



NATION, STATE, AND ECONOMY

Titles in the Liberty Fund Library of the Works of
Ludwig von Mises

Theory and History: An Interpretation of Social and
Economic Evolution

Liberalism: The Classical Tradition

Human Action: A Treatise on Economics

The Ultimate Foundation of Economic Science: An Essay
on Method

Nation, State, and Economy: Contributions to the Politics
and History of Our Time



LUDWIG VON MISES

Nation, State, and Economy

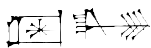
*Contributions to the Politics and
History of Our Time*



LUDWIG VON MISES

Translated by Leland B. Yeager

Edited by Bettina Bien Greaves



LIBERTY FUND *Indianapolis*

This book is published by Liberty Fund, Inc., a foundation established to encourage study of the ideal of a society of free and responsible individuals.



The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

© 1983 Liberty Fund, Inc.
Editorial additions © 2006 Liberty Fund, Inc.
All rights reserved

First published in 1983 by the Institute for Humane Studies in association with New York University Press.

Front cover photograph of Ludwig von Mises used by permission of the Ludwig von Mises Institute, Auburn, Alabama

Frontispiece courtesy of Bettina Bien Greaves

Printed in the United States of America

10 09 08 07 06 C 5 4 3 2 1
10 09 08 07 06 P 5 4 3 2 1

Library of Congress Cataloging-in-Publication Data

Von Mises, Ludwig, 1881–1973.

[Nation, Staat, und Wirtschaft. English]

Nation, state, and economy: contributions to the politics and history of our time/Ludwig von Mises; translated by Leland B. Yeager; edited by Bettina Bien Greaves.

p. cm.—(Liberty Fund library of the works of Ludwig von Mises)

Includes bibliographical references and index.

ISBN-13: 978-0-86597-640-5 (hardcover: alk. paper)

ISBN-10: 0-86597-640-6 (hardcover: alk. paper)

ISBN-13: 978-0-86597-641-2 (pbk.: alk. paper)

ISBN-10: 0-86597-641-4 (pbk.: alk. paper)

1. World War, 1914–1918—Economic aspects. 2. Germany—Economic conditions—1888–1918. 3. Economic policy. 4. State, The. 5. Socialism. 6. Imperialism. 7. Liberalism. I. Greaves, Bettina Bien. II. Title. III. Series: Von Mises, Ludwig, 1881–1973. Works. 2005.

HC56 .v6613 2006

330.9'041—dc22

2006012311

Liberty Fund, Inc.
8335 Allison Pointe Trail, Suite 300
Indianapolis, Indiana 46250-1684

CONTENTS

Preface	ix
Translator's Introduction	xi
Introduction	1
Nation and State	
1 Nation and Nationality	
1. The Nation as a Speech Community	7
2. Dialect and Standard Language	17
3. National Changes	22
2 The Nationality Principle in Politics	
1. Liberal or Pacifistic Nationalism	25
2. Militant or Imperialistic Nationalism	
A. <i>The Nationality Question in Territories with Mixed Populations</i>	32
B. <i>The Migration Problem and Nationalism</i>	46
C. <i>The Roots of Imperialism</i>	64
D. <i>Pacifism</i>	70
3. On the History of German Democracy	
A. <i>Prussia</i>	80
B. <i>Austria</i>	88
War and the Economy	
1. The Economic Position of the Central Powers in the War	110
2. War Socialism	117
3. Autarky and Stockpiling	121
4. The Economy's War Costs and the Inflation	125
5. Covering the State's War Costs	136
6. War Socialism and True Socialism	142

Socialism and Imperialism	
1. Socialism and Its Opponents	147
2. Socialism and Utopia	152
3. Centralist and Syndicalist Socialism	162
4. Socialist Imperialism	169
Concluding Observations	176
Index	185

PREFACE

The pages that I herewith submit to the public do not presume to be more than observations about the crisis in world history that we are living through and contributions to understanding the political conditions of our time. I know that any attempt to offer more would be premature and therefore mistaken. Even if we were in a position to see interrelations clearly and to recognize where developments are heading, it would be impossible for us to confront the great events of our day objectively and not let our view be blurred by wishes and hopes. Standing in the middle of battle, one strives in vain to keep cool and calm. It exceeds human capacity to treat the vital questions of one's time *sine ira et studio* [without anger and partiality]. I should not be blamed for not being an exception to this rule.

