

INTERNATIONAL CENTRE FOR ECONOMIC RESEARCH



WORKING PAPER SERIES

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PRELIMINARY REMARKS ON MISES IN INTERWAR VIENNA

Working Paper No. 34 / 2002

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by

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July 2002

Abstract

The professional class of which Ludwig von Mises (and to some extent also his friend Kelsen) was a member was not only fond of thinking of itself as the defender of their highly cultured environment. This large group of intellectuals, administrators, aristocrats, and politicians had also been raised to belief that they are the intellectual safeguard of a large multinational empire of well over 50 million people. The incredibly diverse ethnic composition of the Habsburg Empire gave it the appearance of an unique international and cosmopolitan order.

The unexpected situation in which the fatefully reduced little Austria found itself as a result of the catastrophic war raised a new set of unprecedented problems which most scholars who had routinely come to assume that their primary tasks were attached to a huge multi-national Empire found difficult to turn their attention to. Their society had disappeared. While the final collapse of the old Habsburg Empire had become a fairly general expectation by late 1917, virtually no one had expected the state of affairs which was actually about to emerge. By 1918 the section of the Austrian population which considered itself heir to the ideals of European “liberalism” had been reduced to a position of political powerlessness. Mises found it especially difficult to turn his attention to the smaller problems and as he gradually became detached from the ethos of old Austria, his life and thought began almost reflexively to revolve around a social order which was characterized by the rule of law and peaceful cooperation, but which did not yet exist. Following old Austrian liberal tradition, von Wieser was the first to emphasize that an intimate connection existed between the conceptual foundations of legal and political theory on the one hand, and those of economic theory on the other.

*This paper was written while in residence at ICER (Torino, Italy), one of the most productive, best organized, and truly congenial research centers I know. I would like to express my sincere gratitude to ICER’s director, Prof. Enrico Colombatto for providing not only a splendid academic environment and generous support, but also for countless encouraging and very helpful comments. I also like to thank ICER’s secretary, Alessandra Calosso for her tireless efforts and her patience, and Saverio Iacomussi for his help.

Introduction

Ludwig Edler von Mises spent the first three years of the “Great War” 1914-1917 as an officer in an artillery unit stationed in the Carpathians. By all accounts he was an unusually dedicated KuK soldier who apparently even chose to remain on the front, although he easily could have had a save administrative position n in the KuK Ministry of War in Vienna. However, in 1917 a severe illness forced him to return to Vienna where he in fact later was to occupy such a position until the truce was signed in Novemeber 1918. Mises published very little during these years, and from a purely personal point of view he looked upon the war as a horrible loss of valuable time¹. Although Mises and Schumpeter were the obvious choices to fill the vacant positions at the University of Vienna, they both have been ignored and Mises went back to his position at the Vienna Chamber of Commerce which he has held since 1906.

While the collapse of the old Habsburg Empire had become a fairly general expectation by the end of World War I, virtually no one had expected the state of affairs which was actually to emerge. Politically unprepared, humiliated and cut off from the fertile farmlands of its former eastern Crownlands, the once mighty Habsburg Empire of about 50 million people by November 1918 was reduced to the size of a small, land-locked country of about seven million people. Within this dismal socio-economic situation and political chaos of disillusioned Monarchists, radical Nationalists, revolutionary Marxists and representatives of several other political groups, the self styled parliamentary deputies of what had remained of the proud Empire unanimously resolved that, from now on the German speaking part of Austria shall be part of a new German republic. In other words, if there was not to be a new multi-national federation of the many states and nations occupying the area along the river Danube, then the German speaking population of Austria would naturally become a part of a new German state².

1 Friedrich Engel-Janosi, . . . aber ein stolzer Bettler. Erinnerungen aus einer verlorenen Generation. Graz, 1974, p. 111. See also Margit von Mises, My Years with Ludwig von Mises (New Rochelle: Arlington House, 1976), pp. 25-26;

2 Karl R. Stadler, The Birth of the Austrian Republic 1918-1921, Leydijthoff, 1966, pp. 64-65, 68.

As this newly founded and politically weak German-Austria simply did not offer the type of opportunities for leadership which had come to be expected by a class of intellectuals who like Ludwig von Mises or his friend Hans Kelsen, thought of themselves as the guiding force of a complex empire before the war, von Mises, von Hayek and a wide range of their fellow countrymen were convinced advocates of the "Anschluss" to Germany³. The "Anschluss" doctrine had a subtle psychological dimension which can be read between the lines of the following statement made by a former university classmate of both Kelsen and Mises, namely Otto Bauer: in a letter written to Karl Kautsky on May 6, 1919:

"If the Anschluss does not come about, then Austria will become a miserable farmer's state in which it won't be worth the effort to make politics⁴".

Mises was a bit more moderate in tone, in particular because the radically liberal economic doctrines which he had developed by this time led him to view political boundaries as largely artificial constructions. Nonetheless, he wrote that "a unitary German state is a political and moral necessity⁵". Mises held that the Anschluss would signify "the final termination of the Prussian autocratic period in German history⁶". His friend Hans Kelsen pointed out, that it would be primarily the Center Party and the Social Democrats who would benefit if Austria joined Germany, something which would mean a major strengthening of the democratic forces there⁷.

It is useless to speculate whether or not the Anschluss would have given back to Mises and his colleagues something of what they have lost with the collapse of the old Empire. At that time Mises had no important role to play in Austria. Up until that time these men simply lived with a vague sense of dislocation. The fundamental problem that the new Austrian state faced was the creation of a minimum necessary level of trust

3 See L.von Mises, "Der Wiedereintritt Deutsch-Österreichs in das Deutsche Reich und die Währungsfrage", in: *Wirtschaftliche verhältnisse in Deutsch-Österreich: Schriften des Verein für Sozialpolitik*, 158, 1919, pgs. 147-171

4 See among others, Herbert Steiner, "Otto Bauer und die Anschlussfrage 1918/19," in *Die Auflösung der Habsburger Monarchie*, Schriftenreihe des österreichischen Ost und Südosteuropa Instituts, vol. 3, eds. Richard Plaschka and Karl-Heinz Mack, Wien,1970, p. 477.

5 Ludwig Mises, "Die politischen Beziehungen Wiens zu den Ländern im Lichte der Volkswirtschaft," *Jahrbuch der Gesellschaft Österreichischer Volkswirte*, Vienna, 1920, p.15.

6 Mises, "Die politischen Beziehungen," p. 15.

7 Kelsen, "Zur Anschlussfrage," pp. 1-2.

among a number of social and political groups whose longstanding conflicts had become particularly dangerous due to the fact that they were now confined to a restricted area. The pressures which were formerly dissipated through the relatively high degree of anonymity which their large state had created were now trapped by an enforced intimacy of a new compressed political arena. This was a problem with which the culture of law from which Mises has emerged really had not prepared him to deal. Unable to adapt, the force of events would gradually push Mises and his fellow intellectuals to the edge of their society. The rapidly worsening political conditions during the late 1920s and early 1930s and the increasing anti-Semitic activities at the universities were among the most prominent reasons why Vienna ceased to be an intellectually lively center of economics, law, the arts, of philosophy, physics, and of literature.

I

With the signing of the peace treaties by the belligerent powers, a new phase of the life of Mises was ushered in. The central feature of this phase was a new disparity between his outlook and the requirements of the Austrian state which had been created by the treaty of St. Germain, with the result being that he and the entire group of leading intellectuals had suddenly become somewhat out of place in their own society. Like so many of his friends, Mises had grown to manhood within an intellectual milieu formed by individuals who had become accustomed to playing a leading role in a large cosmopolitan multi-national state. For this entire group the most important fact about the new Republic of Austria was that it simply did not offer a field of action commensurate to their aspirations, and they were to respond accordingly.

During this phase, Mises' life gradually became divided into two distinct spheres. First, there was his "formal" career as a "Privatdozent" at the University of Vienna and, above all, as a leading figure at the Chamber he was an active participant in the public affairs of the new Republic of Austria. In this sphere Mises held positions

which gave the appearance of leadership and responsibility but in which he experienced increasing frustration due to the changes in the character of the Austrian political life mentioned above. The second sphere of his life during this period was bound up with informally organized networks of scholars which stretched as far as the United States. Mises was able to gather around him a circles of unusually talented students, which not surprisingly often overlapped in their memberships. The teaching and counseling of these students took place, for the most part, outside the context of formal academic life, in private seminars whose activities were unknown even to the educated Austrian public and which were open only to a select few. The activities of these seminars only gradually became know by word of mouth outside Austria, and a steady stream of academics from all over the world made their way to Vienna to participate in them⁸. Through these international connections the theories of Kelsen and Mises as well as the tradition of thought of which they were a part gradually came to exert an important influence throughout the world.

