeback, along with the appeal and demands of the new collectivisms – nationalism and socialism.[iii] This was even true in the home of liberalism, in Great Britain.[iv]

But in spite of all of these new currents before 1914, the "civilized world" still basked in the glow of the liberal revolution and the institutions of freedom and generally limited government that it created. And certainly Europe before 1914 offered far more personal, political and economic liberty than was then experienced in the years following 1918, after the triumph of communism, fascism, Nazism, and an array of other authoritarian regimes throughout Central and Eastern Europe.

And, yet, this liberal epoch had been drawing to a close for a long time even before the First World War made it clear for even the most optimistic to finally see and understand. This trend was partly due to the fact that the monarchical and paternalistic "old regimes" of 18th and early 19th centuries had never been fully overthrown.[v] So in Europe the liberal ideals had only partly replaced the absolutism and political paternalism of the past; in fact, liberal policies and changes were frequently simply overlaid onto the political institutions of the pre-liberal era. It was this incomplete and often thwarted liberalism-in-practice that was then challenged by the rising ideas of socialism and nationalism.

A particular example of these mixings of the older monarchical absolutism with elements of political and economic liberalism was Austria-Hungary before the First World War. But in spite of all of its inconsistencies and contradictions, the Hapsburg Empire was considered by many to be crucial to the stability of the pre-1914 political and economic order.

In 1900, a correspondent for *The Economist* summed up the nature and significance of the Hapsburg Monarchy as the new century was about to begin. Another constitutional crisis was at hand in Vienna, he explained. The dozen or so national and linguistic groups comprising the peoples of the Empire – Germans, Hungarians, Czechs, Slovaks, Croatians, Romanians, Italians, Poles, Bulgarians, Serbians, Slovenians, Ruthenians – were once more at each other throats, each wanting more political and cultural autonomy (if not outright independence) for themselves at the economic and social expense of other groups within the Habsburg domain.

The Hungarians, in particular, wanted more sovereignty outside of the periodically revised provisions of the Dual Monarchy of Austria-Hungary that had been established in 1867, in the wake of Austria's defeat at the hands of Bismarck's Prussian Armies the year before in 1866. "When the relations between two allied countries are whittled down gradually to bare matters of finance, and those countries differ in language, race and feeling, one doubts the permanence of the union. And such is the condition of Austria-Hungary at the present time," the *Economist* correspondent explained.

Yet, he said, "somehow" the machinery of government in Vienna and Budapest went on. Compromises, shortcuts, and evasions kept "the noisy, creaking and grinding" wheels of the political process functioning without breaking asunder. "How long Austria-Hungary will hold together we do not know." But, he continued, if the Austrian Empire "had not existed, it would have been necessary to invent her, for she alone, so far as one can see, can render the common service of welding together certain diverse elements of race, language, creed, and separate interest, which would otherwise be flying at one another's throats, and so perpetuating anarchy and bloodshed over a large portion of Europe."

What held the Austro-Hungarian Empire together was its Emperor, Francis Joseph. The *Economist's* writer said that it was the Emperor's "daily practical wisdom – not the wisdom of the great genius, but of a good-natured, common-sense mind which is gifted with one quality of genius, i.e., the faculty of seeing things as they are . . . combined with his long experience" that was "the reason why the Dual Monarchy is enabled to continue on its way under conditions which would probably wreck any other state on earth." Whether or not the Empire would survive the Emperor was unknown. But, "Serious as is the condition of Europe, it would be rendered ten times more serious by the collapse of Austria-Hungary."[vi]

Born in 1830, Francis Joseph had ascended the Austrian throne in 1848 when he was 18 years old, and ruled for 68 years until his death in 1916 during the First World War. Those who had lived a good part of their lives under his reign – even if they found fault with many aspects of his rule – still held him in high reverence and great awe long after he had died. Joseph Redlich (1869-1936), one of the great Austrian liberals before and after the First World War, who had served as finance minister in the last Austro-Hungarian cabinet before the end of the war, and who again was minister of finance in the Austrian Republic from 1931 to 1934, spoke with just such reverence for the Emperor on the occasion of what would have been Francis Joseph's 100th birthday in 1930:

> When all of us who lived many decades under this old man's scepter now remember the hundredth anniversary of his birth, we unavoidably fall into a kind of historic reverie and of a sudden that whole world of old Austria rises up before us quick and vivid. And instantly we feel what a short time indeed a century is. Our whole life and the lives of our fathers and grandfathers fill that century almost to overflowing. We have lived through all that and still we are alive. For us that whole world of great events in peace and war, of great names and powerful men and of the rivalry of so many races and peoples united into one empire . . . this is the historic Austria, our old world which bred us and shaped us and made our life what it has become. And always Francis Joseph stands in the midst of this many-colored, fine old picture that our memory retains – piously and cynically – just as we have known him from the old-fashioned likenesses of his childhood and the first years of his reign; and then recollect him as he was later almost to the last of his days, standing tall, erect, and almost invisibly distancing himself from everybody, watchful and never shrinking his royal work, a dignified figure, every inch a ruler of men and lands."[vii]

Not that liberals like Redlich failed to see the shortcoming and fatal mistakes in the Emperor's rule. Francis Joseph, Redlich explained, had "a cool and sober mind, almost wholly devoid of imaginative power, a realist, looking dryly at the world and at his work." (Other historians have suggested that Francis Joseph's idea of exciting and adventurous reading was spending the night with the Austrian military manual of arms!) What he had inherited from his ruling ancestors was a belief in “his divine right of unlimited monarchical power,” tempered with the idea “that his rule must, before all, produce the best possible results for the peoples of his realm . . . Yet, up to the end he did not doubt that his empire, composed of so many different races and lands, could be governed successfully only by a hereditary monarch and according to his absolute will.”[viii]

Both Redlich and other Austrian liberals who had lived a part of their mature life under the long reign of the last but one of the Hapsburg emperors, believed that Francis Joseph had twice missed the opportunity to make his domain a truly multi-national liberal society.[ix] Shortly after becoming Emperor, Francis Joseph renounced a liberal democratic constitution that he had initially endorsed in the immediate aftermath of the revolution of 1848. “He never realized that his empire could be best safeguarded by a perfect system of administrative decentralization and by the fullest realization of the principles of equality of all nations on the basis of local autonomy. Thus he closed the door to a reconciliation of the struggling nationalities of his empire,” at the very time that radical nationalism was beginning to rise in revolutionary importance throughout Central and Eastern Europe.[x]

The second lost opportunity occurred following his defeat at the hands of the Prussians in 1866. Bismarck pushed Austria out of the German confederation, which the Hapsburgs had dominated for centuries. Fearful of the Hungarians taking advantage of the Empire’s postwar weakness to claim full independence, Francis Joseph agreed to the *Ausgleich*, the “Compromise,” of 1867 that transformed the Austrian Empire into the Austro-Hungarian Empire. While Francis Joseph remained Emperor of both halves of his domain, Hungary became widely independent in many of its domestic affairs. Only a common customs and monetary system and a shared military and foreign policy completely linked it to the Austrian "Crownlands" directly ruled by Francis Joseph's government in Vienna.

This also meant that the Hungarians had wide powers over the subject peoples in their half of the Empire – Romanians, Slovaks, and Croats – who were denied autonomy in many aspects of local, economic or cultural life. The Hungarians were determined to prevent these groups from enjoying any of the new political liberty they claimed for themselves.

As Hans Kohn, one of the 20^{th} century's leading experts on the history and philosophy of nationalism, and who had grown up under the rule of Francis Joseph in Prague,[xi] explained, "In the Compromise with the Hungarian nobility in 1867, the aspirations of the Czechs, Slovaks, Serbs, Croats, and Romanians, who in large majority were then still loyal to the dynasty, were sacrificed for the purpose of winning the assent of the Magyars to a common foreign and military policy on the part of what now became the Dual Monarchy"[xii]

But not only the Hungarians were the problem; the German-Austrians were, too. "The spread of democracy, literacy, and economic well-being in the western half of the monarchy after 1867 strengthened the non-German nationalities there at the expense of the Germans. The result was that many Germans in the monarchy lost their faith in an Austrian idea as much as many Slavs and other non-Germanic peoples did. . . .By the end of the nineteenth century many Austrian Germans looked to the Prussian German Reich as their real home and venerated Bismarck." As a result, again, the chance for a decentralized federalist system in which all of the linguistic and national groups would have been treated with complete political equality before the law was lost. Kohn concluded that due to this Francis Joseph missed the opportunity to unify the “polyglot” empire along “Swiss-type” lines that might very well have saved and even reinforced the unity of the Habsburg Empire as a truly liberal multi-national state.[xiii]

Looking back at the events that brought about the demise of the Hapsburg Empire in the immediate aftermath of the First World War, Ludwig von Mises explained why many German-Austrians turned against liberalism as a foundation for the preservation of the monarchy and the Austro-Hungarian state. Over the centuries German-Austrian settlers had made their homes in the eastern reaches of the Empire. They brought with them the German language, culture, literature, commercial knowledge and knowhow. They viewed themselves as a “civilizing force” among the lesser advanced nationalities, especially the Slavic peoples.

And, indeed, many of these subject peoples became acculturated into German-Austrian life, since the latter was the dominant group; the German language in particular became the venue for social and economic advancement. But as literacy and national consciousness awakened among these other peoples in the 19th century, loyalties to and identification with German-Austria and the Hapsburg dynasty was replaced with a growing allegiance and sense of belonging to their own ethnic and linguistic groups.

Furthermore, birth rates were higher among these peoples than that among the Germans living among them. The cities and towns that had been settled by and been predominantly populated by Germans for centuries became increasingly Czech or Hungarian, or Polish or Romanian, or Slovenian communities. German-Austrians found themselves shrinking minorities in lands that they long considered to be their own politically, culturally, and commercially. This was especially true in the Czech lands with Prague at its center.

As the 19th century progressed, German-Austrians discovered that adherence to liberal principles of representative government and full individual and cultural equality before the law meant the demise of these German communities sprinkled across the Hapsburg domains. For many German-Austrian liberals the choice was between a liberalism that would logically mean the decentralization and likely eventual break-up of the Empire along nationalist lines, or advocacy of centralized political control, monarchical dictate when required, and subversion of democratic aspirations among the non-German peoples.

