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# Perfect Capitalism, Imperfect Humans: Race, Migration and the Limits of Ludwig von Mises's Globalism

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While the Viennese origins of key neoliberal intellectuals is well known, the formative influence of the Habsburg Empire on their thought is surprisingly understudied. This article argues that the empire was a silent and open partner in the writings of Austrian economist Ludwig von Mises on international order, especially on questions of migration and the management of a polyglot population. After 1918 Mises conceived of robust forms of multinational governance capable of protecting a world of what he called 'perfect capitalism' with total global mobility of labour, capital and commodities. Yet, by 1945 he had scaled back his proposals to the effective recreation of the Habsburg Empire. I show that Mises's international theory was cleft by a faultline between a normative theory of an open borders world and the empirical reality of a closed borders world, underwritten by what he saw as the stubborn obstacles of human ignorance and racial animus.

How can we expect that the Hindus, the worshipers of the cow, should grasp the theories of Ricardo and of Bentham?

Ludwig von Mises, 1944<sup>1</sup>

The last decade has seen a boom of research into the intellectual origins of neoliberalism.<sup>2</sup> The term 'neoliberalism' was coined in 1938 at the so-called Walter Lippmann Colloquium in Paris when a group of intellectuals and businessmen, including Ludwig von Mises, F. A. Hayek and Wilhelm Röpke, gathered to discuss what they saw as the decline of states from the principles of private enterprise and the international division of labour toward central planning and national autonomy. They demanded a 'renovation of liberalism' to account for the fact that the *laissez faire* approach of the nineteenth century had been fatally discredited by the Great

<sup>1</sup> Ludwig Mises, *Omnipotent Government: The Rise of the Total State and Total War* (New Haven, CT: Yale University Press, 1944), 283.

<sup>2</sup> The pioneering work on the neoliberal intellectual movement is Bernhard Walpen, *Die offenen Feinde und ihre Gesellschaft. Eine hegemonietheoretische Studie zur Mont Pelerin Society* (Hamburg: VSA-Verlag, 2004). More recent studies include Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, MA: Harvard University Press, 2012); Pierre Dardot and Christian Laval, *The New Way of the World: On Neoliberal Society* (New York: Verso, 2014); Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, MA: Harvard University Press, 2009); Jamie Peck, *Constructions of Neoliberal Reason* (New York: Oxford University Press, 2010); Philip Plickert, *Wandlungen des Neoliberalismus. Eine Studie zu Entwicklung und Ausstrahlung der 'Mont Pelerin Society'* (Stuttgart: Lucius & Lucius, 2008); Ralf Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft: Stationen des Neoliberalismus in Deutschland* (Opladen: Leske + Budrich, 2004); Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012); Ben Jackson, 'At the Origins of Neo-Liberalism: The Free Economy and the Strong State, 1930–1947', *The Historical Journal*, 53, 1 (2010), 129–51; Jean Solchany, *Wilhelm Röpke, L'autre Hayek. Aux origines du néolibéralisme* (Paris: Sorbonne, 2015).

Depression and made untenable by mass democracy. They called for a strong state to take a more proactive role in defending the conditions of competition against the disruptive demands of voting publics, organised labour and special interests. With the addition of US economists Milton Friedman and George Stigler, among others, many of the colloquium's participants reunited in Switzerland in 1947 to form the Mont Pèlerin Society (MPS) with the purpose, in Hayek's words, 'to erect a coherent edifice of . . . neoliberal thought, and to work out its practical application to the problems of different countries'.<sup>3</sup> Although not without its internal rifts of opinion and conflicts, the society was a site of exchange and discussion of many of the proposals for locking in capital rights and constraining social democracy that became policy under US President Ronald Reagan and British Prime Minister Margaret Thatcher in the 1980s and beyond.

While the Viennese origins of key neoliberals is well known, the formative influence of the Habsburg Empire on their thought is surprisingly understudied.<sup>4</sup> The vanished empire was a lost object of identification for Hayek and Mises. Hayek, as his personal friend and fellow MPS member John Gray notes, saw the empire as 'in some ways a model liberal regime'.<sup>5</sup> Another friend and MPS member, the philosopher Karl Popper, idealised the empire in retrospect, seeing it as the space of a 'cosmopolitan scientific community laboring for human progress'.<sup>6</sup> It is well known that many Viennese elites regarded the empire as representing 'the international order of mankind in miniature'.<sup>7</sup>

This article takes up this theme in a reading of the international thought of Ludwig von Mises, the mentor to Hayek, Gottfried Haberler and Fritz Machlup, and the chief inspiration to the libertarian Austrian School of Economics in the United States.<sup>8</sup> I suggest that the Habsburg Empire was both a silent and open partner in Mises's writings about global order before 1945. In a time after the First World War, when the spectrum of political imagination is often expressed in the two strains of national self-determination captured by 'Wilson versus Lenin', Mises targeted the 'nationality principle' as the primary enemy of order.<sup>9</sup> He conceived instead of multinational forms of governance capable of protecting a world of what he called 'perfect capitalism' with total global mobility of labour, capital and commodities.<sup>10</sup> As with his protégé Hayek, Mises came to see a model of 'double government' inspired by the Habsburg example delinking cultural and economic

<sup>3</sup> F. A. Hayek, 'A Rebirth of Liberalism', *The Freeman*, 28 July 1952, 731.

<sup>4</sup> A recent book proposes the provocative label of the 'Habsburg School of Economics' for Mises's circle but offers little analysis of the actual influence of empire on their thinking: Erwin Dekker, *The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered* (New York: Cambridge University Press, 2016), 4. For treatments of the Viennese context see Bruce Caldwell, 'Hayek and the Austrian Tradition', in Edward Feser, ed., *The Cambridge Companion to Hayek* (New York: Cambridge University Press, 2006); Earlene Craver, 'The Emigration of the Austrian Economists', *History of Political Economy*, 18, 1 (1986); Hans Jörg Hennecke, *Friedrich August von Hayek: Die Tradition der Freiheit* (Düsseldorf: Wirtschaft und Finanzen, 2000); Kari Polanyi-Levitt, *From the Great Transformation to the Great Financialization: On Karl Polanyi and Other Essays* (London: Zed, 2013), 24–40.

