

Between the Two World Wars: Monetary Disorder,
Interventionism, Socialism, and the Great Depression

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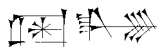
Ludwig von Mises

Selected Writings of Ludwig von Mises

*Between the Two World Wars:
Monetary Disorder, Interventionism,
Socialism, and the Great Depression*

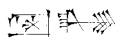
Edited and with an Introduction by

Richard M. Ebeling



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A most grateful thanks is also due to Mr. and Mrs. Quinten E. Ward, whose generous support enabled my wife, Anna, and me to travel to Moscow in October 1996 and obtain the copies of Mises's "lost papers." In addition, Mrs. Mildred Dunn, Mr. Sheldon Rose, and Dr. John Sheridan have provided significant financial support enabling Hillsdale College to bring this volume to the general public.

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October 2001

INTRODUCTION

The “Lost Papers” of Ludwig von Mises

All of the articles and essays contained in this volume were written by Austrian economist Ludwig von Mises during the twenty years between the two world wars, from 1918 to 1938. The common themes running through most of them concern the monetary disorder and inflation that followed the breakup of the Austro-Hungarian Empire at the end of the First World War; the monetary, fiscal, and interventionist problems in Austria and Europe in general in the 1920s and 1930s, including during the Great Depression; and the collectivist policies and ideas that were leading Europe down the road to the Second World War. Also included from this period are articles on the Austrian economists, the methodology of the social sciences, and the problem of economic calculation under socialism.

They all were originally written in German and about a quarter of them have never been published before. Virtually all are taken from the “lost papers” of Ludwig von Mises.

In the years between the two world wars, Ludwig von Mises was one of the most famous and controversial economists on the European continent.¹ Born in Lemberg, Austria-Hungary on September 29, 1881, Mises entered the University of Vienna in 1900 and was awarded a doctoral degree in 1906. In 1909, the Austrian Chamber of Commerce in Vienna hired Mises as one of its economic staff members. In 1913, he was given the title of *Privatdozent*, permitting him the right to teach at the University of Vienna as an unsalaried lecturer, with promotion to the title of Professor Extraordinary in 1918.

1 For expositions of Mises’s ideas on the rationality of human action, the theory of social order, and the market economy and alternative economic systems, see Richard M. Ebeling, “A Rational Economist in an Irrational Age: Ludwig von Mises,” in Richard M. Ebeling, ed., *The Age of Economists: From Adam Smith to Milton Friedman* (Hillsdale, Mich.: Hillsdale College Press, 1999), pp. 69–120; Richard M. Ebeling, “Planning for Freedom: Ludwig von Mises as Political Economist and Policy Analyst,” in Richard M. Ebeling, ed., *Competition or Compulsion? The Market Economy versus the New Social Engineering* (Hillsdale, Mich.: Hillsdale College Press, 2001), pp. 1–85; and Israel M. Kirzner, *Ludwig von Mises: The Man and His Economics* (Wilmington, Del.: ISI Books, 2001).

Over the next twenty-seven years, until his emigration to the United States in July 1940, Ludwig von Mises caused firestorms of controversy. In 1912, he published *The Theory of Money and Credit*, in which, besides its many other theoretical contributions, Mises formulated what became known as the Austrian theory of the business cycle. Inflation and depression were not inherent to a capitalist economy, but were the result of government control and mismanagement of the monetary system through manipulation of market rates of interest.²

It was an article he published in 1920,³ and which two years later he expanded into the book-length treatise *Socialism*, that caused the whirlwind of debate that surrounded him for the rest of his life. In this work, Mises demonstrated that the central planners of a socialist state would have no way of knowing how to use the resources of the society at their disposal for least-cost and efficient production. Without market-generated prices, the planners would lack the necessary tools for “economic calculation.” The reality of the promised socialist utopia would be poverty, economic imbalance, and social decay. Furthermore, Mises argued that any type of collectivism that was applied comprehensively would result in a terrible tyranny, since the state would monopolize control over everything needed for human existence.⁴