The first course meant the eventual the loss of German political and culture domination in the non-German lands; the second meant holding on to both political and cultural power as long as possible in the non-German areas of the Empire but only by increasingly alienating the other subject peoples. As Mises explained, part of the German-Austrian tragedy was that national and linguistic imperialism won over liberal idealism.[xiv]

As a result, this meant that from the 1880s until the disintegration of the Hapsburg Empire in 1918, the history of the country was one of liberal freedoms that were introduced after 1867 being undermined by nationalist discord, periods of rule by central government decree, and the introduction of interventionist policies that only intensified the antagonisms among the subject peoples.[xv]

The only group that predominantly remained loyal to the Emperor virtually to the end was the Jews of the Austro-Hungarian Empire. As late as the 1820s, no Jew could reside in Vienna without permission of the Emperor. They lived ghettoized lives throughout the Empire. But the Constitution of 1867, which accompanied the creation of “Austria-Hungary,” was imbued with the spirit of the classical liberal ideas that were then at their zenith in Europe.[xvi]

Every subject of the Habsburg Emperor was guaranteed freedom of religion, language, association, profession, and occupation. Any subject might live wherever he chose throughout the Emperor's domain. Private property was secure and relative free trade prevailed within the boundaries of the Empire.[xvii]

Among all of his subject peoples none took as much advantage of this new freedom as the Jews of Austria. Within two generations, following the repeal of the legal and many of the informal barriers to personal improvement and economic opportunity, they attained a good number of the most prominent positions in a wide variety of walks of life. They owed all this, they sincerely believed, to the guardianship of Francis Joseph.[xviii] He protected them from the anti-Semitism of the rural peasants and priests, and from the envious urban businessmen and professionals who resented their more successful Jewish rivals. (But as the 19th century became the 20th, a growing number in the Jewish community turned their voting loyalty to the Social Democrats in the Austrian parliament.)[xix]

Out of all of these political, social, and economic currents came that liberal post-war nostalgic imagery of an Austria-Hungary before 1914, in which the most diverse populations intermingled, in cities like Vienna, Budapest, and Prague, in peace and growing prosperity in an environment of high culture and intellectual creativity. One voice that attempted to capture this "lost world" was that of Stefan Zweig (1881-1942), a renowned Austrian novelist and essayist who fled Vienna in 1934 and committed suicide in Brazil during the Second World War out of despair for all that was happening in the European world that he had known. In his posthumous work, *The World of Yesterday*, he said:

> One lived well and easily and without cares in that old Vienna. . . . "Live and let live" was the famous Viennese motto, which today still seems to me more humane than all the

> categorical imperatives, and it maintained itself throughout all classes. Rich and poor, Czechs and Germans, Jews and Christians, lived peaceably together in spite of occasional chafing, and even the political and social movements were free of the terrible hatred which has penetrated the arteries of our time as a poisonous residue of the First World War. In the old Austria they still strove chivalrously, they abused each other in the news and in the parliament, but at the conclusion of their ciceronian tirades the selfsame representatives sat down together in friendship with a glass of beer or a cup of coffee, and called each other Du [the "familiar" in the German language]. . . .The hatred of country for country, for nation for nation, of one table for another, did not yet jump at one daily from the newspaper, it did not divide people from people and nations from nations; not yet had every herd and mass feeling become so disgustingly powerful in public life as today. Freedom in one's personal affairs, which is no longer considered comprehensible, was taken for granted. One did not look down upon tolerance as one does today as weakness and softness, but rather praised it as an ethical force . . . For the genius of Vienna – a specifically musical one – was always that it harmonized all the national and lingual contrasts. Its culture was a synthesis of all Western cultures. Whoever lived there and worked there felt himself free of all confinement and prejudice.[xx]

It was, of course, only an illusion. That liberal era about which Zweig was so nostalgic had never been as pure and perfect has his mind recalled it. It was certainly true that liberal ideals had been established in the constitution of 1867, and that they were implemented and enforced for the most part, especially in the Crownlands more directly under Emperor Francis Joseph's imperial authority. But beneath the surface of tolerance, civility, and cosmopolitanism were all the undercurrents of racial and nationalist bigotry, economic collectivism, and political authoritarianism that poured forth like destructive lava from an exploding volcano during and in the aftermath of the First World War.

The Austrian Monetary System, 1867-1914

One of the institutions of 19th century Western liberalism that Austria-Hungary adopted, in 1892, was the establishment of the gold standard as the basis of the Empire's monetary system. It was the culmination of a century of disastrous Austrian monetary policy. The story of the Austrian currency in the late 18th century and the first two-thirds of the 19th century is one of almost continual financial mismanagement. The government would debase the currency to cover its expenses, followed by promises to put its budget on a sound footing, only to see another crisis arise requiring once again turning the handle on the monetary printing press.[xxi]

The Austrian government made several experiments with state-chartered banks in the 1700s. But each of these Banks soon collapsed or was closed due to lack of public confidence following large quantities of paper monies being issued to cover government expenditures.[xxii] These expenditures reached huge proportions during the long years of war between the Austrian Empire and first Revolutionary and then Napoleonic France.

Between 1797 and 1811, the supply of government paper money increased from 74,200,000 florins to 1,064,000,000 florins, or a 14-fold increase over this period. Not surprisingly, whereas the price of silver coin expressed in paper money was 118 in 1800, it rose to 203 by 1807, then to 500 by 1810, and reached 1,200 by 1811.

The government announced its intention in 1811 to stop the printing presses and issue a new currency that would be converted at the ratio of five old florins for one new florin, with the total amount of paper money in circulation to be reduced to 212,800,000. But the renewal of the war with Napoleon in 1812 resulted in the new currency being increased to 678,716,000 florins by 1816, a near tripling of the “reformed” currency in five years.

With the final defeat of Napoleon, the Austrian government announced that it would use a portion of the war reparations being paid by France to retire about 131,829,900 florins from circulation, leaving the paper money supply outstanding at around 546,886,000. This process was assisted with the establishment of a new National Bank of Austria, with the Bank withdrawing government paper money in circulation in exchange for its own bank notes, until by the early 1848, the total currency supply in circulation had been reduced to 241,240,000 florins, or an almost two-thirds reduction in the paper money supply over a thirty-year period. The National Bank, in February 1848, had silver reserves of about 65,000,000 florins, i.e., an approximate 25 percent specie cover for its outstanding currency in circulation.

But all of these monetary reforms began to unravel with the outbreak of the revolution of 1848, especially the Hungarian revolt against Austrian rule. Within days, panic runs on the Bank reduced its silver reserves to 35,023,000 florins, a 53 percent loss in specie. The Austrian government suspended silver redemption, and banned the exporting of silver and gold. Putting down the revolution forced the government to again borrow heavily from the National Bank. As a result, confidence in the Bank fell so low that in 1849 the government publicly promised to stop borrowing and cease increasing the currency.

But the process started again in a few years with Austria's participation in the Crimean War, and then its wars against Italian nationalists and their French ally in a vain attempt to maintain control of portions of northern Italy. In 1850 government indebtedness to the National Bank had stood at 205,300,000 florins. With the Crimean War of 1854, the government's debt increased to 294,200,000 florins. It was reduced to 145,700,000 florins by 1859. But the start of the Italian campaigns that year pushed it up again to 285,800,000 florins, along with a renewed suspension of specie payments as the public wished to redeem the paper currency representing the value of this enlarged debt.

In 1863, an attempt was made, once again, to introduce a currency reform – the Plener Act – this time along the lines of Britain's Peel's Bank Act of 1844. But Austria's disastrous war with Prussia in 1866 pushed the supply of paper money in circulation from 80,000,000 florins before the conflict to 300,000,000 florins at its end.

The Compromise of 1867 that formally created the Austro-Hungarian Empire granted Hungary its own parliament, government, and domestic budget. It established a customs union and a common military and foreign policy between the two parts of the Hapsburg domain, and a monetary union with the Austrian National Bank retaining its monopoly of note issue throughout Francis Joseph's domain. Some of the Hungarian liberals had advocated a system of competitive note-issuing private banks in place of the National Bank, but secret agreements between the Emperor's government and the Hungarian nobility eliminated this as an option.[xxiii]

On July 1, 1878, the Austrian National Bank was transformed into the Austro-Hungarian Bank. The Emperor, under joint nomination of the Austrian and Hungarian parliaments, appointed its Governor. He was assisted by two Vice-Governors – one Austrian and the other Hungarian – appointed by the respective governments. The Banks operating privileges were renewed in 1887, 1899, and in 1910, with few substantial changes in their detail.

Formally, from 1816, Austria had been on a silver standard. But as we saw the Austrian National Bank only maintained unofficial specie redemption for limited periods of time, soon interrupted usually by another war crisis requiring currency expansion to fund the government's expenditures.

The paper currency florin, not surprisingly, traded at a significant discount against the silver coin florin. Between 1848 and 1870, this discount was never less than about 14 percent and was often between 20 and 23 percent. But restrictions on note issuance under the operating rules of the Bank limited the expansion of the supply of bank notes. The provisions of the 1863 Bank Act limited the circulation of "uncovered" florins to 200,000,000. Any amount above that had to be covered by gold or silver coin or bullion. Any additional "uncovered" bank note issuance was subject to a penalty tax against the Bank of 5 percent.

With many of the major governments of Europe and North America establishing or reestablishing their economies on a gold basis in place of silver in the 1870s, the world price of silver began to fall.[xxiv] After the Austro-Prussian War of 1866, the government's pressures on the Bank to fund deficits were greatly reduced, and the Bank could more or less follow the rules against uncovered note issuance. As a result, the paper florin's discount relative to silver disappeared by 1878. Silver began to flow into Austria-Hungary in such quantities that the Bank was instructed by the government to end the free minting of silver.

The paper florin actually rose to a premium against silver, as a result. As Friedrich von Wieser expressed it, "Silver had become of less value than paper!"[xxv] In addition, the florin was significantly appreciating in value against gold. The price in paper florins for 100 gold florins between 1887 and 1892 was:

Average for the year	**Austrian florin notes**
1887	125.25
1888	122.87
1889	118.58
1890	115.48
1891	115.83

The major monetary issue, therefore, during these years was to bring a halt to any further increase in the value of the Austrian paper currency. In February 1892, the Austrian and Hungarian governments invited a group of professional and academic experts to meet and address a set of questions relating to: whether a gold standard should be adopted; if so, should it be monometallic or partly bimetallic with silver; what should be the status of government notes in circulation; how should the conversion from the existing florin to a gold standard be undertaken; and what monetary unit should be chosen?

