Episode 1,109: Mises in 1918: Guido Hülsmann on a Momentous Year

Guest: Guido Hülsmann

WOODS: I had to wait till Episode 1,109 to have you on so that people wouldn't think that all the fun was behind us. *What more could he produce for us? He's already had all the wonderful people on.* I held you off until Episode 1,109 just to say to those naysayers, right?

HÜLSMANN: Well, Tom, I guess you didn't find an American for a 9/11 show.

WOODS: [laughing] Indeed, indeed. Well, listen, let's talk about Mises 100 years ago. It's 2018; we're going to talk about Mises in 1918. I asked — just so everybody knows, I asked Guido, "What is a manageable chunk of Mises' life we could talk about?" He said, "What about Mises in and around 1918?" Okay, it's 100 years later. That makes perfect sense. And of course, 1918 is a fairly momentous year in European history. But before we do that, why don't we just briefly say something about Mises in 1912, because who Mises was in 1918 has a lot to do no doubt with a major work he produced in 1912, which in English is translated as *The Theory of Money and Credit*, although I know you prefer the translation, *The Theory of Money and Fiduciary Media*.

HÜLSMANN: That's right.

WOODS: But can you possibly take a minute — I know it's silly to say "a minute," but to explain what was groundbreaking, other than — I know the incorporation of marginal utility theory into monetary theory, but I don't want to get too far afield with technical stuff. From the layman's point of view, what's groundbreaking about that work?

HÜLSMANN: Mises put the classical theory of money and of monetary policy on a completely new foundation. And the revolution had already occurred with Smith and Ricardo in a way, because they had argued that a nation could not grow rich by manipulating the money supply. The classical philosophers hadn't thought differently about this matter, and the medieval theologians also the same thing. All prime intellectuals had never thought that just by printing more money tickets or something like this you could make a nation richer. But at the time of Adam Smith or the 18th century of so, for about 200 or 300 years, merchants and national governments had completely reversed this, so they had the established practice of very strong monetary intervention.

And to justify this — which as Austrian economists we know the reason, the rationale of this: because you can enrich yourself and your friends by increasing the money supply, and by spending the new tickets first, you benefit from what we call the Cantillon effect, the redistribution of real income to the benefit of the first users at the expense of the later ones.

So they had been doing this, but in order to justify this, you cannot go ahead and say, "We want to enrich ourselves at your expense," so they had to come up with all kinds of kooky arguments to make their case.

And these arguments had become very important in the 18th century, most notably the argument that the government should intervene in the money supply by trade policy, by increasing export premiums and so on by granting export monopolies so you can promote the export of merchandise, thereby inducing more metal to flow into your country. And on the other hand, you can hamper imports through taxes and tariffs and so on, thereby preventing the outflow of metal to other countries. So the idea was that through trade policy you can increase the amount of money circulating within your own borders and thereby benefitting the nation as a whole because more money would be spent.

Now, Adam Smith had come along and trashed the entire argument because he showed that not only — well, you can't grow rich by increasing the money supply, but actually, those policies which are supposed to benefit the nation are actually harming it because they channel capital away from those areas where they would most usefully be deployed from the point of view of the country as a whole. And then the other classical economists had reinforced this, especially David Ricardo.

But of course their entire argument had two major problems. One was the scientific foundation in value theory, because you had the production theory of prices. And on the other hand, the classical economists had not really come to grips with modern conditions of money production — that is, production of money through commercial banks. So the whole fractional reserve business, they didn't have a firm grip on this. And then especially also the vexed question of fiat money: is fiat money beneficial because it would allow cost savings? You can replace a more expensive type of money — say, gold or silver — by paper tickets. And is it not also beneficial because you can increase credit indefinitely? So these were the questions that the classical economists had not really come to grips with very thoroughly.

What Mises did in his book was to address all of these questions systematically based on Carl Menger's new subjective marginal value theory. That was his main contribution. So you have a completely new edifice of monetary thought that reconfirms the insights of the classical philosophers, of the medieval theologians, of the classical economists, but based on top-notch value theory and a very penetrating analysis of everything related to modern money and banking. That was more than one minute —

WOODS: No, but that was about as good a summary of what I asked for as anyone could have hoped for. All right, in that case, let's now fast-forward to 1918, or maybe let's just fast-forward to World War I, because in *Mises: The Last Knight of Liberalism*, you have a pretty good discussion here of this period and of Mises' involvement and opinions about World War I. So can you tell us about what exactly Mises was doing during the war years and what his opinions of it were? Apparently, he had been expecting a world war for a number of years. Apparently he was cursed with the ability to see negative events in the future.