<sup>5</sup> John Gray, *Black Mass: How Religion Led the World into Crisis* (Toronto: Anchor Canada, 2008), 177.

<sup>6</sup> Malachi Haim Hacohen, *Karl Popper, the Formative Years, 1902–1945: Politics and Philosophy in Interwar Vienna* (New York: Cambridge University Press, 2000), 6.

<sup>7</sup> Paul Silverman, 'Law and Economics in Interwar Vienna: Kelsen, Mises, and the Regeneration of Austrian Liberalism', Ph. D. thesis, University of Chicago, 1984, 25.

<sup>8</sup> See Karen Iversen Vaughn, *Austrian Economics in America: The Migration of a Tradition* (New York: Cambridge University Press, 1994).

<sup>9</sup> Mary Nolan, *The Transatlantic Century: Europe and America, 1890–2010* (New York: Cambridge University Press, 2012), 66. See Arno J. Mayer, *Political Origins of the New Diplomacy, 1917–1918* (New Haven: Yale University Press, 1959), 368.

<sup>10</sup> Mises, *Omnipotent Government*, 284.

administration as paradigmatic for managing the uneasy settlement between mass democracy and capitalism.<sup>11</sup>

For Mises, the foremost lesson from the Habsburg context was the question of migration and the associated challenge of managing an intermingled polyglot population. He rejected the nation state principle for its interference in the ever shifting geographies of the division of labour. After 1918 his first move was to extrapolate from the imperial example to see the possibility of free migration and multinational administration at a larger global scale. By the outbreak of the Second World War, however, he saw his vision stymied by the stubborn obstacles of racial animus and mass stupidity. In contrast to Hayek, who came to see ignorance as an asset for the functioning of the market order, Mises concluded that perfect capitalism could not be built by imperfect humans.<sup>12</sup> Unable to transcend the horizon of his own origins, Mises scaled back his proposals for supranational order to a plan for the effective recreation of the Habsburg Empire. Mises's globalism – and its limits – offers a case of the challenges faced by economic liberals in the twentieth century as they sought to bring their dreams of global capitalism down to earth.

Far from mere antiquarian concern, Mises's early musings are at the heart of a dispute in the late 2010s between feuding proponents of the radical free market in Germany and the United States. Since the arrival of over one million asylum seekers to Germany since 2015 and the ongoing political agitation against undocumented migrants in the United States, self-described libertarians have split over whether open or closed borders for people best capture the free market ideal.<sup>13</sup> Some have turned to Mises for guidance. Right-wing libertarians have claimed support in his writings for their cause, including one leading 'Austrian' economist, who cited Mises on national self-determination alongside Malcolm X in support of the goal of culturally homogeneous secession in 2017.<sup>14</sup> Other libertarians have insisted, by contrast, on the seamless adherence of Mises to open borders for humans as well as capital and goods.<sup>15</sup> The distinction is not trivial, as some right-libertarians have become key figures in the far-right Austrian Freedom Party, the Alternative für Deutschland party in Germany and affiliates of the Alt Right in the United States.<sup>16</sup> The network of institutes named for Mises and Hayek in the United States and Europe have become platforms for exclusionary strains of libertarianism opposing free migration.

A final appraisal of Mises's stance on borders remains elusive. This article shows that the interpretation of his views depends on whether one follows Mises's norm of perfect capitalism or his diagnosis of imperfect humanity. What is beyond question is that the coeval development of ever greater mobility for goods and capital and ever tighter regulation for migrants has been one of the defining features of the twentieth and now twenty-first centuries. If one leading historian

<sup>11</sup> Hayek uses the formulation of 'double government' in F. A. Hayek, *Nobel-Prize Winning Economist* (Los Angeles: The Regents of the University of California, 1983), 46. For Hayek's own proposals for international federation see the final chapter of F. A. Hayek, *The Road to Serfdom* (London: George Routledge & Sons, 1944). See also Or Rosenboim, *The Emergence of Globalism: Visions of World Order in Britain and the United States, 1939–1950* (Princeton, NJ: Princeton University Press, 2017), ch. 5.

<sup>12</sup> On Hayek and ignorance see Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown* (New York: Verso, 2013), 81.

<sup>13</sup> For an excellent contribution on the history of US libertarianism see Daniel Bessner, 'Murray Rothbard, Political Strategy, and the Making of Modern Libertarianism', *Intellectual History Review*, 24, 4 (2014), 441–56.

<sup>14</sup> Joseph T. Salerno, 'Mises on Nationalism, the Right of Self-Determination, and the Problem of Immigration', *Mises Institute*, 28 Mar. 2017.

<sup>15</sup> Stefan Blankertz, 'Liberalismus, Ökonomie und Migration: Einwanderungsbeschränkung gehört nicht zum Nachwächterstaat', *Eigentümlich Frei*, 12 Apr. 2017.

<sup>16</sup> The AfD included many members of the Friedrich-von-Hayek-Gesellschaft in its early leadership. In Germany an outlet for the closed borders argument has been the magazine *Eigentümlich Frei*. A key figure in both the United States and Germany is the close associate of the Alabama-based Ludwig von Mises Institute, Hans-Hermann Hoppe. For his arguments see Hans-Hermann Hoppe, 'The Case for Free Trade and Restricted Immigration', *Journal of Libertarian Studies*, 13, 2 (1998), 221–33.

has recently proposed that we return to the Habsburg Empire to think about the difficulties of managing multinational polities in the modern era, this article suggests we might do the same to better understand neoliberal visions of global economic governance.<sup>17</sup>

### The Axiom of Globalisation

Ludwig von Mises was born in 1881 in the Polish majority city of Lemberg/Lviv in Galicia, 800 kilometres east of Vienna, where his father was involved in extending the railroad into the oil-rich province.<sup>18</sup> Raised in a Jewish family, Mises's childhood was multilingual and his socialisation was multinational. According to his friend Erik von Kuehnelt-Leddihn, himself born in the empire, Mises 'spoke German, Polish and French and understood Ukrainian' by the age of twelve, and 'his Jewish roots, his Polish culture, his Austrian political frame and allegiance [were] all intertwined'.<sup>19</sup> Mises left the provinces at a young age to study at the Akademische Gymnasium in Vienna.<sup>20</sup> In 1900 he entered the Department of Law and Government Science at the University of Vienna, the academic home for the study of economics in the German-speaking world and the site of training for many future civil servants.<sup>21</sup>

