

GLOBALISTS

The End of Empire and the Birth of Neoliberalism

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A World of Walls

For the liberal, the world does not end at the borders of the state. In his eyes, whatever significance national boundaries have is only incidental and subordinate. His political thinking encompasses the whole of mankind.

—LUDWIG VON MISES, 1927

The end of the First World War delivered the first blow to the world of empires. The Austro-Hungarian Empire, which once sprawled across most of Eastern Europe, was reduced to a wisp of its former self. Austria was one-quarter of its former size and contained one-fifth of its former population. Hungary lost two-thirds of its territory and two-fifths of its population. The Ottoman Empire, which had endured over six centuries and at its height spanned Europe, the Near East, and North Africa, contracted to the peninsula of Turkey, with a footprint across the Bosphorus. French and British authorities took over Ottoman territories, including Syria, Iraq, and Palestine, and claimed, at least on paper, to prepare them for self-government. Germany's African and South Pacific colonies were divvied up among the victors (with South Africa co-opting Southwest Africa for itself). These former colonies were now called mandates, with independence deferred to a future date. Although the League of Nations began its life as a "league of empires," it grew to

offer a space for new claims from the global margins.¹ Even if the European world powers were far from ready to give up their overseas territories, one could see on the map of Eastern Europe, and hear in the speeches of Woodrow Wilson, V. I. Lenin, and anticolonial intellectuals such as Jawaharlal Nehru and Mao Zedong that a new principle of national self-determination was going global, readying an ambush against the old language of empire.²

As the concept of the nation circulated in the 1920s, so did the concept of the world. The term “world economy” entered English in the decade of the “emergence of international society.”³ It came with a raft of other “world” phrases, including “world history,” “world literature,” “world affairs,” and, of course, “world war.” Like family members and breathable air, the world economy was discussed most when it was gone. To many, the end of the First World War looked like the end of the world economy. The Austrian economist Ludwig von Mises wrote in 1922 that “shortly before the world war we were in sight of realizing the dream of an ecumenical society. Has the war merely interrupted this development for a brief period or has it utterly destroyed it? Is it conceivable that this development can cease, that society can go backwards?”⁴ He wondered: “Who then would rebuild the shattered world?”⁵ Liberals saw themselves in the curious position of needing to reconstruct something that had worked partly because it was taken for granted. With the war it became clear that progress was not a one-way street—the world economy could go backward. Economists, states, and businesspeople would have to work together to rebuild the shattered world of global capitalism.

One of the major ruptures in the neoliberal narrative of the twentieth century was the First World War. Scholars have observed that in the course of that war, all belligerent powers “moved in the direction of organized capitalism and war collectivism.”⁶ Foreign-owned property was seized, command economies replaced market supply and demand, centralized regimes of rationing and resource allocation displaced the price mechanism, and national governments and planning boards demolished the walls of corporate secrecy, intruded into private accounts and affairs of business to gather data about production and distribution, and created what some called “war socialism” and what the German

statesman and entrepreneur Walther Rathenau called the *Großwirtschaft*, or “great economy.”⁷

In the course of the war, the sacred nature of private property across borders was violated; the space of the private capitalist was desecrated. Private accounts were now part of state knowledge, rendered as inputs into a comprehensive plan for allocating the nation’s resources. Nowhere was the collapse of the division between public and private more catastrophic than in the sites of successful socialist revolutions: the Soviet Union in 1917, the Bavarian Soviet republic of 1918, and the Hungarian revolution under Bela Kun. But the era after the First World War saw everywhere a great exposure of corporate secrets—business had to be made visible, and for its own good.

From the liberal perspective, three factors empowered the domain of politics against that of the economy after the war. First, popular sovereignty was strengthened by the generalization of universal male suffrage in Europe and North America, making it more difficult to maintain the gold standard through domestic adjustments borne by ordinary people.⁸ Second, the war left a legacy of what liberals saw as misguided confidence in the power of governments to allocate resources. It is no coincidence that one of Hayek and Mises’s most important antagonists in Vienna was Otto Neurath, a man who had created a moneyless plan for the Bavarian Republic. Since the war, an economy directed by central authorities looked like a viable alternative. Third, the resolution of the war in the peace treaties of Versailles and St. Germain validated the idea that the nation was the most important category for organizing human affairs. To the group that would become the neoliberals, the era after 1918 was marked by an attempt to reestablish what they saw as the correct balance between the public world of government and the private world of property and contract. Concretely, this translated into a series of projects of capitalist internationalism. There needed to be a respect for private property that trumped national law. Investment must be able to cross borders back and forth without fear of obstacles or expropriation. Capital needed to become cosmopolitan again.

In this chapter I will focus on the Austrian liberals in the Vienna of the 1920s and the institutions where they first practiced their craft and found their political worldview. The two most important international

economic institutions of the period were the International Chamber of Commerce (ICC) and the League of Nations. Those two institutions organized the World Economic Conference of 1927, the first economic gathering to take the entire world as its subject. It codified an international opposition to trade obstacles and brought the metaphor of the "tariff wall" into common circulation. In an era when the United States withdrew into relative diplomatic isolation, the League of Nations took the lead in drafting blueprints for global economic governance, a series of conversations in which the later neoliberals Ludwig von Mises, Gottfried Haberler, Wilhelm Röpke, Lionel Robbins, and F. A. Hayek were all directly involved.

One challenge for the institutions was to restore free trade; the other was the domestic obstacle of labor unions. In the same year as the World Economic Conference, Mises was present for the workers' uprising in Vienna, which left close to one hundred people dead and the Palace of Justice in flames. Liberals perceived tariff walls and workers' wage demands as two kinds of barricades in the market. Achieving the liberal ideal required a state that could eliminate obstacles to trade and obstacles to the adjustment of wages. This meant a militant and, when necessary, militarized opposition to the strategies of organized labor to protect their salaries and their state-granted entitlements. The bloody suppression of the 1927 riots assured Mises that the state was willing and able to use any means necessary to prevent workers from creating political conditions favorable to their own goals.