HÜLSMANN: Yeah, certainly. Well, he was not an optimist, but it must be said that the war was hanging in the air. So many people even in the various population had anticipated this. It was an inevitable alcove of the reigning philosophy of nationalism and chauvinism and so on, which held that you could aggrandize the power and the welfare of your own nation by carrying out victorious wars against others and so on.

Well, Mises had witted this. Of course as a classical liberal, he knew very well that war is not a source of wealth. It's a motor of destruction in all respects, and so he did not go happily into the war. But still as a patriot, so he assumed his duties and said, well, so we have to defend the country, we have barbarians at the gate — he never had very high opinions of Russians, so this shows through in all of his writings, so he thought that Russians, he conceived them as sort of an antipode of Western civilization, and he certainly had the desire to protect his country against Russian invasion. So in World War I, you had three man war theaters. So there was the Eastern Front, which from the point of view of Austria-Hungary was the Northern Front with Russia. And you had the Western Front, and then as from May 1915, you had also the Southern Front, where Austria confronted the Italians.

Now, Mises had, if I remember this correctly, he had three stints at the front. He spent the first year in war, from August 1914 through September 1915, on what was the Austrian Northern Front, so the Eastern Front. And this was really the greatest hell of the entire war. I mean, much has been written about Verdun and the horrors of the Western Front and so on, but the Western Front was comparatively quiet during most of the war because of the trenches and so on. Verdun was an exception. Whereas on the Eastern Front, it was just a massacre all over the place, and it related to war strategy because the whole point of the Austrian army was to bind the Russian forces in the plains of northern Galicia. So they couldn't hide in the mountains, because then the Russians could have thrust their whole army into the northern plains of Germany, which was to be prevented. So the Austrians had to get out of the mountains and fight them in the plains, so there were heavy losses and it was just terrible.

And Mises then returned to Vienna. He had some job at the war ministry as an economic consultant, and he returned then later on to the Northern Front again. I think it was a year later in December of 1916, when Romania had entered the war, so the Austrian forces occupied Romania. And then again a few months later in May of 1917, he participated in the 12th Battle of the Isonzo, which is a river in northern Italy — today northern Italy, so at the time it was a border river with Austria-Hungary — and it was also a victory of the Austrian forces.

And then he definitely returned to Vienna in December of 1917 to a bureaucrat job at the war ministry, which allowed him also to resume his activities as a private lecturer at the University of Vienna. And then in May 1918, he was actually nominated to the rank of extraordinary professor, which was an unpaid — adjunct professor we would say today, but on the level of a professor. So this is just an overview: so three stints in the war; he somehow miraculously survived but could continue his intellectual activities also during the war.

WOODS: After the war was over, in his subsequent writing, I'm curious about two things. What did he have to say about the war, whether about particulars of the war or about the general principles that lead to war, anything having to do with that? And secondly, did he take any position on the question of war guilt?

HÜLSMANN: So the book to read is his 1919 book, *Nation, State, and Economy*, which is one of his most underrated publications, but it's of great historical interest. So those who really want to know Mises's analysis of the problems relating to a war economy and his views about the origin of the war, well, they'll find much precious information in this book, probably more so than even in his correspondence or something like this.

Mises identified nationality problem, so the problem of mixed populations in given territories, as the origin of the war. So he had a fascinating first chapter on the war that we could call "The Political Economy of Nations," the political economy of language communities, in the first part of the book. So there's also a historical abstract in which he also explains that the origin of the war is to be seen in the bourgeois revolutions of 1948. And then in particular, the Germans, the German liberals did not have the right recipes to confront the problems of the eastern territories where you have mixed populations, where you have Germans and Czechs, Russians, and so on. So the only way they could conceive of a solution to the problem was to impose German culture, German language on all of these populations, and this could not fail to antagonize these other populations.

So this is the origin of the war, the antagonism, because you have the conception that the way you run the country is by monolithic, monopolistic government imposing the same kind of institutions — most notably education, instruction, and so on — everywhere, and thus creating conflicts, where in a truly libertarian or classical liberal spirit, you would have granted autonomy to individuals and communities as far as possible so that they could organize themselves peacefully next to one another. So this according to him is the origin of the war.

Then he has very interesting things to say about the economic organization of the war. In this book and a few other publications that followed World War I up to the 1930s, he would insist that, well actually, in a war, that's when you need the free market most. And of course the governments, they try to do exactly the opposite. Governments were imbued with their own self-importance, so their own ideology would drive them to adopt socialistic policies, which also eventually prevailed from 1916 and onward and so on. But what they should have done is exactly the opposite, namely, let the free market operate and respond flexibly and efficiently to the changing needs in a war economy. So therefore, you could have benefited from rapid technological innovation and also capital accumulation and capital investment for the production of those goods which are needed most, and new military equipment, cannons, and a communication system, and so on.