Mises describes himself at the beginning of his career as an 'étatist through and through,' seeing the world through the eyes of the would-be imperial administrator.<sup>22</sup> From his dissertation adviser, Carl Grünberg, he learned that the economist's role was devising social policies to moderate the disruptive effects of industrialising capitalism and neutralise the attraction of socialist revolution.<sup>23</sup> His first free-standing article, published in 1905, reflected this position. It was a paean to interventionism on the subject of factory regulation. Mises praised the attention of doctors and politicians to the dangers of phosphorous poisoning in Austrian matchbox factories and declared the prohibition of child labour in the empire a 'page of honour' in Austrian history.<sup>24</sup>

Yet there was already a considerable change in Mises's next publication, which he presented at a statistical seminar (also attended by a young Joseph A. Schumpeter) in 1905–6. Titled 'The Repercussions of the World Economy on the Structure of Social Policy', his paper concluded that European 'export industries were threatened by worker protection laws'. Legislation in Europe to block traffic in child labour, regulate night work for women and protect workers from white phosphorous was dangerous for Europe itself because Japan and China had not signed the legislation. This fact, he said, had 'drawn our attention to the great danger that Asian competition presents for the future of European social policy'.<sup>25</sup>

Such language might sound familiar in an early twenty-first century marked by China's ongoing economic ascent. But for Mises, a war had shaken him most. Japan's defeat of Russia in 1905 brought a non-white power into the elite white club of empires.<sup>26</sup> The event resonated with

<sup>17</sup> See Pieter M. Judson, *The Habsburg Empire: A New History* (Cambridge, MA: The Belknap Press of Harvard University Press, 2016), epilogue.

<sup>18</sup> Jörg Guido Hülsmann, *Mises. The Last Knight of Liberalism* (Auburn, AL: Ludwig von Mises Institute, 2007), 12.

<sup>19</sup> Erik Ritter von Kuehnelt-Leddihn, 'The Cultural Background of Ludwig Von Mises', *Procesos de Mercado: Revista Europea de Economía Política*, 14, 1 (Spring 2017), 543.

<sup>20</sup> Thomas K. McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (Cambridge, MA: Belknap Press of Harvard University Press, 2007), 15; Hülsmann, *Mises*, 37.

<sup>21</sup> Kurt R. Leube, 'Preliminary Remarks on Mises in Interwar Vienna', *International Center for Economic Research Working Paper*, 34 (2002), 3. Hülsmann, *Mises*, 60.

<sup>22</sup> Ludwig Mises, *Erinnerungen* (Stuttgart: Gustav Fischer Verlag, 1978), 11.

<sup>23</sup> Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany, 1864–1894* (New York: Oxford University Press, 2003), 269–71.

<sup>24</sup> Ludwig Mises, 'Zur Geschichte der Österreichischen Fabrikgesetzgebung', *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*, 14 (1905), 271.

<sup>25</sup> Ludwig Mises, 'Die Rückwirkung der Entwicklung der Weltwirtschaft auf die Ausgestaltung der Sozialpolitik', *Statistische Monatsschrift*, 10 (1905), 949.

<sup>26</sup> For the reverberations of this victory in the Asian world, see Pankaj Mishra, *From the Ruins of Empire: The Intellectuals Who Remade Asia* (New York: Farrar, Straus and Giroux, 2012).

the rhetoric of the 'yellow peril' widespread at the turn of the century, understood as both a racial-demographic and commercial threat – a fear that was used to justify further expansion of Western imperial power in East Asia.<sup>27</sup> Mises's response was different but no less radical. If Asian states continued to industrialise, then the European nations would be left with the stark choice to either preserve the free trade world economy or continue developing the social state. Because, as he put it, 'doubtlessly . . . the industrial states will be ever more reliant on the Asian market in the future', the possibility lay open that 'English and German workers may have to descend to the lowly standard of life of the Hindus and coolies to compete with them'.<sup>28</sup>

Mises's break with historical economics and social reform was followed by an embrace of classical liberal principles at the world level. He gravitated toward the approach of Carl Menger, the founder of the Austrian School of Economics, who was entering retirement as Mises arrived at the university. Mises followed Menger in making 'a sharp distinction between economic theory and history', positing that 'the axioms of praxeology were a priori true and were not subject to refutation by empirical test'.<sup>29</sup> This duality resonated with the approach of Menger, for whom, as one scholar puts it, 'empirical knowledge could not be gained through reflection [and] theoretical knowledge was not accessible through empirical study'.<sup>30</sup> Mises insisted on asking, as a latter-day American follower put it, both 'what can happen?' and 'what has happened?'.<sup>31</sup>

The distinction between prescription and description – between norm and diagnosis – runs through Mises's writings on international order. From the First World War until the outbreak of the Second he was oriented toward a normative focus on capitalist globalisation. In this vision the mobile factors of production – labour and capital – should travel to find their site of most productive use. The outcome would be a territorially expansive division of labour that made optimal use of the earth's natural endowments and was flexible enough to adapt when conditions of production changed. Mises had the opportunity to apply his economic doctrine to policy when he was assigned a position in the War Ministry during the First World War.<sup>32</sup> The article he wrote in the post was published in 1916 under the title 'The Goal of Trade Policy'.<sup>33</sup>

In the article Mises globalised British economist David Ricardo's free trade theory, taking it farther than he believed the Englishman had himself. He noted that Ricardo had 'worked from the assumption that the free movement of capital and labour would happen within national borders'.<sup>34</sup> Mises credited technological change with expanding the boundaries of the thinkable. Classical free traders had lived in the age of the wagon and the sail. The first steamship crossed the Atlantic just years before Ricardo's death in 1823 and took a month. By the time of Mises's writing, the same trip took five days. As for the absence of international labour migration, 'this may have been true on the whole in the days of Ricardo', Mises wrote, 'but for a long time it has no longer been true'.<sup>35</sup> Ricardo had also expressed moral objections to labour crossing national borders, writing that he 'should be sorry to see weakened' the emotional factors that prevented emigration. Mises chided 'the patriot and politician Ricardo' for intruding 'into the exposition of

<sup>27</sup> Jürgen Osterhammel and Niels P. Petersson, 'Ostasiens Jahrhundertwende: Unterwerfung und Erneuerung in west-östlichen Sichtweisen', *Geschichte und Gesellschaft. Sonderheft*, 18 (2000), 282–6. Sebastian Conrad, 'Globalization Effects: Mobility and Nation in Imperial Germany, 1880–1914', *Journal of Global History*, 3, 1 (2008), 56–9.

