

The Nation-State and the World Economy between Two Eras of Globalization, 1913-1975
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**Let the World Economy Rule:
How Neoliberals Imagined the World After Empire**

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My talk today is part of a book project, under advance contract with Harvard University Press, with the working title of *Let the World Economy Rule: How Neoliberals Imagined a World After Empire*. Today I will share a part of the research that relates to Ludwig von Mises and his time in Vienna, but wanted to begin with a few minutes of overview, giving you a sense of how the overall narrative is framed.

My own work in the field follows the pioneering research of others, including Bernhard Walpen, Dieter Plehwe, and Philip Plickert in the German-speaking world, Angus Burgin and Daniel Stedman Jones in the English-speaking world, and many others, including, here in Italy, Fabio Masini at Roma Tre University.

I want to begin by spending a few minutes suggesting how looking at modern times through the eyes of neoliberal intellectuals can suggest something like a secret history of the twentieth century.

In the public imagination, the twentieth century in the global North looks like the rise of mass democracy, imperial competition, the cataclysms of two wars, divided by a depression and followed by what the French call the “glorious thirty” years of rising prosperity and levels of welfare. The end of that so-called “Golden Age” came in the 1970s when rising inflation combined with growing unemployment required a new term—“stagflation”—and apparently new remedies, ending the dream of endless growth.

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The booming 1990s and early 2000s slumped with the financial crisis of 2008, a crisis with an afterlife that has strained the European Union to the breaking point.

Looking back at this century, there are striking similarities between its beginning and its end. In 1900, as in 2000, people were preoccupied with the world economy, dazzled by the new possibilities opened up by technologies of communication and transportation. Though the word wasn't coined until the 1970s, hype around "globalization" was selling as well at the fin-de-siècle as it did at the end of the millennium.

There were also global fears. Then as now, the movement of people was seen as a threat to cultural identity and stability. Distant workers—usually in East Asia—always seemed about to outcompete Europeans and North Americans, thus taking their jobs.

Why did 1900 look so much like 2000? How did we go so far yet seem to progress so little? How has the world economy become part of nature, operating beyond human control and limiting the autonomy of any one nation or individual?

My book will provide one answer by revisiting the century through the lives of a small but influential group of economists. All born in either Germany or the Habsburg Empire, all born around 1900, they not only lived the twentieth century but they helped change it. In some ways, they willfully helped produce the world in 2000 that looked so much like that of 1900. Recreating a world that resembled that of the year of their birth required that some things change and some things not. More often than not, it meant a re-functioning of the state and economy so that, in the words of the aristocrat in *The Leopard*, "If we want things to stay as they are, things will have to change."

These economists were founders of an intellectual movement they called neoliberalism. The road did not always run smoothly nor was it triumphant in all of its particulars. Nor, obviously, can the many aspects of marketized life that go under the label of neoliberalism be attributed to a finite group of intellectuals. For all of the hand-wringing among its critics, and self-congratulation among its celebrants, neoliberalism remains one argument among many.

That said, as a political project, its many real world effects are documentable. One can write their histories. My book offers one such history by putting the neoliberal project into a longer and broader framework than other scholars have to date. The questions of empire, decolonization, and the world economy were at the heart of the neoliberal project from its very inception. This is a fact that scholars have all but ignored.

By seeing neoliberalism as a world project from its earliest origins—and not simply a collection of national ones—we can understand better how and why globalization in 2000 sounds and looks so much like the same discussion of 1900. Alongside a story of the twentieth century as the victory of nations over empires, we will also see it as a century of the world economy.

My book is intended as a secret neoliberal history of the twentieth century. It is not secret in the sense of being guarded or esoteric knowledge. Most of the material I use was published in academic presses and journals. But it is secret in the sense that it represents an alternative, overlooked account of the century's events. This is a history of the century where decolonization happened in 1919; fascism started off promisingly until it erected tariff walls; where the Cold War was secondary to the war against the Global

New Deal, the end of apartheid was a tragedy; and countries never really existed—only individuals and interest groups.

It's a history where the “Golden Age” of postwar capitalism was actually a Dark Age, governed by Keynesian delusions and misguided fantasies of global economic equality. It's about the development of a planet linked by money, information, and goods where the signature achievement of the century was not an international community, a global civil society or even democracy but an ever-integrating object called the world economy.