Some of the most illustrious people in the field were brought together to offer their views and opinions on these questions. Thirty years later Ludwig von Mises described them in the following manner:

> From March 8 to March 17, 1892 the Currency Inquiry Commission convened by the government met in Vienna. The chairman was Finance Minister [Emil] Steinbach; beside him stood the memorable [Eugen von] Böhm-Bawerk as section head. Thirty-six experts appeared in order to answer the five questions that the government had posed. No Austrian was left off the list of members at the assembly who had anything of importance to say about currency matters. Along with Carl Menger, the founder of the Austrian School of Economics, there was Wilhelm von Lucam, the highly honored long-time general secretary of the Austro-Hungarian Bank; Moriz Benedikt, the publisher of *Neue Freie Presse* [New Free Press]; Theodor Thaussig, the spiritual leader of the Viennese banking world; and Theodor Hertzka, the writer on monetary matters and social policy-thinker. The thick quarto volume of the stenographic minutes of these sessions is still today a source for the best teachings in all matters relating to monetary policy.[xxvi]

Virtually all of the participants spoke in favor of Austria's adoption of a gold standard. Menger, for example, at one point said: 'Gold is the money of advanced nations in the modern age. No other money can provide the convenience of a gold currency in our age of rapid and massive commodity exchanges. Silver has become a troublesome tool of trade. Even paper money must yield to gold when it comes to monetary convenience in everyday life . . . Moreover, under present conditions only a gold currency constitutes hard money. Neither a bank note and treasury note nor a silver certificate can take the place of gold, especially in moments of crisis."[xxvii]

Later summarizing the work of the commission, Wieser supported the adoption of the gold standard in colorful language:

> Money is like speech; it is a means of intercourse. He who would have dealings with others must speak their language, however irrational he may find it. Language is rational by the very fact that it is intelligible to others, and more rational in proportion as it is intelligible to more people or to all. There can no more be an independent money system than independent speech; indeed, the more universal character of money, as compared with language, appears in this, that while a national language has its justification and significance in the intercourse of the world, there is no place for a national monetary system in the world's intercourse. If Europe errs in adopting gold, we must still, for good or evil, join Europe in her error, and we shall thus receive less injury than if we insist on being "rational" all by ourselves.[xxviii]

The Currency Commission, in its official report to the Upper House of the Austrian Parliament, was no less adamant that gold, and only gold, was the recognized and essential international money. For that reason Austria-Hungary needed to adopt gold as the nation's standard if it was to successfully participate in the commerce and trade of the world.[xxix]

The Commission proposed and the government accepted that the monetary unit would be renamed the *Krone* (the Crown), with the new Crown being equal to one-half the replaced florin. Standard coins would be gold pieces of 10 and 20 Crowns, each one being of 900 parts gold to 100 parts copper. The 20-Crown coin would have a full weight of 6.775067 grams, and a fine weight of 6.09756 grams. In 1892 an exchange rate for the Crown was fixed at 1.05 Swiss Francs and 0.8505 German Marks.

Silver was kept as a secondary medium of exchange for smaller transactions and limited legal tender status. Government paper money was temporarily kept in circulation up to a certain maximum, but with the expectation of its eventual retirement. For the transition to a full gold standard with legally mandated redemption of banknotes for specie, it was expected that the Austro-Hungarian Bank would continue to accumulate sufficient supplies of gold until at an unspecified date formal redemption would be instituted.

A legal obligation to redeem Crowns for gold was, in fact, never made into law. Yet, from 1896 and most certainly after 1900, the Austro-Hungarian Bank acted as if it now had that obligation and did pay in gold for its banknotes presented for redemption. Indeed, the oversight of this "shadow" gold standard (as it was called) by the Austro-Hungarian Bank, with maintenance of the exchange rate within a margin not much off the "gold points" was praised by authorities at the time as an exemplary case of a highly successful "managed currency."[xxx]

<u>Ludwig von Mises and Austrian Monetary and Fiscal Controversies Before the First World War</u>

Though the Gold Commission of 1892 had proposed conversion to a legally mandated gold standard with full convertibility, and successive Austrian governments had endorsed the goal of full convertibility by the Austro-Hungarian Bank, it was never implemented up to 1914. After that, the financing of much of the government's war expenditures through a huge monetary expansion brought the Bank's unofficial policy of gold convertibility to a halt.[xxxi]

Ludwig von Mises' earliest writings on monetary and fiscal policy were published between 1907 and 1914,[xxxii] and focused on these monetary and related issues. He devoted a chapter in his memoirs, *Notes and Recollections*, in explaining the background behind some of these articles.[xxxiii] He details his frustrations when the articles resulted in him coming face-to-face for the first time to opposition by government officials to reasonable and publicly endorsed policies due to political corruption and misappropriation of "secret" slush funds that would be threatened by implementing a fully convertible gold standard.

But he does not go into very great detail about content of these early essays. They may be grouped under two headings. The first consists of articles concerning the political pressures that finally lead to putting Austria formally on the path of a gold standard in 1892, and the reasons for the resistance and delay in legally establishing gold convertibility up to the beginning of World War I. The second group deals with fiscal extravagance and the regulatory and redistributive intrusiveness of the Austro-Hungarian government, which was leading the country to a potential financial and economic crisis. Even if the events of the World War had not intervened to accelerate the process that culminated in an end to the more than six hundred year reign of the Hapsburgs, the growth of the interventionist state was weakening the foundations of the country.

The earliest of the essays was concerned with "The Political-Economic Motivations for the Regulation of the Austrian Currency"[xxxiv] It is primarily an analysis of the changing factors influencing various interest groups that finally lead to a sufficient coalition of these interests endorsing the move toward a gold standard, and therefore it has an implicit public choice-like flavor to it. It highlights the fact that a major shift in economic policy is often dependent upon the vagaries of unique historical events, without which such a change might never have the chance to be implemented.[xxxv]

After discussing the factors behind the appreciation of the Austrian currency during the second half of the 1880s and the early 1890s, and the difficulty of historically differentiating and quantitatively estimating the influence of each of these factors on the supply and demand sides of the market, Mises turned to the resulting changing views of various interest groups.

From 1872 to 1887, the Austrian currency continuously depreciated against gold, and therefore "functioned like a protective tariff against the import of manufactured goods, and assisted the export of domestic products like an export premium, and benefited the debtors, as well. Under these circumstances, support for plans to stabilize the value of the currency could not be counted upon from the industrial and agricultural circles."

But after 1887, the process was reversed, with the currency gaining value on the international exchanges. "The exporter who had received 50.6 florins for 100 francs in February 1887 only received 44.54 florins in September 1890. The farmer received 10 percent less for his [exported] produce than only two years previously, but his taxes and mortgage interest had to be paid at the old levels."

A growing number of people began to expect that the currency appreciation was not likely to be reversed in any immediate future, but instead was probably going to continue. As a consequence, "The demand for regulation of the value of the currency became general." The Austro-Hungarian Export Association appealed for all members to advocate currency reform. And rallies in support of such reform were held from one end of the Empire to the other.

Of particular importance were the actions of the Hungarian government. When the currency had been depreciating in the 1880s, the authorities in Budapest opposed any stabilization of the currency, since the deprecation was viewed as beneficial to the agricultural interests in that part of the Empire, especially for wheat exporters. Indeed, in late 1890 when the florin was now appreciating in value, the Hungarian finance ministry, Mises said, began to buy gold on the foreign exchange to push down the value of the florin, purchasing 45 million florins in gold exchange in the process.

But what especially motivated the Hungarians to join the chorus in favor of currency reform was their belief that it could serve as a means of establishing a greater degree of financial independence from Vienna. “In the introduction of a gold currency and the implementation of specie payments, those in Budapest saw their most secure means of freeing themselves financially from the Viennese banks, increasing the prestige of Hungarian national credit abroad, and acquiring the required means from international capital that were necessary for economic war with Austria.” Indeed, the degree to which the Hungarian political leadership was able to rally virtually the entire nation behind currency reform was “truly an example of political discipline worthy of awe” and “the fate of currency reform was decided.”

In addition, most of those in the banking and financial sectors also came out in favor of a reformed, gold-backed currency. Austrian industry had never fully recovered from the “depression” of 1873. Placing Austria-Hungary on a sound gold basis was expected to increase international confidence in the country’s finances, and as a result improve the prospects for foreign investment and the terms under which foreign capital was borrowed.

On the other hand, there were those who gained from an appreciation of the currency, including bondholders and other creditors who received their payments in money experiencing an increase in its real value. They were unable, however, to make a persuasive claim “that the country should allow the favorable situation of the monetary system to continue unchanged for their interests alone."

Even many of the conservatives in the German part of Austria-Hungary were won over to currency reform due to their core constituency being in the countryside where the appreciating currency was financially pinching the farmers.

The primary opposition came from the Christian-Socialist Party. They argued that the gold standard would only further the interests of "international commerce" and those who have "an interest in the development and construction of the global economy." This would run counter, the Christian-Socialists claimed, to "the correctly understood interests of all working classes" whose well being depended upon "the development of the fatherland as an autonomous national economic state, as an autonomous national custom and commercial space."

The Christian-Socialists drew much of their support from small manufacturers and retail businessmen. Claiming to be the friend of "the little guy," the Christian-Socialist Party argued that an easy money policy would increase buying power in the economy and improve the business environment. Thus, they were not for stabilization of the currency, but renewed depreciation.

"All of these arguments," Mises said, "which had been brought forward by inflationists in all countries and at all times, were accepted by the friends of 'our father's paper florin' to defend their point of view. The weapons with which these battles were fought were not always genteel; opponents did not lack for suspicions of and insults directed at the 'liberal, usurious, capitalistic economic system.'" While the opponents of currency reform may have only called for a "moderate" inflation for a continuous "stimulus" for business, Mises pointed out that they were not able to formulate a persuasive alternative to the gold standard because they could not specify what a "moderate" rate of inflation would be and how it could be sustained within that "moderate" range.

Thus, Mises summed up:

> The power relations of the currency policy parties at the time of tackling the regulation of the currency were generally favorable to the introduction of a gold currency. Unimportant in number and influence were those who advocated the continuation of the monetary system then current, because they expected a continuing increase in the value of money. To wit, these were solely the possessors of claims to money. All the other groups in society desired a change in the currency that would offer, at a minimum, a halt in the continuing appreciation of the currency; all manufacturers belonged to this group, and also the workers whose interests here went hand-in-hand with those of their employers. Even "high finance," which had a substantial say on currency questions, was found to be on this side. Admittedly, the opponents of the then existing currency system were not united in their views about the shape of a future monetary system. However their efforts to create a "national," inflationist monetary system were completely futile. . . . Thus, the question over a metallic currency was already decided before the actual discussions about the project for currency regulation had even begun.