<sup>28</sup> Mises, 'Die Rückwirkung', 949.

<sup>29</sup> Vaughn, *Austrian Economics in America*, 71.

<sup>30</sup> Keith Tribe, *Strategies of Economic Order: German Economic Discourse, 1750–1950* (New York: Cambridge University Press, 1995), 78.

<sup>31</sup> Don Lavoie, 'Euclideanism Versus Hermeneutics: A Reinterpretation of Misesian Apriorism', in Israel M. Kirzner, ed., *Subjectivism, Intelligibility and Economic Understanding* (New York: New York University, 1986), 194.

<sup>32</sup> Hülsmann, *Mises*, 274

<sup>33</sup> Ludwig Mises, 'Vom Ziel der Handelspolitik', *Archiv für Sozialwissenschaft und Sozialpolitik*, 42, 2 (1916).

<sup>34</sup> *Ibid.*, 562.

<sup>35</sup> *Ibid.*, 563.

the theorist'.<sup>36</sup> Seeking to be more Ricardian than Ricardo, Mises concluded that classical liberalism had to be rethought at the scale of the world. He described it as a 'fundamental social law' of capitalism 'to draw the greatest number of human beings into the personal division of labor and the whole earth's surface into the geographical division of labor'.<sup>37</sup> Globalisation was axiomatic.

When necessary, the opening of world markets had to be achieved through violence. Though 'one can think only with shudders and anger of the fearful mass murders that prepared the basis for many of the colonial settlements flourishing today', he wrote in a book published the year after the First World War, the net gain made it worthwhile; in the end, 'all other pages of world history were also written in blood'.<sup>38</sup> Violence in the project of expanding the space of foreign investment, wage labour and commercial exchange was not only acceptable, it was necessary. 'To measure the true significance of these wars one has only to imagine what would have happened if India and China and their hinterland had remained closed to world commerce. Not only each Chinese and each Hindu, but also each European and each American, would be considerably worse off.'<sup>39</sup>

Empire was credited not only with increasing cumulative prosperity but with creating world society itself. As he wrote in 1922, 'the opening up of the backward regions of the Near and Far East, of Africa and America, cleared the way for a world-wide economic community, so that shortly before the World War we were in sight of realizing the dream of an ecumenical society'.<sup>40</sup> As with other economic liberals of the interwar period (and some up to the present day), Mises distinguished the 'good' British empire in the period before the First World War from all other empires. While other empires, including Austria-Hungary, had turned to protectionism after the crisis of the early 1870s, Britain had maintained free trade.<sup>41</sup> In Mises's reading, Britain's commitment to open door imperialism gave it a caretaker role for world capitalism at large.<sup>42</sup> Annexation was necessary to safeguard liberal spaces of trade from being cordoned off into the protectionist spaces of continental colonisers.<sup>43</sup>

Mises's utilitarian logic excused militaristic means for global ends. As his biographer put it, Mises felt that 'science had to deal with the world as it is, not as it should be'. He attributed this to the influence of Max Weber, who had made a powerful call for 'value free' science at the first meeting of the *Verein für Sozialpolitik* that Mises attended as a young man in 1909. Weber became a personal acquaintance of Mises's at the University of Vienna after the First World War.<sup>44</sup> Yet in Mises's work, the apparent 'needs' of the world economy often seemed to act themselves as normative values against which human organisation and activity was measured. The subjects of history were prices themselves, which seemed to have an inherent desire to be 'free,' aided by the actions of producers and consumers. In a work from 1911 he spoke of the collaboration of consumer and producer 'in the endeavour to liberate prices from the limitations of the local market'.<sup>45</sup> His categorical imperative was that the consumer receive access to the greatest possible volume and variety of objects. To facilitate this goal in their role as consumers, people should be encouraged as labourers to navigate the world's surface for the optimal site to expend their creative energy.

<sup>36</sup> Ibid.

<sup>37</sup> Ludwig Mises, *Socialism: An Economic and Sociological Analysis* (1922) (Indianapolis: Liberty Fund, 1981), 403.

<sup>38</sup> Ludwig Mises, *Nation, State, and Economy* (1919) (New York: New York University Press, 1983), 105.

<sup>39</sup> Mises, *Socialism*, 186.

<sup>40</sup> Ibid., 240.

<sup>41</sup> David F. Good, 'Austria-Hungary', in Richard Sylla and Gianni Toniolo, eds., *Patterns of European Industrialization: The Nineteenth Century* (New York: Routledge, 1991), 232.

<sup>42</sup> Mises, *Omnipotent Government*, 98.

<sup>43</sup> Ibid.

<sup>44</sup> Hülsmann, *Mises*, 195–7, 288, 307.

<sup>45</sup> Ludwig Mises, *The Theory of Money and Credit* (New Haven: Yale University Press, 1953), 174.

## The Strong State and the Fluid Nation

Mises matched his normative vision of the world economy with study of its imperfect reality. After the First World War he saw the most serious threat to the open world economy in the very principle praised by Wilson and Lenin: national self-determination. After 1918 he wrote that ‘the nationality principle was to be the norm by which all conflict should be peacefully solved’. Yet this belief disregarded ‘the fact that applying this principle wherever the members of different people live mingled together only ignites conflict among people all the more’.<sup>46</sup> Here he saw the vision of Versailles as a product of the particular circumstances of Western Europe, especially ‘the compact territories of settlement’ of France and Britain with their relative national homogeneity. Such tidiness, Mises pointed out, was the exception rather than the rule: ‘the world does not show the same face everywhere as on the Thames and on the Seine’.<sup>47</sup>

The real world was more like the Habsburg Empire: a patchwork of itinerant nations and populations following no logic or set pattern. The distribution of nations was fated to change under the influence of economic forces: ‘there are nations whose areas would be more densely and others more thinly settled. This relative overpopulation must be dissolved now through movements of migration.’<sup>48</sup> Consistent with the Habsburg Empire of his youth, crisscrossed by shifting ‘language frontiers’ and populated by ‘national amphibians,’ nationalities would even be lost or absorbed through assimilation.<sup>49</sup> Above all, ‘the criterion of the nation should in no way be sought in efforts to form a unified state’.<sup>50</sup> To realise the nationality principle as the basis for politics would dam the irrigation by immigration required by the world economy.