Indeed, it is the story of a century that faced democracy as a problem—democracy as successive waves of clamoring demanding masses, always threatening to push the functioning market economy off its tracks. For neoliberals, the democratic threat took many forms, from the white working class to the non-European decolonizing world, but its most consistent form was the labor union. In the segment from my work today, I will offer an early episode in this century of the world economy by looking at Von Mises in Vienna, and his engagement with the imagination and policy discussion of the interwar years. I hope to prove here as I do elsewhere that market conservatives, or neoliberals, as they would later call themselves, were global-minded from very early on.

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In the 1920s, Austrian economist Ludwig von Mises, Friedrich Hayek's mentor, commonly referred to as the father of neoliberalism, was dreaming of a flat earth. He was working at the Vienna Chamber of Commerce (slide), a position he had held since 1909 when he joined as a twenty-eight year old just finished his doctorate. The Chamber occupied a massive building (slide) on Vienna's showcase loop of boulevards, the

Ringstrasse, across the street from an even larger building designed as the War Ministry by the same architect in 1907 (slide). The Austrian eagle mounted on the front of the building was so big that an extra floor needed to be built to support it. After the lost war, the eagle was literally decrowned and it became a police barracks. Next to the Ministry and the Chamber was the Postal Savings Bank (slide), producing a symbolic trinity of sound money, security and enterprise that would define the neoliberalism of later decades.

Mises had worked in the War Ministry during the First World War.¹ He wrote a single article on the goals of trade policy in which he argued that national borders should be abolished, immigration barriers lifted, and that the German Empire was better off adopting free trade than quixotically pursuing territory in an already-occupied world.² After the article appeared, he was dispatched back to the front, possibly in retaliation for publishing a position that contradicted virtually the entire policy of the Central Powers. Mises set up a binary in the article that he would use for the rest of his life --between a world organized by the “principle of nationality” and self-determination, and one organized by the international division of labor, indifferent to nationality, across what he called “the entire inhabited surface of the earth.”³ Mises’s economic imagination was defined by this opposition: the nation versus the whole earth.

After 1918, Mises returned to the Chamber of Commerce. The building remained adorned with the double-headed eagle of the Dual Monarchy holding the bundled rods of the Roman fasces (slide). Mises may have been thinking of this seal when he wrote

¹ Jörg Guido Hülsmann, *Mises. The Last Knight of Liberalism* (Auburn, AL: Ludwig von Mises Institute, 2007), 274

² Ludwig Mises, "Vom Ziel der Handelspolitik," *Archiv für Sozialwissenschaft und Sozialpolitik* 42, no. 2 (1916), 578.

³ *Ibid.*, 580.

admiringly of the Roman symbol in 1927, that it did not obscure “the truth of the matter” that “the state is the apparatus of compulsion and coercion.”⁴ Contrary to his embrace by latter-day libertarians, Mises did not mean this in a negative sense. The application of state power was often necessary. In the same book, he also wrote admiringly about the fascists themselves, presumably the Italians, who he said, had, “for the moment saved European civilization” through their repression of Communism and won merit that “will live on eternally in history.”⁵ A strong, even fascist, state was a necessary response to the means used by workers to defend their livelihoods.⁶ Mises called accident and health insurance, unemployment benefits, trade unionism and strikes the “weapons of destructionism.”⁷ Labor stoppages, in particular, were “destructive means, designed to interrupt the movement of economic life. They are weapons of war which must inevitably lead to the destruction of society.”⁸ In a line removed from the English translation, Mises wrote in 1922 that “each and every strike is terrorism.”⁹

To understand this apparently wildly polemical formulation--that accident insurance, for example, might lead to the “destruction of society” — we have to unpack what Mises means by “society.” Unlike Margaret Thatcher, he did believe that it existed, and he even defined it. In 1922, he wrote that “society is the union of human beings for the better exploitation of the natural conditions of existence.”¹⁰ Society, even more succinctly, was “the division of labor” and “social evolution” was the “evolution of the

⁴ Ludwig Mises, *Liberalism*, 3 ed. (Irvington-on-Hudson, NY: Foundation for Economic Education, 1985), 80. Originally published in 1927.

