

## Modern Economic Thought and the “Good Society”

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### Liberalism and the “Good Society”

In liberal economic thought, debating the “good society” was particularly prominent in the middle decades of the twentieth century, a period in which, as John Maynard Keynes (1883–1946) put it, people were “unusually expectant of a more fundamental diagnosis.”<sup>1</sup> Good society here describes a normative horizon against which arguments are legitimized and toward which societies should strive. The term itself is mentioned rarely by economists. Mostly, they shared the notion that what is “good” cannot be defined in detail beyond the fact that it entails more than individual happiness and thus more than the hedonistic utilitarianism attached to the liberal tradition of the eighteenth and nineteenth centuries.<sup>2</sup> The economists and philosophers who, like Keynes, engaged in “a more fundamental diagnosis” of the link between economics and the “good society” conversed in a number of languages and argued in an institutional landscape that had been erected by and attached to the League of Nations in the 1920s and 1930s. Its funding mainly came from the League, governments, and private foundations. It was the first generation of internationally linked universities, foreign policy institutions, international affairs institutes, think-tanks, international organizations, and national

1 John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1936), 383.

2 Debates about the good society included reflections on the role of givens and values in liberalism. Fundamental for Keynes in particular and representative of a general discussion is the work of G. E. Moore, *Principia Ethica* (Cambridge: Cambridge University Press, 1903); and G. E. Moore, *Ethics* (London: Williams & Norgate, 1912). When thinking about society (and not only about the individual as its constituent) economists often made the point that they were not merely utilitarians. See particularly the discussion “Liberalism and Christianity” at the Mont Pèlerin Society’s first conference, April 1–10, 1947, held on April 4, in Liberaal Archief, Ghent, Belgium, Folder 01–1–08–14–01.

governments.<sup>3</sup> During the 1930s, economists were engaged in rethinking a liberal doctrine that would both provide a socially more balanced polity within the framework of a strong, independent state based on the rule of law and at the same time help create a peaceful international order. Some economists called their new agenda “neoliberalism.”

The nascent neoliberalism of this period might best be called ‘early neoliberalism,’ to distinguish it from the more contemporary neoliberalism that emerged in the 1970s and 1980s. While, today, neoliberalism is virtually never self-declared but a critical term describing others or, rather, describes a free market ideology that excludes the state as much as possible and imagines the market as a self-propelling machine that is best left to private citizens as its only contractors, early neoliberalism was not only self-declared, but economists identified with the concept, its agenda foregrounded a concern about the concept of the human person in connection with a concern about the social, and it attached quite comprehensive responsibilities for society to the state.<sup>4</sup>

3 Daniel Laqua, “Transnational Intellectual Cooperation, the League of Nations, and the Problem of Order,” *Journal of Global History*, 6(2) (2011), 223–247; Michael Riemens, “International Academic Cooperation on International Relations in the Interwar Period: The International Studies Conference,” *Review of International Studies*, 37(2) (2011), 911–928; Katharina Rietzler, “Experts for Peace: Structures and Motivations of Philanthropic Internationalism in the Interwar Years,” in *Internationalism Reconfigured: Transnational Ideas and Movements between the World Wars*, ed. Daniel Laqua (London: I. B. Tauris, 2011), 45–65; Katharina Rietzler, “Expertenwissen, Internationalismus und Idealismus: Amerikanische Stiftungen als Förderer der Disziplin der Internationalen Beziehungen in der Zwischenkriegszeit,” in *Jenseits der Anarchie: Weltordnungsentwürfe im frühen 20. Jahrhundert*, ed. Jens Steffek and Leonie Holthaus (Frankfurt am Main: Campus Verlag, 2014), 255–279; Jo-Anne Pemberton, “The Changing Shape of Intellectual Cooperation: From the League of Nations to UNESCO,” *Australian Journal of Politics and History*, 58(1) (2012), 34–50; and Hagen Schulz-Forberg, “Laying the Groundwork: The Semantics of Neoliberalism in the 1930s,” in *Re-Inventing Western Civilisation. Transnational Reconstructions of Liberalism in Europe in the Twentieth Century*, ed. Hagen Schulz-Forberg and Niklas Olsen (Newcastle upon Tyne: Cambridge Scholars Press, 2014), 13–39.

4 The semantics of the concept of the human person are not free from power relations. The concept of the human person, which has inspired international lawyers as well as Christian thinkers, can be interpreted as fertile ground for the emergence of human rights, which semantically (partly) build on Christian interpretations of the human person; see S. Moyn, *Christian Human Rights* (Philadelphia: Pennsylvania University Press, 2015). Yet the concept entails even racist undertones, when interpreted in a way that would put each human person in his or her supposed place within a hierarchy among different humans (and thus secure white leadership). See Mark Mazower, *No Enchanted Palace: The End of Empire and the Ideological Origins of the United Nations* (Princeton: Princeton University Press, 2009), particularly the chapter on the South African prime minister Jan Smuts, and his vision and role related to the UN, pp. 28–65. For colonialist and racist undertones in early neoliberal thought see also Quinn Slobodian, “The World Economy and the Color Line: Wilhelm Röpke, Apartheid, and the White Atlantic,” *German Historical Institute Bulletin Supplement*, no. 10 (2014), 61–87.

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Furthermore, early neoliberalism strongly argued for two more key conditions for a sustainable free (and, thus, “good”) society, namely the price mechanism and the rule of law. The price mechanism describes a market in which the cost and the number of goods traded are not predefined. Prices are not tagged on products, but emerge freely through the interplay of supply and demand. Conscious of the need to support national labor and production to sustain social peace, early neoliberals did not insist on one global free market, however. They insisted on the international compatibility of national markets and polities. As long as the price mechanism could unfold without inhibition, national markets’ labor supply could be influenced by decisions on working conditions and working hours, for example. Tariffs could be imposed.<sup>5</sup> Similarly, currency exchange rates could be used to support national economies without infringing on the making of prices inside markets. The latter were among the accepted forms of state intervention from a liberal point of view.<sup>6</sup> Generally speaking, the state could intervene in manifold ways as long as whatever it did would not infringe on the price mechanism. Any social policy and state intervention needed to take place in a transparent manner and within a balanced budget.<sup>7</sup> The red line never to be crossed was conscious making of prices in a top-down manner by defining the quantity and cost of a product. The price mechanism’s function or dysfunction was the benchmark for any form of state action characterizing so-called liberal interventionism.

While the price mechanism served as a way to ward off top-down tendencies of an economically active state, the rule of law, in the arguments of early neoliberals, served as insulation against a notion of politics that finds source and reference for legitimate rule solely within the boundaries of the nation-state. The rule of law served as the normative framework of the state. Politics may unfold freely, but within its limits, and, what is more, in a way that allows international cooperation. This, for early neoliberals, was essential to avoid a form of politics that merely pleases populist tendencies, which might quickly turn into a state-led economy. To avoid any deviations from the liberal core, economics needed to be joined with law at the constitutional level of the liberal society. An economic order that considered social needs and guaranteed free markets simultaneously (termed a “competitive order”

5 See one of the most well-known and outspoken experts on state intervention, Jacques Rueff, *Épître aux dirigistes* (Paris: Gallimard, 1949), 52–60.

6 Friedrich Hayek, “The Economic Condition of Inter-State Federalism,” *New Commonwealth Quarterly*, 5(2) (1939), 131–149.

7 Jacques Rueff, *L’ordre social* (Paris: Librairie de Médicis, 1948), esp. 556–567. See also Rueff’s interventions at the Walter Lippmann Colloquium in Louis Rougier, *Compte-Rendu des Séances du Colloque Walter Lippmann* (Paris: Librairie de Médicis, 1939).

by early neoliberals<sup>8</sup>) had to be erected from its legal source and not by politics alone to keep both laissez-faire and illiberal tendencies at bay. Questions related to the segments of society and the economy in which the price mechanism should reign led to constant discussion, tensions, and redefinitions. The contestation of early neoliberalism's core concepts – the human person, the price mechanism, and the rule of law – is a defining element of modern economic thought's grappling with the ways in which the “good society” might be achieved. At the same time, this contestation reconfirmed the fundamental importance of the concepts.

Among the early neoliberal economists prominently engaged in debating the good society in Europe during the middle decades of the twentieth century were (here listed alphabetically) Louis Baudin (1887–1964), Constantino Bresciani-Turroni (1882–1963), Luigi Einaudi (1874–1961), Walter Eucken (1891–1950), Friedrich August von Hayek (1899–1992), Robert Marjolin (1911–1986), Louis Marlio (1878–1952), Alfred Müller-Armack (1901–1978), Lionel Robbins (1898–1984), Wilhelm Röpke (1899–1966), Jacques Rueff (1896–1978), and Alexander Rüstow (1885–1963). They engaged prominently with fellow economists and philosophers (and fellow neoliberals) like Raymond Aron (1905–1983), Michael Polanyi (1891–1976), Karl Popper (1902–1994), and Louis Rougier (1889–1982), the Dutch humanist Johan Huizinga (1872–1945), fascist economists such as Luigi Amoroso (1886–1965), legal philosophers like Bruno Leoni (1913–1967), Hans Kelsen (1881–1973) and his anti-liberal counterpart Carl Schmitt (1888–1985), and their American colleagues Aaron Director (1901–2004), Milton Friedman (1912–2006), Frank Knight (1885–1972), Walter Lippmann (1889–1974), and Henry Simons (1899–1946). All of them debated the ideas of Keynes and Keynesianism.