MILITANT LIBERALISM ON THE RINGSTRASSE

If organized neoliberalism has a birthplace, it is Stubenring 8–10 at the eastern end of the grand boulevard of Vienna's Ringstrasse. At that address, in 1907, the Lower Austrian Chamber of Commerce and Industry (later the Vienna Chamber of Commerce) opened its new building, a massive six-story structure designed by Ludwig Baumann in a combination of neoclassicism and Jugendstil art nouveau, with the two-headed eagle of the dual monarchy on its corner with the bound fasces on a shield. One entered the building between four marble columns, then

proceeded up a central stairway flanked by life-size bronze sculptures of topless Egyptian acolytes holding votive bowls aloft and backed by a geometric matrix of blue and green stained glass. After taking a job there in 1909 at age 27, Ludwig Mises walked up those stairs every working day for twenty-five years. F. A. Hayek took his first job there in 1921, working with Mises as a civil servant for eighteen months on a commission related to the St. Germain peace treaty.⁹ After the mid-1920s, Mises was joined by Hayek again, along with another protégé, Gottfried Haberler, for whom Mises secured positions in the Austrian Business Cycle Research Institute, which operated in the same building. Mises's office on the second floor, facing the Ringstrasse, was also the meeting place for his private seminar, which included Fritz Machlup and visits by Lionel Robbins, Frank Knight, and John Van Sickle, becoming part of the "extra-academic cosmopolitan intellectual formation" that in 1947 would become the neoliberal Mont Pèlerin Society.¹⁰

Beginning the story of neoliberalism with the Stubenring in the 1920s rather than with Mont Pèlerin in 1947 deflates the self-heroizing narrative of lonely embattled intellectuals and reveals the world in which future neoliberals formed their principles. It also shows how their writing began with straightforward policy problems rather than abstract contemplation. Though Mises claimed that "no other calling was more desirable to me as that of a university professor," in many ways the Chamber of Commerce remained his most characteristic milieu, and his policy suggestions remained remarkably consistent.¹¹ He began his career in Austria in the last years of the Habsburg Empire, advocating strenuously for lower corporate taxes on industry, and ended it in the last years of the First Austrian Republic, arguing for the same. Taking the position of Chamber secretary in 1918, Mises was obliged to advise the government and write expert evaluations of new laws in the interwar period, a duty that peaked with leading a three-person Economic Commission in 1930.¹² Even if he is remembered for his work on social philosophy and theories of money and credit, Mises earned his livelihood for much of his adult life as a forthright advocate for the needs of business, including with the Chamber of Commerce in the 1920s and 1930s, and the National Association of

Manufacturers (NAM) and Foundation for Economic Education after his emigration to the United States.¹³

The location of the Vienna Chamber of Commerce on the Ringstrasse was heavy with symbolism and helps illustrate the milieu out of which the Austrian strain of neoliberalism emerged. The boulevards themselves were built in the wake of the revolutions of 1848 on the vacant land that had once been the medieval city walls. In his classic study of fin-de-siècle Vienna, Carl Schorske describes how the liberal city government used the Ringstrasse to showcase its vision of social order, building the parliament and city hall alongside theaters and the university.¹⁴ The developments echoed those under way in Paris under the direction of Baron George-Eugène Haussmann. Both urban renewal projects created arteries of commerce and transportation in medieval cities, building wide streets that could serve simultaneously as sites of cultural enrichment in their opera houses and museums, expressions of state power in their monuments, and sites of consumption in their shop windows and sidewalk cafes.¹⁵ The wide streets would also make it harder for future insurgents to build the barricades that characterized the revolutions of 1848. Both designs included arsenals and barracks for the easy deployment of troops to quell domestic threats.¹⁶ The Ringstrasse and Haussmann's boulevards turned Vienna and Paris into modern cities, hubs of commerce capable of accommodating—and policing—an expanding population of all classes.

The Stuben Quarter was built at the tail end of the Ringstrasse in the first decade of the 1900s, “as the liberal era closed.”¹⁷ The view from the Chamber of Commerce was onto the massive seven-story War Ministry, designed by the same architect and completed in 1913. That building was topped by a bronze Habsburg eagle with a sixteen-meter wingspan, which required that an extra floor be built to undergird it. Beneath it was a slogan: “If you want peace, prepare for war.” After the war, the building became a barracks for the Austrian military. The eagle remained but was literally decrowned, and the slogan was removed. The third building in the ensemble remained unchanged: the headquarters of the Postal Savings Bank, an equally massive building designed by Otto Wagner, which opened in 1906 as one of the most famous buildings in the style of Jugendstil and early mod-

ernism, built with reinforced concrete with a facade boldly free of ornament.

Mises watched the events of the decade and formed his vision of economic order from the vantage point of the Stuben Quarter. The War Ministry building across the street from the Vienna Chamber of Commerce seemed to embody what Mises would later oppose as “omnipotent government.”¹⁸ Yet his version of neoliberalism never rejected the state as such.¹⁹ Michel Foucault’s attribution of “state-phobia” to Austrian neoliberals is a misunderstanding, especially considering Mises’s career as an advocate for the use of government taxes to fund business interests.²⁰ Mises would become a patron saint to American libertarians, but he not only worked professionally as a state-funded advisor to the government but also saw a strong role for the state in the protection of property and keeping of the peace. In a telling phrase from 1922, he called the state “a producer of security.”²¹ For Mises, the assessment of state action depended on the field of engagement. The imperial state itself did not concern him. His fear was of interventionist government that appealed to “the people” for its legitimacy. His state could find its legitimacy only in its defense of the sanctity of private property and the forces of competition.

We will see in Chapter 3 that Mises had no qualms about using government military power to open and secure overseas markets. And even as he condemned what he called “étatisme”—state intervention into the production and supply of goods—he criticized the state for not acting more aggressively against labor unions.²² Maintaining security often involved repressing worker demonstrations, which he saw as criminal violence outside of the law. Such undertakings were not and could not be the functions of a small state. In this sense, the transformation of the former War Ministry into a garrison for the new Austrian military after 1920 should also be seen as a necessary and appropriate component of Mises’s neoliberal model.