By the time the Austrian Currency Commission convened in early 1892, the general discussion was already focused on "the so-called relation," i.e., the rate at which the new currency would be stabilized and fixed in relation to gold. The heated debate was over whether the new parity would be "lighter" or "heavier" than the prevailing market rate at which the florin was then exchanging for gold. The outcome would differently influence the economic position of the various interest groups who had been more or less united in wanting a gold-based stabilization of the currency.

Mises pointed out that what those on different sides of this debate failed to understand was that regardless of what the actual parity rate turned out to be, any "gain" expected from it by a particular group would be transitory. "Sooner or later, the prices of all domestic goods and services will be adjusted to the change in the value of the monetary unit, and the 'advantages' that a devalued currency offers to production, and the obstacles that an over-valued one sets against production will disappear. This is because the agio as such does not function as an export premium or as a protective tariff; rather, it is merely the increasing agio, or inversely only the decreasing agio, not the low agio in itself, that is able to check exports and boost imports."

As it was, when the reform came into affect after 1892, only an upper limit was placed on the extent to which the new crown could vary from its parity, thus protecting the currency from any further appreciation. What was not initially set was a lower limit, so in principle the currency could depreciate – clearly a "victory" for those who wanted currency reform but who would not mind if the currency varied in value in a way that "stimulated" exports and "retarded" imports. But after 1896 and until the outbreak of the war, the Austro-Hungarian Bank also set a lower limit to fluctuations in the Crown from parity. In affect, from 1896 the Bank managed the Crown within a band set by the "gold points," at which it would become profitable to either import or export gold.

But since the Austro-Hungarian Bank was managing the Crown after 1896 "as if" it was legally bound to redeem gold for currency, why did the government and the Bank not in fact just take the formal and official step to declare the legal requirement for convertibility? This was the theme of four of Mises' articles from this period: "The Foreign Exchange Policy of the Austro-Hungarian Bank,"[xxxvi] "The Problem of Legal Resumption of Specie Payments in Austria-

Hungary,"[xxxvii] "About the Problem of Legal Resumption of Specie Payments in Austria-Hungary,"[xxxviii] and "The Fourth Privilege of the Austro-Hungarian Bank." [xxxix]

In the 1920s Mises explained that when the gold standard was implemented in Germany in 1870s, one of the guiding ideas "was the view that in everyday commercial transactions wider scope needed to be assigned to the use of gold coins . . . In Germany things were never carried as far as in England, where all bank-note denominations under five pounds was suppressed. Nevertheless, all regulations concerning bank-note denominations and German Imperial Treasury certificates were clearly based on the idea that paper-money substitutes did not belong in the hands of the farmer, the worker, the craftsman, and the subordinate. It was considered an important task of the new German Imperial monetary policy to 'satisfy' the demand for gold, for which considerable material sacrifices were made."[xl]

The same idea was followed when the gold standard was being established in Austria-Hungary. Indeed, the government and the Bank expected that many in the society would enthusiastically accept the newly coined Crowns in place of the paper florins that carried the legacy of an inflationary past. "To the great surprise of the government and the Bank, the public's opinion about the gold coins appeared quite negative," Mises explained. "The people, who had grown to adulthood under the rule of paper money, found the use of gold coins to be uncomfortable. The 5 Crown coins, the silver florins, and the 1 Crown coins, which had been placed in circulation after 1892, could only be kept in circulation because the 1 and 5 florin state notes had been withdrawn at the same time. Everyone who received the gold coins in payment attempted to exchange them for notes as quickly as they could, so the gold soon flowed back into the Bank."[xli]

Notwithstanding the lack of enthusiasm for coined money by the Austro-Hungarian populous, the Bank imported large quantities of gold as a reserve backing for the banknotes in circulation and for the eventual legal requirement for specie redemption. Positive trade balances throughout this period made it relatively easy to finance the gold importations.[xlii] By 1900 Austria-Hungary had a "gold standard without gold in circulation," as Mises put it.

But gold bullion was not the only reserve supporting Austria-Hungary's currency or eventual convertibility. The Bank Act of 1863 permitted the Austrian National Bank to ship bullion abroad and use it to purchase foreign bills and other interest-earning assets that were payable in gold, a rule applied also to the new Austro-Hungarian Bank. Thus, from it's beginning the Austro-Hungarian gold standard was in fact a gold-exchange standard.

The advantage from the Bank's point of view was that it enabled it to earn significant income from its gold reserve without having to let the bullion sit "idle" in vaults in Vienna. It also enabled the Bank to intervene in the foreign exchange market and buy or sell foreign bills representing gold held abroad to counteract any movements in the foreign exchange rate before such movements were anywhere near the upper or lower gold points.

Leon von Bilinski, governor of the Austro-Hungarian Bank during part of this period, considered the policy to be a great success. "[The Bank's] action in either direction must, however, be so exerted, that the metallic stock of the bank shall remain as far as possible undisturbed," Balinski said. "Foreign bills are to be used to the greatest practicable extent in international payments, and compensatory payments from abroad are to be made to take the place of gold so often as possible, so that, in spite of all efflux and reflux in international payments, any unfavorable change in the value of the standard coin of the country relative to foreign money (in other words, a premium on foreign coin), bringing a rise in the rate of discount, may be averted." The Bank's task was to make the management of its foreign bill holdings a "constant and daily concern" to assure the success of this policy.[xliii]

The critics of formal convertibility argued that making redemption official would require the Bank to possibly lose its vital gold reserves rather than being able to "merely" pay out in foreign bills. The necessity to meet all claims only in bullion would mean that the Bank would have to resort far more frequently to changes in the discount rate to counteract adverse gold flows. Raising the discount rate would ripple through the economy and restrict investment and business activity, thus placing an undesirable burden on the domestic economy in the name of defending the foreign exchange rate.

Mises' response, in a nutshell, was that the Bank was already accepting gold and redeeming gold when demanded by holders of banknotes and other redeemable claims to specie. Legal convertibility, therefore, would only be formalizing what it already was doing according to the "rules" of the gold standard. Furthermore, this in no way would interfere with the Bank continuing to buy and sell foreign bills on the market to head off movements in the foreign exchange rate within the gold-point band. After all, it was usual practice in the market for bills of exchange to be bought and sold to avoid incurring the costs of gold shipment in foreign transactions. As long as the Bank continued to accept and provide gold at the official parity, market transactions would normally remain within the gold points. And, he said, during the years since the Bank had informally followed the "rules" of the gold standard starting in 1896 the exchange rate had rarely moved much more than one-fourth of a percent above or below the parity rate.[xliv]

What would be gained, therefore, by establishing formal and legal redemption? “The monarchy will profit immensely by a legally prescribed gold payment, for its international credit, which it urgently needs for its enormous foreign debts, would considerably improve. For only *de jure* gold payments would clearly convince everyone abroad that Austria-Hungary enjoys nowadays a perfectly regulated currency.”[xlv]

In *Notes and Recollections*, Mises explained that behind the scenes the opposition to formal convertibility was partly due to the fact that a portion of the rather large funds earned by foreign exchange dealings were hidden away in a secret account from which senior political and ministerial officials could draw for various “off the books” purposes, including influencing the media of the time. He learned about this special fund from Böhm-Bawerk, who told him about it off the record, and who was disgusted by the whole business and frustrated by the fact that even when he was finance minister (1900-1904), he had not been able to abolish the fund. A good part of the opposition and anger expressed against Mises’ defense of legal convertibility was the fear by those accessing these special funds that this source of money would dry up under the more transparent accounting procedures that would come with legal redemption.[xlvi]

But in 1909, Mises also pointed out that another reason behind the opposition to legal convertibility was the resistance of the Hungarians, who wanted to weaken the power of the joint Austro-Hungarian Bank as a way to continue their drive for independence from the Hapsburg monarchy:

> Since the Compromise of 1867, Hungarian politics have ceaselessly endeavored to loosen the common bond that binds that country to Austria. The achievement of economic independence from Austria has appeared as a singular goal of Hungarian policy, and as a preliminary step on the way to political autonomy. The national rebirth of the non-Magyar peoples of Hungary – Germans, Serbo-Croatians, Romanians, Ruthenians, and

> Slovaks – will, however, pull the rug out from under these endeavors and contribute to the strengthening of the national ideal of Greater Austria. At the moment, however, Hungarian policy is still determined by the views of the Hungarian nobility and the power of the government rests in the hands of the intransigent Independent Party.[xlvii]

The nationalistic "rebirth" of the people's under the often oppressive control of the Hungarians did not "strengthen the ideal of Greater Austria" as Mises assumed and clearly hoped. Instead, the appeal of nationalism over liberty and liberalism that had been developing throughout the Empire for decades finally led to the death of the Hapsburg dynasty in 1918.

But if the centrifugal forces of nationalism were pulling the Empire apart from within, it was also being undermined by the fiscal cost and growth of the State. This was the second theme in Mises' writings before the First World War, in two essays on "Fiscal Reform in Austria"[xlviii] and "Disturbances in the Economic Life of the Austro-Hungarian Empire during the Years 1912-1913."[xlix]

Years before the crushing tax burden and extensive network of wartime controls that began in 1914,[l] Austria-Hungary was on a path of fiscal extravagance. After nearly 20 years of relative fiscal responsibility between 1889 and 1909, the Austrian government was dramatically increasing taxing and spending in the Empire, Mises pointed out.[li]

During the first decade of the 20th century government expenditures increased 53 percent. And its spending was likely to continue increasing in the years to come, Mises warned. First, the European arms race was compelling the Austro-Hungarian government to implement a huge growth in spending on both the army and the navy. Second, growth in social insurance obligations was going to result in rising government expenditures in the years to come. The difference between Austria-Hungary and, say, Germany, France, or England, was that their financial difficulties were due to the pressures that high military and welfare costs were already placing upon their societies. “In Austria, on the other hand,” Mises emphasized, “the [government’s budget] deficit already exists even though the State has up to now fulfilled its military and social obligations to only an insufficient degree.”

Working in the Vienna Chamber of Commerce as an expert analyst on financial matters, Mises possessed detailed information about the fiscal policies and plans of the Austrian government. In every direction, the government had or was implementing huge tax increases. A progressive tax on inheritance and gifts was to be put into place. By today’s standards, of course, the proposed inheritance tax is all part of the nostalgic imagery of that bygone world of pre-1914.

The law already in affect in1909 set the rate of the inheritance tax on the basis of the relation of the recipient to the deceased. It was 1.25 percent when the money had been left to members of the immediate family. It went to 5 percent when the money was left to, say, a niece or nephew. And it would be as high as 10 percent when the beneficiary was not a relative. Under the proposed law, a bequest of less than 500 Crowns to an immediate relative would be tax-exempt (about $100 at that time). Between 500 and 1,000 Crowns, the tax would come into affect at the rate of 1.25 percent, and could increase to as much as 4 percent (!) when the bequest was for more than 2 million Crowns (or $400,000). For other relatives and non-relatives the inheritance tax rate progressively rose until reaching between 13 and 18 percent when the inheritance was 2,000 Crowns or more. A separate real estate inheritance tax would go to a maximum rate of 2 percent on property valued above 20,000 Crowns.