Early neoliberalism was formulated more precisely by the participants at the Walter Lippmann Colloquium (WLC) held in Paris at the International Institute for Intellectual Cooperation (IIIC) in late August 1938.<sup>9</sup>

- 8 See the discussion following Hayek's introductory paper at the Mont Pèlerin Society, April 1, 1947, *Liberal Archief*, Folder 01-1-08-14-01, particularly the intervention by Aaron Director. Furthermore, see an already edited and slightly changed version: Friedrich Hayek, “Free Enterprise and Competitive Order,” in Friedrich Hayek, *Individualism and Economic Order* (Chicago: Chicago University Press, 1948), 107–118.
- 9 François Denord, *Néo-libéralisme version française: Histoire d'une idéologie politique* (Paris: Demopolis, 2007), esp. 112–125; Serge Audier, *Néo-libéralisme(s): Une archéologie intellectuelle* (Paris: Grasset, 2012), esp. 59–164; and Serge Audier, *Le Colloque Lippmann: Aux origines de néo-libéralisme* (Lormont: Éditions Bord de l'Eau, 2008). In these books neither Denord nor Audier includes the decisive institutional element of the transnational intellectual and institutional landscape shaped by the IIIC. For this see Schulz-Forberg, “Laying the Groundwork.”

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The influence of the American public intellectual and political consultant Walter Lippmann and his programmatically titled 1937 book *An Inquiry into the Principles of the Good Society*<sup>10</sup> was particularly marked among European interlocutors. This eloquently written book amplified many of the positions shared among liberal economists in Europe. The early neoliberal agenda is forcefully outlined in the book; the concept of the human person is central, as is the rule of law and the necessity to allow prices and markets to develop on their own, though within certain limits necessary for keeping the social peace and for making liberalism not only more social, but also more sustainable. It was also written at a time in which not many key books with a similar focus and depth existed,<sup>11</sup> yet the general questions it addressed were pondered within extensive transnational networks. How can a national social and political order be reconciled with an international one to secure peace? How can peaceful change be achieved? Can a common value system be achieved internationally?

The role of economics within all these larger questions was fundamental, and the economists mentioned above were not only connected with each other, but also connected to the policy-making institutions informing international institutions and carving out the language for international order. Lippmann’s book provided a uniting and succinct synthesis for a liberal way to actively create a good society. As one of the most influential and internationally known scholars from the German ordoliberal variety of early neoliberalism, Wilhelm Röpke, illustrated in his introduction to the German translation of Lippmann’s treatise, the book “had an overwhelming impact on both sides of the Ocean that was amplified by translations and it gave the discussion about possibilities and forms of ‘neoliberalism’ the most numerous and fertile inspirations.”<sup>12</sup>

Finally, Lippmann was highly prolific at the time, well known for his work for President Woodrow Wilson, his publications on public opinion, and his

10 Walter Lippmann, *An Inquiry into the Principles of the Good Society* (Boston: Little, Brown & Co., 1937).

11 The works available and renowned among liberal economists were few. Among the most circulated and translated was Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer Verlag, 1922), which was translated into Swedish (1930), English (1936), and French (1938) during the 1930s. Further points of orientation were Lionel Robbins, *Economic Planning and International Order* (London: Macmillan, 1937), translated into French in 1938; Louis Rougier, *Les mystiques économiques: Comment l’on passe des démocraties libérales aux états totalitaires* (Paris: Librairie de Médecis, 1938); and Jacques Rueff, *La crise du capitalisme* (Paris: Éditions de la Revue bleue, 1935).

12 Wilhelm Röpke, “Einführung,” to Walter Lippmann, *Die Gesellschaft freier Menschen* (Bern: A. Francke Verlag, 1945), 25–33, p. 28.

frequent interventions in public debate.<sup>13</sup> His standing certainly helped European economists to get heard.<sup>14</sup> When the French publishing house Librairie des Médecis provided its translation in 1938 (calling it *La cité libre*), the IIC tasked Louis Rougier with organizing the colloquium. This philosopher and key intellectual within the French group of thinkers engaged in reshaping liberalism had gained prominence following his publications on the fragility of liberal democracies and economies.<sup>15</sup>

According to the “Agenda of Liberalism” developed at the WLC, the “good society” comprised five key elements. Beside the price mechanism, the state must, second, put in place and guarantee a legal order to safeguard the market’s development and to legally justify any intervention. Third, political liberalism must embrace the law as the ultimate cornerstone of legitimacy, and the process of codifying law must be based on representative debates and capable of establishing general norms. Fourth, such a legal regime constitutes the liberal method to “control the social.” Fifth, a liberal state is responsible for continuously providing society with five essential elements, to which end taxes may be imposed: national defense, social insurance, social services, education, and scientific research.<sup>16</sup>

The proponents of and contributors to a re-emergent liberalism did not develop this agenda for a new kind of liberalism in isolation and within closed circles, quite the contrary. Within the transnational landscape of actors and institutions emerging in the 1920s they built their ideas in conversation with and in contestation of different viewpoints, particularly fascism and socialism; and Keynes as well as Keynesianism. They were also not confined to careers in the closet of scholarship. The new landscape allowed international mobility between both countries and roles. For example, Alfred Müller-Armack, the German economist who coined the concept of a social market economy in the postwar period (and who argued in support of fascist corporatism before the war<sup>17</sup>), was a university professor, but also a member of the

13 See Walter Lippmann, *Public Opinion* (New York: Harcourt, Brace and Co., 1922); and Walter Lippmann, *The Method of Freedom* (New York: Macmillan, 1934).

14 For information on how the relationship between Lippmann and Hayek developed and what Hayek expected from the link see Ben Jackson, “Freedom, the Common Good, and the Rule of Law: Lippmann and Hayek on Economic Planning,” *Journal of the History of Ideas*, 73(1) (2012), 47–68.

15 Rougier, *Les mystiques économiques*; François Denord, “Aux origines du néo-libéralisme en France: Louis Rougier et le Colloque Walter Lippmann de 1938,” *Le Mouvement Social*, no. 195 (April–June 2001), 9–34; and Schulz-Forberg, “Laying the Groundwork.”

16 Paper given by Walter Lippmann at the WLC, see Rougier, *Colloque Walter Lippmann*, reprinted in Audier, *Le Colloque Lippmann*, 485–486.

17 Alfred Müller-Armack, *Staatsidee und Wirtschaftsordnung im neuen Reich* (Berlin: Junker and Dünnhaupt, 1933).

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government administration and close collaborator of the German Minister of Economics, Ludwig Erhard; Robert Marjolin was a researcher for a think-tank, a member of the government, the secretary-general of an international organization (the Organisation for European Economic Co-operation, OEEC), and a member of the European Commission. In the 1920s, before taking up his role as general manager for the Bank for International Settlements from 1938 to 1959, Roger Auboin had been actively involved in founding the journal *L'Europe Nouvelle*, to which other early neoliberals also contributed. As well as being French President de Gaulle's postwar specialist on money and gold, the internationally recognized expert on currencies and liberal state intervention Jacques Rueff was also secretary for financial matters at the League of Nations and first president of the International Council for Philosophy and Humanistic Studies at UNESCO after the war from the late 1940s until 1955. These leading economists were attached to the same transnational networks as other scholars concerned with international relations. In fact, the International Studies Conference, a permanent organization run by the IIIC in the interwar period, was a very important platform for economists as well as political theorists, philosophers, and other academics and intellectuals concerned with recasting the global order.<sup>18</sup> And while, in 1948, the German émigré theorist of international relations Hans Morgenthau (1904–1980), who moved within the same networks as, and was inspired by, both Carl Schmitt (with whom he broke after a personal meeting)<sup>19</sup> and Hans Kelsen (with whom he worked in Geneva), coined the realist dictum that “nations meet under an empty sky from which the Gods have departed,”<sup>20</sup> values mattered for early neoliberals (not necessarily Gods, which mattered only for some) when it came to constructing the state and its economy within an international order. As the responsibility of the state and with it its administrative bodies grew increasingly comprehensive, normative ideas of statehood actively populated the skies above nations in the liberal imagination.<sup>21</sup>

18 Riemens, “International Academic Cooperation on International Relations in the Interwar Period.”

19 For a critical reading of Morgenthau putting him closer to both Schmitt and Hayek, see Philip Mirowski, “Realism and Neoliberalism: From Reactionary Modernism to Conservatism,” in *The Invention of International Relations Theory*, ed. Nicolas Guilhot (New York: Columbia University Press, 2011), 210–237.

20 Hans Morgenthau, *Politics among Nations* (New York: Alfred A. Knopf, 1948), 249.

21 In relation to liberal international thought, see particularly Susan Pedersen, “Getting out of Iraq – in 1932: The League of Nations and the Road to Normative Statehood,” *The American Historical Review*, 115(4) (2010), 975–1000.

Yet, how social could any state's market economy be before it lost its liberal identity? From the late nineteenth century until the interwar period, social functions of the state increased in Europe, from Bismarck's social security bills in Prussia to the origins of the welfare state in the England of, particularly, Lloyd George before World War I when the concept of 'new liberalism' emerged.<sup>22</sup> Reworkings of liberal economic thought through the inclusion of welfare emerged in Sweden and England, and had a lasting European impact on liberal economic thought.<sup>23</sup> In England, particularly Leonard Trelawny Hobhouse (1864–1929) and John Atkinson Hobson (1858–1940) worked on ideas concerning a social liberalism. William Beveridge (1879–1963) and Keynes further developed their thought. Beveridge was one of the most important and politically influential academics of his time, beginning his career as the research assistant of Beatrice and Sidney Webb and having a stellar career at the London School of Economics (LSE, which was founded by the Webbs in 1894 on the template

22 For the origins of the Prussian social reforms see Hermann Beck, *Origins of the Authoritarian Welfare State in Prussia: Conservatives, Bureaucracy, and the Social Question, 1815–70* (Ann Arbor: University of Michigan Press, 1995); and Reinhart Koselleck, *Preußen zwischen Reform und Revolution: Allgemeines Landrecht, Verwaltung und soziale Bewegung von 1791 bis 1848* (Stuttgart: Klett-Cotta, 1967). For an interpretation of the impact of the Prussian model, see Wolfgang Streeck and Kozo Yamamura (eds.), *The Origins of Nonliberal Capitalism: Germany and Japan in Comparison* (Ithaca and London: Cornell University Press, 2001). The social question, which was prominent behind the Prussian social reforms, sparked the foundation of one of the most influential social-scientific organizations, the Verein für Socialpolitik (Social Policy Association), in 1872, where economists began a policy-conscious reflection connecting economics and concrete politics regarding ways to the good society (and of which both Hayek and von Mises were members). The critique of the Prussian reforms as something close to the original sin of the erroneously intervening state and the demise of the free-trade paradigm was also vividly discussed among early neoliberals in the 1930s and onwards as a root cause for the liberal crisis of the interwar years. See Lippmann, *An Inquiry into the Principles of the Good Society*, 135, for example. For the British case, key works of L. T. Hobhouse are *Liberalism* (London: Williams and Norgate, 1911); *Social Evolution and Political Theory* (New York: Columbia University Press, 1911); and *The Elements of Social Justice* (New York: H. Holt and Company). J. A. Hobson's work from the 1890s to the 1930s was extremely voluminous. In the context of this chapter the following publications may be highlighted: *The Problem of the Unemployed: An Enquiry and an Economic Policy* (London: Methuen & Co., 1896); *The Economics of Distribution* (New York and London: Macmillan, 1900); *The Crisis of Liberalism* (London: P. S. King & Son, 1909); *Towards International Government* (New York and London: Macmillan, 1915); *The Morals of Economic Internationalism* (Boston: Houghton Mifflin, 1920); and *Rationalism and Humanism* (London: Watts, 1933). For a discussion of the relation between socialism and new liberalism see Ben Jackson, "Socialism and the New Liberalism," in *Liberalism as Ideology: Essays in Honour of Michael Freedon*, ed. Ben Jackson and Marc Stears (Oxford: Oxford University Press, 2012), 34–52.