Schorske claimed that the early twentieth century was the end of the liberal era. That might be true for party politics, but 1907 was also the year of the achievement of universal male suffrage, one of liberalism’s central demands for achieving popular sovereignty. It was partly direct action, including demonstrations in 1907, that brought this about, and this shook Mises deeply. He described public demonstrations as tactics

of "terror and intimidation." "Unchallenged," he wrote in his memoirs, "the Social Democrats assumed the 'right to the street.'"²³ The streets of Vienna, and the Ringstrasse in particular, were more than a symbolic space. They were the forum where popular demands were voiced, sometimes to be granted and other times to be suppressed. In moments of uprising, crowds became symbols for the people as such, and those who were skeptical of democracy often based their resistance to change on the sight of such manifestations. The city was not just the backdrop for the emergence of a particular set of ideas. Neoliberal thinkers arrived at their ideas in response to the world they saw around them. The question of democracy became more pressing in the era of universal suffrage in Austria. One could argue that the "end of the liberal era"—as the advent of a new paradigm of militarized liberalism, later to be called neoliberalism—developed precisely as a response to the growth of mass democracy. This new paradigm was centered, not in the parliament or university, but in the triumvirate of security, finance, and commerce located in the Stuben Quarter. A well-armed state and sound money flanked by business were the icons of the ideology taking shape.

THE INVENTION OF THE TARIFF WALL

After the First World War, Mises and his circle found institutional allies beyond the nation and empire. A key institution in rebuilding what Mises called the "shattered world" of the global economy was the ICC, founded in Paris in 1920. The many recent histories of international civil society have given surprisingly little attention to the international coordination of businesspeople: the global public sphere of capitalists. Only two books have been written about its most paradigmatic organization, the ICC: a dissertation in German, and a book commissioned by the chamber itself in the 1930s, with a title—*Merchants of Peace*—that suggests an in-house bias.²⁴ The ICC would become an important institutional partner for the Austrian neoliberals.

The ICC emerged as an amalgam of two developments in the late nineteenth century: international cartels and international statistical associations. The cartels were groups of businessmen who specialized

in the same sector and would set prices and ensure collective profitability. The ICC's direct forerunners were international business federations that appeared in the decade before the First World War. These made public the formerly secretive cartel discussions and incorporated an aspect of public relations into their practice.²⁵ The international statistical associations began with the International Statistical Institute, which was formed in 1885 and was the first entity to collate global statistics. The Institute was overseen by two economists at the University of Vienna who were also Mises's professors: Franz Neumann-Spallart and Franz Juraschek. As F. A. Hayek's grandfather, Juraschek had a filial tie to the neoliberal circle.²⁶

Without a seat at the League of Nations, American economic internationalists often relied on the ICC to make their position heard. At the 1919 meeting in Atlantic City that would lead to the formation of the ICC, the organizers explained that reestablishing world trade after the war would be a struggle in itself. The isolationist position of the U.S. government had already effected a curious reversal. European business leaders now had to come to the rescue of Americans. The chair of the Atlantic City conference, Alfred C. Bedford, said to the fifty European businessmen in attendance: "It is as if you were a relief force come to assist us in raising a blockage. For against America—as much as against Europe—a blockade by the war's havoc upon that highly sensitive mechanism of the world's trade, threatens and impends." The assembled business leaders imagined a world that should and needed to be free of walls obstructing goods and capital. As Bedford said, "not only the physical comfort and well-being but the very lives of millions of people, depend upon this modern mechanism of international trade being restored, upon the barriers which were erected in the wake of war being leveled, until the channels of commerce can be reopened so that the commodities upon which human existence depends, may flow unchecked from where they are most plentiful to where they are most needed."²⁷ Bedford evoked a vision of the world economy as a hydraulic landscape. Commodities flowed through the "channels of commerce" created by the infrastructure of shipping and rails, and enabled presumably by the free flow of information in the networks of communication. This was a networked world economy without centralized control, where the laws of supply

and demand dictated the distribution of the world's resources and its man-made products.

Human and state facilitation was needed to realize this vision. Yet, drawing from an older classical liberal imaginary, the process was depicted as natural, stemming from the laws of physics, perhaps even gravity. Bedford condemned the "barriers" raised during the war, referring to protectionist measures throughout the world that had been designed to safeguard production and national self-sufficiency. These were portrayed by the gathered businessmen as artificial impediments to a natural state. The metaphors reflected Woodrow Wilson's own language in the Fourteen Points, one of which called for "the removal, as far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance."²⁸

At its constitutive session, the members of the ICC declared that "a nation is not an independent economic unit. Every day, the facts demonstrate the interdependence of all countries in the economic domain."²⁹ At its first congress in 1921, the ICC already included representatives from the defeated Austria and, after 1923, Germany, with delegates from thirty-three countries.³⁰ By 1927 the ICC had over 2,300 members; almost half were in the field of industry, about a quarter in banking and trade.³¹ After 1925 Mises was the Austrian representative to the ICC. He traveled to Brussels for the third congress in 1925 and to the United States for the first time in 1926. In his capacity as the Austrian representative, he traveled extensively and was responsible for organizing and carrying out the seventh congress of the ICC in Vienna in May–June 1933.³²

The League of Nations also defended liberalism on a global scale, but it remained committed to the principle of political self-determination. A German newspaper referred to the ICC as the "Economic League of Nations," with the advantage that the United States was a member (it was not a member of the League).³³ U.S. businessmen and bankers with a belief in interdependence organized in the ICC. Charles Dawes of General Electric, and the American banker Owen D. Young, for example, who were involved in plans to reschedule and relieve war debts in 1924 and 1929, were both active members.³⁴ Willis H. Booth called the

Dawes Plan the "product" of the ICC.³⁵ Norman H. Davis, former under secretary of state, speaking alongside Dawes and Young before a trip to the fifth meeting of the ICC in Brussels in 1925, expressed the pragmatic attitude toward interdependence: "Whether we like it or not, we cannot any longer disregard world affairs. Our position as a creditor nation, with a growing necessity for markets, imposes a duty and an obligation upon us."³⁶