And yet, at first glance Mises was by far not as successful in his career advances as his class mate Kelsen. Shortly after his appointment as Privatdozent at the University of Vienna, Kelsen was able to secure a position as Associate Professor at the Exportakademie in Vienna. In 1917 he was promoted to full professor at this institution and shortly thereafter he was appointed Associate Professor at the University of Vienna. The manner in which Kelsen had been able to climb the ladder at the Ministry of War and had used his influence to help him obtain his new position at the University of Vienna, something which did much to raise the value of Kelsen's stock in Viennese juristic circles was impressive. In 1919 Kelsen's nomination as first choice of the Faculty of Law was sent to the Ministry of Education. And his appointment was actually confirmed in short order. With it Kelsen had overcome all barriers to achieve complete success in formal academic life.

8 See Kurt R. Leube "Über Diskontinuitäten und Kontinuitäten der österreichischen Schule der Nationalökonomie" in: Acham, Noerr, Schefold (Eds.) Erkenntnisgewinne, Erkenntnisverluste, Franz Steiner Verlag, Stuttgart 1998

Mises on the other hand was not able to advance in a similar manner, and by this time he had convinced himself that he would never attain a full professorship in Austria. On the basis of his writings he had been appointed to the post of Associate Professor (a.o.) as a matter of course. However, as this was an unsalaried position, he was forced to remain in his position at the Handelskammer in order to secure his means of support. There was in Vienna only one academic position which would have interested him, and that was clearly Carl Menger's chair of political economy at the University. This chair did indeed become vacant in 1921 when its occupant Friedrich von Wieser chose to retire. Although the number of qualified candidates was large and as mentioned above, included in addition to Mises individuals such as Joseph A. Schumpeter apparently some deals went on behind the scenes in an attempt to circumnavigate these obvious figures. It appears as that von Wieser had the final word in the matter, and his choice was his favorite student, Hans Mayer, a man whom Fritz Machlup characterized as "scoundrel". Mises was not surprised by this decision and the expectation that he would not be seriously considered for this position was connected to a fair degree with matters of personality.

Kelsen and Mises resembled each other in that they were unwilling to compromise in any manner in matters tied up with theoretical analysis. According to Hayek, this seriousness was a trait which was to be found in many members of the class of intellectuals to which these two men belonged and was one of the most distinguishing features of this class⁹. However, with respect to their relationships to the society around them, their personal bearing contrasted markedly. This was, no doubt, in large part due to matters of personal constitution which lay beyond the realm in which environmental influences become effective. They are, nonetheless, important for when they were combined with the impressions created by their personal backgrounds and the ideas which they represented, they caused especially Mises to be perceived in a somewhat different light by his contemporaries.

⁹ Personal conversations with M. St. Browne, Haberler, Hayek, and Machlup.

According to Haberler, who got to know Kelsen and Mises quite well during his time at the League of Nations in Geneva, Kelsen was by all accounts a typical Viennese gentleman: accommodating on the surface, never willing to provoke undue controversy, and ready to streamline his argument so as to make it appear as pleasing as possible to whatever audience he was at the moment addressing himself to¹⁰. As a result he moved easily within various social circles and was able to win the trust of a wide variety of leading political, cultural, and even clerical representatives.

Mises, on the other hand, had by 1920 become something which is quite unusual in Viennese society. His upbringing had imparted to him an understanding of the roles of etiquette which prevailed in that complex and formal world, but his observance of them was perfunctory and, following Hayek without any noticeable admixture of the sophisticated Wiener Charm. He was, in short, a man of utter bluntness who spoke his mind with little regard to the effect which his words might have¹¹. According to Friedrich A. von Hayek, he was “in spite of his exquisite politeness in social intercourse and his general self-control (he could also on occasion explode), not the man who could with success conceal his contempt¹²”.

The following episode is fairly typical. On the occasion of the collapse of the Credit Anstalt in 1931, Mises called a special session of the Nationalökonomische Gesellschaft¹³, a serious society for economists which he had helped to found already before the war. He served as Vice Chairman. During this meeting his condemnation of the directors of the bank and various officials in the Austrian Federal Ministry of Finance was so pointed that a number of them who were present apparently were forced

10 Also personal conversations with Haberler. Haberler and Kelsen were best men at Mises' wedding. However, a good example of this sort of thing is the subtlety with which Kelsen defended the system of proportional representation and the form of electoral districting which were being planned for the new Austrian Republic when writing for two opposing newspapers, the socialist *Arbeiter-Zeitung* and the liberal *Die Neue Freie Presse*. Hans Kelsen, “□in einfaches Popotionalwahlsystem,” *Arbeiter-Zeitung*, 24 November 1918, pp. 2-3, and “Der Proporz im Wahlordnungsentwurf,” *Neue Freie Presse*, 1 December 1918, pp. 3-4.

11 Friedrich A. von Hayek, “Einleitung,” to Mises, *Erinnerungen von L.von Mises*, Stuttgart/New York 1978, p. xiv.

12 *Ibid.*’.

13 See Kurt R. Leube "Über Diskontinuitäten und Kontinuitäten der österreichischen Schule der Nationalökonomie" in: Acham, Noerr, Schefold (Eds.) *Erkenntnisgewinne, Erkenntnisverluste*, Franz Steiner Verlag, Stuttgart 1998

to leave the assembly hall¹⁴. The effect of this sort of behavior was compounded by the fact that by this time he had established a reputation as an economic liberal whose anti-interventionism was so extreme as to be a source of puzzlement to many of his contemporaries, even including some of his students. When all of this was combined with his Jewish background, the result was a personality who was not and really could not be fully integrated into his social surroundings.

The impression which Mises created are best summed up by Friedrich A. von Hayek's Introduction to Mises' personal recollections: "A Jewish intellectual who defended socialist ideas had in the Vienna of the first third of this century his recognized position which was opened up to him as a matter of course. Likewise, the Jewish banker or businessman who (bad enough!) defended capitalism had his recognized rights. But the Jewish intellectual who justified capitalism appeared to most as a sort of a freak,

something unnatural that one didn't know how to categorize and that one didn't know what to make of. His undeniable expert knowledge was impressive, and one could not refrain from consulting him in critical economic situations. However, his advice was seldom understood and followed. He was for the most part seen as an odd fellow whose "obsolete" views were simply not practicable "nowadays"¹⁵."

II

These differences in character in the long run had little effect on the ultimate fates which Kelsen and Mises were to experience in Austria in the Interwar period. Their activities were to be of a similar nature and they were to be received in a similar manner. With regard to their purely scientific activities, this was the most productive period of their lives. Both men were now at the height of their powers, and they proceeded to use those powers to elaborate the ideas which they had sketched out in their first major works into complete systems.

14 Margit von Mises, My Years with Ludwig von Mises, Cedar Falls, 1984, p. 267.

15 Hayek, "Einleitung," p. xv

In this Kelsen's progress was the most rapid. The formal theory of the nature of legal norms and the relationships which existed among them which had been first presented in 1911 was to receive major new components in the form of contributions from Kelsen's first and most important students, Adolf Merkl and Alfred Verdross. Merkl emphasized the specific hierarchical structure which such a normative order must necessarily possess. And Verdross was able to point out with precision the manner in which the existence of a fundamental norm, labeled as "Grundnorm" which confirmed the authority of a system of norms must be assumed if a system of positive law was to be analyzed as a coherent whole¹⁶. Armed with these contributions and relying on insights drawn from a wide range of philosophical literature, Kelsen proceeded to elaborate the mature version of his theory of law – designated for the first time in 1920 as the "Pure Theory of Law" – and the theory of the state, that accompanied it¹⁷.