Mises’s wariness about the nationality principle arose from his liberal economic theory but also his own life experience as a German-speaking Jewish member of the Viennese elite. From the perspective of people like himself, the principle of national self-determination had appeared as pernicious, obstructive and – in the anti-Semitism that frequently accompanied the range of cultural nationalisms in the Habsburg Empire – even potentially mortally dangerous. The man whose bust stood in the square next to the Chamber of Commerce building where Mises worked for two decades on Vienna’s Ringstrasse was Georg Coch, a notorious anti-Semite who had created the neighbouring Postal Savings Bank in part to elude the control of ‘Jewish bankers’. The bust was the first commemorating the exclusionary nationalism of the early 1900s and would have served as a constant reminder of this threat to Mises.<sup>51</sup>

Ernest Gellner provides a structural explanation for the liberalism of German Viennese Jews at the fin-de-siècle, arguing that they were in a singular position: living in the metropole yet unable to participate in the ethnic-nationalist struggles of the time.<sup>52</sup> Whereas liberals, often speaking the language of civil society, universalism and democracy, were central to the social and political movements of the majority German states, and later unified German Empire, the position was much more difficult to assume in the Habsburg Empire itself. Mises described the situation in 1919: ‘every straightforward policy was made impossible for the Germans of Austria. They could not work seriously for democracy, for that would have been national suicide; they could not renounce the Austrian state because, despite everything, it still offered protection against the most extreme oppression.’<sup>53</sup>

<sup>46</sup> Mises, *Nation, State, and Economy* (1919), 120.

<sup>47</sup> *Ibid.*, 70.

<sup>48</sup> Mises, ‘Vom Ziel der Handelspolitik’, 566.

<sup>49</sup> Pieter M. Judson, *Guardians of the Nation: Activists on the Language Frontier of Imperial Austria* (Cambridge, MA: Harvard University Press, 2006); Tara Zahra, *Kidnapped Souls: National Indifference and the Battle for Children in the Bohemian Lands, 1900–1948* (Ithaca, NY: Cornell University Press, 2008), 7.

<sup>50</sup> Mises, *Nation, State, and Economy* (1919), 44.

<sup>51</sup> Carl E. Schorske, *Fin-De-Siècle Vienna: Politics and Culture* (New York: Vintage Books, 1981), 109–10.

<sup>52</sup> Ernest Gellner, *Language and Solitude: Wittgenstein, Malinowski and the Habsburg Dilemma* (New York: Cambridge University Press, 1998), 11.

<sup>53</sup> Mises, *Nation, State, and Economy* (1919), 148.

German liberals in Habsburg Vienna, and especially Jews, were in a paradoxical position: they were reliant on a feudal empire for their protection and, considering the importance of the civil service (which included university professors), also for their livelihoods. They were entrapped by what Gellner called the ‘Habsburg dilemma’: seeking the open society but afraid of what democracy might bring. Their cosmopolitanism, as Malachi Hacoen puts it, was ‘the response of the losers of ethnopolitics’.<sup>54</sup> The fear of nationalism outlived the empire. In 1919 Mises wrote that ‘both Czechs and Magyars would love to sack Vienna and would use any opportunity to take revenge for that supposed injustice that ‘Vienna had meted out to them’.<sup>55</sup> The habitus of the metropolitan urban resident besieged by mobilised populations from the periphery helps explain Mises’s renunciation of the viability of the principle of national self-determination.

Mises’s solution entailed an anti-territorial perspective on the question of nationality. Defining nations as linguistic communities, he felt that they could be dispersed without losing their sense of connection.<sup>56</sup> His defence of an absolute right to mobility was functional. Sticky attachments to place would impede optimal global productivity. The effects of perfect mobility would be total. Given the new technological capabilities, he wrote, ‘unrestricted free trade must lead to a change in the conditions of settlement on the entire surface of the earth’.<sup>57</sup>

Mises looked to his native Habsburg Empire for a historically existing model of how to neutralise the nation and move the imperfect world closer to perfect capitalism. He was attracted by the fact that ‘state and nation did not coincide’ in the Dual Monarchy. Unlike the French republics, or the post-1848 imaginaries of Germany, Italy or Poland, Habsburg Austria did not have ‘the nationality principle’ at its ‘ideological foundation’.<sup>58</sup> Scholars have shown that the late empire was a laboratory of multinational management as the central state sought to recognise ‘nationality in order to defuse nationalism’ and play the role of ‘neutral umpire’ above the fray.<sup>59</sup> A key feature of this management was the provision of education in different languages secured through Article 19 of the 1867 constitution. Mises called this article ‘old Austria’s glorious achievement’ and a ‘great attempt to solve the problems of the multilingual state’.<sup>60</sup> He saw its failure, as he wrote to Hayek, when national groups misinterpreted this cultural measure as an economic one and began demanding protection for their products, thus contravening the principle of free trade that he felt the central state was duty bound to uphold.<sup>61</sup>

Mises wrote in his memoir that ‘the polyglot state of the Habsburgs could have solved a major challenge’.<sup>62</sup> In his interwar writings he suggested how a similar mode of multinational management could extend beyond Eastern Europe. The internationalising tendency of his thought came out in his response to the writings of the social democrat Karl Renner, who became the chancellor of the First Austrian Republic after the First World War. Renner believed that economic ties were the glue of the empire. ‘The economy’, he wrote, ‘is the unifying bond that ties all

<sup>54</sup> Malachi Haim Hacoen, ‘Dilemmas of Cosmopolitanism: Karl Popper, Jewish Identity, and ‘Central European Culture’, *Journal of Modern History*, 71 (1999), 107.