23 Roger E. Backhouse, Bradley W. Bateman, Tamotsu Nishizawa, and Dieter Plehwe (eds.), *Liberalism and the Welfare State: Economists and Arguments for the Welfare State* (Oxford: Oxford University Press, 2017).

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of Paris’s École Libre des Sciences Politiques, Sciences Po, founded in 1872 to serve as a private, independent source of elite formation) as its director from 1919 to 1937, when he moved to Oxford University and became Master of University College. His biggest legacy clearly is the Beveridge Report from 1942, which laid the foundations for the postwar welfare state in the United Kingdom and is the basis for his book *Full Employment in a Free Society*.<sup>24</sup> Additionally, Beveridge was a sought-after political consultant and during his years at the LSE among the most important figures not only nationally, but also internationally, when the LSE was probably the most important center of expertise catering for the provision of scientific input to the IIC’s global policy network. Similarly to Beveridge, Keynes was also very active both as a highly prolific academic and during spells within government, for example when he represented the United Kingdom at the Bretton Woods conference in 1944, and when one looks at the impact of those of his writings which were more accessible to the general public.<sup>25</sup> A brilliant economist at Cambridge University, he was also a member of the influential intellectual circle known as the Bloomsbury Group during the first half of the twentieth century. Both Beveridge and Keynes were members of the Liberal Party, yet, as Keynes said, pure capitalism was objectionable. “[W]isely managed,” however, it “can probably be made more efficient for attaining economic ends than any alternative system yet in sight . . . Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life.”<sup>26</sup> This relationship between as much market as possible and as much state as necessary, to paraphrase Karl Schiller,<sup>27</sup> draws the lines of the field within which economic thought in the twentieth century debated the “good society.”

24 William Beveridge, *Full Employment in a Free Society* (London: Allen and Unwin, 1944).

25 Keynes’s competences are probably most vividly illustrated in Lionel Robbins’s *Bretton Woods Diary* in the LSE Archives, folder: ROBBINS/6/1/2. See also Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013); on Keynes’s early years see Robert Skidelsky, *John Maynard Keynes: Hopes Betrayed, 1883–1920* (London: Penguin, 1994); how deeply disappointed Keynes was can be traced in John Maynard Keynes, *The Economic Consequences of the Peace* (London: Macmillan, 1919).

26 John Maynard Keynes, “The End of Laissez-Faire” in John Maynard Keynes, *Essays in Persuasion* (London: Palgrave Macmillan, 2010), 272–294, p. 294.

27 Schiller represents the social democratic side of early neoliberalism. He was a member of the Social Democratic Party, Minister of Economic Affairs from 1966 to 1972, and member of the Mont Pèlerin Society; he was also on good terms with Ludwig Erhard. His famous quote sums up the position German social democrats had developed toward the market economy in their Godesberg Program from 1959, which Schiller had influenced. See Erich Egner, *Studien über Haushalt und Verbrauch* (Berlin: Duncker & Humblot, 1963), 267, who attributes the quote to Schiller.

In their effort at welding a social element to liberalism in the 1930s and 1940s, French economists, for example, proposed a variety of terms ranging from “libéralisme social”<sup>28</sup> to “libéral-socialisme,”<sup>29</sup> “socialisme individualiste,”<sup>30</sup> “socialisme libéral,”<sup>31</sup> “libéralisme constructeur,”<sup>32</sup> and “néo-capitalisme” as well as “néo-socialisme”<sup>33</sup>, while in Germany Alexander Rüstow, a participant at the WLC and outspoken critic of laissez-faire liberalism, a friend of Walter Eucken and one of the foundational thinkers (together with Eucken) of Western Germany’s ordoliberalism and its model of a social market economy alongside Wilhelm Röpke and Alfred Müller-Armack, talked of a “neue[r] Liberalismus.”<sup>34</sup>

Ever since World War II, the Mont Pèlerin Society (MPS), which was founded in April 1947 on the initiative of Friedrich August von Hayek, has continued the discussion of fundamental questions of liberalism’s economy and society. The MPS was not the only institution in which early neoliberals from the 1930s continued their effort, however, as members of the WLC can be found in a string of national and international institutions. Unlike his fellow Austrian mentor and colleague Ludwig von Mises, who remained a staunch old-school liberal wary of any function of the state beyond implementing the law, Hayek, who is today often portrayed as the anti-Keynes of the twentieth century and almost exclusively associated with contemporary neoliberalism’s free-market ideology, was a colleague of Beveridge at the LSE in the 1930s and in fact agreed with some of the points made in the Beveridge Report. The practice of the welfare state in the 1950s led him to become increasingly disenchanted with the concept, however, and his position against state interventions took shape in his (at the time of its publication utterly ignored) *The Constitution of Liberty* (1960), which later inspired British prime minister Margaret Thatcher.<sup>35</sup> To his mind, it had turned into a top-down,

28 Louis Marlio, *Le sort du capitalisme* (Paris: Flammarion, 1938).

29 Alfred S. Jacquier-Bruère, *Refaire la France: L’Effort d’une génération* (Paris: Plon, 1945).

30 Roger E. Lacombe, *Déclin de l’individualisme?* (Paris: Les Éditions Denoël, 1937).

31 Carlo Rosselli, *Socialisme libéral* (Paris: Librairie Valois, 1930). Rosselli was Italian, but his work was first published in French. He was at that time living in Parisian exile.

32 Rougier, *Les mystiques économiques*.

33 Gaëtan Pirou, *Les doctrines économiques en France depuis 1870* (Paris: Armand Colin, 1934).

34 Alexander Rüstow, “Freie Wirtschaft, starker Staat. Die staatspolitischen Voraussetzungen des wirtschaftspolitischen Liberalismus,” in *Deutschland und die Weltkrise*, ed. Franz Böse (Munich: Duncker & Humblot, 1932), 62–69.

35 Friedrich Hayek, *The Constitution of Liberty* (Chicago: Chicago University Press, 1960); Richard Vinen, *Thatcher’s Britain: The Politics and Social Upheaval of the Thatcher Era* (London: Simon & Schuster, 2009); and Florence Sutcliffe-Braithwaite, “Neo-Liberalism and Morality in the Making of Thatcherite Social Policy,” *The History Journal*, 55(2) (2012), 497–520.

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planned economy, arbitrarily excuted by politics.<sup>36</sup> Today’s scholarship often uses Hayek’s think-tank as a point of access to the discussions about neoliberalism.<sup>37</sup> While the MPS was (and still is) an important actor in the field of economic thought and liberal philosophy, and while most of the economists mentioned in this chapter were members, it was never the only one and never represented ideological homogeneity. It was a place of broad discussion on the basis of shared concerns.<sup>38</sup> Particularly during its early decades, the various contestations about key liberal ideas and their operationalization are enlightening from a ‘good society’ perspective. The discussions of the early MPS meetings perpetuated the agenda laid out by the IIIC in the interwar years and the issues discussed within the newly emerging international organizations after 1945 and the whole international relations’ diplomatic and intellectual landscape. Among the topics under discussion were liberalism’s role within different policy fields, the task and the limits of state intervention, the role of history, the relation to former European colonies and the concept of development, the fundamental social presuppositions of liberalism, its relationship to Christianity, and its proper organization as a competitive order.<sup>39</sup> The discussion of European integration continued those on federalism within the IIIC landscape and the pro-European Federal Union

36 George Peden, “Liberal Economists and the British Welfare State: From Beveridge to the New Right,” in *Liberalism and the Welfare State. Economists and Arguments for the Welfare State*, ed. Roger E. Backhouse, Bradley W. Bateman, Tamotsu Nishizawa, and Dieter Plehwe (Oxford: Oxford University Press, 2017), 39–56.

37 Most importantly Philip Mirowski and Dieter Plehwe (eds.), *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge: Harvard University Press, 2009). More contextualized interpretations of the history of neoliberalism both before and after World War II are provided by Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge: Harvard University Press, 2012); and Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012), who, similarly to Jamie Peck, *Constructions of Neoliberal Reason* (Oxford: Oxford University Press, 2010) focus mostly on Hayek and Friedman on the one hand (Burgin and Stedman Jones) and on a very broad critical understanding of the term “neoliberalism” as shorthand for an individualist and minimal state ideology on the other hand (Peck).

38 For an overview on the history of the IMF and the Bretton Woods institutions see Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford: Oxford University Press, 1996); on the role of exchange rates in neoliberal thought see Matthias Schmelzer, *Freiheit für Wechselkurse und Kapital: Die Ursprünge neoliberaler Währungspolitik und die Mont Pèlerin Gesellschaft* (Marburg: Metropolis, 2010); and Matthias Schmelzer, “What Comes after Bretton Woods? Neoliberals Debate and Fight for a New Monetary Order,” in *The Nine Lives of Neoliberalism*, ed. Philip Mirowski, Dieter Plehwe, and Quinn Slobodian (London: Verso, forthcoming 2019).