In 1927, Mises published *Liberalism*, in which he presented the clas-

2 Ludwig von Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Fund, 3rd. revised ed., [1924; 1953] 1980). For an exposition of the Austrian theory of money and the business cycle in the context of the Great Depression and in contrast to the Keynesian approach, see Richard M. Ebeling, “The Austrian Economists and the Keynesian Revolution: The Great Depression and the Economics of the Short-Run,” in Richard M. Ebeling, ed., *Human Action: A 50-Year Tribute* (Hillsdale, Mich.: Hillsdale College Press, 2000), pp. 15–110. For a comparison of Mises’s theory of money and the business cycle with that of the Swedish economists during this period, see Richard M. Ebeling, “Money, Economic Fluctuations, Expectations and Period Analysis: The Austrian and Swedish Economists in the Interwar Period,” in Willem Keizer, Bert Tieben, and Rudy van Zip, eds., *Austrian Economics in Debate* (London/New York: Routledge, 1997), pp. 42–74.

3 Ludwig von Mises, “Economic Calculation in the Socialist Commonwealth,” [1920] in F. A. Hayek, ed., *Collectivist Economic Planning* (London: Routledge & Sons, 1935), pp. 87–130; reprinted in Israel M. Kirzner, ed., *Classics in Austrian Economics: A Sampling in the History of a Tradition*, Vol. 3: “The Age of Mises and Hayek” (London: William Pickering, 1994), pp. 3–30.

4 Ludwig von Mises, *Socialism* (Indianapolis: Liberty Fund, [1951] 1981). For an exposition of Mises’s critique of socialist planning in the context of the critics of socialism who preceded him, see Richard M. Ebeling, “Economic Calculation under Socialism: Ludwig von Mises and His Predecessors,” in Jeffrey M. Herbener, ed., *The Meaning of Ludwig von Mises* (Norwell, Mass.: Kluwer Academic Press, 1993), pp. 56–101.

sical liberal vision of the free and prosperous society, one in which individual freedom would be respected, the market economy would be free, open and unregulated, and government would be limited to the primary functions of protecting life, liberty and property.⁵ He followed this work with *Critique of Interventionism* in 1929, a collection of essays in which he tried to explain that the interventionist-welfare state was not a “third way” between capitalism and socialism, but a set of contradictory policies that, if fully applied, would eventually lead to socialism through incremental increases in government regulation and control over the economy—and that Germany in the 1920s was heading down a dangerous political road that would lead to the triumph of national socialism.⁶

Not surprisingly, both Marxists and Nazis viewed Ludwig von Mises as a serious intellectual enemy. In fact, in 1925, the Soviet journal *Bolshevik* published an article calling him a “theorist of fascism.”⁷ What was Mises’s “crime” deserving of such a charge? In a 1925 article on “Anti-Marxism,” Mises had written that Marxist Russia and a “national socialist” Germany would be natural allies in a war in Eastern Europe—thereby anticipating the infamous Nazi-Soviet Pact of August 1939, which served as the prelude to the beginning of the Second World War.⁸

By the early 1930s, Mises understood that a Nazi victory in Germany would threaten Austria. As a classical liberal and a Jew, he could be sure that after a Nazi takeover of Austria, the Gestapo would come looking for him. So when in March 1934 he was offered a way out by William E. Rappard, cofounder and director of the Graduate Institute of International Studies in Geneva, Switzerland, who offered him a position as Professor of International Economic Relations, Mises readily accepted and moved to Geneva in October 1934.⁹

5 Ludwig von Mises, *Liberalism: The Classical Tradition* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, [1927] 1996).

6 Ludwig von Mises, *Critique of Interventionism* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, [1929] 1996). For an exposition of some aspects of the Austrian ideas on interventionism, see Richard M. Ebeling, “The Free Market and the Interventionist State,” in Richard M. Ebeling, ed., *Between Power and Liberty: Economics and the Law* (Hillsdale, Mich.: Hillsdale College Press, 1998), pp. 9–46.

7 F. Kapelush, “‘Anti-Marxism’: Professor Mises as a Theorist of Fascism,” *Bolshevik*, No. 15 (August 15, 1925), pp. 82–87. This article has been translated from the Russian and is included as an appendix to the present volume.

8 Ludwig von Mises, “Anti-Marxism,” [1925] *Critique of Interventionism*, pp. 71–95.

9 See Richard M. Ebeling, “William E. Rappard: An International Man in an Age of Nationalism,” *Ideas on Liberty* (January 2000), pp. 33–41.