Until 1926 the ICC group was primarily concerned with a task they described as economic reconstruction; after 1926 they shifted their focus to opposing both tariff and nontariff barriers to trade.³⁷ They received active support from the Stubenring group. Richard Riedl, an economist at the Vienna Chamber of Commerce, prepared one of the most extensive reports for the ICC with two publications calling for the sinking of tariffs.³⁸ At the time his was the most extensive attempt to calculate the tariff index; his calculations covered 402 commodities and fourteen countries.³⁹ When in 1920 the League of Nations took up the task of gathering international economic statistics, which they would eventually take to an unprecedented level of comprehensiveness, the ICC was one of the members.⁴⁰

Arthur Salter, head of the of the League of Nations Economic and Financial Section, described the ICC's report on the reduction of trade barriers as the foundation of the World Economic Conference of 1927.⁴¹ He described a division of labor between the two organizations, with the ICC having "direct experience of the practical effects of administrative action" and the League having "a direct and official entry into the counsels of governments and the action of departments which the Chamber, as a private institution does not possess." "If the League can offer the machinery for achieving administrative reform, it must look to you for much of the motive force," he said in an address to the ICC's members. The primary goal was the negative one of removing barriers. "The actual tasks on which we are working together nearly all consist in trying to modify policies or administrative methods which impede business."⁴²

In these months, business internationalists found the most enduring symbol for their campaign against barriers. The story of the tariff wall is a telling case study in how metaphors turn into economic policy. It begins in 1926, after Clive Morrison-Bell, an English Member of Parliament



A Europe of walls. Clive Morrison-Bell at the Vienna Chamber of Commerce. Clive Morrison-Bell, *Tariff Walls: A European Crusade* (London: John Murray Press, an imprint of Hodder & Stoughton, 1930).

and former parliamentary private secretary to Winston Churchill, heard a radio report on protectionist policies that convinced him that European “countries were slowly committing suicide.” He set out to find a visual means of depicting economic relationships to show that Europe was “one large community, the members of which would sink or swim together.”⁴³

Morrison-Bell commissioned a local carpenter to build a table-size map of Europe with miniature red brick walls circling each country. The height of each wall was to correspond to the averaged level of the country’s tariffs, but Morrison-Bell found to his surprise that the government itself did not have this data. He had to turn to the League of Nations, which supplied him with the numbers that they had begun gathering at the beginning of the decade. A later version of the map had a boldface title: “Visualize the Idea.” What idea was represented here? The first impression of the walls, painted red in the table-sized version, is of the European nations’ hazardous and anachronistic self-encapsulation. In the foreword to Morrison-Bell’s book *Tariff Walls*,

the Viscount D'Abernon wrote that the continent on the map "resembles nothing so much as a group of medieval fortified camps designed to impede progress."⁴⁴

This was precisely the situation Morrison-Bell intended his map to portray. He saw himself using the "elementary lines of mass psychology that the best hope of any progress, however moderate, depends, and for propagating this idea there can be no simpler method than through the eye by means of this somewhat novel form of cartography."⁴⁵ He explained how the visual metaphor of the bricks in the tariff wall made the economic visible—and noted that it caught on quickly. Who would have spoken, he asked

about putting a course of bricks on a tariff wall a few years ago. It would have been necessary to go into long explanations about this simple simile. So to have accomplished even this may be of some use, for the moment the public in other countries begin . . . to be seized with the idea that they are prevented from enjoying to the full the necessaries of life, because they are walled in as though with a brick wall, the further idea might begin to take root, namely, that it might not be a very difficult operation by a concerted effort to knock a few bricks off the top of these walls.⁴⁶

The map argued visually for the removal of the barriers to trade.

Morrison-Bell's itinerary of travels with the map traces the sites of advocacy for the flat world in the 1920s. He began with the Bank of England, where Montagu Norman welcomed and displayed the map in 1926.⁴⁷ Then he showed it at the London Stock Exchange, followed by a meeting at the headquarters of the ICC in Paris, where it was constructed in the president's room. Next he displayed it at the preparatory meeting for the 1927 World Economic Conference at the Palace of Nations, in a foyer to be seen by all delegates as they entered. The chairman of the Royal Commission on Trade, Sir Arthur Balfour, traveled to Berlin and Copenhagen with the map in pieces, assembling it on his arrival.⁴⁸ Nicholas Murray Butler, president of both Columbia University and the Carnegie Endowment for International Peace, circulated photographs of the map to 1,500 American newspapers.⁴⁹ Morrison-Bell

claimed plausibly that his model brought the metaphorical term “tariff walls” into public discussion as a synonym for “tariff barriers” or “obstacles to trade.”⁵⁰ An image of the map appeared across the full width of a page in the *New York Times* in late 1926, with the legend “Tariff ‘walls.’”⁵¹

In March 1927 Morrison-Bell displayed his model in the budget room of the Austrian parliament, and then to the Chamber of Commerce on the Stubenring, which he remarked correctly was “unlike similar institutions in England, seems to be a semi-official body closely connected with the Government.”⁵² The members of the Chamber were so intrigued that they requested their own version of the map, which Morrison-Bell delivered in 1929 to be used as a traveling pedagogical instrument in the “struggle for an improvement of the commercial conditions in Central Europe.”⁵³

The most visible display was at the 1927 World Economic Conference itself. Morrison-Bell planned beforehand to scale up the map considerably. The map was to stretch over twenty square yards on the shores of Lake Geneva.⁵⁴ In this grand form the contours of countries with low tariffs would be easily recognizable from above, while others would appear warped, their shape distorted by barricades. Making the familiar profile of Europe strange was intentional. As the frontispiece to his book, Morrison-Bell reprinted a Dutch cartoon from the World Economic Conference in 1927 that depicted a towering heap of “tariff walls in Europe” that was both disorienting and daunting to the small figure in the foreground.⁵⁵

After having troubles with construction of the large-scale map, Morrison-Bell set up a smaller-scale model in Geneva in a dedicated building on the lakeshore. While there, he received a copy of a report from the Vienna Chamber of Commerce prepared by Riedl. It included a map with shading according to relative tariff levels. The calculations were much more extensive than Morrison-Bell’s previous data. The League of Nations was collecting price data on only 78 goods; the Austrian branch of the ICC on the Stubenring was collecting data on 402 goods.⁵⁶ Morrison-Bell displayed the map alongside his own. The imaginaries of Austrian and English liberals were interpenetrating, creating a common visual language for their demands for free trade.