39 See the first MPS conference’s agenda, April 1–10, 1947, Liberaal Archief, Folder 01–1-08–14-01.

from the late 1930s and early 1940s.<sup>40</sup> The MPS was an echo chamber for economists coming to terms with the pressing issues of their times.

European economic thought after 1945 continued to ponder the same questions as in the 1930s, albeit within a new global political and economic setting. Increasingly, since the 1940s, European integration was included as a real possibility in conceptualizations of the good society. The Marshall Plan meant a massive reconstruction program that was hardly confined to market forces alone. Its institutional implementer, the OEEC – directed by WLC participant Robert Marjolin – became a transnational nodal point for data generation, policy recommendations, and a new kind of policy science aiming at the harmonization of national economies and ensuring continuous growth.<sup>41</sup> Furthermore, the Bretton Woods institutions reorganized the financial system of the West, and the Cold War military and ideological entrenchment unfolded. Within this new institutional setup, economics redefined its position as a science of both fundamental academic and practical expertise, able to generate policy solutions conducive to peace and prosperity based on a liberal script, even though there were disagreements within the discipline about the best way to enact such a liberal script, and early neoliberals, for example, strongly argued against the fixed-exchange-rates mechanism of the Bretton Woods institutions.<sup>42</sup>

Already by the 1930s, the increasingly comprehensive approach to economics had grown into econometrics with the foundation of the Econometric Society and the journal *Econometrica*. Ragnar Frisch (1895–1973), the Norwegian economist and first recipient of the Nobel Memorial Prize in Economics, founded the Econometric Society in December 1930 together with Joseph Schumpeter (1883–1950) and Irving Fisher (1867–1947). It was Frisch who had introduced the distinction

40 See Tommaso Milani, “From Laissez-Faire to Supranational Planning: The Economic Debate within Federal Union (1938–1945),” *European Review of History / Revue européenne d’histoire*, 23(4) (2016), 664–685; Or Rosenboim, “Barbara Wooton, Friedrich Hayek and the debate on democratic federalism in the 1940s”, *The International History Review* 36(5) (2014), 894–918; and further developing on the role of federalism among efforts at building a global order see Or Rosenboim, *The Emergence of Globalism. Visions of World Order in Britain and the United States, 1939–1950* (Princeton: Princeton University Press, 2017); and archival information at the LSE Archives, BEVERIDGE-ADDENDA 6–11. Economists involved with the IIC and present at the WLC also participated at Federal Union activities related to Anglo-French cooperation, for example. Here, Hayek, Robbins, and Beveridge met again with Baudin, Bourgeois, Marlio, Rougier, and Rueff (see LSE Archives, BEVERIDGE-ADDENDA 9).

41 Matthias Schmelzer, *The Hegemony of Growth: The OECD and the Making of the Economic Growth Paradigm* (Cambridge: Cambridge University Press, 2016).

42 Schmelzer, *Freiheit für Wechselkurse und Kapital*.

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between “macro” and “micro” economics to distinguish a comprehensive approach from contained, smaller questions, and the discipline of economics increasingly gathered data, mathematized its methodology, and began building “models.”<sup>43</sup> The breakthrough for macroeconomics was Keynes’s *General Theory*, which, just like early neoliberalism, strove simultaneously to save liberal capitalism and be conducive to peaceful relations, both inside and between nation-states.<sup>44</sup>

One of the central elements of macroeconomics is business cycle theory. It combines an understanding of economic expansion and contraction with a reflection on adequate policies for both phases and thus informs the actual construction of the “good society.” It is also a field on which Keynes and the early as well as the contemporary neoliberals strongly disagree. The League of Nations (together with of the largest funders for economic research at the time, the Rockefeller Foundation) was a nodal point for the developments in business cycle research.<sup>45</sup> Von Mises and Hayek stepped forward with their Austrian version, which built on the two Austrian economists Carl Menger (1840–1921) and Eugen von Böhm-Bawerk (1851–1914) and the works of Knut Wicksell (1852–1926) from Sweden.<sup>46</sup> What von Mises and particularly Hayek stressed was that the roots of the bust are to be found in an erroneously steered boom.<sup>47</sup> Ultimately, and until today, this logic allows neoliberals to claim that the reason for an economic crisis lies in earlier mismanagement, calling for more reform of the market rather than intervening with a social or

43 Frisch called it “macro-dynamic analysis” in Ragnar Frisch, *Propagation Problems and Impulse Problems in Dynamic Economics* (Oslo: University Institute of Economics, 1933), 2.

44 Keynes, *The General Theory of Employment, Interest, and Money*, 382: “I have mentioned in passing that the new system might be more favourable to peace than the old has been. It is worthwhile to repeat and emphasise that aspect.”

45 Important contributions to business cycle theory were Joseph Kitchin, “Cycles and Trends in Economic Factors,” *Review of Economics and Statistics*, 5(1) (1923), 10–16; N. D. Kondratieff and W. F. Stolper, “The Long Waves in Economic Life,” *Review of Economics and Statistics*, 17(6) (1935), 105–115; and Gustav Cassel, *The Theory of Social Economy* (London: Fisher Unwin, 1923). Joseph Schumpeter, *Business Cycles. A Theoretical, Historical and Statistical Analysis of the Capitalist Process* (New York: McGraw-Hill, 1939) was recognized only after the war due to the overpowering influence of Keynes at the time (and because of the war).

46 Foundational were Carl Menger, *Grundsätze der Volkswirtschaftslehre* (Vienna: Braumüller, 1871); and Eugen von Böhm-Bawerk, *Kapital und Kapitalzins* (Innsbruck: Wagner, 1884). Wicksell’s important works were also published in German early on. See Knut Wicksell, *Geld und Güterpreise: Eine Studie über die den Tauschwert des Geldes bestimmenden Ursachen* (Jena: Gustav Fischer, 1898), which was translated into English only in 1936; and Knut Wicksell, *Föreläsningar i nationalekonomi, Del I: Teoretisk nationalekonomi* (Lund: Berlingska Boktryckeriet, 1906), translated into English with an introduction by Lionel Robbins in 1934.

47 Friedrich Hayek, *Prices and Production* (London: Routledge, 1931).

moral political impetus.<sup>48</sup> Austrian business cycle theory was cutting-edge in the 1930s, and before it increasingly embraced Keynes' ideas (still far from any 'ism' at the time) by the end of the decade<sup>49</sup> the League built on it to tackle the economic problems in Central Europe after the unraveling of the Russian, Austro-Hungarian, German, and Ottoman empires. It initiated the Danubian Economic Study (co-funded by the Rockefeller Foundation), one of the first attempts in Europe to manage crisis and build nation-states through global governance,<sup>50</sup> and the Austrian Business Cycle Institute, founded by von Mises and Hayek (and funded by Rockefeller as well), was tasked with providing the scientific tools for data generation and policy recommendation.<sup>51</sup>

Like early neoliberalism, macroeconomics found fruitful soil within the League of Nations' institutional landscape since the early 1930s and was professed by, among others, the Swedish economists Gustav Cassel (1866–1945) and Wicksell, who (beside the Austrians) influenced not only von Mises and Hayek, but also Gottfried Haberler (1900–1995) and Wilhelm Röpke, who each presented business cycle theories as well. Haberler worked on a theory particularly for the League and, like Hayek, focused on the relation between boom and bust. He found that a disconfigured market expansion could be regarded as the main reason for economic crisis.<sup>52</sup> Röpke developed his theory throughout the 1920s, when he became a renowned economist in Germany at a very young age. In a report to the German government on the solutions to the economic crisis from 1931, he came to conclusions similar to those of Keynes, whose *Treatise on Money* (1930) he endorsed. His business cycle theory has been regarded as being somewhere between Hayek and Keynes, and indeed Röpke discusses the two intensely. Crucially, however, Röpke remains in the paradigm of his time and looked for the causes of the bust in the maladjusted boom. His major English-language contribution to the field was *Cycles and Crises* (1936). The German original (1931) was first translated into Swedish (1934), reflecting the important

48 Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown* (London: Verso, 2014).

49 Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations, 1920–1946* (Oxford: Oxford University Press, 2013), 198.

50 See the archival folders in the Rockefeller Foundation Archive, RF-RG1-S100, Box 110.

51 See RF-RG1-S100. By then, the institute was directed by Oskar Morgenstern (1902–1977), who himself left Austria in 1938 and joined Princeton University, where his major academic contribution lay in the development of game theory together with John von Neumann, *Theory of Games and Economic Behavior* (Princeton: Princeton University Press, 1944).

52 Gottfried Haberler, *Prosperity and Depression* (Geneva: League of Nations, 1937).

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position of Swedish economic thought at the time, and only then into English on the initiative of Ragnar Nurkse from the Financial and Economic Section at the League of Nations.<sup>53</sup> Röpke did not have the time to incorporate a detailed critique of the *General Theory* into his manuscript, but signaled in his foreword that he strongly differed from Keynes’s “bold views.”<sup>54</sup> Indeed, the dividing line between early neoliberals and Keynes was connected to the latter’s rethinking of business cycles. He moved from the focus on maladjustments during boom periods to the very reasons for unemployment (inadequate demand) and an emphasis on counter-cyclical intervention. His solutions may strike us today as rather conventional, but at the time of their initial appearance they sent the world of economics into intense dispute.

The *General Theory* changed the setup of macroeconomics completely, and from the 1940s to the 1970s, the neoclassical synthesis<sup>55</sup> built on Keynes’s groundbreaking work and added early neoliberal elements. It considered involuntary unemployment and provided arguments for government spending when fiscal and monetary policies were not delivering effects on recovery fast enough after a decrease of demand. The background assumption supporting these policies was that a liberal good society is likely to emerge and sustain itself in conditions of full employment. The birth of a political economy focusing on the origins of unemployment through social-scientific tools remains one of Keynes’s biggest legacies.