On the other hand, it was Mises' hope during the same period to also write a treatise on economics whose scope could match that of Kelsen's major achievement, Allgemeine Staatslehre. However, due to the demands on his time made by his important work in the Wiener Handelskammer, this plan would remain unexecuted until 1940. Although he was to write one work during the 1920's which contained the outlines of a structure around which such a treatise could be built, his work during this decade consisted largely of studies which were preparatory pieces to the realization of his ultimate goal. These essays can be separated into three quite distinct groups.

First of all, Mises continued his successful work on his monetary theory which he had developed prior to the war, and which was published in 1912¹⁸. Most importantly, he expanded considerably his theory of the business cycle which had actually had played only a minor role in his first work on money, and he applied this theory in an

16 On Merkl and Verdross see A. Merkl, "Adolf Merkl," in Österreichische Rechts- und Staatswissenschaften, ed. Grass, pp. 137-159, and A. Verdross, "Alfred Verdross," *ibid.*, p. 201-210.

17 A history of the most important aspects of Kelsen's intellectual development during this period is to be found in the introduction of the 2nd edition of his Hauptprobleme der Staatsrechtslehre, Tübingen, 1923, pp. v-xxiii.

18 L. von Mises, Theorie des Geldes und der Umlaufmittel, München und Leipzig, 1912

extensive critique of contemporary European and American monetary policy¹⁹. It should be mentioned here that Mises has published these essays before Hayek had returned from his one year research stay in the US and well before he undertook a short trip to the US to familiarize himself with the new techniques there.

Secondly, in 1920 when the political climate was very much in favor of Socialism of all stripes, Mises published a controversial article in which he attempted to demonstrate the impossibility of the rational allocation of productive resources were not subject to private ownership. This thesis was then elaborated into a large systematic work in which he subjected Socialism as a form of social and economic organization to an exhaustive, critical, and indeed devastating analysis²⁰. It was this famous work which not only had the most lasting influence on the generation of his students, but also launched the big debates on Socialism of the 1930s. This book contained the outline which Mises later were to expand into the major systematic treatise that appeared only in 1940 but had unfortunately, due to the time, the political circumstances and also the location almost no effect. This “magnum opus” could not reach the public anymore and was almost completely ignored until it was reprinted in 2002. Its English version appeared as Human Action²¹ in 1949.

Finally, Mises devoted a considerable amount of time during this period to methodological problems and the general nature of economic science. He looked upon the contents of his essays on methods as the final resolution of the Methodenstreit which was launched when Gustav von Schmoller criticized Carl Menger’ work and the latter published as a reply his Untersuchungen ueber die Methoden der Socialwissenschaften und der Politischen Oekonomie insbesondere in 1883. As such Mises’ essays constitute a particularly important addition to the works dealing with the nature of economics produced by his fellow members of the Austrian school of

19 Ludwig Mises, Geldwertstabilisierung und Konjunkturpolitik , Jena,1928.

20 Ludwig, Mises, Die Gemeinwirtschaft: Untersuchungen über den Sozialismus, Jena, 1922).

21 L. von Mises, Human Action. A Treatise on Economics. New Haven: Yale University Press, 1949, p. 3. Although Human Action deals with the same matters as Nationalökonomie, it is by no means a translation of the latter. Human Action is geared more towards the American reader with considerably less background in philosophy, methodology, and legal thought.

economics²². Not all but most of these writings were to receive international recognition and were to play a major role in the development of modern price theory.

III

These works, in particular the pathbreaking book on the problems of socialism, formed the foundation for the discussions which took place in a private seminar very similar to that held by Kelsen. The Privat-Seminar of Mises has gradually come to take on something of a legendary aura due largely to the extraordinary academic success which was to be achieved in later life by a huge number of its members. Indeed, far more than half of the participants of the Mises Seminar became world famous in their respective fields. From the standpoint of the history of social thought in Austria, this seminar is significant for two reasons.

On the one hand, this group was to play a very large role in the continuation and the development of the doctrines of the Austrian school of economics during this period. Although, by far at a lesser degree of impact the only other group which was to be active in Vienna in a similar manner at this time was the circle around Hans Mayer at the university. The membership of these two groups somewhat overlapped. The Mises Seminar carried on the work of the Menger-Böhm-Bawerk tradition of the Austrian school, whereas the circle around Mayer was dedicated to the works of Friedrich von Wieser, Mayer's mentor.

On the other hand, Mises' private seminar was to take on particular importance as a result of the manner in which the broad knowledge and the varied interests which its members brought with them were to result in a deepening and enrichment of the content of Austrian economic thought. Although the discussions in the seminar were dominated by economists and traditional economic themes, the presence of talented historians, philosophers, lawyers, and sociologists meant that a much broader range of material could be drawn into the discussions.

²² Ludwig, Mises, Grundprobleme der Nationalökonomie: Untersuchungen über Verfahren, Aufgaben und Inhalt der Wirtschafts- and Gesellschaftslehre, Jena, 1933.

Consequently, ideas found in the works of thinkers such as Hermann Cohen, Edmund Husserl, Ernst Troeltsch, or Max Weber were to have an important if sometimes indirect impact on the work of the entire group and were to help create a unique place for it in the history of modern economic theory.

The Mises seminar was founded in 1922 and met twice monthly during the academic year in his office in the Handelskammer²³. There were approximately twenty five regular participants and a number of occasional visitors. At any rate, rarely over 30 because of space restrictions. All of them had received their doctorates, and all were personally picked by Mises. In addition to Felix Kaufmann or Eric Voegelin who were members of the Kelsen seminar, the more important of the Mises seminar participants included among others the historian Friedrich Engel-Janosi, the economists M. Steffy Braun, J. Herbert von Fürth, Gottfried von Haberler, Friedrich A. von Hayek, Fritz Machlup, Oskar Morgenstern, and Paul Rosenstein-Rodan, and of course, the sociologist Alfred Schütz²⁴. According to Hayek, the official seminar ended usually around 10:00pm and the heated discussions were then continued in a cozy and traditional restaurant “Ancora Verde”. At times several participants even went to the “Künstler Cafe” close to the university and argued well into the morning hours of the next day. Mises always functioned as “primus inter pares”.

It is in light of their unusual success as theorists and teachers that the gradual rejection of Kelsen and Mises by their society becomes all the more noticeable. Their theories were winning for them international reputation and served as the starting point for the development of entire schools of thought. Their attempt to use them as sources of guidance in their roles as expert advisors on contemporary legal and economic

23 The dates vary: somewhat, while Machlup maintained that it started already in 1921 at the same time as the “Geistkreis”, M. St Braun thought it was only in 1923. Engel-Janosi, ... aber ein stolzer Bettler, p. 112; Martha Steffy Browne, “Erinnerungen an das Mises Privatseminar,” Wirtschaftspolitische Blätter 28 (October 1981):110-120; Gottfried von Haberler, “Mises’ Private Seminar,” *ibid.*:121-126; Margit von Mises, Ludwig von Mises, pp. 260-271.

24 A list of participants is to be found in Misesd, Erinnerungen. Op. Cit. In addition see also the International Encyclopedia of the Social Sciences: Biographical Supplement, s.v. “Hayek, Friedrich A. von,” by Fritz Machlup; *ibid.*, s.v. “Machlup, Fritz,” by John S. Chipman; *ibid.*, s.v. “Rosenstein-Rodan, Paul N.” by Richard Eckaus.

affairs, however somewhat failed. Their lack of political success and acceptance, but also the rapidly increasing anti-Semitism and deteriorating intellectual freedom that was necessary for them to strive, was to be so great that in the end both were convinced that the wisest course of action was simply to emigrate.