It may perhaps seem that the topics treated in the individual parts of this book hang together only superficially. Yet I believe that they are closely connected by the purpose that this study serves. Of course, reflections of this kind, which must always remain fragmentary, cannot deal with the completeness and unity of the whole. My task can only be to direct the reader's attention to points that public discussion does not usually take sufficiently into account.

Vienna, beginning of July 1919

Professor Dr. L. Mises

TRANSLATOR'S INTRODUCTION

Ludwig von Mises wrote *Nation, Staat, und Wirtschaft* in the same year, 1919, as John Maynard Keynes wrote *The Economic Consequences of the Peace*, a better known diagnosis of and prescription for the post-war economic situation. Mises, writing a few months earlier, presumably had less detailed knowledge of the Versailles Treaty and so was less concerned with its specific provisions. Keynes went into more detail than Mises in estimating such things as the wealth of the belligerents, the amount of destruction suffered, and the capacity of the Germans to pay reparations. His focus was narrower than that of Mises, who regarded his own analysis as one particular instance of applying lessons derived from both history and economic theory.

The two books have much in common. Both compare prewar and postwar economic conditions. Both authors recognize that each country's prosperity supports rather than undercuts that of others. Both appreciate how much the standard of living of Europe and particularly of Germany had depended on world trade and regret its interruption. Both, rightly or wrongly, perceived something of an overpopulation problem in Europe and in Germany in particular and made some not too optimistic remarks about the possibilities of emigration as a remedy. Mises even waxed wistful over loss of opportunities that Germany might have had in the nineteenth century peacefully to acquire overseas territories suitable for settlement.

Both authors more or less took it for granted that the German ruling class and segments of public opinion had been largely responsible for the war. Mises deployed history, politics, sociology, psychology, and other disciplines in exploring the intellectual and ideological background of German militarism. Keynes also engaged in psychology. His dissection of the character and personality of Woodrow Wilson is justly renowned, and he made biting comments on the immorality of Lloyd George's "Hang the Kaiser" election campaign of December 1918.

Both Mises and Keynes emphasized how currency deterioration causes social as well as economic disorder. Keynes endorsed Lenin's supposed observation about the best way to destroy the capitalist system. "Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose." Keynes warned against misdirecting blame onto "profiteers," and Mises, too, understood the constructive function of profit, even in wartime. Mises explained how inflation undercuts the vital functions performed by accounting. Keynes and Mises were exhibiting prescience, writing four years before the hyperinflationary collapse of the German mark would dramatize the points they were already making.

Keynes's book included no signs of anticapitalism or of support for comprehensive government economic intervention. Mises was emphatic on these issues. He exposed some of the inefficiencies of socialism, although he had not yet formulated his later demonstration of the impossibility of accurate economic calculation under socialism.

Both Keynes and Mises come across in their respective books as analytical in their diagnoses and humanitarian in their recommendations. Both were pessimistic about economic conditions on the European continent, at least in the short run. Both opposed a vindictive peace; Keynes's warnings about reparations are well known. It is too bad that Keynes's fame did not carry over more effectively into actual influence and that Mises's book was not more accessible to the English-speaking world at the time. If only the two men could have joined forces!