Pinpointing certain conceptions of neoliberalism against certain readings of Keynes and Keynesianism is a tendency in contemporary scholarship, but, like the division of economics into ‘schools,’ is less illuminating when the question of the good society in European economic thought of the twentieth century is of interest. For early neoliberals and Keynesians, the goal was the same – to unite capitalism with social responsibility – and while the means were sometimes different, they often also overlapped. Röpke was convinced by much of Keynes’s economics but rejected his business cycle approach and his pragmatism when it came to values. Michael Polanyi, participant at the WLC, lifelong friend of Hayek, member of the MPS, and affiliate of the

53 Wilhelm Röpke, *Cycles and Crises* (London: W. Hodge, 1936).

54 Röpke, *Cycles and Crises*, vi.

55 The neoclassical synthesis, as a matter of fact, was a merger of Keynes’s ideas and neoliberal ones, swiftly after the *General Theory* had been published. See J. R. Hicks, “Mr Keynes and the ‘Classics’: A Suggested Interpretation,” *Econometrica*, 5(2) (1937), 147–159. Further important actors in merging Keynes with neoliberal thought were Maurice Allais and Paul Samuelson. See Maurice Allais, *Économie pure et rendement social: Contribution de la science économique moderne à la construction d’une économie du bien-être* (Paris: Recueil Sirey, 1945); and Paul Samuelson, *Foundations of Economic Analysis* (Cambridge: Harvard University Press, 1947).

Christian think-tank The Moot from 1946 to 1948,<sup>56</sup> was a convinced (albeit unorthodox) Keynesian,<sup>57</sup> and Lionel Robbins, inspired by von Mises and the Austrian School in the interwar period, turned into a Keynesian during the 1940s.<sup>58</sup> And Roger Auboin (1891–1974) and Robert Marjolin, participants of the WLC, implemented one of the most Keynesian policies in postwar Europe. As general manager of the Bank for International Settlements (Auboin) and director of the OEEC (Marjolin) they inaugurated and successfully completed the European Payments Union (EPU) from 1950 to 1958. The EPU was based on Keynes's ideas for an international clearing union which he had developed for the Bretton Woods conference in 1944. The system then in operation globally until 1973 was not based on Keynes's plan, however, but on the US position represented by Harry Dexter White. Keynes's idea was to replace the gold standard and the exchange rate between national currencies with an International Clearing Union based on an accounting unit Keynes had called *bancor*. Quite precisely, this plan was put into operation by the early neoliberal WLC participants Auboin and Marjolin in Western Europe, except that the *bancor* became the *Ecu*.<sup>59</sup>

Beyond methodological discussions and beside fixing imminent social needs, something deeper was at stake for early neoliberals: the very nature of the good society. They broadly agreed on core concepts necessary for such a renovated liberal order. These concepts, reinterpreted and reconnected during the 1930s, functioned like a basic tonality, a common key for variations of liberal economies and societies. The basic chord of early neoliberalism's good society was built on three elements. The root note, the ultimate point

56 Keith Clements (ed.), *The Moot Papers: Faith, Freedom and Society, 1938–1944* (London: Bloomsbury, 2010), 11.

57 See Struan Jacobs and Phil Mullins, "Friedrich Hayek and Michael Polanyi in Correspondence," *History of European Ideas*, 42(1) (2016), 107–130.

58 Both Robbins and Keynes traveled to Bretton Woods to represent the United Kingdom. In his diary, Robbins speaks very favorably about Keynes, and during the foundational meeting of the Mont Pèlerin Society he defends Keynes and admits his shift toward some Keynesian positions. See Robbins, *Bretton Woods Diary*, and the MPS files in the Liberaal Archief, Folder 01–1-08–14-01.

59 See already in 1950, at the inauguration of the EPU, P. B. (full name not specified in the original), "The European Payments Union: A Step towards Economic Integration," *The World Today*, 6 (1950), 490–498, p. 491: "The mechanism which has been chosen to achieve this objective borrows all that was good, and all the experience of technical administration, from the previous Intra-European Payments Scheme as administered for the Bank for International Settlements in Basle. It also bears distinct traces of inspiration from the late Lord Keynes's war-time proposals for an International Clearing Union." Marjolin found his way to Keynes during his doctoral dissertation years after reading Wicksell, Hayek, Myrdal, and Hicks. See Robert Marjolin, *Le travail d'une vie: Mémoires 1911–1986* (Paris: Robert Laffont), 52.

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of reference and source of legitimation, was the concept of the human person and its dignity and inviolability; the major third was the theory and policy of the price mechanism; the perfect fifth was the rule of law.

### Values, Prices, and the Rule of Law in Early Neoliberalism

“If we are liberals, it is because we think that liberty should allow the realization of certain values,”<sup>60</sup> Marjolin exclaimed at the WLC in 1938 in the discussion following Lippmann’s presentation of the Agenda of Liberalism. The greater share of the colloquium’s participants agreed to call their new agenda “neoliberalism.”<sup>61</sup> The term was rarely used enthusiastically by its proponents, however. Rüstow and Baudin were probably among its most engaged champions.<sup>62</sup> Others, like von Mises and Hayek, refrained from using it, and some applied it rather grudgingly, mainly to identify an agenda that was, while broad, a list of givens for building a good society with a liberal heartbeat.

That political systems would organize their societies by a conscious choice of economic policies was the consensus view at least by the 1930s.<sup>63</sup> A strong state positioned above politics needed to be guaranteed, as Rüstow, for example, exclaimed: “The new liberalism in any case, which can be defended today, and which I defend together with my friends, demands a strong state, a state above the economy, above interested people, there, where it belongs.”<sup>64</sup> Early neoliberal economic thought was deeply concerned with

60 Marjolin in Rougier, *Colloque Walter Lippmann*, 486.

61 They literally took a majority vote on the term that should identify the new agenda for liberalism. L. Marlio illustrates this in the opening discussion of the Centre International pour la Reconstruction du Libéralisme (CIRL) in Paris, in 1939, following talks by himself, by L. Rougier, and by J. Rueff. See “Centre International d’études pour la rénovation du libéralisme, Le néo-libéralisme,” Inaugural discussion on March 8, 1939, reprinted in *Les Essais. Cahiers bimestriels* (Nancy: Didry et Varcollier, 1961), 86–108, p. 94.

62 See as late as 1961, Alexander Rüstow, “Paläoliberalismus, Kommunismus und Neoliberalismus”, in *Wirtschaft, Gesellschaft und Kultur: Festgabe für Alfred Müller-Armack*, ed. Franz Greiß and Fritz W. Meyer (Berlin: Duncker & Humblot, 1961), 61–70; and Louis Baudin, *L’Aube d’un nouveau libéralisme* (Paris: Librairie de Médecis, 1953), particularly “Le Néo-libéralisme,” 142–169.

63 See Moritz J. Bonn, *Wealth, Welfare or War: The Changing Role of Economics in National Policy* (Paris: International Institute of Intellectual Co-operation, 1939), 48; and Hagen Schulz-Forberg, “Rejuvenating Liberalism: Economic Thought, Social Imagination and the Invention of Neoliberalism in the 1930s”, in Hagen Schulz-Forberg (ed.), *Zero Hours: Conceptual Insecurities and New Beginnings in the Interwar Period* (Brussels: P.I.E.–Peter Lang, 2013), 233–268.

64 Rüstow, “Freie Wirtschaft, starker Staat,” 69.

the state and with the values that inform its basic norms. Indeed, the concept of the basic norm, stemming from the work of the legal theorist Hans Kelsen<sup>65</sup> (professor at the Geneva Institute of International Studies at the same time as von Mises) comes quite close to the function of values in early neoliberal thought.

It is instructive to see how neoliberalism developed in contestation with fascist thought, which was in its internationally recognized prime in the early 1930s.<sup>66</sup> By the mid to late 1930s, it had become clear to many that national-socialist Germany was not a social vision after all, but the “completest development of the nation in arms.”<sup>67</sup> During the Great Depression, however, Italy’s fascism was studied with some curiosity. Making a similar claim on the individual’s rights, risks, and responsibilities as its economic basis, fascism proposed to protect the market actor within its economic theories.

Among the internationally most recognized fascist economists was Luigi Amoroso (a foundational fellow of the Econometric Society like Keynes and Rueff<sup>68</sup>). He was part of the general trend to mathematize economics, and his work on price development and elasticity was influential for measuring market power in order to see whether any tendencies toward monopoly are virulent.<sup>69</sup> Amoroso described three main failures of laissez-faire during the IIC’s conference on “State and Economic Life,” held in London in the spring of 1933 and bringing together liberal, fascist, and national-socialist perspectives in a debate about the philosophical aspects of state intervention (among other things). At the conference, many of Europe’s leading economists were present. Keynes was invited as well, yet, since he was busily working on the *General Theory*, he declined the invitation because he had to “make it a rule to cut out almost entirely occasions for expounding or discussing orally the sort of questions about which I write.”<sup>70</sup>

<sup>65</sup> Hans Kelsen, *General Theory of Law and State* (Cambridge: Harvard University Press, 1949), 110–122; and Hans Kelsen, *Pure Theory of Law* (Berkeley: University of California Press, 1969 [1934]).

<sup>66</sup> A. James Gregor, *Mussolini’s Intellectuals: Fascist Social and Political Thought* (Princeton: Princeton University Press, 2005); and Jens Steffek, “Fascist Internationalism,” *Journal of International Studies*, 44(1) (2015), 3–22.

<sup>67</sup> Lippmann, *An Inquiry into the Principles of the Good Society*, 66.

<sup>68</sup> “Memorandum in re: the Econometric Society,” 3. Document retrieved from the website of the Econometric Society: [www.dev.econometricsociety.org/sites/default/files/historical/Schumpeter-Frisch%20memo%20Sept%201931.pdf](http://www.dev.econometricsociety.org/sites/default/files/historical/Schumpeter-Frisch%20memo%20Sept%201931.pdf).

<sup>69</sup> His work has left a trace within economics as part of the so-called Amoroso–Robinson relation, which describes the relation between price, marginal revenue, and the elasticity of demand. It is not without irony that this relation is named after a fascist theoretician and one of the most well-known post-Keynesian economic thinkers, Jean Robinson, who increasingly moved toward Marxist and collectivist views.