And he gives a couple of examples, especially of the first war months, which he had again witnessed personally on the front, where he says, well, the Germans and the Austrians had gained great technical superiority on the Eastern Front in the spring and summer of 1915. And the reason was, at that point, they had at home preserved a free economy, so the entrepreneurs were free to operate — relatively free to operate, anyway, as compared to Russia and could dramatically increase the equipment in quality and in quantity of the Austrian army relative to the Russians, and this brought a decisive turn of events at that point. And then later on, they were losing this advantage from 1916 onward when war socialism swayed first the German army and then also the Austro-Hungarian one.

WOODS: I feel compelled to ask you a question that's not strictly related to 1918. In 1918, would you say it is — just a quick answer to this. Would you say that to all appearances, Mises has a promising future, either within academia or elsewhere, he's a fairly respected scholar and so on? Would you say that's a fair assessment?

HÜLSMANN: Yeah, I think that's fair.

WOODS: Okay, but yet in 1948, that's not so much the case. Now, obviously a lot of things can happen in 30 years, but how does this promising young intellectual go from the world is his oyster to being very much in the shadows?

HÜLSMANN: Well, I mean, 1948, Mises was in the U.S. and he was at that point almost 70 years old. He was in his late 60s, not at all the same thing. So your career —

WOODS: All right, so let's say 1940, because 1940 he would have been 59, and you still have a lot in you as an academic at 59. You should.

HÜLSMANN: Yeah, it's true. So Mises comes to the U.S., and it's true, the doors do not fling wide open to receive him with a very warm welcome. So not on the same level of a standing that he had in Europe. But in a way, it's difficult anyway for any immigrant, especially in those days when the interactions between the different academic communities were not as strong as, for example, they are today. They didn't have emails and so on. They had the occasional conference and he would take part in them, but you had rather cloistered academic communities in the U.S. and in Europe. Mises was known in the U.S., but of course he was also — well, he was old, and he was out of fashion with his views. He was a classical liberal in the years of the Roosevelt administration. This was not a plus. And then most importantly, his views on what economic signs were all about, so the methodological and epistemological views were completely out of tune with what all other people thought, not only in economics, but also in the other social sciences. Especially in America, there was the view that the social scientist, in order to be a real scientist, would have to mimic, or let's say apply the same methods that had made their proof in the natural sciences, and Mises certainly did not do this.

WOODS: Let's talk about Mises' fortunes, though, back in 1918. He ultimately is able to teach at the University of Vienna, but under the monarchical regime, he had some success in this area, but then apparently in the period of the republic, not so much success. What changed and why should that be?

HÜLSMANN: Yeah, the precise circumstances elude me also somewhat. Herbert Unterköfler might tell us more about this — and Eugen Schulak — wrote this wonderful book about the early history of the Austrian school. My impression from reading the literature was that under the republic, there was a more popular stream that gained importance, which was dominated also by some very strong anti-Semitic attitudes, so Jewish professors with a few exceptions, such as Hans Kelsen, had greater difficulties making their way in postwar academia. One important would be Fritz Machlup had difficulties getting a habilitation, so he was blocked for several years, eventually got a habilitation degree under Mises, could not find a position there, and many other Jewish economists couldn't find a position in Austria. Oskar Morgenstern, who later made a great career in the U.S. — he was later a professor at Princeton and so on — couldn't find a place in Austrian academia, so he had to become the director of this very small outfit that Mises had created in 1927, the Austrian Business Cycle Research Institute. Hayek was the first director of this institute, so he too as a classical liberal had difficulties finding a space in Austrian academia, even though the number of positions within the country had increased.

So in many respects, Mises had the best of the old monarchy in the last year of the war, amazingly. So I think 1918 was a very good year for him despite the war context. He also in Vienna he met Max Weber in the spring. Weber had taught in the summer semester at the University of Vienna. The two men became friends. Weber certainly spent many hours discussing with Mises and then in his great book *Economy and Society*, he stated that of all monetary doctrines, the ones of Mises was the most respectable or the most agreeable from his point of view. It was a great compliment that he paid to the young scholar.

And then let's not forget also that Mises in those months or in the spring, summer, and fall of 1918, he started developing what would later turn out to be his critique of socialism and especially his economic calculation argument. So he presented this in January 1919 in a lecture to the economics society in Vienna. So he argued for the first time that socialism cannot work, it's not a possible economic system because it cannot rely on market prices for factors of production.