Mises's book illustrates the differences between the political and economic philosophies of conservatism and of liberalism (liberalism in the European and etymologically correct sense of the word). Mises was emphatically not a conservative. His book rails repeatedly against political and economic privilege. He championed political democracy as well as a free-market economy. He admired democratic revolutions against hereditary and authoritarian regimes; he sympathized with movements for national liberation and unity. As he explained, liberal nationalism — in sharp contrast with militaristic and imperialistic nationalism — can be an admirable attitude and a bulwark of peace. Different peoples should be able to respect and — to interpret a bit — even share in each one's pride in their own culture and history. (I think I can understand

what Mises had in mind by recalling my feelings while traveling in Italy in 1961 at the time of celebrations and exhibitions commemorating the one hundredth anniversary of the founding of the Kingdom of Italy. As my traveling companion remarked, he almost felt like an Italian patriot.)

Mises's devotion to political democracy was tinged with a touching naiveté. Passages in his book suggest that he could hardly conceive of how the people, given the opportunity to rule through freely elected representatives, would fail to choose those politicians and policies that would serve their genuine common interest. This optimism is not to his discredit. It underlines the genuineness of his liberalism. It reminds us that he was writing more than sixty years ago, before the subsequent accumulation of sobering experience with democratic government. He was writing before the development of public-choice theory, that is, the application of economic analysis and methodological individualism to understanding government and government failure, analogous to the better publicized market failure (fragmented and inaccurate cost/benefit comparisons, externalities, and all that). But Mises certainly was not naive in relation to the experience and political analysis available in 1919. On the contrary, some of the most insightful parts of his book analyze the obstacles to the development of democracy in Germany and Austria. Mises saw the significance of the nationality and language situations in those two polyglot empires. He did not single-handedly develop an economic and psychological analysis of government, but he made an impressive beginning on that task in this and later books.

Mises could expect his German-speaking readers of over sixty years ago to recall the salient facts of German and Austrian history. Such an expectation may not hold for English-speaking readers of the 1980s. For this reason, a sketch follows of the historical background that Mises took for granted. In particular, it identifies events and persons that Mises alludes to.

German-speaking territories were ruled for centuries by dozens and even hundreds of hereditary or ecclesiastical monarchs—kings, dukes, counts, princes, archbishops, and the like. Mises speaks of “the pitiable multiplicity of several dozen patrimonial principalities, with their enclaves, their hereditary affiliations, and their family laws” and of “the farcical rule of the miniature thrones of the Reuss and Schwarzburg princes.” Even after formation of the German Empire in 1871, its component states numbered four kingdoms, four grand duchies, fourteen

lesser duchies and principalities, and three Hanseatic cities, as well as the conquered territory of Alsace-Lorraine.

Until beyond the middle of the nineteenth century, Germany was understood to include the German-speaking sections of Austria, which was usually the dominant German state. In the words of the *Deutschlandlied*, or national anthem (written in 1841 by the exiled liberal August Heinrich Hoffmann von Fallersleben), Germany ranged from the Maas River in the West to the Memel River in the East and from the Etsch (Adige) River in the South to the Belt (Baltic Sea passages) in the North.

The domain of German rulers was not limited, however, to German-speaking territories. Poles and other Slavic peoples lived in the eastern sections of Prussia, especially after the conquests by Frederick the Great to which Mises refers. Brandenburg, where Potsdam and Berlin are located, was the nucleus of what became the Kingdom of Prussia in 1701. The Hohenzollern family held the title of Margrave of Brandenburg from 1415 on and continued as the Prussian royal family until 1918. Frederick William, the “Great Elector” (the meaning of “elector” is explained below), ruled from 1640 to 1688. He presided over the rebuilding and expansion of his state after the Thirty Years’ War and obtained full sovereignty over Prussia. His son, Frederick I, who ruled from 1688 to 1713, was crowned the first King of (technically, “in”) Prussia. Frederick William I, king from 1713 to 1740, was largely the founder of the Prussian army. His son Frederick II became known to history as Frederick the Great. He wrested Silesia from Austria in 1745 and joined with Russia and Austria in the first partition of Poland in 1772. His successor, Frederick William II, joined in the second and third partitions of 1793 and 1795, which wiped Poland off the map.