<sup>70</sup> Keynes to H. Bowen, May 3, 1933, LSE Archives, BAILEY/2.

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The first flaw of liberalism, Amoroso argued, was the naïve liberal belief that a free market automatically generates the best possible society. “We see every day that that is not true.”<sup>71</sup> Second, liberalism claimed to be an ahistorical body of thought, a system capable of being understood without its history. Third, liberalism was both materialistic and deterministic. “According to determinism, man is powerless in the presence of social difficulties, and liberal agnosticism is based on the fundamental conception of that philosophic system, according to which man is the plaything of forces immeasurably greater than himself.”<sup>72</sup>

Fascism, instead, extolled the man-made nature of economies and societies and placed “the political,” as Carl Schmitt termed it, at their center. Nothing is above the political: No moral ground higher than politics gives birth to legitimacy. Rather, the state and its citizens, which during liberalism were in critical opposition to each other, would unite in a dialectical synthesis and provide identity to a political regime.<sup>73</sup> For fascists, the ultimate root of any political legitimacy was thus found not to reside in a basic norm that presupposed a universal value seen as valid, as Kelsen might have put it.<sup>74</sup> Rather, the nation and its state represented a closed system. Along similar lines, Schmitt argued that the many problematic assumptions of liberalism were rooted in its claim to apolitical progress. In his *The Concept of the Political* (1932),<sup>75</sup> he contends that “one of the few truly un-discussable, not to be doubted dogmas of the liberal age” was the conviction that economics forms an autonomous entity untouched by ethics or aesthetics, religion, or least of all by politics.<sup>76</sup>

<sup>71</sup> Luigi Amoroso, speech at the League of Nations Sixth International Studies Conference, a Second Study Conference on “The State and Economic Life,” London, May 29 to June 2, 1933, in *The State and Economic Life* (Paris: International Institute of Intellectual Co-operation, 1934), 183–184.

<sup>72</sup> Amoroso, speech at the League of Nations Sixth International Studies Conference, 184.

<sup>73</sup> Amoroso, speech at the League of Nations Sixth International Studies Conference, 184.

<sup>74</sup> Kelsen, *General Theory of Law and State*, 116: “The basic norm is not created in a legal procedure by a law-creating organ. It is not – as a positive legal norm is – valid because it is created in a certain way by a legal act, but it is valid because it is presupposed to be valid; and it is presupposed to be valid because without this presupposition no human act could be interpreted as a legal, especially as a norm-creating, act.”

<sup>75</sup> Carl Schmitt, *Der Begriff des Politischen* (Berlin: Duncker & Humblot, 1932). Schmitt based his 1932 book on an article published under the same title five years earlier, Carl Schmitt, “Der Begriff des Politischen,” *Archiv für Sozialwissenschaft und Sozialpolitik*, 58 (1927), 1–33, and on a lecture given at the Deutsche Hochschule für Politik in 1928. The latter was the German variation of the international affairs institutes modeled on Chatham House after World War I and a key nodal point in Germany for the IIC network beside Heidelberg University.

<sup>76</sup> Schmitt, *Der Begriff des Politischen*, 66–67.

While early neoliberals shared the critique of laissez-faire, they were not inclined to give up “the very strong faith of liberalism” which does not only entail the human person in isolation but implies “responsibility for other people’s suffering.”<sup>77</sup> United in agreement about basics despite there being some disagreement about details and practices, early neoliberals attempted to carve out the basic concepts of a rebooted liberal state conscious of its social tasks, relying on social science, and endowed with the responsibility not only for building a good society nationally, but also for saving a certain idea of civilization globally and thus contributing to a peaceful organization of international relations. As Louis Rougier exclaimed at the WLC, “It is to descend into the fray in order to fight with the arms of the spirit; it is political action, it is fighting for the protection and the renovation of the only economic and political regime compatible with spiritual life, human dignity, the common good, peace among peoples and the progress of civilization: liberalism.”<sup>78</sup> To do this, a basic norm needed to be established firmly in position above the realm of politics. Neoliberalism’s “basic idea,” Louis Baudin explained in 1953, “is the rescue of the human person.”<sup>79</sup>

Early neoliberals all agreed that the good society needed to be based on values – what Röpke called the “ultimate foundations”<sup>80</sup> – defined by man and expressing universal beliefs. State institutions were not to be built for their own sake: They were not an end in themselves, but were needed to build an order in the light of the basic value. Again, Lippmann’s *Good Society* provided early neoliberals with a blueprint. He had argued that the historical achievement of civilization was that “[t]he inviolability of the human person was declared. Toward this conviction men have fought their way in the long ascent out of the morass of barbarism. Upon this rock, they have built the rude foundations of the Good Society.”<sup>81</sup>

States and their economies needed to be erected in the image of the true interpretation of this “rock,” they argued. To build this adequate order, neoliberals from Lippmann to Hayek and Rueff exclaimed,<sup>82</sup> it was vital to

77 Karl Popper, discussion statement, MPS “Liberalism and Christianity.”

78 Rougier, *Colloque Walter Lippmann*, 418.

79 Baudin, *L’Aube d’un nouveau libéralisme*, 146. 80 Röpke, “Einführung,” 28.

81 Lippmann, *An Inquiry into the Principles of the Good Society*, 378.

82 Lippmann, *An Inquiry into the Principles of the Good Society*, 359: “The ultimate concern of the liberal is with the enhancement of real values.” The whole article by F. Hayek “Individualism True and False” revolves around this division. Finally, J. Rueff, *L’ordre social*, 568–582, includes the possibility of non-democratic states having “true” rights if they follow a rule of law, allow the individual to act in the market and if there is a guarantee of the price mechanism.

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attain clarity over the difference between so-called true and false values. “Real values” rather than “pseudo-values” must be put in their correct place, argued Edith Eucken-Erdsieck (1896–1985) in the first edition of the *ORDO* yearbook from 1948.<sup>83</sup> In times of conceptual and political turmoil, when formerly self-evident ideas erode, reconfirmation is needed. “It is just here,” Lippmann contended, “that the ultimate issue is joined, on the question whether men shall be treated as inviolable persons or as things to be disposed of . . .”<sup>84</sup> In early April 1948, Röpke declared, “As an economist, I believe we have to say that the economy follows at second rank. This is the conclusion at which we arrived a year ago [at the foundational meeting of the MPS].”<sup>85</sup>

Schmitt, on the other hand, accused liberalism of using apolitical arguments to hide its ideological convictions. In particular, he contested Kelsen’s pure theory of law, whose definition of the basic norm, Schmitt claimed, was more political than anything else, all the more so because it pretended to be apolitical.<sup>86</sup>

For Kelsen, such a norm, while man-made, represented the essence of what societies regard as valid (not as true in the sense that physics is true and not as “good” in the sense of an unquestioned universal morality, but as something one agrees on consciously as a presupposition).<sup>87</sup> Echoing this basic difference between neoliberalism and anti-liberal thought, Alexander Rüstow, in a letter to Carl Schmitt from July 4, 1930, remarked on the relation between value-based rule of law and “the political”:

It seems to me that the idea of a democratic state based on the concept of humanity represents not only a possible, but in a certain way an unavoidable utopia . . . I am deeply convinced that on the level of the political, nation and the national state do not represent anything final, but that, rather, the more one is in favor of nation and the national state, the more one needs to admit the nature of its composite character.<sup>88</sup>

83 Edith Eucken-Erdsieck, “Chaos und Stagnation,” *ORDO*, 1 (1948), 3–15.

84 Lippmann, *An Inquiry into the Principles of the Good Society*, 375.

85 “Le Colloque d’Avignon,” Rougier Papers, Chateau de Lourmarin, Box R3, Annex.

86 Schmitt, *Der Begriff des Politischen*, 20, footnote 2.

87 Kelsen, *General Theory of Law and State*, 111: “The ground of truth of an ‘is’ statement is its conformity to the reality of our experience; the reason for the validity of a norm is not – like the quest for the cause of an effect – a *regressus ad infinitum*; it is terminated by the highest norm which is the last reason of validity within the normative system.” And it is “presupposed to be valid.”

88 Letter from Rüstow to Schmitt, July 4, 1930, Carl Schmitt Papers, Federal State Archive of North Rhine-Westphalia, Duisburg, RW 265–11879/3.

The relation of law to politics is a key figure of thought for early neoliberals in the middle of the twentieth century.<sup>89</sup> Accordingly, economics and law needed to be welded together to safeguard them from too much politics. To achieve a sustainable and ideal result when rebuilding liberal society and to avoid any bias, one would need to go to the ultimate norms and values of a state. The economy had to be in line with a liberal constitutionalism; and liberal constitutionalism, in turn, had to be in line with a particular understanding of economics.

In German *ordoliberalism*, the term used to capture this economy-based constitutionalism was *Wirtschaftsordnung*<sup>90</sup> (which was translated in the writings of Hayek, for example, as “competitive order”<sup>91</sup>) or *Wirtschaftsverfassung*<sup>92</sup> (economic constitution). Across the transnational network generally, at the hotspots of economic thought such as Chicago (where Henry Simons pioneered the new essential link<sup>93</sup>) the conviction spread that law and economics must speak from the same source. Constitutions could become truly market-conducive (and thus able to sustain a good society) only if lawyers either understand economics or collaborate with economists.<sup>94</sup> Confirming the need to reconcile economics and law, Lippmann had argued in his *Good Society* that “the progress of liberalism was . . . halted by the wholly false assumption that there was a realm of freedom in which the exchange economy operated and, apart from it, a realm of law where the state had jurisdiction.”<sup>95</sup>

If it is liberal, Rueff exclaimed when expanding on Lippmann’s argument, a civilization needed to be based not on any kind of law, but on “true law”:

89 Friedrich Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), for example, constructs already basic legal philosophical arguments in favor of a rule of law. See also his Italian friend and colleague, Bruno Leoni, “Verso una nuova teoria ‘pura’ del diritto,” *Il Politico*, 19(1) (1954), 80–84.