<sup>55</sup> ‘Über die im Hinblick auf das Fortschreiten der Geldentwertung zu ergreifenden Maßnahmen’ (1919), available at [http://new.mises.de/public\\_home/article/85/1](http://new.mises.de/public_home/article/85/1) (last visited 5 Jan. 2017).

<sup>56</sup> Mises, *Nation, State, and Economy*, 88.

<sup>57</sup> *Ibid.*, 92.

<sup>58</sup> Mises, *Erinnerungen*, 17.

<sup>59</sup> Zahra, *Kidnapped Souls*, 12, 14. See also Jeremy King, *Budweisers into Czechs and Germans: A Local History of Bohemian Politics, 1848–1948* (Princeton, NJ: Princeton University Press, 2005).

<sup>60</sup> Ludwig Mises, ‘Monarchy, Not Legitimism’, *Mises Institute*, (20 Apr. 1942). <https://mises.org/library/monarchy-not-legitimism> from 15 Sep 2009. On the politics of language education see Judson, *Guardians of the Nation*; on the liberal constitutional project see Jonathan Kwan, *Liberalism and the Habsburg Monarchy, 1861–1895* (New York: Palgrave Macmillan, 2013).

<sup>61</sup> Mises to Hayek, 18 July 1943, Stanford University, Hoover Institution Archives, Hayek Papers (Hereafter: Hayek Papers), Box 38, Folder 24.



those peoples to the empire who seek to escape the body of the state for national reasons'.<sup>63</sup> For Renner, Mises observed, it was 'not political unity but the customs community [that] appears as the constitutive feature of the state' – the state is, above all, an 'economic community'.<sup>64</sup> Mises used Renner's example from his native Galicia – a territory distant from Vienna that Renner said 'made the economic body of the monarchy organic'. Galician petroleum, benzene, spirits, wood and wheat flowed into every Austrian household just as Western Austria's paper, textile and iron flowed back to Galicia.<sup>65</sup> Mises agreed with this depiction of the organic unity of a Habsburg Empire organised by the division of labour and production. But he globalised it. 'Must one not also come to the conclusion', he asked, 'that the US, England and its colonies, Brazil, in short, the entire world, is as organically connected to Western Austria as Galicia?'<sup>66</sup> After all, the very intra-imperial interdependence that Renner praised was an outcome of the protectionism Mises condemned. Commercial ties within the Habsburg space had grown denser after tariff walls were raised in the late nineteenth century.<sup>67</sup>

In his interwar writings Mises accepted the imperial space as a model of interdependence but only if one contemplated elevating the Habsburg model of the strong state and the fluid nation to the global level. In 1927 he saw the League of Nations' foremost failing in its adherence to the nation state principle. Its insistence on fixed state borders meant condemning 'the whole world situation to a state of frozen immobility'. Mises wrote that 'the problem of international boundaries . . . must lose all its significance' in a future order to allow for the endless ebb and flow of nations. In the spirit of the 1867 Habsburg constitution he suggested this was only possible 'if the society of nations, the international superstate, is so constituted that no people and no individual is oppressed on account of nationality or national peculiarities'.<sup>68</sup> Recalling the Habsburg model of state as umpire, he offered a universalising vision of 'supranational tribunals and administrative authorities' which held 'the law of each nation as subordinate to international law'. Global free trade must be defended by central authorities powerful enough to accommodate a never-ending movement of peoples (*Völkerwanderung*) and resist the demands of individual groups for special economic treatment. The goal, he said, in a startling phrase for a thinker so closely linked with libertarianism, was to transform the 'sham League of Nations into a real one – into a genuine supranational state'.<sup>69</sup>

### Mises's New Clothes for the Habsburg Empire

In the late 1920s Mises's globalism exceeded even that of the League of Nations. Yet even at the most expansive moment of his thinking he expressed limited faith in an institutional fix. He concluded his discussion of supranational organisations by arguing that 'this question will not be decided at Geneva in the sessions of the present League, and certainly not in the parliaments of the individual countries that comprise it'. The real question was 'whether we shall succeed in creating throughout the world a frame of mind. . . . Liberal thinking must permeate all nations, liberal principles must pervade all political institutions.' The Second World War deepened his pessimism about the imminence of such a frame of mind. Mises wrote from a feeling of personal

<sup>62</sup> Mises, *Erinnerungen*, 16. Due to the idiosyncrasy of translation in the recently published English version of Mises's memoirs, I choose to use my own. See Ludwig Mises, *Memoirs* (Auburn: Ludwig von Mises Institute, 2009).

<sup>63</sup> Mises, 'Vom Ziel der Handelspolitik', 579.

<sup>64</sup> *Ibid.*

<sup>65</sup> *Ibid.*

<sup>66</sup> *Ibid.*, 580. On the actual interdependence in the Habsburg Empire see John Komlos, *The Habsburg Monarchy as a Customs Union* (Princeton, NJ: Princeton University Press, 1983).

<sup>67</sup> Ivan T Berend, *An Economic History of Nineteenth-Century Europe: Diversity and Industrialization* (Cambridge, UK: Cambridge University Press, 2013), 382–8.

<sup>68</sup> Ludwig Mises, *Liberalism* (1927), 3 edn (Irvington-on-Hudson, NY: Foundation for Economic Education, 1985), 167.