IV

The high positions which Hans Kelsen had achieved in administrative and academic life by the end of the war led Karl Renner to entrust him with the task of the direction of the technical drafting of the new Austrian Federal Constitution of 1920. Kelsen's contributions to the Austrian constitution concerned matters of form rather than content. The actual provisions were determined by a process of political decision making over which he had no control. But as the theory of law which he was then in the process of developing was one which dealt virtually exclusively with matters of form, the task allocated to Kelsen was one which he looked upon as being particularly significant. Taking the materials which were presented to him, he proceeded to arrange them in such a manner that special emphasis was placed upon the democratic principle which the constitution was required to possess. The various institutions which were coordinated and controlled by the constitution were arranged consenting to the dictates of the pure hierarchical form which according to Kelsen all legal orders necessarily possessed. The democratic legislature was to be placed at the peak of this hierarchy and its authority remained unchallenged by that of any other organ. Once established, the democratic form of the state was to be preserved by a type of legal self-regulation functioning according to scientific principles which was nothing less than the culmination of the attempts to secure the principle of *Rechtsstaatlichkeit* which had preoccupied Austrian liberals during most of the course of the nineteenth century. For Kelsen the self-regulating character of the constitution was a product of its hierarchical form. This hierarchical ordering of public institutions created by it meant that the actions of any particular organ of the state were clearly circumscribed by the organ immediately above it, with the democratic legislature being the ultimate determinant of

all actions of the state. The determination of whether or not a particular organ had overstepped the boundaries of the field of activity which had been assigned to it was to be decided by a new organ called the Constitutional Court. It was actually somewhat similar to the old Reichsgericht or the Supreme Court of the Habsburg Empire however supplied with new functions, and Kelsen looked upon the role created for it to be his most important contribution to the constitution.

From Kelsen's academic point of view, the most significant feature of the activities of this court was that they were to be carried out by observing the dictates of the abstract logical formalism of the theory of law that he had developed in his scientific publications. The constitutionality of the actions of the state depended upon adherence to the form of the constitution, and the form of the constitution was that pure eternal form revealed by the "Pure Theory of Law". A reliance upon this sort of pure formalism as the foundation of political life had one other further implication. The combination of radical democracy with the commitment to the control of all the actions of the state and the settlement of all political disputes by the means of clearly defined legal procedures assumed that the democratic electorate had reached that level of "rational responsibility" which during the second half of the 19th century Austrian liberals had hoped the law would on day instill in the lower orders of their society. The fundamental presupposition of the constitution as Kelsen viewed it was thus the existence of that rational cosmopolitanism which was required to sustain a large multinational empire. Such attitudes were not widespread in Austrian political life during the Interwar period, and although they would have a salutary influence upon whatever situation into which they were introduced, they were not exactly what Austria required above all else at this time. On the basis of his role as constitutional draftsman and his position as Professor of Constitutional Law, Kelsen was appointed to a seat on the newly created Constitutional Court. In this capacity he was given the responsibility of formulating some of the Court's most important decisions. It was this activity which was to create the difficulties that were to detach Kelsen from the position of leadership for which he had striven and to transform him gradually into an outsider in Austrian society. Kelsen had by this time taken the whole process of reform as a personal affront.

His scientific principles and the spirit which accompanied them had been violated, and the fact that he was considered a representative of a political party instead of being viewed as an independent scientific expert was an obvious indication that the “depoliticization” of the Court actually amounted to a massive politicization. As a consequence Kelsen drew the conclusion that there was no longer place for him and his ideas in Austria.

Mises’ experiences in Vienna during the 1920’s were to fall into a similar pattern, although his movement to the edge of his own society would not be so dramatic due to the fact that he was not entrusted with a such a high profile task as that of a constitutional drafts man. Furthermore, by this time no political party was willing to make a part of its program the radical sort of laissez faire which Mises defended without constraint. However, it could be argued that Mises’ radical laissez faire approach to socio-economic matters was actually an intellectual counterpart to Kelsen’s understanding of democratic political institutions. But while the rhetoric of democracy was still acceptable in the 1920’s despite of all of the accumulated mistrust of democratic institutions themselves, the idea, let alone the mentioning of free markets had by this time, in particular in Austria, become universally associated with exploitation, misery, or “Manchester Liberalism”. Nonetheless, Mises was at this time Austria’s leading expert on all questions concerning money, banking, and finance, and as the problems in these areas were among the most pressing economic issues during the Interwar years, it was impossible for the leaders of Austrian public life not to begin by allotting to him the role of scientific expert which he had expected and which he believed to be solely due to him²⁵.

Following the war, Mises returned to the “Handelskammer” and was appointed leading secretary, a post which he later asserted made him the “economist of the nation²⁶”.

25 See F.A. von Hayek “Einleitung” to Mises, Erinnerungen, p.xiv

26 Mises, Erinnerungen, p. 47.

Even if this was, a light exaggeration, he was now placed in a strong position to make his voice audible in the shaping and formulation of economic policy. Although, the precise nature of what influence he was able to exercise, remains somewhat unclear, for the immediate postwar period, it is fairly easy to speak with confidence about Mises' effect, because the most pressing economic problem facing the Austrian state at this time was one which was to be bound at the center of his area of academic specialization, namely monetary matters and inflation. Consistent with his own findings, Mises viewed inflation as a particularly dangerous phenomenon. His integration of the theory of money with the general theory of value and price had made him sensitive to the manner in which inflation distorts real economic processes through the misallocation of resources which results from false price signals. He was convinced that a total destruction of the currency in the form of a hyperinflation of the type which eventually did take place in Germany would result in the collapse of the new Republic, its occupation by the former members of the Entente, and the imposition of a new constitution by them²⁷.

For the purpose of bringing about an end to the inflation of the money supply, Mises joined forces with Wilhelm Rosenberg, a highly respected and influential Viennese lawyer who specialized in financial matters. Mises and Rosenberg had to compete with a number of other groups who were attempting to influence the course of monetary policy, one centered around the mysterious crippled lawyer Gottfried Kunwald and another around the President of the "Niederösterreichischen Eskomptgesellschaft", a certain Max Feilchenfeld and the Social Democrat, Ferdinand Hanusch. Mises and Rosenberg were able to make their opinions felt in part because Rosenberg was for a time the advisor of Alfred Görtler, the Minister of Finance in the Schober cabinet, and because after the fall of Schober, they were able to gain the trust of the new Chancellor, Ignaz Seipel. According to Mises, he and Rosenberg were able to win a major victory by convincing Seipel to put an end to the endless subsidization of agricultural products. This program had only a minor impact on individual expenditures for food but was a

²⁷ Mises, Erinnerungen, p. 50.

major cause of the notorious budget deficit. In the meantime, Kunwald had become the financial advisor of Seipel, and his position began to approach that of Mises. Mises was not of the opinion, as was Kunwald, that the assistance of the League of Nations was necessary for the restoration of Austrian finances, but he did believe that such a course would be psychologically advantageous, as it would deflect from the Austrian government the political pressures which would arise through the hardships such a restoration would bring with it. By proceeding in this manner, the Austrian currency was eventually stabilized²⁸.

Mises claimed that the fact that the Austrian inflation was stopped far short of the level which the German inflation as to reach was due exclusively to his and Rosenberg's efforts²⁹. This is certainly an exaggeration, but the important point is that Austrian policy took a path which shows that at this time there was still some receptivity to ideas such as his. Beyond this point, although there were always times that his rhetoric could prove useful to the Christian Social Party, a party upon which he looked with contempt, economic policy was gradually to move in spirit away from the path which would have been dictated by the general understanding of the nature of economic activity which he had been developing since beginning his studies on monetary theory. In the years following the end of the inflation crisis, it is possible to find examples of legislation which clearly bear the mark of his influence. Particularly noteworthy are the sales tax of 1923 which attempted to neutralize the effect of the tax on the functioning of the economy by paying special attention to the natural structural relations between various classes of economic goods within the production process and the gold account law of 1925 which aimed at the restoration of a reliable means of economic calculation³⁰.

The formulation of economic policy in any modern industrial state is something which by its very nature is the preserve of a relatively limited group of individuals. In

28 Ibid., pp. 50-52; Baltzarek, "Mises und die Wirtschaftspolitik," pp. 131-133.

29 Mises, *Erinnerungen*, p. 50.

30 Hörtelehner, "Mises und die Handelskammer," pp. 143-146.

the Interwar Austria this group was divided up into the leaders of various organized interests such as the Chambers of Labor, Agriculture, and Workers; leading bureaucrats in the Ministries of Finance and Social Welfare; and leading businessmen and bankers who took a special interest in these matters. The contacts among these individuals, in particular those in which Mises was involved were often highly informal and have left little traces behind in the way of permanent records with the exception of the founding of the “Österreichische Konjunkturforschungsinstitut.”

V

Hayek returned to Vienna in May 1924 supplied with a good grasp of the latest fashions in data collection and monetary policy, and an unique knowledge of the advanced techniques for analyzing economic time series and forecasting industrial fluctuations which he had studied while in New York. Not before long he suggested to Mises that such a modern institute for business cycle research modeled after the US institutions might also prove useful in Austria, but Mises' first reaction was a rather skeptical one. For Mises such research seemed to carry overtones of both, the naive anti-theoretical empiricism as a legacy of Gustav von Schmoller's younger German historical school and the slavish imitation of the techniques of the natural sciences for economic investigations, which he rejected on methodological grounds³¹.