⁵ *Ibid.*, 51.

⁶ Ludwig Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Fund, 1981), 382. Originally published in 1922.

⁷ *Ibid.*, 382.

⁸ *Ibid.*, 269.

⁹ Ludwig Mises, *Die Gemeinwirtschaft* (Jena,: Fischer, 1922), 470; The sentence is removed from the English translation. Mises, *Socialism: An Economic and Sociological Analysis*, 379.

¹⁰ Mises, *Socialism: An Economic and Sociological Analysis*, 247.

division of labor.”¹¹ It was not a coincidence that Mises paired the “interrupt[ion] of the movement of economic life” with the “destruction of society.” For him, society was synonymous with the ongoing motion of economic processes. To be against the free flow of commerce was literally to be *against society*. There was no added supplement beyond circuits of production and consumption. Liberalism concerned itself only with what he called “the things of the outer world,” those which could be counted, and those which could carry a price.¹²

These economic processes happened necessarily in space and across territory. The space of economic activity that Mises had in mind was the whole earth. His geography was global. “For the liberal,” he wrote, “the world does not end at the borders of the state...His political thinking encompasses the whole of mankind.”¹³ Mises’s discussion built from the German-language debates between historical school and marginalist economists about the nature of “the world economy” (*die Weltwirtschaft*) in the decades before the term entered other languages in the 1920s.¹⁴ Mises conceded somewhat cheerfully that his understanding of the world coincided in many ways with that of Karl Marx. He felt that Marx was a product of his time, that is, the 1860s, when free trade reigned in Western Europe and talk of a coming world government seemed plausible. After all, he pointed out, liberalism and Marxist socialism were both cosmopolitan.¹⁵ And the bourgeoisie, like the proletariat, was also inherently “international.”¹⁶ Where they differed was in the diagnosis of the outcome: where Marx saw increasing immiseration,

¹¹ Ibid., 242.

¹² Mises, *Liberalism*, 27.

¹³ Ibid., 148.

¹⁴ I deal with these debates at length in Quinn Slobodian, “How to See the World Economy: Statistics, Maps, and Schumpeter’s Camera in the First Age of Globalization,” *Journal of Global History* 10, no. 2 (2015): 307-32.

¹⁵ Ludwig Mises, *Nation, State, and Economy* (New York: New York University Press, 1983), 61. Originally published in 1919.

¹⁶ Ibid., 61.

Mises saw the road to prosperity, rudely interrupted by the tariff wars of the 1870s in response to the first Great Depression, then the rupture of the Great War, and the return of trade obstacles that followed.

Mises shared the global perspective of socialism but famously condemned it for lacking a means of allocating resources efficiently. Often neglected is the fact that Mises staged the “socialist calculation debate” not at the scale of the nation but at that of the world.¹⁷ He claimed that a hypothetical “general director of the world economy” was redundant because: “What would happen under ideal world socialism by order of the general director of the world economy is achieved in the ideal of the free world economy by the reign of competition.”¹⁸ In a market system, companies, capital and workers migrated to better yielding conditions of their own accord. To fail to migrate would be to fail and, ultimately, to starve—a strong motivator, to be sure.

Mises saw the earth as a vast territory of varying natural endowments which needed to be exploited as thoroughly as possible through the mobility of capital, labor and commerce. The drive toward productivity was axiomatic. He called it the “fundamental social law” of capitalism “to draw the greatest number of human beings into the personal division of labor and the whole earth’s surface into the geographical division of labor.”¹⁹

Life under what he called the “reign of competition” left admittedly little room for individual maneuver. Of the entrepreneur, he wrote, “The market controls him more strictly and exactly than could any government or other organ of society.”²⁰ For

¹⁷ Mises, *Socialism: An Economic and Sociological Analysis*, 178.

¹⁸ Mises, *Nation, State, and Economy*, 85.

¹⁹ Mises, *Socialism: An Economic and Sociological Analysis*, 403.