<sup>69</sup> *Ibid.*, 172. Edwin van de Haar, *Classical Liberalism and International Relations Theory: Hume, Smith, Mises, and Hayek* (New York: Palgrave MacMillan, 2009), 88.

frustration after being compelled to flee from Austria to Geneva and finally to the United States in 1936. By late 1940 his forced state of cosmopolitanism had become literal. As he wrote to Hayek, he was officially ‘without nationality’.<sup>70</sup>

It was in this period that Mises introduced human ignorance as a complicating factor in his appraisal of world order. Whereas he had earlier reproached the classical liberals for not carrying their visions of globalisation further, in 1944, Mises faulted them for ‘overrat[ing] both the intellectual capacity of the average man and the ability of the elite to convert their less judicious fellow citizens to sound ideas’.<sup>71</sup> Their ‘optimism was entirely founded on the assumption that all people of all races, nations, and countries are keen enough to comprehend the problems of social cooperation’, he wrote; yet, ‘the realization of the liberal plan is impossible because – at least for our time – people lack the mental ability to absorb the principles of sound economics’.<sup>72</sup> Mises’s denunciation of mass ignorance was explicitly racialised, suggesting a hierarchy of such ‘mental ability’. After disparaging Germans for their misguided beliefs about the First World War, he asked ‘if such things are possible with the Germans, how can we expect that the Hindus, the worshipers of the cow, should grasp the theories of Ricardo and of Bentham?’<sup>73</sup>

Racial difference arose again in Mises’s most notable departure from his erstwhile polemic calls for the total free movement of goods, capital and labour. In his wartime writings he began to concede that total freedom of migration was not only unlikely – it might even be unwise. His first concession was to military exigency. One could not allow nationals from belligerent powers to enter the Western nations: ‘under present conditions America and Australia would simply commit suicide by admitting Nazis, Fascists, and Japanese’.<sup>74</sup> The second reason was related to non-white populations. While he distanced himself from people who opposed non-white immigration in defence of ‘Western civilization,’ he conceded that

we must not close our eyes to the fact that such views meet with the consent of the vast majority. It would be useless to deny that there exists a repugnance to abandoning the geographical segregation of various races. Even men who are fair in their appraisal of the qualities and cultural achievements of the colored races and severely object to any discrimination against those members of these races who are already living in the midst of white populations, are opposed to a mass immigration of colored people. There are few white men who would not shudder at the picture of many millions of black or yellow people living in their own countries.<sup>75</sup>

By the 1940s Mises partially legitimised closed borders for non-white migrants as a near-permanent feature of the world order.

Disillusioned by the obstacles of human ignorance and racial antagonism, Mises returned his political attentions to the continent of Europe in the 1940s. He became part of the Pan-European Movement through fellow Austrian Richard Coudenhove-Kalergi and a member of their economic committee.<sup>76</sup> He also befriended future MPS member Otto von Habsburg, heir to the now-defunct imperial line. Joining the Austrian National Committee petitioning for a separate peace for Austria, Mises devoted himself to plans for the region of the former empire.

Lecturing at the Graduate Institute of International Studies in Geneva where Mises was working, Mises’s friend and collaborator, the British economist Lionel Robbins, had described the end of the Habsburg Empire as a negative example of decolonisation. Robbins lamented that

<sup>70</sup> Mises to Hayek, 27 Oct. 1940, Hayek Papers, Box 38, Folder 24.

<sup>71</sup> Mises, *Omnipotent Government*, 284.

<sup>72</sup> *Ibid.*, 282.

<sup>73</sup> *Ibid.*, 283.

<sup>74</sup> *Ibid.*, 106.

<sup>75</sup> *Ibid.*, 107.

<sup>76</sup> Van de Haar, *Classical Liberalism*, 89. On Coudenhove-Kalergi see Michael Gehler, ‘From Paneurope to the Single Currency: Recent Studies on the History of European Integration’, *Contemporary European History*, 15, 02 (2006), 274–6.

‘the territorial division of labour of the Danube basin was destroyed by nationalist particularism’. A better remedy, he wrote, would have been ‘some form of federal constitution which would have averted the threatened disintegration’.<sup>77</sup> In 1938 Mises set to work drafting such a constitution, beginning the work in earnest in 1940.

His proposal for an Eastern Democratic Union (EDU) was his most fully realised blueprint for political order. Seeing ‘anarchy’ in the wake of the dissolution of the Habsburg and Ottoman Empires, Mises’s EDU would span the swath of territory from the Baltic to the Adriatic, Aegean and Black Seas, from the eastern borders of Switzerland and Italy to the western borders of Russia. The EDU would include all nations made independent after the First World War, from Latvia to Yugoslavia, as well as multinational parts of the German and Italian states such as Silesia and Fiume. In total, it would ‘include about 700,000 square miles with about 120 million people using seventeen different languages’.<sup>78</sup>

Consistent with Mises’s understanding of the Habsburg strategy of multinational administration, the core principle of the EDU was the separation of economic from cultural policy. People would have total freedom of movement, trade and employment within the territory, which would be ruled from a centralised parliament in Vienna with an ‘elected president or a hereditary ruler’. Mises contemplated the literal reinstatement of the Habsburg dynasty by arguing for the viability of monarchies voted by free referendum.<sup>79</sup> One feature of Mises’s proposal was borrowed directly from the tutelary practices of the League of Nations’ Mandates Commission, which was led by his former employer and later fellow MPS member William Rappard.<sup>80</sup> The League would appoint the initial president and cabinet for the EDU, to be replaced later by a vote based on universal suffrage.

Another of Mises’s draft proposals was even more reminiscent of both the Mandate model and the form of financial oversight the League practiced in Austria. He suggested that certain administrative positions be permanently filled by ‘Englishmen and Frenchmen’ and that the official language be either English or French.<sup>81</sup> Despite the latter-day aversion of his self-described followers in the libertarian movement, Mises himself was not opposed to supranational intervention per se. When Austria was forced to accept a loan from the League of Nations with punitive conditions attached in 1932, he stressed its pedagogic potential: ‘the severe conditions under the loan may open the eyes of the entire population to the fact that the economic policy that has been followed in recent years has brought us to a situation where we really see no other way out than to accept the sort of subjugation which this loan imposes on us’.<sup>82</sup> In this case the League was the mechanism of an unflinching economic rationality flouted by the policies of socialist governed Red Vienna. With the compulsion of League conditionality, the ‘measures of frugality that the economy has required for a long time – but which have always been delayed or sabotaged – [must] be put into effect as quickly as possible’.<sup>83</sup> For Mises, a good version of the League had the capacity to act as an iron glove for the invisible hand of the market.

Mises’s EDU proposal sought to radically downgrade what Rappard called the ‘dogma of national sovereignty’.<sup>84</sup> To address the nationality problem, Mises permitted the persistence of all

<sup>77</sup> Lionel Robbins, *The Economic Causes of War* (London: J. Cape, 1939), 79.