New taxes were planned for alcohol, soda-water and mineral water. And the match industry was to be nationalized so the government could have a monopoly position in this vital sector of the economy! The personal income tax was to be raised from the then current highest rate of 5 percent on income over 20,000 Crowns to 6.5 percent.

Corporate profit taxes, however, were already significantly high in the Austria of 1909. “In Austria,” Mises said, “stock corporations are taxed at the enormous base rate of 10 percent of profits. To this tax the state adds supplements for the benefit of the provinces and municipalities, so that it often it reaches the rate of 20 percent to 30 percent” In addition, dividends above 10 percent of the invested capital were subject to a supplementary tax, and then progressively increased on larger dividends. And a new “innovation” was to be a tax on directors’ profit shares. But one new proposal was meeting “vigorous opposition in commercial and industrial circles: in the future, according to the plan, fiscal authorities will have the right to inspect the books of businesses and industries. Austrian entrepreneurs rightly see in this arrangement an intensification of the harassing attitude which the authorities display toward them.”

In addition, within the Austrian parliament, Mises explained, the agrarian regions of the Hapsburg Crownlands held a disproportional representation. They also formed alliances with small and medium size business associations to shift the tax burden to the shoulders of the larger urban industrial enterprises. Landed interests in the countryside were able to assure that the tax incidence was lower on themselves (often through various production subsidies), while the higher taxes on urban industry throttled the development of manufacturing and capital investment. The government imposed “crushing” taxes on urban buildings, while lowering taxes on buildings in the countryside. Even the proposed taxes on alcohol, soda-water and mineral water were skewed against the urban populations, since the greatest consumption of these beverages were in the cities.

The essence of all these fiscal forces, Mises concluded, was a deep dislike for modern capitalist society:

> In Austria, public opinion is hostile to the capitalistic system of production in contrast to the dominant opinion in the Western countries. This trend in Austria should not be compared to that which is called anti-capitalistic in England, the United States, and other Western countries. In the countries of Western Europe and America the large profits of capitalistic enterprises are not, of course, looked upon favorably, but nobody would like to bring about a reversal of industrial evolution in those places. In Austria, the most influential political parties are firm adversaries of the entire modern economic system. The agrarian parties dislike industry because it raises wages. Big industry and big commerce irritate the petite-bourgeoisie parties – those to which the small artisans and small businessmen belong – because they have the upper hand in commerce. But these parties, the petite bourgeoisie and the agrarians, have a huge majority in the Austrian parliament; on the one side, hundreds of representatives of agriculture and small business; on the other side, some twenty representatives of big industry. This state of affairs is aggravated by the fact that the bureaucracy exercises an excessive influence in the administration, and that the free initiative of the individual is constantly frustrated.[lii]

In the long run, Mises stated, such policies could not continue if the economic development of the country was to occur.

In the spring of 1914, just before the clouds of war were to darken the skies over Europe for four years, Mises wrote the last of the articles on these themes. Austria-Hungary had been experiencing a serious economic recession in 1912-1913 that negatively impacted industry, trade, and employment. Many pointed to threats or actual wars that had broken out among some of the Balkan states in 1912 as the cause of the economic downturn. But whatever influence these events in areas bordering on the Hapsburg Empire may have contributed to the country's difficulties, in Mises' view, they were not at the heart of the problem. Mises quoted from a series of articles that Böhm-Bawerk had written in January of 1914 (the last major statement on public affairs from that great Austrian Economist's pen before his untimely death in August of that year):[liii]

> We have seen innumerable variations of the vexing game of trying to generate political contentment through material concessions. If formerly the Parliaments were the guardians of thrift, they are today far more like its sworn enemies. Nowadays the political and nationalist parties . . . are in the habit of cultivating a greed of all kinds of benefits for their co-nationals or constituencies that they regard as a veritable duty, and should the political situation be correspondingly favorable, that is to say correspondingly unfavorable for the Government, then political pressure will produce what is wanted. Often enough, though, because of the carefully calculated rivalry and jealousy between parties, what has been granted to one has also to be conceded to others—from a single costly concession springs a whole bundle of costly concessions.

Böhm-Bawerk accused the Austrian government of having "squandered amidst our good fortune [of economic prosperity] everything, but everything, down to the last penny, that could be grabbed by tightening the tax-screw and anticipating future sources of income to the upper limit" by borrowing in the present at the expense of the future. For some time, he said, "a very large number of our public authorities have been living beyond their means." Such a fiscal policy, Böhm-Bawerk feared, was threatening the long-run financial stability and soundness of the entire country.[liv]

Mises added to Böhm-Bawek's argument by saying that the central government's extravagance and excessive spending had been matched if not exceeded by all levels of the government. "In Austria and Hungary, too much is consumed, or as can be said in a different way, too little is produced. The country, the provinces, and the municipalities have been led astray by the ease with which the modern banking system and financial technologies issue loans," Mises said. "In the decade from 1902 to 1912, the country's debt (for the Crownlands and provinces represented in parliament), increased from 3,640 million Crowns to 7,240 million Crowns" (or a near doubling of the government's debt). The monetary expansion to feed these expenditures had negative effects on those with fixed pensions and on the incentives for savings due to inflation.

The growth in total government expenditures was exacerbated by the multiple layers of government at the federal, provincial, and local levels that were often duplicative in their activities and contradictory in many of their policies. The expenses of government were also increased due to inefficiencies of nationalized industries, the most costly and unproductive of which was the national railroad system. It was a drain on the federal government's budget since its sizable deficit had to be covered from general revenues. Its labor force was half as productive as even those who worked for the nationalized railway system in neighboring Imperial Germany.

Similar inefficiencies were visible in the private sector due to protective tariffs for agriculture that resulted in lower productivity in both the growing of food and the raising of cattle. For example, Mises pointed out, in Germany 58.9 cows were raised and grazed on one square kilometer of productive land; in Austria only 32.5 cows were maintained on comparable land. Shielded from international competition, many farming enterprises used "the government's leisurely and unimaginative method of business administration as a model."

The situation was no better in industry. "The Austrian worker (and the same is true for the Hungarians to an even greater extent) labors less intensively than, e.g., the Germans or even the Americans. Only the slightest tendency exists for entrepreneurial activity; and what there is, is impeded at every turn by a legislature that, to the best of its ability, has set itself the goal of inhibiting the development of large enterprises."

What was the attitude of the population? "The farmer, the tradesman, the worker, and above all the civil servant work and earn little; however, they still desire to live comfortably, and thus they spend more than their circumstances would allow. The frivolity of the Austrians and the Hungarians set them sharply apart from the sober thriftiness of the Western Europeans. There appears little concern for the future, and new debts are added to old ones as long as the willing lenders can be found." This, Mises said, was the crux of the problem

Rather than cash payments for goods and services bought and sold, virtually everyone in Austrian society lived on credit: From the manufacturer or merchant extending credit to those further down the wholesale chain leading to the retail level, to the retailer extending credit to his "regular" customers with no consideration of their ability to pay the mounting debts accumulating on their books. Everyone was living far beyond their means with little thought of anyone's longer-term "credit worthiness." The day of reckoning had to finally arrive and, Mises explained, "The 1912-1913 crises bought about the liquidation of some of the unsustainable borrowing system of previous years."

> Sooner or later, the day had to come on which it became clear that a large portion of these outstanding loans that had been posted in the merchant's books as assets were irrecoverable. All these officials, employees, functionaries of the public administration and local governments, and all these farmers and craftsmen had been living far beyond their means. They had taken on debts that they were neither willing nor capable of repaying . . . The scope of the restrictions and divestments of credit, which resulted in the first months of the crisis, were highly exaggerated; yet, they were indeed large enough to be the final straw. The retail merchant, for whom credit was impeded, began to measure his outstanding loans and must have recognized, to his horror, that a portion of them were

> irrecoverable. In many cases, the retailer saw himself now forced to suspend payments himself; this functioned retroactively from the end consumers step-by-step back to the producers. Credits, which had for years been entered into the account books as "good," were revealed at one stroke to be rotten. The businessman recognized too late that he had already lost a majority of that which he thought he had earned through years of hard work.[lv]

What could bring recovery and sustainable prosperity? "Only one possibility could help," Mises concluded, "the radical elimination of all of those barriers placed in the path of the development of productive forces by economic policy." Even if it had been listened to, the Great War that began in the summer of 1914 made following any such advice impossible.

<u>Conclusion: From the After Glow of the Liberal Era to the New Reality of Postwar Collectivism</u>

Reality fades into memory, and what really was becomes what one wishes it had been. The second half of the 19th century was never really the idyllic liberal epoch that those who lived in it came to recall it to be when it had passed. It was more than anything else the stark contrast of the new reality of totalitarian collectivism and the interventionist-welfare state in the period between the two World Wars that made what preceded 1914 seem so "wondrous" in comparison to what was then being lived through.

The "demons" that were set loose by "war socialism" during 1914-1918 had been ideologically maturing for decades before that conflict began. The economic policies that Ludwig von Mises analyzed and opposed in the first years of the 20th century were the early manifestations of these ideas. The impediments to individual initiative and enterprise, the manipulations of the monetary system, and the resulting credit-based boom and recession that followed the Austrian government's extravagance and easy monetary policy had had their intellectual origin in Austria's neighbor, Imperial Germany, in those last decades of the 19^{th} century.

Since the defeat of Napoleon, the anti-liberal spirit had been strongest and most successful in the German States. German Romanticism had started as a literary and poetic movement extolling the "spirit" over the intellect and the connectedness of man to nature. But in the hands of a growing number of German thinkers it was turned into a revolt against the Enlightenment, reason, liberalism, and free trade.[lvi]

It was most strongly represented by those who became known as members of the German Historical School. It is difficult to appreciate today the full flavor of the ideas of these German historicists. It was not only that they rejected much of economic theory as it had developed from the time of Adam Smith and David Ricardo, including the ideas that emerged out of the "marginalist" revolution of the late 19^{th} century. Nor that they insisted upon and erroneously believed that they were actually following a "theory-free" approach to historical and statistical investigations in trying to unearth period-specific "laws" of economics.