²⁰ *Ibid.*, 352.

workers it was similar: “As producer...a man is merely the agent of the community and as such has to obey.”²¹ The space for discretionary action one had was as a consumer. Capitalist society, he said, in an analogy he would use throughout this life, was a “consumer’s democracy...in which every penny represents a ballot paper.”²²

Amazingly, Mises saw the international division of labor as a process that, at least hypothetically, might one day be completed: It was, he said, “finite. When all men on earth form a unitary system of division of labor, it will have reached its goal.”²³ The eventual outcome of this process would be the emergence of what he called “ecumenical society” and, necessarily, an accompanying world super-state which would realize the failed promise of the League of Nations by divorcing itself from the impracticable principle of national self-determination and taking up its proper limited--but intensive--role in safeguarding trade, investment and migration.²⁴ The strong state would and should be scaled up to the global—which explains his calls for a “real” League of Nations in the 1930s and 1940s.

For Mises, the demands of the world economy trumped all other political claims. In discussing colonialism, for example, he remarked that “no chapter of history is steeped further in blood than the history of colonialism” but still insisted that keeping the colonies was the first priority once Europe become dependent on the empire for raw materials.²⁵ Self-determination might be thinkable but only under the control of a muscular super-state that could ensure the continuation of free trade.

²¹ Ibid., 352.

²² Ibid., 351-2. He took the analogy from Frank Fetter.

²³ Ibid., 245.

²⁴ Mises, *Liberalism*, 149.

²⁵ Ibid., 127.

For Mises, policy questions were always held to the touchstone of world-economic productivity. Similarly, his preferences for democracy rather than dictatorship, free labor rather than slavery, were purely functional. Letting people vote decreased the number of revolutions, and letting people work for a wage made them more productive than they were as human chattel.²⁶ The “reign of competition” matched human labor to the earth’s natural endowments in the most optimal way possible. Political institutions must caretake the pathways carrying mobile factors of production to immobile ones without seeking to “organize” them.²⁷

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What conditions produced Mises’s dream of the flat world economy? (slide - map) Austria was hit hard by post-1918 developments. The loss of its agricultural hinterland and the weight of reparations made it especially dependent on international trade. As one contemporary put it, Austria “was told as definitely as if it had been set down as a clause of the Treaty that she could no longer expect to feed herself, but would have to learn to live by her export trade.”²⁸

As Mises thought globally, he acted locally as the primary advisor of the Chamber of Commerce in a city and country governed by social democrats. His policy prescriptions in the 1920s had two sides, reminiscent of later models of export-oriented growth in development policy: open to the world market, and make the internal adjustments necessary to compete internationally.²⁹ This meant two key measures: push

²⁶ Ibid., 21, 42.

²⁷ Mises, *Socialism: An Economic and Sociological Analysis*, 231.

²⁸ “Problems Of Austria,” *The Times* (London, England), 13 Aug 1925.

²⁹ Kari Polanyi-Levitt notes the similarity between the League of Nations policy demands on Austria after the 1922 loan and the later IMF practice of “conditionality.” Kari Polanyi-Levitt, *From the Great Transformation to the Great Financialization: On Karl Polanyi and Other Essays* (London: Zed, 2013), 29.

down wages and cut taxes on industry. In a position statement for the Chamber, Mises wrote that “Austria’s future depends on free trade” and if their goods were “to be able to compete abroad,” wages would have to fall “far below their prewar level.”³⁰ The status of Austria as a commercial island surrounded by tariff walls and governed by social democrats presented a forest of obstacles to Mises and his colleagues. On the one hand, there were barriers to trade, on the other hand, barriers to the fall of wages to their “natural” level.

The year 1927 brought two apparent breakthroughs for the realization of the flat world vision. The first were a pair of conferences (slide): the World Economic Conference hosted by the League of Nations in Geneva in May and the Conference of the International Chamber of Commerce in Stockholm in July. The World Economic Conference was, as Patricia Clavin notes, the “first economic conference in history that claimed to be of and for the world.”³¹ The icon of the conference was the so-called Tariff Walls map, designed by British member of parliament Clive Morrison-Bell. Based on information gathered by the League of Nations, the model showed the countries of Europe, as the foreword had it (slide), “as a group of medieval fortified camps designed to impede progress.”³² This was the accompanying graphic.