Both the World Economic Conference in May 1927 and the Stockholm Conference of the ICC in July made opposition to trade barriers central to their message. It was key, William Rappard noted later, that “these recommendations were made on the authority not only of a few benighted liberal professors, but of a large representative gathering, including even American business men, whom no one could denounce as visionary internationalists.”⁵⁷ The participation of the business community signaled an increasing willingness to take an active public role. They were also evidently more keen to draft academic expertise into the formulation of their opinions. The ICC president said, “The world turns more and more to us whenever it needs to ascertain the views of business men. Following the example of the League of Nations, great international institutions one after another, for agriculture, for communications and transit, appeal to us to assist them in their work. We claimed the responsibility of representing business and now that claim is admitted on all sides. We must not disappoint the hopes placed in us. Noblesse oblige, and if you will permit me to say so, our own interest demands.”⁵⁸ Business internationalism, with the aid of economic expertise, was helping to standardize a new norm about how the world economy should operate.

A contemporary photograph shows Clive Morrison-Bell standing over his map at the Vienna Chamber of Commerce. The placard reads, in French, “A Bird’s-Eye View of Economic Europe.” As with the modern architects or urban planners who were often drawn to produce symmetries below pleasing to the eye in the sky, the tariff map shaped its own solutions, encouraged the realization of a world uncluttered by walls. The map did not produce this position among liberal businessmen but it crystallized and, as Morrison-Bell intuited it would, projected it in a form that made the argument more compelling to both the common person and the commentator, regardless of its actual effects on their lives.

The metaphor carried its own implications. Mises’s protégé at the Chamber of Commerce, Gottfried Haberler, pointed out the legerdemain required to create a single number for the “height” (his quotation marks) of tariff walls. Beyond the reality of varying tariffs from product to product, tariffs were also usually settled on in treaties between two

The primary problem was the most obvious one: the unwillingness of European workers to accept lower wages for the sake of either the higher law of liberalism or, as in Mises's argument, the benefit of a distant, likely nonwhite, foreign worker. Many of the challenges to liberalism in the 1920s proceeded from this obstacle. As Mises thought globally, he had to act locally, in a city famously governed by socialists. The realities of Red Vienna were a challenge to the realization of the vision of the group that would become the neoliberals—and conflict with the socialist-run city inspired their ideas.

Mises's policy prescriptions in the 1920s always had two sides: open to the world market, and make the internal adjustments necessary to compete internationally. This required two key measures: push down wages, and cut taxes on industry. In his writings after 1918 he repeated the point that a small country like Austria had no capacity to be self-sufficient. Such a fantasy could be maintained (at least for a while) in countries with enormous domestic markets—like the United States, England with its empire and dominions, or even Germany—but the Treaty of Saint Germain had made Austria, a country of just over six million people, heavily reliant on the foreign market for raw materials. In the words of one American journalist, it had been reduced to a “mutilated torso.”⁶⁴ Prefiguring many of the dilemmas that would face nations after decolonization after 1945, the end of Austria's empire meant an increased reliance on access to an open world economy.

Mises put the issue systematically in a policy program written at the request of a politician in February 1921: “Austria needs free trade.” Alongside suggestions to lift prohibitions on imports and ports, Mises suggested privatizing public enterprises, eliminating food subsidies, and, consistent with his belief in free movement, lifting entry and residence restrictions for foreigners.⁶⁵ After 1920 the Chamber of Commerce had the duty of writing evaluations of laws for the government.⁶⁶ In a position statement, Mises restated the points that “Austria's future depends on free trade” and that if their goods were “to be able to compete abroad,” wages would have to fall “far below their prewar level.”⁶⁷

The fight over class justice exploded onto the Ringstrasse in mid-July 1927. The precipitating event had come six months earlier when members of the right-wing militia Frontkämpfer marched in a heavily

Social Democratic area. Harassed by members of the Social Democratic militia, the Frontkämpfer fired into the crowd, killing a worker and a child. Six months later, the result of their closely watched trial was complete acquittal, enraging workers who saw it as a case of skewed standards. Though the Social Democratic Party, led by the moderate Otto Bauer, advised against a violent response, rank-and-file workers dissented. At 8:00 a.m. the following day, the electric workers stopped the streetcars, bringing the circulation of labor through the city to a halt and signaling the call to a general strike.⁶⁸ Workers marched to the Parliament on the far side of the Ringstrasse from the Chamber of Commerce. The Palace of Justice became the target of their anger at the court's verdict, and part of the crowd stormed the building and set it on fire, while others blocked fire trucks, cut hoses, and opened up other hydrants to reduce water pressure, defiantly impeding the city's functions.⁶⁹

The authorities felt pushed to opt for a radical solution, and the police chief received emergency powers, suspended the rule of law, and gave the order to fire on the demonstrators. Police killed protesters with rifles in the center of the city, and then drove out to workers' housing complexes in the suburbs and killed more. After three days, eighty-nine people were dead and over a thousand injured.⁷⁰ The workers' movement was permanently crippled. The Social Democratic Party was unable to use the threat of mass mobilization effectively again, and, perhaps most damagingly, the days had shown that even the putatively socialist members of the police would not hesitate to fire on fellow workers.

The July 15, 1927, uprising was the deepest crisis in Vienna before the civil war of 1934. The sight of the Palace of Justice in flames shook the author and cultural critic Elias Canetti deeply, leading him to devote his life's work to understanding the relationship between crowds and power.⁷¹ For Mises, the event was not a trauma but a great relief. He was in Vienna at the time and wrote to a friend: "Friday's putsch has cleansed the atmosphere like a thunderstorm. The social-democratic party has used all means of power and yet lost the game. The street fight ended in complete victory of the police. . . . All troops are loyal to the government."⁷² "The threats by which the social-democratic party has up to

now permanently tried to bully the government and the public," Mises continued, "have proved to be far less dangerous than one had believed."⁷³ As his biographer describes, Mises was "surprised and delighted by the failure of the general strike."⁷⁴ It appeared that he accepted lightly the means used in the suppression, which delivered a deep blow to many at the time. The right to kill with impunity under emergency powers met Mises's approval.