It was also, and crucially, their philosophical and ideological collectivism that rejected methodological, epistemological and ethical individualism. Social analysis did not begin with the individual, but with the collective whole. What defined the collective were such things as nation, race, genetics, and intuitive insight belonging to a select and chosen few who "understood" the true meaning and real interests of the German people, the *Volk*. In their view the role of economic policy, including monetary policy, was to help prepare the nation for war and conquest as the path to "national greatness."[lvii]

In the years before the First World War, Ludwig von Mises confronted these ideas as a young member of the Austrian School of Economics attending the annual meetings of the *Verein fűr Sozialpolitik* [Society of Social Policy], the leading association of academics and scholars in the German-speaking world. Forty years after the "Great War," Mises recollected the mentality of these German historicists and their attitude toward ideas of the Austrian School and economic theory in general:

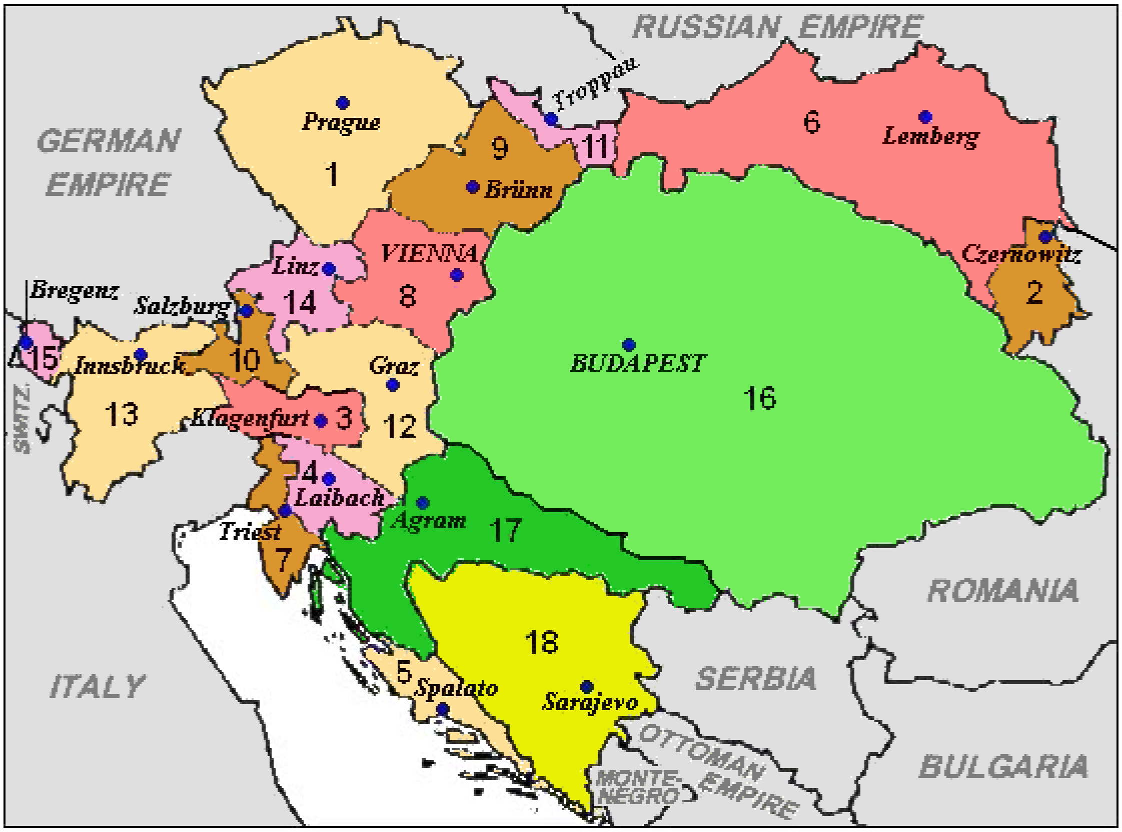
> Böhm-Bawerk, my conversation partners remarked, is without doubt an honorable seeker of truth. Nevertheless, his deplorable errors resulted in an unacceptable justification of the worst form of unearned income – interest on capital. According to them, it was required of a moral State to use governmental measures to lower high market rates of interest. The most absurd book in economic literature is, they said, Bentham's *Defense of Usury*. . . .They charged that Böhm-Bawerk's allegations against the Marxian exploitation theory were foolish. No matter how much Marx may have been mistaken in his criticism of modern society, he nevertheless had the merit of having revealed the motives of British economists. Compared with the contributions of the German Historical School, Böhm-Bawerk was a stubborn reactionary . . .
>
> The same thing was allegedly true about my theory of money. The periodic reoccurrence of economic crises was a phenomenon inherent in the nature of capitalism, they said. . . . Strict supervision and skillful regulation of market activities by a super-party government would free the economy of economic crises. It was pointless, they thought, to try to explain economic fluctuations on the basis of monetary and credit policies. The real causes must be sought at a deeper level, they said . . .
>
> The monetary system, they said, is not an end in itself. Its purpose is to serve the state and the people. Financial preparations for war must continue to be the ultimate and highest goal of monetary policy, as of all policy. How could the state conduct war, after all, if every self-interested citizen retained the right to demand redemption of bank notes in gold? It would be blindness not to recognize that only full preparedness for war – not only in the military sense but also with regard to the economy – could ensure the maintenance of peace. It was admitted that the Historical School has long neglected the treatment of monetary problems. Yet, with Knapp's *State Theory of Money*, they said,

> the German spirit has finally rejected the destructive theories of the English economists. . . .
>
> There could be only one excuse for my errors, namely, that they were the logical results of the subversive ideas that the "Austrian School" had taken over from the doctrines of the Manchester men. Thinking in a vacuum was characteristic of Menger, Wieser, and Böhm-Bawerk, and was my error too. What would the monetary system be like if the State did not stand behind it with all its power? It was fortunate, they alleged, that even in Austria only a small group of naïve authors shared the views of the "Austrian School." . . .
>
> They were ready to grant me that I wrote in good faith. But they were convinced that my book only served the interests of unpatriotic and subversive speculators. They never entered into any kind of process of theoretical thinking. The quantity theory of money and the theories of the Currency School were, in their eyes, nothing but curiosities in the historical literature. One of these gentlemen remarked that a colleague of his had asked whether I was not also an adherent of the phlogiston theory. Another gentleman suggested that he considered my "Austrianness" to be a mitigating circumstance; with a citizen of Germany he wouldn't even discuss such questions . . .
>
> Such were the opinions of my interlocutors during the last five years before the First World War.[lviii]

These years were the intellectual battleground that prepared Ludwig von Mises for the fights to come, and those first articles of his on monetary and fiscal policy in Austria-Hungary were the opening shots in a war of ideas that he continued to participate in through seven decades of the 20th century.[lix]

Map A

Austria-Hungary, 1914 (Administrative Divisions)

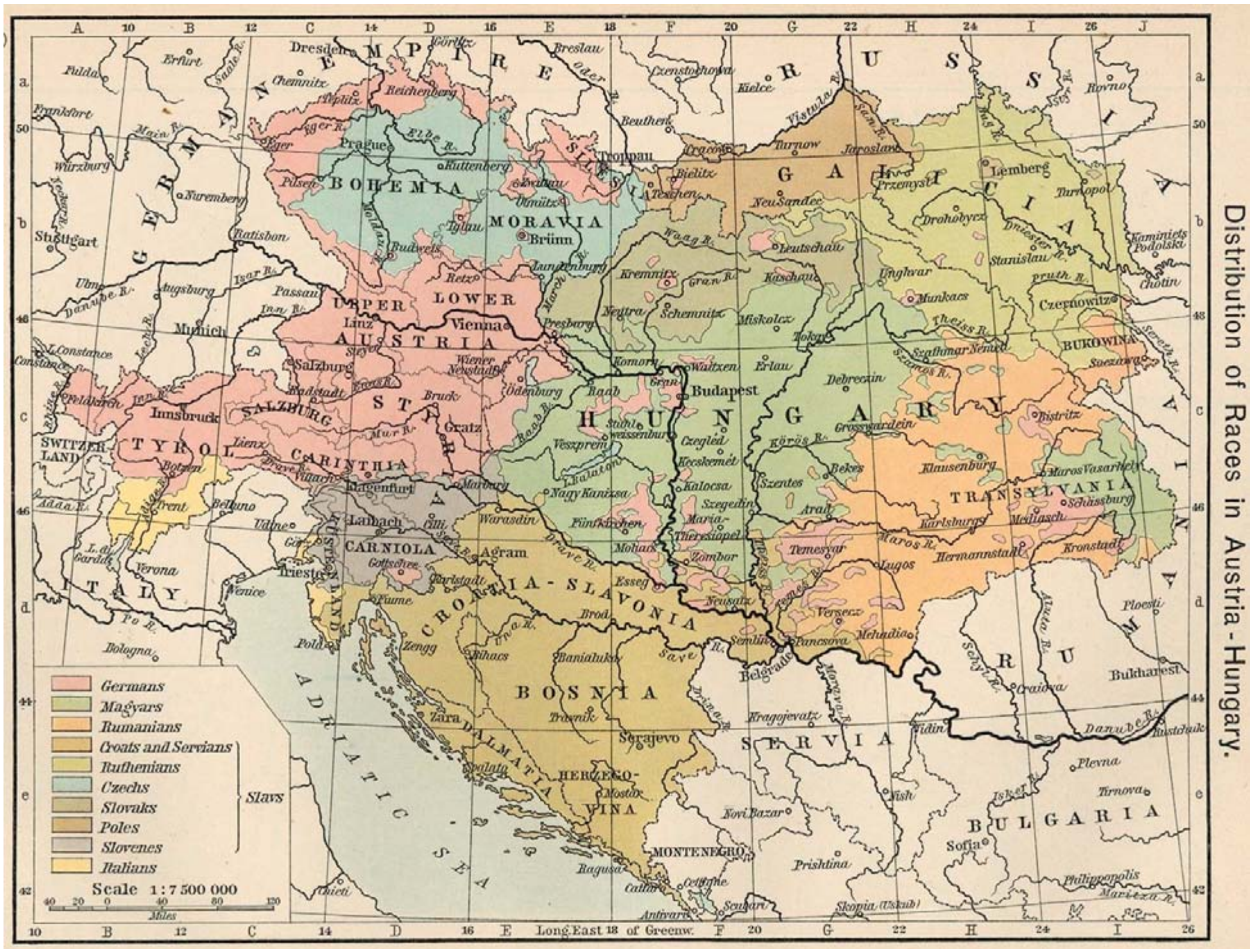


CISLEITHANIA
1. Bohemia
2. Bukovina
3. Carinthia
4. Carniola
5. Dalmatia
6. Galicia
7. Kustenland
8. Lower Austria
9. Moravia
10. Salzburg
11. Silesia
12. Styria
13. Tirol
14. Upper Austria
15. Vorarlberg

TRANSLEITHANIA
16. Hungary
17. Croatia and Slavonia
18. BOSNIA AND HERZEGOVINA

Map B

Austria-Hungary, 1911 (Ethnic Divisions)



End Notes

[i] G. P. Gooch, "The Lessons of 1914-1918," *Current History* (August 1934), pp. 513-514, 516, 520; see, the similar sentiment expressed by internationally respected Italian philosopher, Benedetto Croce, "Of Liberty," *Foreign Affairs* (October 1932) pp. 1-2: "We remember the old Europe with its riches, its flourishing trade, its abundance of goods, its ease of life, its bold sense of security; we see today the new Europe – impoverished, discouraged, crisscrossed with high tariff walls, each nation occupied solely with its own affairs, too distraught to pay heed to the things of the spirit and tormented by the fear of worse to come. Gone is the gay international society once the pride of Europe's capitals; extinct, or almost so, is the old community of thought, art, civilization." Croce despaired, as well, that, "Impatience with free institutions has led to open or masked dictatorships, and, where dictatorships do not exist, to the desire for them. Liberty, which before the war was a faith, or at least a routine acceptance, has now departed from the hearts of men even if it still survives in certain institutions."