WOODS: Let me ask you this. I know it's pretty obvious that Mises was out of step with the profession by 20, 30 years later, but where was he in relation to what we might call the economics profession in 1919? Surely not everybody would have been an Austrian, but the Austrians wouldn't have been viewed as troglodytes the way they are today in many circles. So how does he fit into the profession? Is there a lot that he has to say with which many people are in sympathy?

HÜLSMANN: Yeah, I think Mises was very well respected as a monetary theorist, especially then as the hyperinflations in Austria and in Germany confirmed many of the things that on the theoretical level he had developed in his book. And then he had the 1924 second edition of his money book, in which he went through these catastrophic monetary experiences in detail and he explained how they were fully in tune with his monetary theory. So yes, he was very well respected, but he was considered more as a technician. When we think of Mises today, we say yes, he was also a monetary theorist, but he's especially the person who wrote *Human Action*. He's this intellectual who has this encyclopedic knowledge of economics and who has this systemic thought. So this is how we see him, as a great teacher of all economics. At the time, I think how his contemporaries saw him was more as a specialist, as a technician as far as monetary and banking questions are concerned. The great economist, the general economist who dominated the scene in Vienna and also abroad was Friedrich von Wieser, who had a very different approach to Mises as far as value theory is concerned. It's an offspring of Menger as well, but in all practical respects, it's diametrically opposed to what Mises considered to be true.

WOODS: All right, we're going to continue this awesome conversation after we hear from a sponsor I am very proud to feature.

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I was just thinking to myself what else do I want to ask Guido about this, and I realized, wait a minute, wait a minute. You wrote a gigantic biography of Mises that could have been much larger, by the way. You had a lot of extra material too.

HÜLSMANN: That's right.

WOODS: And it's one that Bob Higgs gave a review to that I think, if I ever received a review like that, I would feel like I could just end my career happily feeling like I had accomplished something of real, lasting, enduring value. I have rarely come across a review as glowing and extraordinary as the one that Bob gave you for that book. It really, really was great.

HÜLSMANN: Yeah, he was very generous. He was very generous.

WOODS: Yes, wonderful, wonderful. But that was a very long, difficult slog, and obviously we needed somebody who spoke German and could read German. Well, we got that. We need somebody who knows economics and really well and knows different schools of thought and can situated Mises within important debates and can explain the significance of what Mises was saying, not just what he was saying, which is challenging enough for some people, but why it matters, where he represents a break from the past and where he represents continuity. You were able to do all of this in this work, and I guess I just need to ask you to comment about the experience of devoting so much of your life to writing about the life and thought of this man. Did you learn anything about him in the research that was significant that you hadn't known before? Did you wind up more impressed with him than you were before? Any insight from that process I would love to hear.

HÜLSMANN: Well, Tom, I learned a lot of things. It was really a very formative experience for me. I learned a lot of Mises. I learned a lot of his thought. I learned a lot about history, the history of economics, the history of Europe, the history of Austria-Hungary. I learned a lot of things. There was really so much — if I had known all of the things I would have to learn before setting out to this, probably I would have declined the offer to write the Mises biography, because it was work that was commissioned by the Mises Institute, and Lew Rockwell raised funds for this to make this possible. So yeah, I was happy to do it, but happy out of ignorance. But then of course after the fact, now it's done, and so of course I'm happy that I did it. I would have been too lazy to do it on my own initiative or out of my own drive, but yeah, definitely, I learned a lot of things about economics and a lot of things about Mises.

I certainly have been an admirer of Mises when I started off doing this because Mises was the one who turned me into an Austrian, brought me into the Austrian school, was when I had studied *The Theory of Money and Credit* that I became an Austrian. Not because of Menger, not because of Hayek, not because even of *Human Action* or something like that. This book really turned me around. But learning more about Mises certainly increased this admiration, a man who with these intellectual achievements, this endurance, of course a great enthusiasm for science, for civilization, for everything that springs from the culture of reason that he loved is very impressive, this alone.

And then this went along with — often you have people with great intellectual achievements, but on the personal level are deceiving. In the case of Mises, what we see is great modesty, so he didn't brag about any of the things that he did personally. Actually, he tried to hide as much as possible, his personal life from any attention. He destroyed a lot of material that would have showed us much more about the person. But especially from the material that survived accidentally, that he couldn't get his hands on and so on, we see a man who was really also very admirable on a personal level. There's absolute integrity, there's great honesty, there's actually great tenderness and great love for those who are close to him, great respect for those who are dependent on him. And even if he doesn't share their opinions, sometimes they had antagonistic opinions of their own, his colleagues and so on, he still feels the need to protect them where he can and just lives the love of the neighbor, even though he was not a Christian. So he was really a very impressive person who is a model not only as a scholar, but also on a personal level. Very inspiring, very inspiring.