The map was shown extensively in 1926 and 1927 at the Bank of England, the London Stock Exchange, and the International Chamber of Commerce. Delegates preparing for the World Economic Conference passed it in the foyer and it was displayed

³⁰ “The Restoration of Austria’s Economic Situation.” Position statement for the Austrian Chamber of Commerce and presented on August 28, 1922 in Ludwig Mises, *Monetary and Economic Policy Problems before, during, and after the Great War* (Indianapolis: Liberty Fund, 2012), 267, 269.

³¹ Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations, 1920-1946* (New York: Oxford University Press, 2013), 42.

³² Morrison-Bell, *Tariff walls: a European crusade*, vii.

to thousands of visitors on the shore of Lake Geneva during the conference itself.

Morrison-Bell claimed plausibly that his model brought the metaphorical term “tariff walls” into public discussion as a synonym for the pre-existing terms of “tariff barriers” or “obstacles to trade.” (slide)³³

In March 1927, Morrison-Bell displayed his model at the Austrian parliament, and then at Mises’s workplace at the Chamber of Commerce (slide).³⁴ The members of the Chamber were so intrigued that they requested their own version of the map, which Morrison-Bell delivered in 1929.³⁵ The Chamber also began collecting its own trade statistics, eventually gathering data on four times as many goods as the League of Nations itself.³⁶

The World Economic Conference passed near-unanimous declarations against trade barriers based largely on documents prepared by the International Chamber of Commerce, to which Mises was the Austrian delegate from 1925 onward. When the business leaders met later in 1927, they passed similar resolutions and noted that international institutions were increasingly turning to them for academic investigations and statistical data.³⁷

Even as national governments continued to move to protectionist measures, Mises found supporters for the dream of the flat world among the business internationalists of

³³ According to Google Ngram Viewer, both the terms “tariff walls” and “*Zollmauern*” increased steeply in print after the mid-1920s. <https://books.google.com/ngrams>. Accessed 18 Feb 2014. The term never caught on in French where “*barrière douanière*” remained the standard phrase.

³⁴ Morrison-Bell, 42. 61.

³⁵ Clive Morrison-Bell, *Tariff Walls: A European Crusade* (London: J. Murray, 1930), 65.

³⁶ Gottfried Haberler, *The Theory of International Trade with its Applications to Commercial Policy* (London: W. Hodge, 1936), 357.

³⁷ ICC, 25th Meeting of the Council, 24 Oct 1927. League of Nations Archive, R390, Doss 24789, Doc 62851, p. 2.

the ICC and the liberal knowledge producers of the League of Nations, causing some encouragement for the prospect of trade barriers falling over time.

Below the bird's eye perspective, the barriers of organized labor seemed more stubborn, but 1927 brought a bright spot for Mises there too. In mid-July, workers declared a general strike unauthorized by the social democratic leadership after a court acquitted a right-wing militiamen who had shot into a crowd and killed a child and man during a demonstration. At the sign of the electrical current being cut to the city's streetcars at 8 am, workers marched on city hall, and then to the Palace of Justice where some protesters entered and began to burn the building, while others blocked firemen from accessing the hydrants to douse the flames.³⁸

Feeling pushed to a radical solution, the police chief received emergency powers, suspending the rule of law and giving the order to open fire on the demonstrators. Police killed protesters with rifles in the center of the city, and then drove out to worker's housing complexes in the suburbs and killed more. After three days, eighty-nine people were dead and over a thousand injured.³⁹ The workers' movement was permanently crippled.

The July 15 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 profoundly, leading him to devote his life's work to understanding the relationship between crowds and power.⁴⁰ 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

³⁸ Douglas D. Alder, "Decision-Making Amid Public Violence; The Vienna Riots, July 15,1927," *Austrian History Yearbook* 19-20, no. (1983-1984), 251.

³⁹ *Ibid.*, 254.