The Austrian Empire included not only speakers of German but also Hungarians, Rumanians, Czechs, Slovenes, Poles, Ruthenians, Italians, and others. According to a 1910 census, the population of the Austrian part of the Austro-Hungarian Monarchy consisted of 35 percent Germans, 23 percent Czechs, 17 percent Poles, 19 percent other Slavs, 2¼ percent Italians, and scattered others.

The Holy Roman Empire of the German Nation, to use its full name, existed until 1806. It coincided roughly, but only roughly, with German-speaking territory. It sometimes included parts of northern Italy but left out the eastern parts of Prussia. It was organized (or revived) under Otto I, whom the Pope crowned Emperor in 962. (He was succeeded by Otto II and Otto III; Mises refers to the age of the Ottonians.) The

Empire was a loose confederation of princely and ecclesiastical sovereignties and free cities. Seven, eight, or nine of their rulers were Electors, who chose a new Emperor when a vacancy occurred. From 1273, except for a few intervals (notably 1308 to 1438), the Holy Roman Emperors belonged to the Habsburg family, whose domains included many lands outside the boundaries of the Empire. The dynastic expansion of the Habsburgs explains Mises's reference to the "married-together state." The male line of the family died out in 1740, when Charles VI was succeeded in his domains by his daughter Maria Theresa, an event that touched off the War of the Austrian Succession. Maria Theresa's husband was the former Duke of Lorraine and Holy Roman Emperor as Francis I from 1745 to 1765, which explains why the dynasty became known as the house of Habsburg-Lorraine.

Mises mentions several other events and personalities in the history of the Holy Roman Empire. Until his death in 1637, Ferdinand II reigned from 1617 as King of Bohemia, from 1618 as King of Hungary, and from 1619 as Emperor. His fanatical Catholicism alienated the Protestant Bohemian nobles, who rebelled in 1618 (the picturesquely named Defenestration of Prague occurred at this time), beginning the Thirty Years' War. The war, which wrought havoc on Germany, hinged not only on religious differences but also on the ambition of the Habsburgs to gain control of the entire country. The Imperial forces won the war's first major battle, fought on the White Mountain, near Prague, in 1620, ending Bohemian independence for three centuries. The Protestant side was aided at times by the Danes, the Swedes, and even the French under Louis XIII and Louis XIV. The Treaty of Westphalia, in 1648, awarded certain German provinces on the Baltic Sea to Sweden and southern Alsace to France, while the Emperor's authority over Germany became purely nominal. Acceptance of the religious split of Germany was an important step toward religious toleration. Leopold I, whom Mises mentions, was Holy Roman Emperor from 1657 to 1705. The greater part of his reign was occupied by wars with Louis XIV of France and with the Turks. Leopold II, Emperor from 1790 until his death in 1792 and the last crowned King of Bohemia, succeeded his brother Joseph II (also a son of Maria Theresa). He instigated the Declaration of Pillnitz, which helped precipitate the French Revolutionary Wars a few weeks after his death.

The Napoleonic Wars brought lasting changes to the map and the political systems of Europe. The Enactment of Delegates of the Holy

Roman Empire (*Reichsdeputationshauptschluss*) was adopted in 1803 under pressure of Napoleon. Mises mentions this Enactment as an illustration of the old idea that lands were the properties of their sovereigns and so could be bought and sold, traded, reshaped, divided, and consolidated without regard to the wishes of their inhabitants, who were mere appurtenances of the land. The Enactment greatly reduced the number of sovereignties in the Empire, in part by ending the temporal rule of dignitaries of the Catholic Church and putting their lands under the rule of neighboring princes. In 1806, again under pressure of Napoleon, who had detached the western parts of Germany—only temporarily, as things turned out—and organized them into a Confederation of the Rhine, the old Empire was liquidated. Francis II gave up his title of Holy Roman Emperor but retained the title of Emperor of Austria as Francis I.