As with the other neoliberals we will encounter in these pages, democracy was not an absolute value for Mises. He admired it as the system most likely to produce an outcome amenable to stability and an atmosphere for free economic exchange. He did express doubts that democracy produced leaders better than those produced by autocracy or aristocracy, but he said that this was missing the point: "The significance of the democratic form of constitution is something quite different from all this. Its function is to make peace, to avoid violent revolutions."⁷⁵ If populations felt that their voice and opinion had effects on the composition of the government, then they would less frequently reach for violent means. The definition of equality must remain minimalist though, exhausting itself with equality before the law. Attempting to enforce equality beyond this would be to deny the basic fact "that men are endowed differently by nature."⁷⁶ Thus, a crucial complement to voters' democracy was what he would later call "a consumer's democracy," expressed by purchases and investments in the marketplace. "True there is no equality of vote in this democracy; some have plural votes. But the greater voting power which the disposal of a greater income implies can only be acquired and maintained by the test of election." Wealth, he wrote, was "always the result of a consumers' plebiscite."⁷⁷ Mises's functional definition of democracy had a clear implication: should democracy cease to be functional—that is, cease to secure stability—there would be no reason to maintain it.

In 1927, democracy had ceased to fulfill its primary function. It did not prevent revolution. In that case, Mises believed, it was perfectly legitimate to suspend it and enforce order by other means. The structural link between the nascent welfare state and emergency law was also clear in the uprising. In the course of negotiations, the only concession that Social Democrats were able to secure during the strike was that the

government would not use its emergency powers to abolish unemployment benefits and social housing programs.⁷⁸ Yet this was precisely what Mises felt was necessary in order to make Austrian industry competitive again. In February 1930 the Chamber of Commerce, with Mises as its primary adviser, recommended cuts to unemployment benefits and to health and accident insurance. If workers wanted severance pay, it should come out of union dues rather than from the employer or state.⁷⁹ As the most influential member of a three-person Economic Commission in 1930, he argued that the terms of trade, the interest rate, and the prices of many commodities were determined by world economic conditions, and were thus out of the control of the Austrian authorities. The only thing they could change were wages and taxes. Both had to be lowered to bring down production costs.⁸⁰ The tactic of the Chamber of Commerce was to recast organized labor as illegal, and thus unable to demand protection under the law and prone to extirpation. The Chamber promoted the passage of an "anti-terror law" to be used against striking workers.⁸¹ A similar version would be used in the civil war of 1934 when the housing estates where police had shot demonstrators were attacked again and subdued.

Critics called the Chamber of Commerce policies "class war from above" and said that the anti-terror law showed that "as always, the only means that the brains of those in power can think of to use against workers and employees is violence."⁸² The recommendation of Mises's Chamber of Commerce showed his model in action. Understood functionally, democracy could be suspended when this is required for the stability of the market. The *Neue Freie Presse*, for which Mises wrote articles, called for the "actual depoliticization of the economic" (*wirklichen Entpolitisierung des Ökonomischen*).⁸³ Needless to say, this form of "depoliticization" was very political, and entailed a dramatic application of executive power. Foreign competition, and by extension the rhetorical weapon of invoking the world economy, was a bludgeon to beat back social policy gains in worker insurance, severance pay, and unemployment benefits.

Mises and Hayek both believed that the 1929 slump was caused by loose monetary policy and overinvestment, and that unions were the reason that the slump turned into a depression. Unemployment was

voluntary. "Unemployment is a problem of wages, not of work . . . the assistance of the unemployed is what first creates unemployment as a permanent phenomenon."⁸⁴ In a lecture to German industrialists in 1931 titled "The Causes of the World Economic Crisis," Mises condemned governments that had "capitulated to the unions," which pursue their goals "by the use of violence." "Were it to proceed in its usual way and interfere with the criminals who abuse jobseekers and vandalize the machines and other of the entrepreneurs, then circumstances would be different."⁸⁵ At this exact time, he was in England in his official capacity for the ICC, seeking foreign investment in Austria. The struggle of organized labor against the reduction of their wages made this difficult. The needs of the world economy were arrayed against those of the organized workers.

In Second Empire Paris, Haussmann's mammoth project to open up pathways for trade and consumption filled the city with construction and service laborers. Marginalized and impoverished, they seized urban space for themselves in the Paris Commune, which lasted for several months, until it was ended in the so-called Bloody Week and the deaths of 20,000 communards. One could argue that liberal internationalists like Mises in the 1920s imagined the Haussmanization of the world, demolishing the brick walls that impeded commerce to permit a more productive use of the earth's resources. Their vision required that goods and capital remain in movement, pursuing profit and new sites of productivity.

Red Vienna shaped the worldview of the Austrians who would form the neoliberal movement, entrenching the idea of an armed standoff between labor and capital. In his memoirs Mises pointed out the drastic nature of the situation. The party "could paralyze all economic life at any time" with a strike. Most importantly, the Social Democrats had control of the army, which was "equipped with rifles and machine guns, light artillery, ample munitions, and manpower at least three times greater than that available to the government."⁸⁶ Mises later described collective bargaining as the "gun under the table." He might have meant it as a metaphor, but it was not a metaphor in Vienna.

By 1927 there was a well-defined and internationally organized network of pro-business forces engaged in the collection of economic

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information in pursuit of a common goal of negative global integration—the reestablishment of an open world economy. It was a Chamber of Commerce vision: give the businesspeople the power to govern their own affairs, and interfere as little as possible. Hidden in the mobilization, however, was a third party intervening between business and state: the economic knowledge producer. Even if the goal was to let the world economy rule, the businesspeople could not do it for themselves. They required statisticians and economists. When Morrison-Bell needed to construct his map, he started with statistics from the League of Nations. In contrast to the typical policy-minded economist in the late nineteenth century, who would have been a social reformer seeking to counteract and mollify the effects of capitalism, there emerged in the interwar period a generation of economists who sought to apply their knowledge in service of capital.