⁴⁰ Irene Stocksieker Di Maio, "Space in Elias Canetti's Autobiographical Trilogy," in *A Companion to the Works of Elias Canetti*, ed. Dagmar C. G. Lorenz (Rochester, NY: Camden House, 2004), 183.

cleansed the atmosphere like a thunderstorm. The social-democratic party has used all means of power and yet lost the game.”⁴¹

The means used in the suppression, which delivered a blow to many at the time, appeared to be accepted lightly by Mises. From his perspective, democracy had ceased to fill its primary function in July 1927: it did not prevent revolution. In that case, 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 the social democrats were able to secure was that the government would not use its emergency powers to abolish unemployment benefits and social housing.⁴²

Yet these cuts were precisely what Mises and the Chamber felt was needed to return Austrian exports to competitiveness.⁴³ As the most influential member of a three-person Economic Commission appointed by the chancellor in 1930, Mises argued that the terms of trade, the interest rate and most commodity prices were determined by the world economy, and were thus out of the control of Austria itself. The only things they could change were wages and taxes, meaning both had to be lowered to bring down production costs.⁴⁴ The Chamber went further, promoting the passage of an “anti-terror law” (*Anti-Terror-Gesetz*) to be used against striking workers, casting organized labor outside of the protection of the law.⁴⁵ The newspaper for which Mises wrote articles, called for the “actual depoliticization of the economic” (*wirklichen Entpolitisierung des*

⁴¹ Quoted in Hülsmann, *Mises. The Last Knight of Liberalism*, 580.

⁴² Alder, "Decision-Making Amid Public Violence; The Vienna Riots, July 15,1927," 256.

⁴³ Margarete Grandner and Franz Traxler, "Sozialpartnerschaft als Option der Zwischenkriegszeit? Liberal-korporatistisches Krisenmanagement am Beispiel der Wirtschaftskonferenz von 1930," in *February 1934. Ursachen* ed. Erich Fröschl and Helge Zoitl (Vienna: Wiener Volksbuchhandlung, 1984), 83.

⁴⁴ *Ibid.*, 94-5.

⁴⁵ *Ibid.*, 90.

Ökonomischen).⁴⁶ Needless to say, this form of “depoliticization” was very political, and entailed a dramatic application of executive power. Foreign competition, and by extension, “the world economy,” was a bludgeon to beat back social policy gains of worker insurance, severance pay, and unemployment benefits.

For Mises, as well as for Hayek, unions were the reason that the 1929 slump, which they believed was caused by loose monetary policy and overinvestment, turned into a depression. They believed unemployment was voluntary. As Mises put it, “Unemployment is a problem of wages, not of work...the assistance of the unemployed is what first creates unemployment as a permanent phenomenon.”⁴⁷ In a lecture to German industrialists in 1931 titled “The Causes of the World Economic Crisis,” Mises condemned governments who had “capitulated to the unions” who pursue their goals “by the use of violence.”⁴⁸ At the time, he was in England in his official capacity seeking foreign investment for Austria. Seen from the vantage point of the world, the barricades of wage rigidity built by unions needed to fall to allow economic activity, and thus “society” itself, to be reconstituted.

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In the 1920s, the world economy imagined by Mises and liberals was one where commodities and capital, if not always people, flowed unhindered. The world economy served multiple functions for Mises. It was a means of arriving at the greatest possible productivity within the global space. It was a means of recuperating Austrian prosperity after the loss of empire. As a transcendent point of reference, it justified unflinching opposition to wage and benefit demands of workers as a logic beyond questioning. Most

⁴⁶ *Ibid.*, 91.

⁴⁷ Mises, *Socialism: An Economic and Sociological Analysis*, 382.

⁴⁸ Quoted in Hülsmann, *Mises. The Last Knight of Liberalism*, 620-1.

illuminating for understanding the intellectual history of neoliberalism is to see how Mises viewed human organization through the optic of the world. In his vision, nations were fluid, amoeba-like with no necessary relationship to territory or democratic institutions. State power worked within defined parameters, as a “producer of security” as he put it, an activity which could occasionally require suspension of the rule of law.⁴⁹ In the final reckoning, people’s actions were to be ruled by the push and pull of demand in the world economy, seeking employment where populations were thin and needs existed, and having no choice but to leave those places when employment was no longer available and populations had grown. With the Habsburgs gone, and the crown removed from the eagle, Mises hoped that the empire of the world economy would have the capacity to organize and govern human affairs.

⁴⁹ Mises, *Socialism: An Economic and Sociological Analysis*, 120.