90 See Franz Böhm, *Die Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtsschöpferische Leistung* (Stuttgart and Berlin: Kohlhammer, 1937); Fritz W. Meyer and Hans Otto Lenel, “Vorwort,” *ORDO*, 1 (1948), vii–xi; and importantly Alfred Müller-Armack, “Die Wirtschaftsordnung sozial gesehen,” *ORDO*, 1 (1948), 125–154.

91 Hayek, “Free Enterprise and Competitive Order.”

92 Franz Böhm, Walter Eucken, and Hans Großmann-Doerth, “Unsere Aufgabe,” preface by the series editors to the book series *Ordnung der Wirtschaft*, in Friedrich A. Lutz, *Das Grundproblem der Geldverfassung* (Stuttgart: Kohlhammer, 1936), vii–xxi, pp. xx–xxi.

93 Simons was appointed director of the law department at Chicago University, where he hired, among others, Aaron Director, a founding member of the MPS. See William Davies, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition* (London: Sage, 2017), esp. Chapter 3, “The Liberal Spirit of Economics: Competition, Anti-trust and the Chicago Critique of Law.”

94 Böhm, Eucken, and Großmann-Doerth, “Unsere Aufgabe,” viii.

95 Lippmann, *An Inquiry into the Principles of the Good Society*, 191.

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Liberalism will never escape from the state of nature, the “rule of the jungle,” if it is not completed by the authoritative constraints necessary to impose a morality onto man. But, far from neglecting them, it spells out these constraints as the necessary aide-de-camp of its constitution. The liberal order requires the support of a morality, divine or human. Without such support, it will remain a social order, but an uncivilized one.<sup>96</sup>

By placing human dignity and a fundamental morality at the ultimate point of reference for its economics, early neoliberalism inevitably engaged with Christian thought, and vice versa.<sup>97</sup> In 1949, Alfred Müller-Armack explained that economics in his day

cannot live without the inclusion of values into its observations. [Science’s] task can only be to avoid value deceit and to strive for the acknowledgement of true orders of value as opposed to purely subjective interpretations of values. Such an order of values, for us, originates in Christian values.<sup>98</sup>

While stating a clear wariness toward organized religion, formulations placing Christian and humanitarian convictions side by side were commonplace among early neoliberals, and debates about the relation with Christianity emphasized the common root in the concept of the human person. The relation between liberalism and Christianity was on the agenda at the very first meeting of the MPS in 1947. The founder of the Chicago School, Frank Knight, a former Christian who had become an atheist, started the discussion and stressed the historical differences between a secular liberalism and the Church as well as generally illiberal tendencies within any religion. But, in theory, he conceded, liberalism and Christianity could lead a common life. In this context, Hayek asked “Does liberalism presuppose some set of values which are commonly accepted as a faith and in themselves not capable of rational demonstration?” He goes on to strategize, saying that “there is no chance of any extensive support for a liberal programme unless the opposition between liberals and Christians can somehow be bridged. This antagonism is an accidental accretion of liberalism, rather than one of the essentials to liberalism.”<sup>99</sup> For Christians among early

<sup>96</sup> Rueff, *L'ordre social*, 563.

<sup>97</sup> For the German debate, in which neoliberalism’s social claims were taken as merely skin deep by Church-related authors, see, for example, Helmut Paul Becker, *Die soziale Frage im Neoliberalismus: Analyse und Kritik* (Heidelberg: F. H. Kerle, 1965); E. E. Nawroth, *Die Sozial- und Wirtschaftsphilosophie des Neoliberalismus* (Heidelberg: F. H. Kerle, 1961); and Hans Peter, *Freiheit der Wirtschaft: Kritik des Neoliberalismus* (Cologne: Bund Verlag, 1953).

<sup>98</sup> Alfred Müller-Armack, *Diagnose unserer Gegenwart: Zur Bestimmung unseres geistesgeschichtlichen Standorts* (Bern and Stuttgart: Haupt, 1949), 224.

<sup>99</sup> Hayek, discussion statement, MPS “Liberalism and Christianity”.

neoliberals, the social order emerging on the tonality of the human person's dignity, the price mechanism, and the rule of law was acceptable, indeed necessary. As Eucken stressed, "I am a Christian, and I want to say that from a purely Christian point of view I regard the competitive order as essential." Christians without "any formal dogma, but agreeing on man having an eternal life" would be the ones who are both liberals and Christian, he concluded.<sup>100</sup>

Thus recognizing the importance of a consciously constructed moral order, economists embedded legal and philosophical elements in their thought. Here lies one of the crucial differences between the laissez-faire liberalism of the eighteenth and nineteenth centuries and the strain of neoliberalism that flourished in the middle of the twentieth century, or, as Hayek put it, the difference between earlier understandings of free enterprise and the now consciously constructed "competitive order."<sup>101</sup> For the early neoliberals, free enterprise was supposed to take place within this competitive order, which was not unrestrained by any framework but rather based on a "social humanism"<sup>102</sup> and not on a pure laissez-faire individualism with social Darwinian qualities. Milton Friedman illustrated Hayek's distinction, explaining that "Neo-liberalism would accept the nineteenth-century liberal emphasis on the fundamental importance of the individual, but it would substitute for the nineteenth-century goal of laissez-faire as a means to this end, the goal of the competitive order."<sup>103</sup>

The crucial element linking the value base with practical politics was the concept of the price mechanism. Jacques Rueff compressed the early neoliberal perspective into the following formula: "If we wish to save civilization we need to reconstitute the price mechanism."<sup>104</sup> With the price mechanism, Röpke explained, "we are on the right track when our intention is to find the watershed between market economy and collectivism."<sup>105</sup> Societies leave the market economy and step into the realm of collectivism, he continued, when "allocation, that is the What and the How Much of production in all its branches, is not anymore determined by the price mechanism but by the order of an administrative

<sup>100</sup> Eucken, discussion statement, MPS "Liberalism and Christianity.

<sup>101</sup> Hayek, MPS 1947, opening speech.

<sup>102</sup> Müller-Armack, *Diagnose unserer Gegenwart*, 277–280.

<sup>103</sup> Milton Friedman, "Neo-Liberalism and Its Prospects," *Farmand* (February 1951), 1–4, p. 3.

<sup>104</sup> J. Rueff, in "Le Colloque d'Avignon," April 1, 1948.

<sup>105</sup> Wilhelm Röpke, *Maß und Mitte* (Zurich: Eugen Rentsch, 1950), 148.

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body.”<sup>106</sup> Tariffs as well as fiscal stimuli were in conformity with a liberal doctrine only as long as the price mechanism was guaranteed.<sup>107</sup> Within a market, prices must be able to form freely; and the citizen, conceptualized as a consumer who sustains his own sovereignty through the act of consumption, accordingly must be able to buy what he or she has reason to desire.<sup>108</sup> Political contestation about the sectors of society in which the price mechanism might run its course, where consumption ended and the state’s obligation to provide the common good more directly began, accordingly ensued and is still flaring. At the same time, early neoliberals also accepted that under certain circumstances the price mechanism might be shut down temporarily until conditions in which markets can be reintroduced are reached, as has happened in a number of cases during the postwar years in Western Europe, particularly in France.

Beside the *conditio sine qua non* of the price mechanism and the rule of law as necessary support systems for the ‘truly’ good society in which the human person’s inviolability was guaranteed, neoliberals invoked the role of science as a guardian for the liberal order. One of the most fundamental epistemological convictions they shared was that knowledge could never be absolute. Hayek’s formula of the “pretence of knowledge” sums this up vividly,<sup>109</sup> and Popper, among others, shares this basic critique of an epistemology claiming a holistic totality of data, when, ‘truly,’ neither a full possession nor a complete understanding of data allowing a full-blown, science-led construction of the social is possible.<sup>110</sup> Any claims on a total scope of human knowledge were merely pseudo-rationalist, evidence of the “hubris of ratio,” as Röpke called it.<sup>111</sup> This argument is deployed against “scientism,”<sup>112</sup> a false belief in human rationality, which was detected by early neoliberals in older liberalism’s belief in the *ratio* of nature and seen by them as surviving in contemporary socialist economic thought,<sup>113</sup> and later against so-perceived blind faith in the use of data within

106 Röpke, *Maß und Mitte*, 148. 107 Baudin, *L’Aube d’un nouveau libéralisme*, 157.

108 Rueff, *L’ordre social*, 95–102.

109 Hayek, Lecture to the Memory of Alfred Nobel, December 11, 1974, [www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/1974/hayek-lecture.htm](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1974/hayek-lecture.htm) 1.

110 Maybe most poignantly in Karl Popper, *The Poverty of Historicism* (London: Routledge, 1957).

111 Wilhelm Röpke, *Civitas Humana: Grundfragen der Gesellschafts- und Wirtschaftsreform* (Zurich: Eugen Rentsch, 1944), 107–112.

112 Röpke, *Civitas Humana*, 119–123.

113 This debate on the role of science and knowledge in constructing society, which has been raging since the late nineteenth century, is usually called the socialist calculation debate. For a prism about this debate see the exchange between Otto Neurath and Friedrich von Hayek on the epistemology of economics in John O’Neill, “Knowledge,

Keynesianist macroeconomics (as opposed to neoliberal macroeconomics based on Hayek and von Mises). Hayek had in 1947 called these claims expressions of “fierce rationalism,” which in the nineteenth century “exercised its influence mainly through the twin movements of Positivism and Hegelianism in an expression of intellectual hubris.”<sup>114</sup>

Positivism and “historicism” (to use Popper’s term)<sup>115</sup> were particularly criticized. Both ways of approaching knowledge were seen as flawed: Positivism suggested that knowledge is gained on the basis of assumptions deduced from imaginations of a purely natural order; historicism falsely implied that the study of history could lead to an understanding of historical progress and thus entailed the ability to uncover historical laws. A rift between earlier liberalism and any new liberalism needed to take this into account, Hayek argued in his opening speech at the Mont Pèlerin Society in April 1947, for indeed, he said, “the popular liberal creed . . . had antagonised many who shared the basic value of individual freedom but who were repelled by the aggressive rationalism which would recognise no values except those whose utility could be demonstrated by individual reason and which presumes science was competent to tell us not only what is but also what ought to be.”<sup>116</sup> Since science was among the main sources of information for any society, doing it “right” was essential for the good society.<sup>117</sup> Forceful critiques of the “historicists” Hegel, Comte, and Marx (whom

Planning and Markets: A Missing Chapter in the Socialist Calculation Debates,” *Economics & Philosophy*, 22(1) (2006), 55–78.