WOODS: Yeah. I'm so interested in him, and I'd love to be able to talk to you more about Mises in later years during the periods that most of us are more familiar with him, because I'm also interested in — we can talk about this another time, but his relationship with Rothbard,

given that obviously Rothbard was a devoted disciple of Mises and loved him and respected him more than you can possibly imagine. But at the same time, they did have some differences in economics, not very many and not very great, but they did have some differences in political thought and questions like that. But also in style. I can't imagine Mises writing some of the pieces that Rothbard would have written like in *The Libertarian Forum* and so on. So I don't know, maybe you could just take a minute and then I'll let you go, but could you just give me just a taste of that, of what that relationship was like given their radically different styles that they had, personal styles?

HÜLSMANN: Yeah, I think Mises probably would not have been bent on spending all of his time with clones. He certainly did not want to produce people who were like him or produce disciples who were like him, especially. Of course he was happy to find himself in agreement with other intelligent human beings, and Rothbard definitely was a very intelligent young economist, so Mises was happy to see Rothbard build on the foundations that he himself laid and correct the foundations where it was necessary and so on — which is exactly what he himself had done. So Mises was not looking for harmony, agreement on all levels, so he was very tolerant also of people who did not share his views but could still enrich his own life on a personal level and also intellectually. So sometimes you derive greater stimulus from people who disagree with you than from people who do agree with you.

One important example would be Haberler. Gottfried von Haberler, Mises always considered him to be some sort of a social democrat, so a lefty in politics, but he still had the greatest respect for him and also personal affinity. Haberler was his wedding witness, which says something, and Mises knew that Haberler was not quite on the same page as far as economics is concerned. They had some rather muscular exchange on certain questions in the years preceding, but that didn't diminish in any way his esteem for Haberler and would frequent him also in private life very closely.

What he couldn't stand was dishonesty, unfaithfulness, and here the prime example would be Machlup. Machlup without any good reason, out of pure opportunistic motives — that's how Mises saw it — dropped the defense of the gold standard and of sound money and adopted a more vexable, unprincipled stance in questions of monetary policy. That's not a big deal finally, and Mises' wife, Margit, she felt that her husband's reaction was excessive. But I think Mises was very strongly disappointed by Machlup's behavior, and so this is something that he couldn't stand. So he could very well live with people who were different orientations, different sensibilities, and so on with completely different viewpoints with him on economics, but there were certain prerequisites that had to be given, especially honesty, faithfulness, loyalty on a person level and so on, which he certainly found not only with Haberler, but also with Rothbard, Percy Greaves, and Hazlitt and many other people.

WOODS: Well, the book is *Mises: The Last Knight of Liberalism*. You're just going to love reading it. I'll link to it at TomWoods.com/1109. I think you can probably read it for free at the Mises Institute electronically.

HÜLSMANN: That's right. That's correct.

WOODS: I think you'd be crazy not to get the hardback version of this.

HÜLSMANN: Actually, it's really a nice piece of art. They did a very good job.

WOODS: Oh, no doubt, but I mean, I want to hold a hefty book like this in my hands and be able to flip through. I'm high-tech on some things and very low-tech on others, and when it comes to books, I'm just — I have a reader for airplanes because it's hard to lug around like George Reisman's book, let's say, on an airplane, but I still would rather flip through. But whatever medium you use, you are going to get an awful lot out of it. You're not just going to get the details of Mises' life, although you will get that. You will get an extraordinary intellectual history as well, and you will learn a lot about the history of economic thought and you'll learn a lot about economics while reading the inspiring story of a truly great man. So there's no way you can go wrong with this book. Guido, thanks so much for your time today, and I'm very glad to have you in the United States for a good chunk of this year.

HÜLSMANN: Yes, I'll be here until August.

WOODS: Are you coming to the conference this month at the Mises Institute?

HÜLSMANN: I will go to the Austrian Economics Research Conference in Auburn, Alabama from March 22nd to the 25th, and then I will stay at the Mises Institute for the entire month of June and July.

WOODS: Oh, that is going to be great. All right, will, I hope I'll have some time to see and chat with you. Thanks so much again.

HÜLSMANN: My pleasure, Tom.