However in 1926, only some two years later and sponsored by the Rockefeller Foundation, Mises himself spent a few months in the United States on an extensive lecture tour and was able to study these new research techniques first hand. Upon his return to Vienna he slowly warmed up to the idea that an institute which applied at least some of these new methods could serve a useful purpose in Austrian economic life.

As Mises, and in particular Hayek were convinced that the broadest possible dispersion of accurate knowledge concerning market conditions at any one time could

³¹Friedrich A. von Hayek, "Zur Gründung des Institutes," in *50 Jahre WIFO, Österreichisches Institut für Wirtschaftsforschung*, ed. by Verein "Österreichisches Institut für Wirtschaftsforschung"; Vienna: Verein Österreichisches Institut für Wirtschaftsforschung, 1977, p. 13.

contribute greatly to the efficiency of economic processes³² they attempted to devise a means for the provision of Austrian society with such information. For them any entrepreneurial activity in the pure praxeological sense will always depend upon three things: Rationality, a willingness to depart from established procedures and standards, and an ability to sense the course of future events. If the individual possesses these properties, then the only resource which is needed in order to act as an entrepreneur ought to be knowledge. To direct land, labor or capital to its most preferred uses, the knowledge of the particular circumstances of time and place is required. Therefore, in order to close the gap between the “is” and the “ought”, one must first know what “is”.

Since he did not succeed in getting Hayek “as a sort of scientific assistant into the chamber of commerce where he held his main job (for the purpose of building up there under his direction an economic research division³³)”, Mises began to investigate and actively promote the establishment of such an institution. According to Hayek and others, von Mises’ tireless efforts were thus predominantly undertaken for the purpose of providing a job for his “promising student” which was adequate, decently paid, and challenging³⁴.

The first major problem was concerned with the finding of the ideal form which the institute should take and its position within Austria’s complicated and multi-faceted social, political, and economic life as a whole. Hayek drafted several proposals in order to garner the support needed for the realization of their plans. Mises and Hayek focused almost exclusively on the examples provided by the US institutes and stressed the advantages which they rendered to the American economy. In particular they emphasized that the superior efficiency of the typical American firm was in part due to the masses of information which independent and privately funded economic research

32 See especially Friedrich A. von Hayek, "The Use of Knowledge in Society," in *The Essence of Hayek*, Kurt R. Leube, Chiaki Nishiyama, Eds., Stanford, 1984.

33 F.A. Hayek, *Hayek on Hayek. An Autobiographical Dialogue*, Eds. Stephen Kresge and Leif Wenar, Chicago: The University of Chicago Press, 1994. pg. 69.

34 Remarks by F.A. von Hayek, Martha St. Browne, Karl Menger (jun.) and others at the “L.v. Mises-Centenary Lunch” which I have organized in 1983 in the historic restaurant “Ancora Verde” in Vienna.

institutes made available to them³⁵. This was a fact which was clearly recognized by many Austrian businessmen. Furthermore, Hayek and Mises claimed that the recognition of the advantages gained through the accurate reporting of economic data was so widespread in America that there existed a high degree of readiness to reveal what in some respects might be even considered fairly confidential business information.

The emphasis which Hayek and Mises placed on these points was not simply a product of their desire to market their ideas in an aggressive manner. They made no attempt to conceal the fact that it was also a product of their perception of the backwardness of Austrian commercial life and the mentality which pervaded it. Both maintained quite openly that the greatest barrier which a new institute would face in pursuing its goals would be the difficulty in gathering information. Mises and Hayek felt confident in making this prediction on the basis of the obviously unenlightened attitudes which were common in the Austrian business community at that time. They did not even hesitate to describe this attitude with such terms as "fear of competition" and "small-minded secretiveness" and were not afraid to make such charges, as they were convinced to be able to prove that Austria was being materially damaged by the disposition of its inhabitants. The fact that international organizations such as the League of Nations in Geneva had no reliable statistics concerning the current state of Austrian economic life seriously burdened its image in the eyes of foreign investors. The advantages to be gained from a new institute were therefore relatively obvious, although the idea of an "Austrian Institute for Business Cycle Research" was in its outward form something of a foreign import to Austria. Because there was a widespread hostility to this sort of thinking among the members of the Austrian school at large and Mises' own students in particular, the transplantation of such institutional models to Austrian intellectual soil was to produce a quite different result from that which was generally striven after in the United States. However, I should emphasize here that the

35 Ludwig v. Mises and Friedrich v. Hayek, "Denkschrift betreffend die Einrichtung eines österreichischen Konjunkturbeobachtungsdienstes," mimeographed, Vienna: Bundeskammer für Handel, Gewerbe und Industrie, 1926, p. 7. This and other previously unknown memoranda, essays and articles will be published in Kurt R. Leube, Ed. The Unknown Mises, The International Library of Austrian Economics, vol. 6 Frankfurt.M. (forthcoming)

real intention of Hayek and Mises was much more in the direction to generate an atmosphere friendly and open to entrepreneurial habits of mind.

With several proposals sent off to potential supporters, Mises concentrated on the question of the specific type of legal existence which the new institute ought to have. A natural impulse would have been to turn to the government, as a collector of large quantities of statistics and other data, even if for very different purposes. Accordingly, one suggestion that an institute such as the one which Hayek and Mises envisioned should be erected within the context of a government agency was in fact advanced by Benedikt Kautsky (the son of the famous Marxist Karl Kautsky), an influential official at the Austrian Chamber of Workers and Employees. Mises, however immediately rejected this proposal in a letter to Kautsky³⁶.

Mises and Hayek faced something like a dilemma. On the one hand there was private industry, hesitant and suspicious by nature, and on the other there was the government agencies willing but unsuited to the task at hand. Under the delicate political circumstances of the Interwar period in Austria, Mises held that the best course of action was to cast the new institute in the legal form of a “private club”. This meant that it would in effect be a private non-profit organization, not unlike a foundation, and thus would gain a status which would serve to secure scientific objectivity. To create the necessary willingness to support the project in this form, Mises decided to make the institute appear as public by enlisting as charter members of the “club” the most important groups of organized interests in Austria, then the public institutions which played an important role in economic life as well as the federal and provincial governments. Among the first to promise their cooperation were the Vienna Chamber of Commerce, the Austrian Chamber of Workers and Employees, the Austrian National

36 Mises wrote “As a government bureau the institute would encounter insurmountable difficulties. It could not count on the cooperation of management, which to a certain degree would be required to supply confidential information. It would be bound to ministerial instructions and would thus be forced primarily to supply arguments in favor of a certain course of economic policy. It could not analyze the facts with the necessary freedom and objectivity. It would often be required not to publish the objective truth, something which would be contrary to the institute's own mission, as the keeping secret of important information would work to the detriment of both the state and the economy”, in: Manfred Mautner Markhof, “Zum 25 jährigen Bestand des Österreichischen Institutes für Wirtschaftsforschung”, in: Vorträge und Aufsätze, ed, Österreichisches Institut für Wirtschaftsforschung, vol. 5, Vienna, 1952, [my translation], p. 6.

Bank, the Federal Railways, and the Association of Austrian Banks and Bankers³⁷. It was agreed that they would send representatives who would form an administrative oversight body. After extended and at times tough negotiations between the ideologically sharply divided political sides that ran through late fall of 1926, the necessary by-laws were drawn up, and on December 15, 1926 a constituent plenary assembly formally proclaimed the establishment of the “Österreichisches Institut für Konjunkturforschung”. In a brilliant tactical move Mises made sure that also eminent members of his “Privat Seminar” such as Helene Lieser, Karol Schlesinger, Richard von Strigl, or Richard von Schueller would feature on the institute’s board. According to the statute, the board of overseers was to be led by a president and two vice presidents. Given the nature of the membership of this body, the president was an individual trusted by private industry (at the time of the start of the institute it was Richard Reisch, a member of the famous Böhm-Bawerk Seminar, a friend of Mises, and the President of the Austrian National Bank). The two vice presidential positions went to a representative of labor and to an academic economists. Because of the key role which he had played in the founding of the institute, Mises was elected to the vice presidential chair reserved for a scientific expert³⁸. From the first day of its very modest operation on January 1, 1927 until the “Anschluss” of Austria to the German Reich in 1938, the director was a member of the “Mises-Seminar”. The most important product of this influence was the development of a unique approach to the analysis of economic decision making which at least in tone set the work of this organization apart from that of its American models. The founding director was, not surprisingly, F.A. von Hayek.