Mises mentions two men who strove for a unified Italian state at the end of the Napoleonic Wars. Joachim Murat, a marshal of France whom Napoleon had made King of Naples in 1808, tried in 1815 to make himself king of all Italy; but he was captured and shot. Florestano Pepe, one of Murat's generals, fought against the Austrians in 1815. (Mises's allusion is presumably to Florestano Pepe rather than to his brother Guglielmo, another Neapolitan general, who organized the Carbonari and who led an unsuccessful proconstitutional revolt in 1821.)

After the Napoleonic Wars, the reigning dynasties of Europe tried to restore the old regime. The Holy Alliance, to which Mises repeatedly refers with scorn, is a phrase frequently but imprecisely used to label the reactionary policies of Russia, Prussia, and Austria in particular. Strictly speaking, the Holy Alliance was an innocuous declaration of Christian principles of statesmanship drawn up by Czar Alexander I in 1815 and signed by almost all European sovereigns. The repressive policies are more properly associated with the Congress system and the Quadruple Alliance of 1815. Mises mentions, by the way, the Polish kingdom of Alexander I. The Congress of Vienna (1814–1815) created the kingdom in personal union with Russia but with a constitution of its own (which was suspended after the Polish insurrection of 1830–1831).

With the Holy Roman Empire defunct, a decision of the Congress of Vienna loosely joined some thirty-eight (soon thirty-nine) German sovereignties together again as the German Confederation. The federal diet, which met in Frankfurt under the presidency of Austria, had

little power because unanimity or a two-thirds majority was required for most decisions.

In 1834, after achieving a free-trade area within its own territories, Prussia took the lead in establishing the Zollverein among most German states, not including Austria, through the merger of two regional customs unions. The new union is considered a step toward political unification. In 1867 it was reorganized with a constitution and parliament of its own. Mises mentions one of its intellectual fathers, the economist Friedrich List. List had been forced to emigrate to the United States in 1825 for advocating administrative reforms in Württemberg but had returned to Germany in 1832 as U.S. consul at Leipzig. He favored internal free trade, together with strictly temporary tariff protection to encourage the development of infant industries.

Mises makes many admiring and wistful references to the European revolutions of 1848. The revolutions were mostly the work of the middle-class intellectuals, who were bringing mainly French ideas to bear against political repression. The February revolution in Paris, resulting in the overthrow of King Louis Philippe and establishment of the Second Republic, was emulated elsewhere. In the numerous sovereignties into which Italy was still split, a movement for liberal constitutions was followed by an unsuccessful patriotic war to eject the Austrians.

Revolutionary riots came to Austria and Germany in March 1848, which explains why Mises refers to the March revolution and compares conditions afterwards with conditions as they were “before March” (to translate the German literally). In Vienna, Prince Clemens von Metternich, minister of foreign affairs and chief minister since 1809, had to resign and flee the country. The first Pan-Slav Congress met in Prague in June 1848 under the presidency of František Palacký, the Bohemian historian and nationalist. (Mises cites Palacký’s much-quoted remark to the effect that if the Austrian multinational state had not existed, it would have been necessary to invent it.) Field Marshal Prince Alfred Windischgrätz bombarded the revolutionaries in Prague into submission in June 1848 and later turned to Vienna, where a further wave of radical unrest had broken out in October. He helped restore Habsburg power, with Prince Felix Schwarzenberg as the new chief minister from November 1848. Schwarzenberg engineered the abdication of Emperor Ferdinand I in favor of his eighteen-year-old nephew Francis Joseph, who would reign until his death in 1916.

Mises alludes not only to Schwarzenberg but also to Count Eduard von Clam-Gallas, who played a decisive role in suppressing the Italian and Hungarian revolutions of 1848–1849. (Actually, Mises mentions the Clam-Martinics, who were the Bohemian wing of the same wealthy noble family.)