[ii] Gustav Stolper, *This Age of Fable: The Political and Economic World We Live In* (New York: Reynal & Hitchcock, 1942) pp. 1, 7-8.

[iii] Shortly before the First World War the trend was summarized by German historian Hermann Levy, *Economic Liberalism* (London: MacMillan, 1913) p. 1: "The Manchester School of laissez-faire has of recent years been brought face to face with two very momentous phenomena – Socialism and Neo-Mercantilism. These two very different tendencies have a common element in their opposition to the individualist doctrines of political economy. Socialism is concerned with the division of the product according to certain principles of 'justice,' rather than the development of potential production. Mercantilism is the most complete expression of an all-embracing regulation of industrial conditions by political wisdom and administrative practice. But both agree that industry must be organized by the State. Manchester Liberalism has been undermined bit by bit by the union of these two forces."

[iv] See, Francis W. Hirst, "Liberalism and Wealth," *Essays in Liberalism by Six Oxford Men* (London: Cassel and Co., 1897) pp. 33 & 51: "A sneer at Cobden, a contemptuous allusion to Manchesterism and the 'dismal science' help nowadays to make up that small but choice reservoir of blind abuse, upon which the Social Democrats . . . draw for the great work of irrigating electoral ignorance." Hirst for one made no apology for the preceding "half-century of free trade and free enterprise . . . The nation has largely been freed from private monopoly; for fifty years it has made uninterrupted and unprecedented progress in culture, power, and comfort. Will not Englishmen think once, twice, and thrice before they exchange the assurance of increased and increasing prosperity for the dim Utopias of State monopoly depicted by a gentleman known to Social Democrats as 'our local horganizer.'?" And, of course, Herbert Spencer had warned of these growing anti-liberal forces even earlier in his collection of essays on *Man vs. the State* (London: Williams & Norgate, 1885), in which he spoke of "The Coming Slavery" and "The New Toryism" of increasing government control over people's personal and commercial lives.

[v] A reasoned case for this interpretation can be found in, Arno Mayer, *The Persistence of the Old Regime: Europe to the Great War* (New York: Pantheon, 1982).

[vi] "Austria-Hungary," *The Economist* reprinted in *Living Age* (Feb. 10, 1900) pp. 399-400.

[vii] Joseph Redlich, "The End of the House of Austria," *Foreign Affairs* (July 1, 1930), p. 599.

[viii] Redlich. p. 605; see, also, Hans Kohn, *The Habsburg Empire, 1804-1918* (New York: Van Nostrand Reinhold, 1961) p. 49: "Like a good eighteenth century monarch, [Francis Joseph] regarded himself as the first servant of the nation, but he identified the nation with himself and his dynasty. He worked indefatigably for the good of his people, but they were *his* people and *he* interpreted what was good for them."

[ix] See, also, Hans Kohn, "The Viability of the Habsburg Monarchy," *Slavic Review* (March 1963) pp. 37-42.

[x] Redlich, p. 606; see, also, Joseph Redlich, *Emperor Francis Joseph of Austria: A Biography* (New York: MacMillan, 1929).

[xi] Hans Kohn, *Living in a World Revolution: My Encounters with History* (New York: Trident Press Book, 1964) pp. 1-19, for his recollections of those years of his youth in Prague under Hapsburg rule.

[xii] Kohn, "The Viability of the Habsburg Monarchy," p. 38.

[xiii] Kohn, "The Viability of the Habsburg Monarchy," p. 39; on the mutual benefits to be derived from a state that incorporates a variety of different national groups, see the classic essay by Lord Acton, "Nationality," [1862] in *The History of Freedom and Other Essays* (London: MacMillan, 1907) pp. 270-300.

[xiv] Ludwig von Mises, *Nation, State, and Economy: Contributions to the Politics and History of Our Time* [1919] (New York: New York University Press, 1983) pp. 106-131.

[xv] The interventionist and regulatory policies of the government in the Hapsburg domains only served to both aggravate and create antagonisms among the linguistic and national groups. See, A. J. P. Taylor, *The Habsburg Monarchy, 1809-1918: A History of the Austrian Empire and Austria-Hungary* (Chicago: University of Chicago Press, 1948), p. 173: "In another way, the Austrian state suffered from its strength: it never had its range of activity cut down during a successful period of *laissez-faire*, and therefore the openings for national conflict were far greater. There were no private schools or hospitals, no independent universities; and the state, in its infinite paternalism, performed a variety of services from veterinary surgery to the inspecting of buildings. The appointment of every schoolteacher, of every railway porter, of every hospital doctor, of every tax collector, was a signal of national struggle. Besides, private industry looked to the state for aid from tariffs and subsidies; these, in every country, produce 'log-rolling,' and nationalism offered an added lever with which to shift the logs. German industries demanded state aid to preserve their privileged position; Czech industries demanded state aid to redress the inequalities of the past. The first generation of national rivals had been the products of universities and fought for appointments at the highest professional level; their disputes concerned only a few hundred state jobs. The generation which followed them was the result of universal elementary education and fought for the trivial state employment which existed in every village; hence, the more popular national conflicts at the end of the century."

[xvi] See, Hans Kohn, *The Habsburg Empire, 1804-1918*, p. 72: "Amidst all the controversies and upheavals caused by the growing conflict of nationalities and by the vain search for an Austrian idea, the Austrian Constitution of December 31, 1867, which was a document of mid-century liberalism, remained in force for over half a century." The Fundamental Law Concerning the General Rights of Citizens from the Austrian Constitution of 1867 may be found at: http://www.h-net.org/~habsweb/sourcetexts.auscon.htm.

[xvii] In 1867, the Lower Austrian Chamber of Commerce located in Vienna (where Ludwig von Mises was to work as an economic analyst from 1909 until he left Austria in 1934) declared, "The state has fulfilled its task if it removes all obstacles to the free, orderly activity of its citizens. Everything else is achieved by the considerateness and benevolence of the factory owners and above all by the personal efforts and thriftiness of the workers." See, Robin Okey, *The Habsburg Monarchy: From Enlightenment to Eclipse* (New York: St. Martin's Press, 2001) p. 206.

[xviii] On the liberation and successes of the Austrian and Viennese Jews in the era of 19th century classical liberalism, and their demise with the counter-revolution of national and racial collectivism in the 20th century, see, Richard M. Ebeling, "Ludwig von Mises and the Vienna of His Time," *The Freeman: Ideas on Liberty,* Parts I & II (March & April 2005) pp. 24-31 and 19-25.

[xix] Mark Twain, "Stirring Times in Austria," *Harper's New Monthly Magazine* (March 1898) p. 533, in his witty and insightful account of Viennese politics, he described the makeup of the Austrian parliament: "As to the makeup of the House, it is this: the deputies come from all the walks of life and from all the grades of society. There are

princes, counts, barons, priests, peasants, mechanics, laborers, lawyers, judges, physicians, professors, merchants, bankers, shopkeepers. They are religious men, they are earnest, sincere, devoted, and they all hate the Jews."

[xx] Stefan Zweig, *The World of Yesterday* (New York: The Viking Press, 1943), pp. 24-25.

[xxi] The following brief account of the history of the Austrian currency is taken primarily from, Charles A. Conant, *A History of Modern Banks of Issue*, 5th ed. (New York G. P. Putnam's Sons, 1915) pp. 219-250; J. Laurence Laughlin, *History of Bimetallism in the United States* (New York: Appleton, 1898), pp. 189-197 & 331-337; Robert Zuckerkandl, "The Austro-Hungarian Bank" in *Banking in Russia, Austro-Hungary, the Netherlands, and Japan* (Washington, D.C. Government Printing Office, 1911) pp. 55-118. Also, specifically on the currency reform of 1892 and its implementation, "The Gold Standard in Austria" [Translation of the Report of the Special Currency Commission to the Upper House of the Austrian Parliament], *Quarterly Journal of Economics* (January 1893), pp. 225-254; "Reform of the Currency in Austria-Hungary," *Journal of the Royal Statistical Society* (June 1892) pp. 333-339; Friedrich von Wieser, "Resumption of Specie Payments in Austria-Hungary," *Journal of Political Economy* (June 1893) pp. 380-405; and Wesley C. Mitchell, "Resumption of Specie Payments in Austria-Hungary," *Journal of Political Economy* (December 1898) pp. 106-113.

[xxii] See, Edwin R. A. Seligman, *Currency Inflation and Public Debt* (New York: Equitable Trust Co., 1921) p. 35: "Austria was the first of the European countries to issue paper money in the eighteenth century."

[xxiii] Jurgen Nautz, *Austrian Exchange Rate and Interest Rate Policies in Ethnic Conflicts, 1867-1914*, p. 8, a paper prepared for an international conference on the Political Economy of Currency Unions in a Globalized World, in Jerusalem, Israel, April 30-May 1, 2006.

[xxiv] For example, following the Franco-Prussian War of 1870-1871, the German Empire was proclaimed, unifying under Prussian leadership the various German states and principalities. In 1871 and 1873, legislation was passed formally putting Imperial Germany on the gold standard. See, *The Reichbank, 1876-1900* (Washington, D. C.: Government Printing Office, 1910).

[xxv] Wieser, "Resumption of Specie Payments in Austria-Hungary," p. 386.