VI

As the Interwar period progressed and as Austria’s economic conditions took on an outward appearance of stability, it became increasingly difficult for Mises’ strict anti-interventionist ideas to sound convincing, and as a consequence his influence began to

37 Ibid. p. 11

38 M. Mautner Markhof, "Zum 25 jährigen Bestand...", op.cit. p. 11.

wane seriously and that of Kunwald grew. According to Mises, the message of Kunwald to the Christian Social politicians and businessmen around him was that the type of economic interventionism which Mises condemned was really not so dangerous. Mises, in turn found his ability to respond effectively limited, as vigorous and open criticism of Austrian economic policy would harm the standing of the country abroad, and given the weakness of Austria's position in the world, he felt that he could not allow himself to indulge in his usual bluntness.³⁹ This situation continued until the onset of the depression, at which point Mises' slide into the position of an outsider became irreversible.

The depression of the 1930's came as no surprise to Mises. As early as 1926 Mises had already predicted the collapse of the Credit Anstalt, and shortly thereafter he wrote that "anyone who does not purposely close his eyes will recognize everywhere the signs of an approaching catastrophe of the world economy."⁴⁰ His writings on monetary problems during the 1920's, in particular his criticism of attempts to stabilize the purchasing power of money and his elucidation of the monetary theory of the trade cycle had already been outlined in his 1912 book. Here he showed that continued attempts of the state to manipulate the supply of money and credit would lead to major dislocations in economic life through the manner in which they distorted the basic money prices. Furthermore, in his opinion, other forms of economic interventionism undertaken to correct these problems would simply intensify these undertakings and make them more difficult to resolve. With the actual onset of the crisis, he felt his theories to have been confirmed, and he responded in public with the message that far from being a failure of capitalism, the spreading of international economic collapse was really a product of the general denial of capitalist principles which had taken place since the end of the war.⁴¹ The important point of Mises' analysis is that the measures for which he called were based on the pure rational formalism which he had begun to develop prior to his war service, while he was still concerned with the fate of the

39 Mises, *Erinnerungen*, p. 53.

40 Ludwig von Mises, *Liberalismus* (Jena: Gustav Fischer, 1927), p. 2.

41 Ludwig von Mises, "Die Krise und der Kapitalismus," *Neue Freie Presse*, 17 October 1931, p. 13: *idem*, "Die Legende vom Versagen des Kapitalismus," in *Festschrift für Julius Wolf zum 20. April 1932*, ed. Siegfried von Kardorff, et al. (Stuttgart: Ferdinand Enke, 1932), pp. 23-29.

Habsburg Empire. For this reason his ideas continued to focus on the issue of the free functioning of the international economic order rather than on the needs of a small nation forced to rely increasingly upon its own resources. The specifically Austrian responses to the crisis would take a form which could not be derived from the categories in which Mises was accustomed to thinking.

The building of a new authoritarian state under the leadership of Engelbert Dollfuss and the rise of his Vaterländische Front is an extremely important event in the development of modern Austria, as it represents the first serious attempt to think politically in terms of an independent Austrian nation. Mises considered the central program of the Dollfuss regime, the development of a corporate state or more precisely in German, the *Ständestaat*, to be fraud which simply masked a drive for personal enrichment on the part of members of the Christian Social Party⁴². In fact very little was done in the way of carrying out this program.

The idea of the *Ständestaat* itself seems significant, for it represents a sharp and distinct break from the cosmopolitan rationalism which in an earlier era had been the brand of Austrian political thinking at the highest levels of government. Corporatist thought had, of course, a long tradition within Christian Social circles, but when combined within the context of a small Austrian state with a positive if moderate and uncertain Austrian national feeling, it took on a degree of practicability and importance which it formerly did not have.

VII

Important for a discussion of Mises' Interwar activities are the conclusions reached by the members of a special commission assembled upon the request of Federal Chancellor Schober in 1930. This committee had the special task of investigating the growing economic difficulties with which Austria was confronted at that time. Richard von Schüller, a direct student of Carl Menger's was entrusted with the directorship. Although a large number of individuals participated in the collection of data for the

42 Mises, *Erinnerungen*, p. 86

commission's investigation, the principle members of the commission were Mises as the representative of the Chamber of Commerce, Dollfuss as the representative of the Chamber of Agriculture, and Edmund Palla as the representative of the Chamber of Workers. The findings and recommendations of this committee were, in spite of the energetic activities of Palla and the other representatives of labor, largely ones which could have been expected from traditional representatives of industry. It was argued that wages, costs, and taxes were excessive, and until they were brought down, Austria could not expect a return to full employment.⁴³ These calls for a balanced budget were actually standard liberal fare and had long been defended by Mises and his "students". But behind these orthodox financial principles stood the beginning of a new set of ideas concerning the coordination of economic affairs.

VIII

Mises had always understood this later issue in terms of the role played by the system of money prices which was to be found in any society. These signals served as the means through which the heterogeneous real phenomena upon which all economic activity rested could be united into a single whole, i.e., into a working economy. The actual process of unification required the highest possible degree of responsibility on the part of the members of society, in that it was necessary for them to be able to recognize the lawfulness which was anonymously expressed in market prices. It was, however, the opinion of the commission as a whole that another means of coordinating economic processes was both possible and necessary under only slightly modified circumstances.

The rationally acting individual which forms the core of Mises' theory of economic cooperation and which Mises always had considered appropriate for any modern cosmopolitan international economic order was now threatened to be replaced by something quite different.

⁴³ See the Redaktionskomitee der Wirtschaftskommission, Die Ursachen der wirtschaftlichen Schwierigkeiten Österreichs, Vienna, 1931.

The necessity of sound principles of finance may have been taken for granted, but they were no longer presumed as the precondition of the effective functioning of society on the basis of a system of undesignated economic laws. Rather, these laws were now to be replaced by a system of highly personal contacts among the leaders and representatives of the dominant political fractions, chambers, and other circles of power within the Austrian society. The report of the commission actually recommended a type of mutual consultation which bears already most features of the notorious, post WW II Austrian system of the so-called “Sozialpartnerschaft”. This system amounts to a politically and socially more acceptable version of the ideas which had in theory later been represented by the Dollfuss and Schuschnigg regimes, respectively. Whatever the merits and advantages of such a system might be, it had little in common with the world in which Mises had grown up and to which his thoughts were adapted. Therefore, by the early 1930s, Mises had in fact become fairly certain that little place remained for him in Austria.

IX

By that time the possibility of resurrecting in any form the type of world to which the ideas of Kelsen or Mises corresponded had seemingly passed away. With the collapse of most democratic governments in central Europe, their participation in practical affairs in any form ceased, and they now lived exclusively in and through the realm of ideas. This marks the beginning of the third phase of the lives of Kelsen and Mises. Both devoted themselves primarily to the refinement and final codification of their theories and to a lesser degree to the sketching out of plans through which the world might re-embark on the liberal (European sense) experiment which had begun in the eighteenth century.