<sup>78</sup> Ludwig Mises, ‘An Eastern Democratic Union: A Proposal for the Establishment of a Durable Peace in Eastern Europe (October 1941)’, in Ludwig Mises, *Selected Writings of Ludwig Von Mises*, ed. Richard Ebeling (Indianapolis: Liberty Fund, 2000), 193.

<sup>79</sup> For his openness to monarchism see Mises, ‘Monarchy, Not Legititism’.

<sup>80</sup> On the Mandates Commission see Susan Pedersen, *The Guardians: The League of Nations and the Crisis of Empire* (New York: Oxford University Press, 2015).

<sup>81</sup> Ludwig Mises, ‘Guidelines for a New Order of Relationships in the Danube Region (1938)’, in Mises, *Selected Writings*, 318.

<sup>82</sup> Ludwig Mises, ‘An International Loan as the “Breathing Room” for Austrian Economic Reform’, in Mises, *Selected Writings*, 270.

<sup>83</sup> *Ibid.*, 268.

the accoutrements of nationhood including flags, anthems, postage stamps and ‘coins of every member state, coined with the national emblems’.<sup>85</sup> People would be free to develop their own national culture and represent it abroad. The thorny problem of education would be remedied through a scheme that anticipated the latter-day proposal of Milton Friedman and US conservatives while also recalling the practice of the former Habsburg Empire. Linguistic groups could establish schools anywhere in the territory there was a critical mass. Schools would be privatised and citizens granted a lump sum to spend on education.<sup>86</sup>

Mises’s EDU, which he included as the culminating chapter of his 1944 book *Omnipotent Government*, gave institutional form to his understanding of nations as protean and unmoored to any particular territory.<sup>87</sup> It also, to his mind, solved the problem of minorities that had bedevilled the League of Nations. Most striking in his model was the question of visibility. The constituent nations of the union would bear all the outward marks of sovereignty yet this sovereignty would be entirely ornamental, undermined wholly by the authority of the central government. A visitor to the territory would see only the surface and not the underlying economic union. ‘He will not see the EDU’, Mises wrote, ‘he will not have the opportunity to meet the agents of the EDU’.<sup>88</sup>

The government of the open economy would remain hidden from the public eye. Only the colourful – and powerless – representatives of national policy would be seen. While seemingly so ambitious as to be fanciful, Mises was nonetheless earnest. In 1940 he wrote to Robbins and Hayek: ‘I am fully aware that the execution of my plan will not be easy, but I think it is the only way to make this part of Europe safe for peace’.<sup>89</sup> Hayek signed on to Mises’s idea in 1945. Expressing ‘some doubt as to whether the splitting of [the Habsburg Empire] up into nine independent national states was altogether a fortunate solution’, Hayek proposed instead the gathering of the nations into a federation in which ‘we limited the power of the national States in the interests of some central organization’.<sup>90</sup> In both Hayek and Mises’s vision, free trade and free movement of labour overseen by a strong central state was primary, allowing for a shifting landscape of decentralised national and cultural institutions that would remain secondary. The Austrian neoliberal proposal of a Habsburg Empire reborn for the twentieth century was an invisible government of the economy first, and a visible government of neutered nations second.

## Conclusion

Ludwig von Mises’s dissertation, written about his native Galicia, followed the 250-year predicament of the local peasantry and their eventual liberation from serfdom in 1848 – a victorious struggle in which his Jewish great-grandfather participated as a sympathetic supporter.<sup>91</sup> But the story had a catch: the peasants became disorderly once freed. How to preserve the principles of economic liberalism while containing the disruptive potential of mobile subjects? The unwillingness of people to be docile containers of value like goods and capital bedevilled neoliberal visions of order from their inception.

This article has suggested Habsburg origins for Mises’s globalism. It has also hinted at the Habsburg context of the limits to this globalism. While arguing strenuously against the existence of different races in Eastern Europe, Mises posited racial difference as the unavoidable grounds

<sup>84</sup> William E. Rappard, *The Geneva Experiment* (London: Oxford University Press, 1931), 66.

<sup>85</sup> Mises, ‘An Eastern Democratic Union’, 197.

<sup>86</sup> *Ibid.*, 196.

<sup>87</sup> Mises, *Omnipotent Government*.

<sup>88</sup> Mises, ‘An Eastern Democratic Union’, 197.

<sup>89</sup> Mises to Hayek, 15 Aug. 1941, Hayek Papers, Box 38, folder 24.

<sup>90</sup> F. A. Hayek, ‘Nationalities and States in Central Europe’, *Central European Trade Review*, 3, 3 (1945), 49–52.

<sup>91</sup> Ludwig Mises, *Die Entwicklung des gutsherrlichen-bäuerlichen Verhältnisses in Galizien (1772–1848)* (Vienna and Leipzig: Franz Deuticke, 1902); Hülsmann, *Mises*, 12.

for departure from the principles of free migration in the 1940s. One can see how Mises's own movement between languages and nationalities led him to dismiss racially essentialising arguments about Eastern Europe. He had himself occupied multiple nationalities and moved among linguistic groups. Yet Mises proved incapable of extending a similar cosmopolitan attitude to populations of colour. Even as he argued emphatically that 'there are today no pure stocks within the class or race of white-skinned people', he did so by pointing out the difference with black populations.<sup>92</sup> 'Negroes and whites differ in racial – i.e., bodily – features', he wrote, 'but it is impossible to tell a Jewish German from a non-Jewish one by any racial characteristic'.<sup>93</sup> Mises's rejection of anti-Semitism was premised on an affirmation of white–black race difference.

Mises's international theory was cleft by a faultline between a normative theory of an open borders world and the empirical reality of a closed borders world, underwritten by the stubborn obstacles of human ignorance and racism. Latter-day libertarians who scour his writings to validate their divergent positions on migration can claim fairly to find confirmation of both sides of the argument. In Mises one finds both the perfectionist, who saw humans as mobile factors liberated to seek their most efficient site of work throughout the world, and the realist, who saw race as a quasi-permanent category of global social organisation. Despite his liberal principles the Habsburg polyglot never became the radical anti-racist.

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<sup>92</sup> Mises, *Omnipotent Government*, 170.

<sup>93</sup> *Ibid.*, 171.