Mises kept his apartment in Vienna, where he and his mother had been living since 1911. After she died in April 1937, he returned the apartment to the owner of the building but continued to sublet a room from the new tenant. In this room he stored his papers, manuscripts, family and personal documents, correspondence, and files of his own and other writers' articles, as well as much of his personal library, which included more than two thousand volumes.

On March 12, 1938, the German army crossed the Austrian border. When Adolf Hitler arrived in Vienna on March 15 he announced that his native Austria had been incorporated into Nazi Germany. Over the next several weeks the Gestapo arrested tens of thousands of Viennese. An estimated seventy thousand were soon imprisoned or sent to concentration camps. Among the immediate victims were the Jews of Vienna, who were harassed, beaten up, tortured, murdered, and humiliated by being made to scrub the streets of Vienna on their hands and knees with toothbrushes while being surrounded by tormenting crowds of onlookers.¹⁰ The new Nazi regime soon began a methodical program of appropriating the 33,000 Jewish-owned businesses and enterprises in Vienna.¹¹ Among those that the Gestapo came looking for soon after the *Anschluss* was Ludwig von Mises.

Towards the end of March 1938, the Gestapo came to Mises's Vienna apartment. He was safe in Switzerland, but the Nazis boxed up everything in his room and carried it away. A year later, on March 4, 1939, Mises sent out a letter of "information" to friends in Europe, explaining what had happened to his possessions:

From 1911 until the death of my mother, I resided at 24 Wollzeile, Apartment 18 (Vienna, I). Upon her death I returned the apartment to the

10 See Joachim C. Fest, *Hitler* (New York: Harcourt Brace Jovanovich, 1973), pp. 549–50; Ian Kershaw, *Hitler, 1936–1945: Nemesis* (New York: W. W. Norton, 2000), pp. 84–85; and Getta Sereny, *The German Trauma: Experiences and Reflections, 1938–2000* (London: Penguin Press, 2000), pp. 6–8. (Getta Sereny, who was a teenager in Vienna at the time of the German occupation, is the stepdaughter of Ludwig von Mises.)

11 See Saul Friedlander, *Nazi Germany and the Jews, Vol. I: The Years of Persecution, 1933–1939* (New York: HarperCollins, 1997), pp. 242–44. For a more detailed account of the events in Austria following the Nazi annexation of the country, see Dieter Wagner and Gerhard Tomkowitz, *Anschluss: The Week Hitler Seized Power* (New York: St. Martin's Press, 1971); and Walter B. Maass, *Country Without a Nation: Austria under Nazi Rule, 1938–1945* (New York: Frederick Unger Publishing Co., 1979).

owner of the building, who rented it out to the physician, Dr. Joseph Reitzes. However, I kept one room in the apartment as his subtenant. In this room I had my library, as well as my personal correspondence, my family papers, diplomas and other important documents. Furthermore, I had there silver tableware, and a considerable number of other silver items—large platters, candelabras, etc. Finally, there was some linen. At the end of March 1938 the Gestapo forcibly entered my locked room and hauled away the contents in twenty-one boxes. Then my room was sealed. In September or October, the rest of the objects in the room were taken away by the Gestapo. Dr. and Mrs. Reitzes have meanwhile left Vienna, and no correspondence from them has reached me. From what I have heard, the Gestapo gave them strict orders not to get in touch with me. In August of last year, I learned from Baron Richthofen that my possessions were in the hands of the Gestapo. When my lawyer, Dr. Rintelen, inquired about what had become of my possessions, he was reportedly given the answer that they could not be found anywhere. My personal library includes about 2,500 books, 1,500 pamphlets and reprints. These works deal with such subjects as economics, economic policy, financial questions, economic conditions in various countries, all varieties of socialism, world and Austrian history, economic history, jurisprudence, philosophy, and *belles-lettres*.

Mises then listed the collections of books, journals and papers that had been among the property taken away by the Gestapo.¹²

Until his death on October 10, 1973, at the age of 92, Mises believed that everything had been destroyed—either by the Nazis or in the chaos of the war. Considering the manner in which the Nazi regime had earlier burned books as a symbolic rejection of ideas opposed to their own, this was, perhaps, a reasonable assumption.¹³ However, Mises's papers had not

12 See also Ludwig von Mises, "Bemerkungen über die ideologischen Wurzeln der Währungskatastrophe von 1923" [Remarks on the Ideological Roots of the Monetary Catastrophe of 1923] in *Freundesgabe zum 12. Oktober 1959 für Albert Hahn* [Friendly Presentations on the Occasion of Albert Hahn's Seventieth Birthday] (Frankfurt am Main: Fritz Knapp, 1959), pp. 54–58. Here Mises remarked that he kept notes of his conversations with members of the *Verein für Sozialpolitik* [Association for Social Policy] on various theoretical and methodological questions, adding "I kept these notes in my apartment in Vienna, which I had maintained after my move to Geneva in 1934. These and other documents disappeared after the Nazis plundered my apartment" (p. 55).