Kelsen’s exposure to the new political situation was by far the most unsettling in its effects. This was due to the fact that he had left Austria for Germany and thus was forced to face all of the dangers and difficulties which the National Socialist rise to

power created for someone with his background. Kelsen actually held the position of dean of the Law School at the University of Cologne at the time that Hitler came to power. He sensed that as a pacifist and democrat, his days as part of the faculty were numbered, and in preparation for the problems which lay ahead, he voluntarily resigned from the position of dean. A few days later he read in the newspaper that he had been suspended from all activities at the University of Cologne. This step was met by a protest of all but one of his colleagues. This exception was his longtime opponent, Carl Schmitt, an aspirant to the title of leading jurist of the new “era”.⁴⁴ With the loss of his position in Cologne, a long period of wandering began for Kelsen, and his financial situation became progressively more unstable as the spread of Nazi power destroyed the various pension claims to which he had been entitled. Furthermore, he felt constraint by the problem of language, as his command of neither French nor English was sufficient to allow him to assume with ease an university position in which he would be required to teach in one of these languages. For this reason he turned down offers from the New School for Social Research in New York and the London School of Economics. Somewhat desperate he actually went as far as to enquire about the possibility of a mere lectureship in Zurich. Finally, since his French was better than his English, he chose to accept a position at one of the few institutions on the continent of Europe which was fully hospitable to his political views, the Institut Universitaire des Hautes Etudes Internationales in Geneva. This was a school which had been founded in 1927 by William Rappard, a Swiss and Paul Mantoux, a Frenchman as a center for the study of problems related to the activities of the League of Nations. This small operation formed something of an academic island of liberal and pacifist sentiment in Europe during the 1920’s and 1930’s, and it attracted a large number of students and scholars whose attitudes were congenial to those of Kelsen.⁴⁵ It is thus more than a coincidence that one year following Kelsen’s arrival in Geneva in September of 1933, he was joined there by his classmate and friend from Vienna, Ludwig von Mises.

44 See Metal, Hans Kelsen, pp. 60-61.

45 See Institut Universitaire de Hautes Etudes Internationales, Institut Universitaire de Hautes Etudes Internationales Geneva: Quarantieme Anniversaire 1927-1967 (Geneva: Institut Universitaire de Hautes Etudes Internationales, 1967).

Mises had long felt that it might be necessary for him to leave Austria, and he often advised his students to consider searching for positions abroad. Many of them took his counsel quite seriously.⁴⁶ Working for the Chamber since 1906, Mises had earned the right to a full pension as early as October 1, 1932, due to various factors including his military service. Under politically more stable circumstances, his wish would have been to retire from the Chamber of Commerce and devote himself fully to his scientific work. At the time, however, his pension did not appear secure as the Chamber had managed to make itself so unpopular with virtually every political party and, above all, as its existence was threatened by the plans to replace Austria's democratic constitution with that of a new authoritarian "Ständestaat" (see above). Mises was persuaded by colleagues in both Vienna and Graz, to remain in his position in order to help in their attempts to defend the Chamber's integrity. In so doing it seems that they were all acting simply to protect their own pensions. As far as Mises was concerned, the bank crisis in Austria had placed the banks and thus all industry in a state of dependence upon the National Bank. In such a situation there could be no question of an independent industrial policy and thus little rationale for the existence of the Chambers of Commerce.⁴⁷

Some day in the spring of 1934, Mises received an unexpected invitation from Rappard and Mantoux of Geneva to take up the chair for international economic relations at the Institute for the academic year 1934-35. He did not refuse and took on this invitation due to the security and the opportunity for research which it represented. Although he retained formal attachment to the Handelskammer, returning to Vienna for a short time each year to act as an advisor, his departure from Austria as a place of residence was to be a permanent one.⁴⁸ Despite his growing pessimism concerning the future of Europe and his fight against depression of which he suffered as a consequence, Mises' years in Geneva were, according to his later wife Margit, actually

46 Margit von Mises, Ludwig von Mises, p. 263. Also, Kurt R. Leube, "Über Diskontinuitäten und Kontinuitäten der österreichischen Schule der Nationalökonomie" in: Acham, Noerr, Schefold (Eds.) Erkenntnisgewinne, Erkenntnisverluste, Stuttgart 1998.

47 Mises, Erinnerungen, pp. 86-88.

48 Ibid.

the happiest of his life.⁴⁹ The teaching responsibilities were light, and with the unaccustomed freedom he was now finally able to compose the major treatise which he had long since planned and which was intended to systematize all of his thought within the confines of a single, yet voluminous volume. In addition, the course of the development of economic thought itself was such that Mises' reputation grew considerably during this decade. His most important student, Friedrich A. von Hayek, was appointed to a professorship at the London School of Economics in 1931, and, expanding upon many of Mises' ideas, met with spectacular success there up approximately until the time of the publication of Keynes' General Theory in 1936.⁵⁰ As a matter of fact, Mises' writings on method were to influence Lionel Robbins, later Lord Robbins, the young Director of the London School.⁵¹ It was him who did most to raise interest in Austrian works in general and Mises' books in particular in the English speaking world. Consequently, Mises' Theorie des Geldes und der Umlaufmittel as well as his Gemeinwirtschaft were translated into English during this period, and the ideas which were contained in the latter were to become the stimulus for an important motion.

X

In 1936 Kelsen accepted a position of the chair of international law at the German University in Prague. At the same time, recognizing how unstable the situation in Czechoslovakia actually was, he requested to be able to combine the appointment with the one which he already held, proposing to alternate between a semester in Geneva and a semester in Prague. This proved acceptable to all parties involved, and Kelsen began his lectures in Prague in the winter semester of 1936.⁵²

49 Margit von Mises, My Years, pp. 39-56

50 John Hicks, "The Hayek Story," in Critical Essays in Monetary Theory, ed. John Hicks (Oxford: Clarendon Press, 1967), pp. 203-205. Also Kurt R. Leube, "Introduction", The Essence of Hayek, K.R. Leube and Ch. Nishiyama, Eds. Stanford 1983.

51 See Lionel Robbins, An Essay on the Nature and Significance of Economic Science, 2nd ed. London, 1935), pp. xvi, 16, 18, 39, 54, 77-78, 83, 93.

52 Metal, Hans Kelsen, p. 68

However, Kelsen's stay in Prague was nothing short of a catastrophe. Even the rumor at the University that he might be appointed sent the German nationalist students off demonstrating with the chant "Kelsen never, on to Moscow!"⁵³ His first lecture sparked such violent protests that the government was forced to suspend all teaching at the School of Law for a period of four weeks. The situation was eventually pacified, but Kelsen was able to continue lecturing only under the protection of a police guard.⁵⁴ He remained on in Prague for two more semesters—the summer semester of 1937, due to the abbreviated nature of his first series of lectures, and the following winter semester, as had been contractually agreed upon. By 1938, however, the political situation in Czechoslovakia placed any further activity there out of the question, and as a result Kelsen was to return to Geneva and remained there until 1940.

In this year, both Kelsen and Mises fled to the United States. Whereas Kelsen was convinced that Swiss independence could not be maintained in the face of the German advance, Mises, who by this time had become particularly attached to Geneva, was sure of the ability of the French Army to stop Hitler. But he was eventually persuaded by his wife that the dangers which they ran by remaining there were simply too great. After some struggles, both men were able to obtain so-called non-quota visas on the basis of invitations from academic institutions, and in the summer of 1940 they managed to reach Lisbon, Kelsen by the way of a flight from Locarno to Barcelona followed by a long strenuous drive with a car to Portugal. Mises arrived in Lisbon by way of a rather perilous bus ride which dodged German troop concentrations in southern France several times until reaching the Spanish border, followed by a flight from Barcelona to Lisbon.⁵⁵ Each proceeded on to New York by ship, and upon arrival they began to attempt to establish the basis of an existence in the country which would be their home until their deaths in 1973.

53 Ibid., p. 69.

54 Ibid., pp. 70-71; Elizabeth Wiskemann, Czechs and Germans: A Study of the Struggle in the Historic Provinces of Bohemia and Moravia (London: Oxford University Press, 1938), pp. 225-226.

55 Metall, Hans Kelsen, p. 77; Margit von Mises, My Years, pp.57-62.

At first glance it might appear that the movement of Kelsen and Mises to this new environment should mark the beginning of a new period in their lives. From a purely personal standpoint this is probably true. In addition to the alteration in the details of their daily lives, they now had to cope with a society in which university professors were accorded considerably less respect than Kelsen and Mises were accustomed to. From the standpoint of the rift between thought and action which had been developing in their lives since the end of the World War I, their years in America constituted a continuation of the situation in which they had first found themselves upon their arrival in Geneva. While in Switzerland, they had occupied apart of their time with the drafting of plans which could play some part in the promotion of the goals of the League of Nations. Kelsen worked on a proposal for the effective settlement of international conflicts by judicial means, and Mises sketched out a plan for international monetary reform and a return to the gold standard.⁵⁶ These activities were continued in the United States and were augmented by a modest amount of advisory activity at the request of both public and private organizations. For the most part, however, they continued to live in the realm of scholarship, developing the cosmopolitan ideas which they had first begun to expound in their youths. The only significant change which was to take place in their professional lives while in America concerned the nature of their relationship to the academic world itself.