SEEING LIKE A COMMODITY

The socialization of Haberler, Hayek, and Machlup came at Mises's private seminar, which met in his office at the Chamber of Commerce on the Stubenring. Every two weeks at 7:00 p.m., a flock of young intellectuals in their twenties and thirties would pass under the leaded glass of the entrance and up the stairs past the art nouveau caryatids to Mises's office, where he would sit behind his desk with as many as twenty-five people gathered around him.⁸⁷ Discussion would last until around 10:00 p.m. and continue in the Italian restaurant nearby, and continue even further at Café Künstler. Haberler recalls that Mises was in the hard core for endurance, never leaving before 1:00 a.m.⁸⁸

The Chamber acted as a kind of alternative university. Economists of international reputation passed through it, including Lionel Robbins, Ragnar Nurkse, and Howard S. Ellis.⁸⁹ Mises boasted that its library contained material that even the University of Vienna did not have.⁹⁰ Government offices occasionally consulted the Chamber's statistical material, which was superior to their own collection. The discussions at the private seminar were wide-ranging and became legendary for the participants. One of the participants wrote kitschy verse, later re-

produced in the publication of the Mont Pèlerin Society, suggesting its sentimental power for many of the members. A sample stanza read: "I'm going tonight to Mises, because that's where I love to be, there's nowhere so nice in Vienna, to talk about economy, truth and society."⁹¹

At stake for the Mises Circle was the question one member asked in 1928: Is it possible "to build a bridge between economic theory and economic policy?"⁹² The question of the late 1920s for the Austrian liberals was: What kind of economic information was reliable and what kind of information was politically useful? The month after the Palace of Justice burned, Gottfried Haberler was addressing this question in the Stubenring, finishing his book on "the meaning of index numbers."⁹³ Haberler was born in 1900 to a family of well-off civil servants, in the sylvan Viennese suburb of Purkersdorf, best known for its sanatorium designed by the Secession architect Josef Hoffmann. Built when Haberler was a toddler, the sanatorium was a gathering place for luminaries like Gustav Mahler, Arnold Schönberg, and Arthur Schnitzler. The clean white lines and geometry of the building reflected the artistic vision of the Secession, further embodied in the building in downtown Vienna with its golden leafy globe. Their goal was the *Gesamtkunstwerk*, the total work of art. Art should bring harmony and perfection to earth.

Though the distance between the sinuous forms of Klimt and Schiele and the dry texts of economists might seem vast, Haberler and his fellow Austrian liberals were engaged with something similar. Their questions were basic, and at some level also aesthetic: How should we measure the "complicated latticework of individual economic acts," and how can we represent it visually?⁹⁴ What face of economic actions should we present to the public? Haberler wrote in 1927 that economics was concerned not only with outward actions but also with internal motivations, matters of the "psyche" and the "spirit," or *Geist*. For this reason, he said, economics was one of the humanities, or *Geisteswissenschaften*, a "science of the spirit."⁹⁵

But how to operationalize a science that tended to abstraction? Mises, Haberler, and other economists worked alongside business leaders to provide data and concepts that supported the dream of a world of commerce without walls. Haberler's earliest notable article was on the theory of comparative costs, which began as a presentation in Vienna.⁹⁶ His

goal was to create a defense of free trade that worked not only in theory but also in the real-life political circumstances of the post-First World War world. His main question concerned free migration. The main argument for free trade was the international division of labor, but "freedom of migration does not exist, has never existed and probably never will exist." It would not be desirable even if it were possible. The Ruhr Valley would become unbelievably crowded, and the Alps would empty out entirely: "One need not be a nationalist for such things to be undesirable." Haberler proposed that he could prove that "free trade is beneficial for all even when there is no freedom of migration and the peoples remain firmly rooted in their countries."⁹⁷

He did so by revisiting David Ricardo's idea of comparative advantage but recasting it without the discredited labor theory of value. In his version, workers did not need to be mobile over national borders as long as prices were. If prices accurately reflected the relative supply and demand on markets, then these would guide entrepreneurs to the most efficient use of their resources. For prices to serve their function, however, they must not encounter resistance. He gave the specific example of labor: "Here the price mechanism is partially switched off, and real frictional losses can occur in the form of strikes and unemployment." Luckily, he pointed out, "labor was the most mobile and diverse of all the factors of production."⁹⁸ Even if unemployment figures remained constant, the actual mass of unemployed usually rotated in and out as people moved from position to position. In the demand for the "faultless functioning of the price mechanism," Haberler conjured an image reminiscent of an enormous clockwork or factory apparatus, shuttling components from one location to the other. He cited earlier thinkers like Bastiat, who argued that free trade worked like invention, constantly rearranging the landscape of production, sending workers to new places of work when one has been outmoded or squeezed out by overseas competition.

The workers themselves were neutral containers of the attribute of labor, as capable of relocation as a chunk of investment capital or a carriage-load of coal. Haberler expressed the vision in an evocative geography: "Inactive production facilities are not actually witnesses to the destruction of capital, of losses that must be calculated against the

advantages of the division of labor; rather, they are milestones of the economic progress produced by the international division of labor."⁹⁹ Regardless of any emotional attachment felt by people to livelihood and place, the shuttered factory was not a tombstone to a lost way of life but a monument to the forward march of the market.