The Hungarian independence movement succeeded at first but was finally put down by Schwarzenberg and the Habsburgs with the aid of some of their Slavic subjects and the forces of the Russian Czar Nicholas I. After their defeat by the Russians in August 1849, the Hungarians suffered vengeance at the hands of the Austrian General Julius Freiherr von Haynau.

In Germany the revolutionaries sought both representative government in the various states and unification of the country. The King of Prussia and lesser German rulers at first granted democratic concessions but later withdrew them on observing the success of counterrevolution in Austria. The Crown Prince of Prussia, who had fled the country only shortly before, as Mises notes, was able to mount a counteroffensive. Yet some prospects seemed hopeful for a while. Aspiring for a united Germany, a self-constituted “preliminary parliament” convoked a German National Assembly, also known as the Frankfurt Parliament, which met in St. Paul’s Church from 18 May 1848 to 21 April 1849. Its delegates were chosen by direct male suffrage throughout Germany and Austria. It was predominantly a middle-class body inspired by liberal and democratic ideas. This is what Mises had in mind when repeatedly referring to the ideals of St. Paul’s Church. (He occasionally refers in the same sense to the “ideas of 1789,” thinking of course of the aspirations for freedom and political equality expressed at the beginning of the French Revolution and not to the Terror into which the revolution later degenerated.)¹

1. [Editor’s note: Mises frequently mentioned the mid-nineteenth century drive for a unified German nation to be composed of Germany and German-Austria. He described it as really a pro-freedom movement, closely associated with the liberal revolution of 1848. However, Mises never wrote about it in any detail. He refers to it briefly in this book, as does translator Leland Yeager in this Introduction. However, it might be helpful for the reader to know something more about how the movement was started, developed, and then demolished.]

As Mises describes this time in history, the drive for a “greater Germany” was closely related to the eighteenth- and nineteenth-century struggle for liberalism, individualism, freedom, and democracy. Napoleon’s conquest of Europe had destroyed the independence of the German principalities and dukedoms as political entities and brought them under the control of Prussia. In the hope of bringing about political reform in Germany after the defeat of Napoleon, professors,

One party among the Frankfurt delegates favored bringing Austria and Bohemia into the projected united Germany, although doing so would have disrupted the Habsburg Monarchy; another party thought it wiser to leave Austrian territory out. (With his reference not limited to this particular occasion, Mises does mention the tension between the great-German and small-German approaches to national unity.) The issue became academic when the Austrian government showed hostility to any splitting of its territory and when the Austrian constitution of 4 March 1849 reasserted the unity of the Habsburg domains. After lengthy debates, the Frankfurt delegates adopted a federal constitution and elected the King of Prussia, Frederick William IV, as Emperor. At the end of April, the King refused the offer on the grounds that accepting a crown from an elected assembly would be inconsistent with his divine right. The assembly then came apart. Meanwhile, with the suppression of revolutions and the consolidation of authoritarian rule in the German princely states, democratic leaders found it prudent to remain politically silent, as Mises observes, or even to emigrate.

political scientists, authors, philosophers, businessmen, and others, began to talk and to write more and more about the liberal ideas which had arisen in France and England. University students proved fertile ground for this new ideology, and they formed liberal student associations. Several formerly independent German states drafted new constitutions to protect the rights of their people to own property, to vote, to enjoy freedom of speech without censorship, and to protect military conscripts from harsh treatment.

To cope with the growing unrest, a first National Assembly was called by King Friedrich Wilhelm IV in April 1847, but its powers were strictly limited. One leading liberal who spoke up boldly was forced into exile. Other liberals persisted in asking the king to recognize individual rights, but their petitions were denied or ignored. The Assembly was closed in June 1847 without accomplishing anything. Meanwhile, events were moving along throughout Europe.