13 That Mises believed that his papers had been destroyed by the Nazis or in the war was told to me in conversation with his widow, Margit, in 1979.

been destroyed. Instead, they had been kept by the Nazis and ended up in Czechoslovakia, along with most of the other documents, papers, and archival collections the Nazis had seized in various German-occupied countries during the war.

During the first days of May 1945, as the war in Europe was reaching its end, the Soviet army, having conquered eastern Germany, began its conquest of the Czech region of Bohemia. Reaching the small town of Halberstadt, the Soviet soldiers began to fan out and occupied the railway station. On a track siding were twenty-four boxcars that the Nazi authorities had been preparing to evacuate to territory still under their control. When Soviet officials opened the boxcars, they found them stuffed with documents, files, dossiers, and personal and professional papers that the Gestapo had looted from France, Belgium, Austria, Holland, Poland, and many other countries, including Germany itself. Among these literally millions of pages of stolen documents were the “lost papers” of Ludwig von Mises.

This massive cache of material was turned over by the Soviet army to the KGB, who reported the find and its apparent content to Stalin. Stalin ordered the boxcars to be transported to Moscow, where a special building was constructed in the early 1950s to store and preserve these papers. They included 20 million documents from twenty countries. From the outside, the building looked like an ordinary residential complex. It had no nameplate on the door, and only the bars on the windows suggested that it was something other than what it appeared. For the next forty-five years the only people allowed access to the documents stored in the building were members of the KGB and the Soviet Ministry of Foreign Affairs. The employees—all KGB archivists—were forbidden to tell even their families where they worked and were restricted from meeting with foreigners, or even eating at restaurants patronized by foreigners in Moscow.

Each of the archival collections had been carefully studied and organized by the KGB. Mises’s papers were divided into 196 files containing approximately 8,000 items. In 1951, the KGB prepared an index to his papers, with a one-paragraph description of each file. The entire collection was labeled “Fund # 623—Ludwig Mises.”

With the collapse of the Soviet Union in 1991, the documents were declassified and the archive was opened on a limited basis under its new name, the Moscow Center for Historical and Documental Collections. Even foreign researchers could now request to see parts of the collection.

I first heard a rumor that Mises’s papers might be in Moscow in the summer of 1993. My wife and I were in Vienna looking for archival ma-

terial about Mises's life and career. A friend in the Austrian Chamber of Labor, Dr. Gunther Chaloupek, told me that some German diplomats had been in Moscow looking for material about antifascist Germans from the interwar period and had come across a reference to Mises's name among the indexes to captured documents they were permitted to examine.

In 1994, I found Mises's "information" letter from 1939 among Friedrich A. Hayek's papers at the Hoover Institution at Stanford University, so I now had an idea of exactly how and what the Nazis had stolen. It was only in July 1996 that I found out the exact location of Mises's "lost papers." I went to the Holocaust Museum in Washington, D. C., hoping that the researchers there could tell me whether, by chance, a Gestapo file on Mises had survived the war. No one could locate such a file. However, I asked a research staff member whether they could find out if any of Mises's papers were now in Russian hands. She introduced me to a senior researcher, Karl Modek, who specialized in Holocaust material relating to the Soviet Union. Opening a spiral binder containing a full list of the material stored at the Moscow Center for Historical and Documental Collections, he turned to the pages listing the fund numbers and the names of collections in the archive. There it was: "Fund # 623—Ludwig Mises."

Since the archive had been open to researchers since 1991, the question arises as to why the existence of Mises's papers had not come to light earlier, and why hadn't anyone taken the time to examine them and obtain copies? An answer was provided by Kurt Leube, former personal assistant to Friedrich Hayek.