[xxvi] Ludwig von Mises, "Das österreichische Währungsproblem vor 30 Jahren und heute: ein Gedenkblatt" ["The Austrian Currency Problem Thirty Years Ago and Today,"] *Neue Freie Presse* (March 12, 1922).

[xxvii] Quoted in Hans Sennholz, "The Monetary Writings of Carl Menger," in Llewellyn H. Rockwell, ed., *The Gold Standard: Perspectives in the Austrian School* (Auburn, Al.: The Ludwig von Mises Institute [1985] 1992) p. 26; see, also, Günther Chaloupek, "Carl Menger's Contributions to the Austrian Currency Debate (1892) and His Theory of Money," paper presented to the 7th ESHET Conference, in Paris, France, January 30 – February 1, 2003.

[xxviii] Wieser, "Resumption of Specie Payments in Austria-Hungary," pp. 387-388.

[xxix] "The Gold Standard in Austria," p. 230.

[xxx] More recently, the Austro-Hungarian Bank's exchange rate policy has been praised as an example of successful "target zone" management of an exchange rate band; see, Marc Flandreau and John Komlos, "Target Zone in History and Theory: Lessons from an Austro-Hungarian Experiment (1896-1914)," Discussion Paper No. 18 (July 2003), Department of Economics, University of Munich, Germany

[xxxi] For a brief summary of the inflation in Austria during and after the First World War, and its disastrous consequences, see. Richard M. Ebeling, "The Great Austrian Inflation," *The Freeman: Ideas on Liberty* (April 2006) pp. 2-3; also Richard M. Ebeling, "The Lasting Legacies of World War I: Big Government, Paper Money and Inflation" *Economic Education Bulletin*, Vol. XLVIII, No. 11 (Great Barrington, MA: American Institute for Economic Research, November, 2008).

[xxxii] Ludwig von Mises was between 26 and 33 years old when he wrote these articles.

[xxxiii] Ludwig von Mises, *Notes and Recollections* [1940] (South Holland, Ill: Libertarian Press, 1978) pp. 43-53.

[xxxiv] Ludwig von Mises, "Die wirtschaftspolitischen Motive der österreichischen Valuta-regulierung" ["The Political-Economic Motivations for Regulating the Austrian Currency"] *Zeitschrift fűr Volksvirtschaft, Soziaslpolitik und Verwaltung*, Vol. 16 (1907) pp. 561-582.

[xxxv] For example, the classical economist, Henry Fawcett argued in *Free Trade and Protection* (London: Macmillan 1878) pp. 17-47, that if not for the fact that in the winter of 1845-1846 there had been such a great famine due to the failure of many of the crops and therefore such a large portion of the population in England and Ireland simultaneously threatened with starvation, the pressure for the unilateral repeal of agricultural protectionism (the Corn Laws) might never have otherwise occurred. It was unlikely that the same passion for a radical change to free trade would have been stimulated by the existing industrial and manufacturing protectionism that only affected different, diverse and limited sub-groups of the consuming public.

[xxxvi] Ludwig von Mises, "The Foreign Exchange Policy of the Austro-Hungarian Bank, *Economic Journal* (June 1909), pp. 201-211.

[xxxvii] Ludwig von Mises, "Das Problem gesetzlicher Aufnahme der Barzahlungen in Österreich-Ungarn" ["The Problem of Legal Resumption of Specie Payments by the Austro-Hungarian Bank,"] *Jahrbuch fűr Gesetzgebug, Verwaltung und Volkswirstschaft*, Vol. 33 No. 3 (1909) pp. 895-1037.

[xxxviii] Ludwig von Mises, "Zum Problem gesetzlicher Aufnahme der Barzahlungen in Öesterreich-Ungarn" ["About the Problem of the Legal Resumption of Specie Payments in Austria- Hungary,"] *Jahrbuch fűr Gesetzgebug, Verwaltung und Volkswirstschaft*, Vol. 34, No. 3-4 (1910) pp. 1877-1884.

[xxxix] Ludwig von Mises, "Das vierte Privilegium der Österreichisch-Ungarischen Bank" ["The Fourth Privilege of the Austro-Hungarian Bank,"] *Zeitschrift fűr Volkswirtschaft, Sozialpolitik und Verwaltung*, Vol. 21 (1912) pp. 11-24.

[xl] Ludwig von Mises, "Die Goldkernwährung" ["The Gold-Exchange Standard,"] *Deutsche allgemeine Zeitung* (February 24, 1925).

[xli] Mises, "The Problem of Legal Resumption of Specie Payments by the Austro-Hungarian Bank."

[xlii] See, Leo Pasvolsky, *Economic Nationalism of the Danubian States* (New York: Macmillan, 1928) p. 7, for the data on Austria-Hungary's trade balance and its bullion flows during the period 1894-1914.

[xliii] Quoted in Robert Zuckerkindl, "The Austro-Hungarian Bank," pp. 112-113.

[xliv] Mises, "About the Problem of Legal Resumption of Specie Payments in Austria-Hungary."

[xlv] Mises," The Foreign Exchange Policy of the Austro-Hungarian Bank," p. 211, A large part of Mises' arguments in this group of articles relating to legal convertibility involved the historical and institutional details of how, when, and why the Austro-Hungarian Bank had followed various courses of action concerning gold purchases, foreign bills, and the costs and profits connected with it. He also attempted to show why arguments against the Bank's redemption of gold were often theoretically wrong and factually inaccurate.

[xlvi] Mises, *Notes and Recollections*, pp. 48-51; for a brief account of some of Böhm-Bawerk's accomplishments as finance minister of Austria-Hungary, see, Richard M. Ebeling, "Eugen von Böhn-Bawerk: A Sesquicentennial Appreciation," *The Freeman: Ideas on Liberty* (February 2001), pp. 36-41

[xlvii] Mises, "The Problem of Legal Resumption of Specie Payments by the Austro-Hungarian Bank."

[xlviii] Ludwig von Mises, "La Réforme financière en Autriche" ["Financial Reform in Austria,"] *Revue Economique Internationale,* Vol. 7, No. 4 (October 1910) pp. 39-59.

[xlix] Ludwig von Mises, "Die Störungen im Wirtschaftsleben der österreichisch-ungarischen Monarchie während der Jahre 1912/1913" ["Disturbances in the Economic Life of the Austro-Hungarian Empire during the Years 1912-1913,"] *Archiv fűr Sozialwissenschaft und Sozialpolitik*, Vol. 39 (1914-1915) pp. 174-186.

[l] See, Joseph Redlich, *Austrian War Government* (New Haven, Ct: Yale University Press, 1929), for a detailed history of the fiscal costs and war economy of planning and control in Austria-Hungary in the First World War.

[li] The four years when Böhm-Bawerk was minister of finance (1900-1904) were especially notable for the fact that they were the years when the rate of annual tax increases were virtually the lowest in terms of the ten-year period between 1894 and 1913; Böhm-Bawerk's tenure in office also saw the only two years over the period 1894-1913 when government spending actually decreased compared to the preceding year; see, B.R. Mitchell, *European Historical Statistics, 1750-1970* (New York: Cambridge University Press, 1979) pp. 372 & 376.

[lii] Mises, "Financial Reform in Austria."

[liii] Eugen von Böhm-Bawerk, "Our Negative Balance of Trade" *Neue Freie Presse* (January 6, 8, and 9, 1914).

[liv] Quoted in Eduard Marz, *Austrian Banking and Financial Policy: Creditanstalt at the Turning Point, 1913-1923* (New York: St. Martin's Press, 1984), pp. 26-27.

[lv] Mises, "Disturbances in the Economic Life of the Austro-Hungarian Empire during the Years 1912-1913."

[lvi] See, Hans Kohn, "Romanticism and the Rise of German Nationalism," *Review of Politics* (October 1950) pp. 442-472.

[lvii] For a thoughtful discussion of the evolution of these ideas from the late 18th century through the Second World War, see, Hans Kohn, *The Mind of Germany: The Education of a Nation* (New York: Harper Torchbooks, 1965); also by Hans Kohn, "Treitschke: National Prophet," *Review of Politics* (October 1945) pp. 433 & 435: "The 'socialists of the chair' desired a benevolent paternal socialism to strengthen Germany's national unity. Their leaders, Adolf Wagner and Gustav von Schmoller, [Heinrich von] Treitschke's colleagues at the University of Berlin and equally influential in molding public opinion, shared Treitschke's faith in the German power state and its foundations. They regarded the struggle against English and French political and economic liberalism as the German mission, and wished to substitute the superior and more ethical German way for the individualistic economics of the West. . . In view of the apparent decay of the Western world through liberalism and individualism, only the German mind with its deeper insight and its higher morality could regenerate the world."

[lviii] Ludwig von Mises, "Bemerkungen über die ideologischen Wurzeln der Währungskatastrophe von 1923" ["Remarks Concerning the Ideological Roots of the Monetary Catastrophe of 1923,"] in *Freundesgabe zum 12. Oktober 1959 fűr Albert Hahn*. [Homage by Friends for Albert Hahn on October 12, 1959] (Frankfurt am Main: Fritz Knapp, 1959, pp. 54-58. The phlogiston theory originated in 1667 with Johann Joachim Becher; it posited that inside flammable substances was a special element without odor, color, taste, or mass that is freed by the burning process, and is what caused the burning process. It was refuted in the 18th century through a variety of quantitative experiments.

[lix] On Mises' role as policy analyst and advocate in the postwar Republic of Austria of the 1920s and 1930s, see, Richard M. Ebeling, "The Economist as the Historian of Decline: Ludwig von Mises and Austria Between the Two World Wars," in Richard M. Ebeling, ed., *Globalization: Will Freedom or World Government Dominate the International Marketplace?* (Hillsdale, MI: Hillsdale College Press, 2002) pp. 1-68; on Mises' theory of money and

the business cycle in the context of the Great Depression and in contrast to Keynesian Economics, see, Richard M. Ebeling, "The Austrian Economists and the Keynesian Revolution: The Great Depression and the Economics of the Short-Run," in Richard M. Ebeling, ed., *Human Action: A 50-Year Tribute* (Hillsdale, MI: Hillsdale College Press, 2000) pp. 15-110; and on Mises as social philosophy and policy designer for a liberal world in the post-World War II era, see, Richard M. Ebeling, "Planning for Freedom: Ludwig von Mises as Political Economist and Policy Analyst," in Richard M. Ebeling, ed., *Competition or Compulsion? The Market Economy versus the New Social Engineering* (Hillsdale, MI: Hillsdale College Press, 2001) pp. 1-85.