In February 1848, a revolution of the people in Paris drove Louis Philippe from power. Metternich was forced out of office in Vienna. And in March 1848, unrest and rioting broke out in the streets of Berlin. Finally, Friedrich Wilhelm IV, nervous and frightened by the uprising, made important concessions. He brought two liberals into his cabinet and even promised that Prussia should be absorbed into Germany. It was finally arranged, with the help of the liberal ministers, for a second National Assembly to meet in St. Paul's Church in Frankfurt to draft a liberal constitution. Its deliberations began on May 18, 1848. Its members were primarily of the middle class bourgeois movement striving for liberal and democratic ideas. They drafted a truly liberal constitution, which was approved by the Assembly, twenty-eight of the small German states and principalities, and Württemberg. The constitution was accepted even by the representatives of the Prussian people. But Bavaria, Saxony, Hanover, and Prussia refused to acknowledge it. Finally, Friedrich Wilhelm IV rejected it. The Assembly was closed down on April 21, 1849.

Repression of the Assembly caused rioting and revolution to break out in Berlin and Vienna, among other cities. A number of leading liberals were arrested and imprisoned, exiled, or executed; others fled the country. The uprising was finally put down by the military.]

The activities of the Frankfurt Parliament brought suspension of the diet of the German Confederation in 1848–1850. After rejecting the proffered imperial crown, the King of Prussia still hoped to unify Germany in his own way and with the consent of his fellow princes. An inner confederation, the Prussian Union, would join with the Habsburg Monarchy in a broader confederation. Most of the smaller German states initially accepted the plan, and first a national assembly and later a parliament met at Erfurt in 1849 and 1850 to put a constitution into effect. With the distractions in Hungary now overcome, however, the Austrian government was able to press its opposition. At Schwarzenberg's invitation, representatives of the petty states and Austria met at Frankfurt in May 1850 and reconstituted the diet of the old German Confederation. In November 1850, by the Punctation of Olmütz (known by Prussian historians as the Humiliation of Olmütz), the Prussians abandoned their Prussian Union scheme and recognized the reestablished diet of the Confederation.

Austria and the rest of Germany managed to stay out of the Crimean War of 1853–1856, in which Turkey, Great Britain, France, and Sardinia-Piedmont defeated Russia. Austrian threats of joining the war did help prod Russia to evacuate the occupied Danubian principalities in 1854, however, and later to agree to the proposed peace terms; prolonged mobilization drained Austrian finances. In 1859 Austria suffered defeat in a war with France and Sardinia-Piedmont, losing Lombardy but retaining Venetia in the peace settlement.

In 1863 Austria again demonstrated dominance among the German states in that Emperor Francis Joseph served as president of a congress of German princes in Frankfurt. However, Otto von Bismarck, who had become Prussian prime minister in 1862, was able to persuade his king not to attend. Prussia's absence helped keep the congress from accomplishing much.

In the summer of 1864, in a brief war touched off by the question of who was to inherit the rule of the duchies of Schleswig and Holstein, Prussia and Austria together defeated Denmark and acquired joint control over the two duchies. Bismarck skillfully escalated tensions over their administration and ultimate disposition into a war between Prussia and Austria in the summer of 1866. Austria had all the rest of Germany on its side except Mecklenburg and a few of the smaller north German states. Italy allied itself with Prussia. Austria defeated Italy on land and sea; but the decisive battle of the Seven Weeks' War was

fought near Königgrätz (and Sadowa), about sixty-five miles east of Prague, on July 3. The timely arrival of troops commanded by the Crown Prince of Prussia (later, for ninety-nine days in 1888, the Emperor Frederick III) helped clinch the victory of Field Marshal Count Helmuth Karl Bernhard von Moltke (who was later to be victorious in the war with France also) and seal the defeat of Austrian General Ludwig von Benedek.²

Mises's many references to Königgrätz, then, allude to the changes brought about by the brief war of 1866, which was ended by the preliminary peace of Nikolsburg and the definitive treaty of Prague. The King of Hanover was dethroned and his state absorbed into Prussia. (It is interesting to speculate on how differently the course of history might have turned out if only Queen Victoria of England had been a man. Her accession in 1837 separated the previously united crowns of England and Hanover, where the Salic Law barred females from the throne.) Austria lost Venetia to Italy but no territory to Prussia. Its expulsion from the German Confederation, however, ended Austria's dominance in German affairs. Austrians did not, though, immediately stop thinking of themselves as Germans. Mises illustrates their sentiment by quoting from the dramatist Franz Grillparzer (1791–1872).