Haberler thought wages in postwar Austria must fall to restore competitiveness. He put it plainly in a newspaper article in Vienna in 1933: "The dismantlement of tariffs will bring pain to a series of economic sectors . . . but the pains of transition will not be long term, they will also definitely not be worse than the unhappiness that we have been plunged into by years of tariff addiction."¹⁰⁰ He asked the question: "How can an economy that is more poorly equipped in almost every respect withstand the competition of an industry and agriculture working with better production conditions without protecting itself with extra-high tariffs?" The answer was simple: "The poor economy can compete with the rich when the wages and all other forms of income are correspondingly smaller." He put it bluntly: "When we have faced the necessary consequences completely, when the standard of living has sunk low enough, income has fallen far enough, then the economy can progress, business as usual. . . . When the skilled workers in export industry have moved into the coal mines, maybe into agriculture and other economic sectors too, whose products can be better exchanged for qualified export goods and the rest of the workers, insofar as possible, have emigrated, then maybe all will be employed again, granted at a pronouncedly lower standard of living."¹⁰¹ For Haberler, Austria was a prototypical case of small state in the storms of globalization. As he had written a few years earlier, huge countries like the United States and the British "world empire" might be able to follow policies of stabilizing the internal price level, but small countries needed to remain attractive to foreign investment and therefore had to concentrate on stabilizing their currency.¹⁰² There was no escape from the discipline of the world economy.

It was essential that policy makers not cave to popular demands. A case in point was the demand for stabilization of commodity prices in the wake of the stock market crash. In 1931 Haberler wrote against the idea of stabilizing the price level for certain commodities. He acknowledged that under a scheme of stabilized prices "social friction is less,

since the worker can then be offered rising wages and a larger share—at the expense of rentiers—in the social product,” but the outcome would be inflation. He said that he would personally rather risk the “increase of social friction” than risk inflation.¹⁰³ Here he followed his mentor Mises, who complained that governments had been captive to “public opinion, which looks for salvation in low rates of interest and rising prices.” Because the business world desired cheap credit, governments encouraged banks to print money, but short-term profits “in the long run must inevitably create a situation of crisis and depression.”¹⁰⁴ Public pressure must be resisted by the banks, schooled by economists on the consequences of their actions. Only then could international trade based on a reliable currency standard be preserved.

Faced with the imperfect world of strikes, tariffs, and democratic pressure on banks for loose credit, Haberler turned to an ideal type to defend his prescription of free trade. In his 1930s writings, he began with a model of what he called a “spaceless closed economy embracing the whole world” and introduced “one by one the circumstances which divide and disintegrate that economy.”¹⁰⁵ He explained that he used the category of “countries” in quotation marks because the distribution of resources relevant to a model of world economic integration did not necessarily align with “political borders.”¹⁰⁶ This optic bracketed the political, creating a vision of the world that was either pre- or postnational, depending on how one looked at it. The whole earth was a container of natural endowments over which political communities made claims. Haberler’s ideal policy would make reality more closely resemble the model of a “spaceless” world economy where neither man-made nor geographical obstacles hindered the most efficient allocation of the earth’s resources through the mechanisms of the free market. Imagining a spaceless world was not pure fantasy in the 1930s. In some cases it had come close to reality. Haberler pointed out that telephone and telegraph links meant that markets for currency, stocks, and commodities reacted nearly in tandem.¹⁰⁷ Local and world prices moved together.¹⁰⁸ Many goods were “international” insofar as it was more profitable to import them from overseas than produce them at home. Transportation chased communication. Both tended toward the disappearance of distance.

Haberler saw the world as a hypothetical unity and proceeded to catalog the obstacles that disrupted that unity. Distance was gradually being overcome. Man-made legal obstacles of customs duties and tariffs persisted. He wrote that the "raising of tariff walls" had "exactly the same consequences as changes in transportation cost," meaning that they created a vertical, rather than horizontal, distance for goods to travel.¹⁰⁹ He was repeating what had become common wisdom at the League of Nations. In 1932 Salter wrote that "the place which protective tariffs occupy in the world's economy and, regarded, as a whole and inevitable effect, are perfectly clear. They are like the natural impediments of mountain range or other obstacles to transport which increase the price paid for the benefits and economies resulting from the interchange of products of widely sundered regions."¹¹⁰ The liberal geography of the League economists cast tariffs as metaphorical barriers with height to be climbed over.

Yet most mettlesome of all were the obstacles that impeded the free movement of that most essential commodity: human labor. Haberler saw labor as sticky but highly versatile when forced to move. He praised workers for their ability to adapt but condemned them for wanting to stay in place. The danger lay where labor gained allies that acted as anchors. He blamed organized labor and "state intervention in labor questions in connection with unemployment insurance and unemployment relief" for decreasing labor's "mobility and adaptability."¹¹¹ Trade unions were not only anchors. Like Mises, he saw them as walls. He described unions as "artificial obstacles to entry into certain occupations"—barriers upheld through "monopoly power" over the commodity of human expenditure of effort.¹¹² For free trade to work, the barriers of the trade union needed to fall. Only by being subject to the push and pull of demand within the nation-state could the nation-state container for labor remain intact.



After the First World War, Austrian liberals like Mises and Haberler felt that the shattered world must be rebuilt by a process of metaphorical and literal demolition. Striking workers and tariffs to shelter domestic

industries were both defined as walls to be destroyed. Paradoxically, Austrian liberals saw this demolition as a purely negative process, as if it were only a question of clearing space. But knitting commercial space back together was very much an active process. The core cohort of the neoliberal intellectual movement that had coalesced in Vienna had found their closest partners in the Businessman's International of the ICC and the League of Nations. Both of these bodies looked like partners for reestablishing the boundaries of capitalism's two worlds. Capital, goods, and wages must be free, irrespective of national frontiers. Novel in Haberler's theory was the rescue of the nation-state as a container for labor. His theory of comparative costs suggested that free trade could compensate for the absence of international labor migration as long as internal barriers established by unions were struck down. Haberler's vision revealed that the Europe of fortresses was a way of seeing like a commodity. The walls between nations were to fall for goods but not for people.

As we will see in chapter 2, the economic constitution of the world suffered a second existential blow with the Great Depression of the 1930s. The stage shifted from Vienna to Geneva as liberals fled the coming fascist wave, and the negative liberal vision of clearing space or eliminating obstacles would give way to a productive neoliberal program of finding new extra-economic conditions to protect the world economy. Mises received a Geneva professorship in 1934, and members of his seminar saw their master off with the wish that "his strong spirit will show the League of Nations the way."¹¹³