114 Hayek, Opening Speech at MPS, April 1, 1947, document 47\_I.1, p. 16. Concerning Hegel’s and Marx’s (and others’) ‘philosophies of history’ criticized as prophecy by neoliberals, see also Louis Rougier, *Genie de l’Occident* (Paris: Robert Laffont, 1969), 217–222.

115 For common arguments across languages see the very influential humanist and board member of the International Committee of Intellectual Co-operation in Geneva in the 1920s and 1930s, Johan Huizinga, *In the Shadow of Tomorrow: A Diagnosis of the Spiritual Distemper of our Time* (London and Toronto: Heinemann, 1936). Among neoliberals (in reference to Huizinga) see in particular Luigi Einaudi, “Ipotesi astratte ed ipotesi storiche e dei giudizi di valore nelle scienze economiche,” *Atti della Reale Accademia delle Scienze di Torino*, 78(2) (1942–1943), 57–119; Röpke, *Civitas Humana*, 119–123; and Popper, *The Poverty of Historicism*. On value positions within early neoliberalism see H.-J. Seraphim, “Kritische Bemerkungen zur Begriffs- und Wesensbestimmung der Sozialen Marktwirtschaft,” in *Wirtschaft, Gesellschaft und Kultur: Festgabe für Alfred Müller-Armack*, ed. Franz Greiß and Fritz W. Meyer (Berlin: Duncker & Humblot, 1961), 184–196.

116 Hayek, Opening Speech at MPS, April 1, 1947, document 47\_I.1, pp. 15–16.

117 On science’s assumed role, see for example Karl Popper, *The Open Society and Its Enemies* (London: Routledge 2002 [1945]), xxxi: “If in this book harsh words are spoken about some of the greatest among the intellectual leaders of mankind, my motive is not, I hope, the wish to belittle them. It springs from my conviction that, if our civilization is to survive, we must break with the habit of deference to great men. Great men make great mistakes . . . Their influence, too rarely challenged, continues to mislead those on whose defence civilization depends.”

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Popper criticized for “economic historicism”<sup>118</sup>) fill the pages of early neoliberals’ reasoning. History has neither direction nor any inherent meaning of its own, Popper “contend[s]. But this contention does not imply that all we can do about it is to look aghast at the history of political power . . . [W]e can . . . fight for the open society, for a rule of reason, for justice, freedom, equality.”<sup>119</sup> While history has no meaning other than that we give to it, liberals should stop “posing as prophets” and instead “become the makers of our own fate.”<sup>120</sup> History and values needed to be connected consciously in order to save and sustain Western civilization.

Overall, early neoliberalism was flexible, within limits, when it came to the political shape of the good society. Fundamentally shared values could take the shape of very different political realities. From the French presidential system to German ordoliberalism and social-democratic Sweden, postwar liberal reconstruction was built on the same values, and its various political forms were merely improvisations on the same basic chord. As Marjolin, then still director of the OEEC, explained in 1950, the differences between the various European countries might seem large, but when compared with regimes outside Europe, similarities become clear. Countries like Norway and Great Britain might be “dirigiste,” but the different European methods were all “founded on the same essential philosophy.”<sup>121</sup>

The basic chord of early neoliberalism was not exclusively welded to democracy alone, however. Lippmann rooted liberalism in democracy and Rüstow complained about the WLC’s new agenda’s lack of democratic commitment.<sup>122</sup> Others were more wary toward democracy, which was seen as a possibly populist system, where “the masses” took over (or could do so easily) and in which the state is under pressure to serve the interest of the many. Very soon, the neoliberal chord could become out of tune, the impartiality of the rule of law threatened by the amalgamation of the state with politics in the absence of an impartial legal regime, and the price mechanism quickly muddled when the state tries to please those same “masses.”<sup>123</sup> The best check on too much popular will would be a federal

118 Popper, *The Open Society and Its Enemies*, 311–320.

119 Popper, *The Open Society and Its Enemies*, 482.

120 Popper, *The Open Society and Its Enemies*, 484.

121 Marjolin 1950, talk given at the Society for Political Economy of Belgium, March 14, 1950, Robert Marjolin Papers, Fondation Jean Monnet, ARM 6/3/3.

122 Rüstow during discussion following Lippmann’s presentation of the Agenda for Liberalism at the WLC, see Audier, *Le Colloque Lippmann*, 487.

123 Röpke, *Civitas Humana*, 186–188; also, for a similar argument, see L. Robbins, Discussion at MPS on “Counter-cyclical measures, full employment and monetary reform,” April 7, 1947, who warned that public spending, to keep full employment at all

system in which shared elements of sovereignty keep nations within liberal limits and unable to change into populist variants of democracies.<sup>124</sup>

On the other end of the political spectrum, authoritarian states could have a liberal basic grid in the eyes of some early neoliberals. Fascism as such was mostly seen as an anti-liberal closed and nationalist system. Ludwig von Mises was among the few who thought it was “full of good intentions” and granted it an important position as a transitory political formation between a crisis of liberalism and a reconstructed liberalism.<sup>125</sup> In 1933, Alfred Müller-Armack even thought that fascist means were better suited to bring about liberalism’s ends.<sup>126</sup> With the clear definition of basic values above politics as a necessary condition for a liberal state, however, any collective system or any purely nationalist system was ruled out as an alternative by the 1940s as both would lead along the “road to serfdom,” as Hayek wrote, defying promises of social peace and prosperity.<sup>127</sup>

However, when the elements of the liberal chord of basic values, the price mechanism, and the rule of law are given, even authoritarian regimes could be run on a liberal script. Rueff’s “true laws” could take shape in democracies, but non-democratic systems could just as well erect a “true” social order.<sup>128</sup> In the early 1950s, Baudin accordingly expanded his list of neoliberal successes in Europe (where he had enumerated West Germany, Belgium, Sweden, England, and Italy as neoliberal countries) and included Portugal’s *Estado Novo* under its military dictator Antonio de Oliveira Salazar, which he perceived as a society rooted in individualist values and Christianity, run by a leader bound by law and morality and implementing a corporatist economy that allowed scope for private initiative. This qualified the country as neoliberal.<sup>129</sup> Indeed, Baudin was not the only one to include Portugal’s military dictatorship.

cost, could easily get out of hand and “if pushed too far, may change the type of society in which we live.” Public spending should, accordingly be guarded closely because the “state tends to go the same way as the herd.”

124 Wilhelm Röpke, *Internationale Ordnung* (Zurich: Eugen Rentsch, 1945), 55: “It is the federal structure that allows one to distribute political power among smaller and larger units within the state as well as among states.” See also Lionel Robbins, “Economic Aspects of Federation,” in *Federal Union: A Symposium*, ed. M. Channing-Pearce (London: Jonathan Cape, 1940), 167–186; and F. Hayek, “Inter-State Federalism” and the discussion at the first MPS meeting on April 3, 1947, “The Problems and Chances of European Federation.”

125 Ludwig von Mises, *Liberalismus* (Jena: Gustav Fischer, 1927), 45.

126 Müller-Armack, *Staatsidee und Wirtschaftsordnung im neuen Reich*, 40–41.

127 Hayek, *The Road to Serfdom*. 128 Rueff, *L’ordre social*, 583–587.

129 Baudin, *L’Aube d’un nouveau libéralisme*, 169.

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The country was a beneficiary of the Marshall Plan, a founding member of NATO, a member of the European Payments Union and firmly integrated into the postwar Western institutional framework from the start (as opposed to the Spain of General Franco).

From the 1970s onward, macroeconomic steering on Keynesian premises, along with the ideal of full employment as the central concept guiding economic thought and policy-making, were both receding. The basic chord began to be interpreted along more classical liberal lines when liberalism’s social responsibilities lost their primary position and so did the concept of full employment. The state, until the 1970s, was seen as able to interfere in the market effectively on the basis of the neoclassical synthesis. It was now increasingly written off as the exact opposite, namely as being ineffective, and welfare turned from being a guarantor of the good society through full employment and social peace to being a threat to the good society, supposedly quenching dynamics and growth as the economic basis for this same good society to develop and sustain itself.<sup>130</sup>

European integration increasingly merged national markets, capped nation-state sovereignty, introduced elements of shared sovereignty, and erected a strict rule of law nationally as a condition of membership and transnationally as a way to build a common European free market and society, making the European Court of Justice an important (and today increasingly criticized) agent of European integration.<sup>131</sup> It is clearly a liberal project, and much of its original design echoes with the thought of early neoliberals and Keynes. Since the 1980s, however, it has followed a more contemporary neoliberal idea in that the market forces are expected to create the best possible society in their wake and the concept of full employment has lost its unquestioned key position. Today, after the financial crisis of 2008, a crisis of globalization’s liberal narrative, and facing populist challenges that reclaim the identity of state and nation on the basis of “the political” rather than participating in the effort to realize basic values larger than the nation, liberal economists face a task similar to that of the 1930s. In all likelihood, a new social compromise will be on the European agenda in the years to come and a new kind of neoliberalism will be honed

<sup>130</sup> For a reflection on shifting economic narratives see Bo Stråth and Lars Magnusson, *A Brief History of Political Economy: Tales of Marx, Keynes and Hayek* (Cheltenham: Edward Elgar, 2016).

<sup>131</sup> See, for example, Jürgen Habermas, *The Crisis of the European Union: A Response*, trans. Ciaran Cronin (Cambridge: Polity Press, 2012).

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within the (still thriving, though strongly criticized) transnational networks of policy-shaping, in which economics and the “good society” are again more openly and more deeply discussed, albeit within a global context wholly different from the interwar as well as the postwar years. The alternative, quite clearly, is the unraveling of the European Union.

PROOF