The old German Confederation gave way to the North German Confederation, composed of Prussia and the other states north of the Main River. The component states retained their own administrations but placed their military forces and foreign policy under the federal government, dominated by Bismarck. Prussia also negotiated alliances with the south German states.

The defeated Austrians turned to tidying up their domestic affairs. They reached a compromise (*Ausgleich*) with the Hungarians, granting Hungary quasi-independence with its own parliament and government. Emperor Francis Joseph submitted to coronation as King of Hungary in Budapest on June 8, 1867 (only eleven days, by coincidence, before his brother Maximilian, the defeated and captured Emperor of Mexico, was executed at Querétaro).

2. Benedek had had much experience on the Italian front but had been assigned to the northern front, supposedly to leave the easier Italian command to members of the Habsburg dynasty. Moltke and Benedek are named here because Mises mentions them as examples of victorious and defeated generals, respectively. He also mentions Karl Mack von Leiberich, an Austrian general who surrendered to Napoleon at Ulm in 1805, and Franz Gyulai, an Austrian general defeated in the war of 1859.

The Franco-Prussian War of 1870–1871 resulted in the cession of Alsace-Lorraine to Germany. France also had to pay an indemnity of 5,000,000,000 francs, providing an unfortunate precedent for allied demands on Germany after its defeat in 1918.

The German Empire was proclaimed in a ceremony at Versailles, near Paris, in January 1871. Bismarck had persuaded the reluctant King Ludwig II of Bavaria (later called the “mad king”) to invite King William I of Prussia to assume the hereditary title of German Emperor. The Empire absorbed the institutions of the North German Confederation of 1867, including the Federal Council and elected Reichstag; a modified constitution admitted the southern states of Bavaria, Württemberg, and Baden.

Meanwhile, Italy also achieved unification. Other Italian states joined with Sardinia-Piedmont in 1861 to proclaim its King, Victor Emmanuel II, King of Italy. In 1870, while the French, who had been protecting the Pope, were at war with Germany, the Italians seized the opportunity to conquer the Papal States and transfer the capital of Italy to Rome. Mises mentions three heroes of the movement for Italian liberation and unification: Giuseppe Mazzini, Giuseppe Garibaldi, and Count Camillo Benso di Cavour. He also mentions three Italian poets and patriots of the first half of the nineteenth century: Giacomo Leopardi, Giuseppe Giusti, and Silvio Pellico.

Not all Italian-speaking territory yet formed part of the Kingdom of Italy; some remained under Austro-Hungarian rule. This territory was called *Italia irredenta*, and irredentism was the movement calling for its liberation and absorption into Italy. World War I largely achieved the objectives of the movement. Mises mentions Gabriele D’Annunzio, a poet, novelist, and dramatist who helped persuade Italy to join the allies in that war, who lost an eye in aerial combat, and who later (after Mises was writing) led an unofficial occupation of Fiume (now Rijeka, Yugoslavia) that eventuated in its incorporation into Italy.

Mises sometimes uses the word “irredentism” in its broader sense of a movement for any country’s absorbing territories still outside its boundaries inhabited by people speaking its national language. Irredentism in this broader sense refers, in particular, to advocacy of incorporation of German-speaking Austria into the German Empire.

Representatives of the great European powers convened in Berlin in 1878 to impose on Russia a revision of the harsh treaty that it had imposed on Turkey after defeating it in a war. The Congress of Berlin also,