As long as Kelsen and Mises remained on the continent of Europe they were able, as far as political circumstances allowed, to occupy central positions in the formally organized scientific life of their times. But both of them were representatives of types of thought which in many ways were simply too deeply rooted in European legal culture to be accepted fully in America, although this was to a certain degree less so in the case of Mises than in that of Kelsen. The abstract formalism and the systematic thoroughness which were characteristic of this thinking were quite out of

⁵⁶ Institut Universitaire de Hautes Etudes Internationales. Institut Universitaire, pp. 54-48. Kelsen's work in this area eventually published as Peace Through Law (Chapel Hill, 1944), that of Mises was to appear as "Monetary Reconstruction," a study which was appended to the first American edition of his The Theory of Money and Credit, trans. H. E. Batson (New Haven: Yale University Press, 1953), pp. 413-457.

step with the pragmatic, empirical, and institutional elements which were then dominant in American social thought in general. Kelsen and Mises arrived in New York with considerable reputations, but it was virtually impossible for them really to become integrated into American academic life.

Conclusion

The years following 1940 actually lie beyond the scope of this essay and it is for this reason that the conclusion will simply be devoted to a brief description of the lives of Kelsen and Mises in a world in which their ideas had become at least temporarily irrelevant.

Kelsen was able to find a position at a leading American university without too much difficulty on the basis of his reputation as a specialist in the field of international law, a field which he still considered to be something of a professional sideline. It was, however, a position in a department of political science rather than in a law school, and this is in part a reflection of how far removed from the juristic life of the United States his thought really was. Upon arrival he did, indeed, manage to secure a post at the Harvard Law School. This was, however, only a temporary position as the Oliver Wendell Holmes Lectureship. He has received it largely on the basis of the personal admiration which the Dean of the Law School, Roscoe Pound, had for him. Offers of a permanent nature were tendered by at least two major departments of political science, those of the University of Chicago and the University of California at Berkeley. Kelsen chose to accept the latter offer, and his move to California was to be the last one of his life. Kelsen's final years were extremely active but at the same time strangely barren. He continued to publish books and articles, among them even a book on communist law. In addition he was showered with no less than nine honorary doctorates, three honorary professorships, and was elected to membership or honorary membership in every conceivable type of scientific organization.⁵⁷

⁵⁷ These various honors are listed in Metall, Hans Kelsen, pp. 96-101.

As with most unrooted refugees beyond their prime time, his writings ceased to contain important new ideas, and all of this recognition was simply a reflection of his past. His thought remained controversial in many quarters, but it had ceased to inspire many. This can be seen in the fact that in the years following 1945, Kelsen failed to win any important and creative new followers. In the United States the only students who were to study under his supervision were individuals concentrating in the fields of international affairs and who, by and large, had little or no interest in the theory of law whose development Kelsen looked upon as his most important accomplishment. In this regard, Mises was to fare somewhat better.

The paths of Kelsen and Mises came close to crossing for a final time in the United States. Mises' non-quota visa had actually been issued on the basis of an offer of a visiting professorship at the University of California at Berkeley. But upon arriving in New York, he decided not to move west, on to California. He saw in New York the intellectual center of the United States, and he wished to remain there for that reason.⁵⁸ A permanent university position was, however, not to be found. The sources of this difficulty have been subject to some debate. His age and declining university enrollments during the war years have been cited as one reason for his inability to find an appointment. In light of Kelsen's experience in academic life, this is not completely convincing.⁵⁹ A more plausible reason is that he simply did not possess a sideline which could create a niche for him such as the one which international law had carved out for Kelsen. Mises' reputation was based upon the content of those of his works which he looked upon his most important. These works however were now quite out of step with the times. By the early 1940's, virtually every major development in American economic thought manifested components which were in sharp conflict with Mises ideas, and he was quite unwilling to adapt himself in any way. Keynesianism, macroeconomic model building in general, mathematical economics, econometrics, and so forth, were for him all products of forms of political and scientific thinking which he

58 Margit von Mises, My Years, p. 64.

59 Fritz Machlup, "Ludwig von Mises: The Academic Scholar Who Would Not Compromise," Wirtschaftspolitische Blätter 28, October, 1981: 11-12.

had campaigned against throughout his entire career. He was thus forced to live out his final years in a sort of professional isolation which Kelsen had been able to avoid.

But in spite of this fact, Mises, unlike Kelsen, actually managed to leave an important mark upon social thought in the United States, even if his influence had not become clearly visible by the time of his death. During his first few years in the United States, Mises was forced to live from his savings and whatever he could earn from writing and lecturing. Then in 1945 with the help of several admirers, he was able to secure a position as Visiting Professor at the New York University Graduate School of Business Administration. Mention should be made that this position was hardly appropriate to someone of his stature but which he, nonetheless, knew how to use to his best advantage. He began by teaching one course per semester dealing with economic policy and then added in 1948 a weekly seminar on questions of economic theory until 1969. This seminar, almost a repetition of his Vienna Privat gathering of young social scientists, was to be of particular importance, for through it he was able to insure that his ideas would eventually begin to influence American economic thought.

During the 1940's, Mises occupied a good deal of time revising and rendering into English the major treatise which he had been able to complete in Geneva and which he had published there in 1940 under the title Nationalökonomie. Theorie des Handelns und Wirtschaftens.⁶⁰ This major achievement however, due the circumstances of the time, the place and the publisher could not reach the readers anymore. In 1949 this revised version was to appear as Human Action,⁶¹ by far the most important work which Mises produced during his lifetime. Although certainly not hailed by the economics profession as a whole, it did prove invaluable to the trickle of students who through chance or word of mouth communication found their way to his seminar. By the early 1960's a number of these students had begun to publish major works in the

60 See the new facsimile edition within the series Klassiker der Nationalökonomie, ed. by Schefold, Kruesge, et al. Düsseldorf 2002.

61 Ludwig von Mises, Human Action: A Treatise on Economics (New Haven, 1949).

Misesian tradition.⁶² As the neo-classical orthodoxy in American economic began to encounter increasing difficulties in explaining the dislocations of the late 1960's and early 1970's, an atmosphere was created in which serious attention could be devoted to Mises' thought. When unexpectedly in 1974 Friedrich A. von Hayek was awarded the Nobel Prize for Economics, the ideas of his teacher were equally drawn into the limelight, and the younger generation of students which Mises had been able to train in America began actively to promote a revival of his ideas whose outcome remains difficult to predict.⁶³

By the time of their deaths in 1973, the names of Kelsen and Mises seemingly had been assured a place in the history of social thought. Kelsen was frequently dubbed "the jurist of the century," and in a long obituary in the New York Times, Mises was likewise referred to as "one of the foremost economists of the century."⁶⁴ But despite this degree of personal recognition, their ideas were frequently badly misunderstood. Both thinkers had grown up in a world in which the consequences of nationalistic hatred and of the widespread rejection of reason and liberalism among intellectuals and politicians had become painfully clear. They devoted their lives to an attempt to turn the tide, an attempt which had its roots in the cosmopolitan values of the political order whose destruction they had observed during their youths.

It should be mentioned here that Mises, who used to tell his students in the 1920's that when he wanted to talk to socialists he would go to the directors of major banks or corporations. Although his views were quite unattractive to many of the men who sat in the boardrooms of the great American corporations in the 1970's, by the

62 Israel M. Kirzner, The Economic Point of View, Princeton, 1960); *idem.*, An Essay on Capital, New York, 1996); Murray N. Rothbard, Man Economy, and State, 2 vols. Princeton, 1962.

63 An introduction to this development provides Edwin G. Dolan, ed., The Foundation of Modern Austrian Economics, Kansas City, 1976. The newly found interest in Austrian Economics, however is also reflected in the form of several very good Readers. Among many others, see K.R. Leube, ed. Von Menger bis Mises, vol. I and Von Hayek bis White, vol. II, The International Library of Austrian Economics, Frankfurt 2000.

64 Leonard Silk, "Ludwig von Mises, Economist, Author, and Teacher, Dies at 92," New York Times, 11 October 1973, p. 48.

early 1980s his ideas were routinely viewed as one of the diehard defenders of economic liberalism.