In 1994, Mr. Leube also had heard that Mises's papers appeared to have survived in Russia. He found out that some Austrian researchers, including Gerhard Jagschitz of the University of Vienna and Stefen Kerner of the University of Graz, had traveled to Moscow and seen the indexes to Austrian documents captured by the Soviet army. They confirmed that they had seen an index to Mises's papers. Mr. Leube had asked them to examine the files and describe their contents, but they replied that their own research schedule did not permit the time to do so.

In March 1997, Dr. Mansur Mukhamedjanov, then Director of the Moscow Center for Historical and Documental Collections, delivered a speech at Hillsdale College and explained:

The Ludwig von Mises fund was accessible to researchers. But from the time when the archive has been opened, not one researcher looked into or worked with the materials of this fund. Russian economists who are in-

volved in working out the concept of market reform never showed any interest in Mises's fund. I don't think they even know about its existence. Foreign researchers were interested in anything but Mises. Some of them probably saw the index and knew that such a fund existed, but nobody, I repeat, nobody ever showed any interest or desire to look into the documents. Our careful records show that no researchers ever requested "Fund # 623—Ludwig Mises."

Mises's Vienna papers remained unexamined until my wife, Anna, and I traveled to Moscow in October 1996. From October 17 to 27, we spent every working day examining each of the files. We arranged the photocopying or microfilming of virtually the entire collection of papers, manuscripts, articles, correspondence, personal documents, and related materials. They now have been rearranged and computer-cataloged and are restored in the Ludwig von Mises Library Room at Hillsdale College.

The articles and essays in the present volume contain material from Mises's "lost papers" covering the period from between the two world wars.¹⁴ They offer a view of a different side of Ludwig von Mises in comparison to many of his other works that have been more readily available from this period of his life.

The Economist as the Historian of Decline

In the months immediately after he arrived in the United States in the summer of 1940, Ludwig von Mises set down on paper his reflections on his life and contributions to the social sciences. It is less an autobiography and more a restatement of his most strongly held ideas in the context of the times in which he had lived in Europe. It carries in it a tone of despair and dismay about the direction in which European civilization seemed to be moving at the end of the first four decades of the twentieth century. In clear anguish and frustration, he summarized how he viewed his efforts as an economist in Europe in general and Austria in particular during those years between the two world wars:

14 A companion volume will be published by Liberty Fund that contains material from this collection that relates to Mises's writings before and during the First World War, his family background, his service in the Austrian army during the First World War, his teaching at the University of Vienna, his private seminar, and his correspondence.

Occasionally I entertained the hope that my writings would bear practical fruit and show the way for policy. Constantly I have been looking for evidence of a change in ideology. But I have never allowed myself to be deceived. I have come to realize that my theories explain the degeneration of a great civilization; they do not prevent it. I set out to be a reformer, but only became the historian of decline.¹⁵

His activities between 1918 and 1938 were divided into two categories: his scholarly writings, and his work as an economic policy analyst and advocate for the Vienna Chambers of Commerce, Crafts, and Industry. The reader of *The Theory of Money and Credit*, *Socialism, Liberalism*, and *Critique of Interventionism* easily would have a conception of Mises as primarily a wide-ranging and interdisciplinary economic and social theorist who was especially concerned with advancing various aspects of monetary and general economic theory in the context of critically evaluating the ideological and policy trends of his time.

This view of Mises would also be easily reinforced from reading his economic treatise, *Human Action*, a massive work that represents the capstone of his thinking on a vast number of subjects.¹⁶ He writes on a large canvas that incorporates a theory of human knowledge; the conception of the origin and structure of human society; the foundations and construction of a theory of the competitive market process; the nature of money, interest, capital, and the business cycle; and a detailed critique of the socialist, interventionist, and welfare-statist alternatives to the market order.

Some of the articles and essays included in the present volume show him as a clear and concise expositor of these general and critical ideas. In the context of the Austria of this time, however, they also show Mises as a contemporary policy analyst focusing on a variety of specific political, economic, and monetary problems in the wake of the First World War. In these writings he is an advocate of particular policies, reforms, and institutional changes meant to move his native Austria in the direction of freer markets, a more stable monetary order, and a less distorting fiscal regime.

His efforts in these areas of public policy grew out of his position at the Vienna Chamber of Commerce, where he first worked in October 1909

15 Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, [1940] 1978), p. 115.

16 Ludwig von Mises, *Human Action: A Treatise on Economics* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 4th rev. ed., 1996).