

Hannes H. Gissurarson

Twenty-Four Conservative-Liberal Thinkers

Part II



New
Direction



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Menger solves the ancient problem of value: even if water is very useful, diamonds are more valuable because their marginal utility is higher.

Carl Menger

(1840–1921)

In 1871, Austrian economist Carl Menger transformed economics with a new theory of value and price.⁽¹⁾ What he did was to break up an economic good into units. A thirsty man finds his first cup of water delicious, but as the number of cups he consumes increases, the value of each of them for him goes down, to the point when an additional cup does not provide more satisfaction than something else on offer. This is the point where the marginal utility of water, as it was later called, will be equal to the price offered for the cup of water in the marketplace, or for something else with the same capacity to satisfy a need. The marginal utility of a good is the utility of an additional unit, which usually decreases with increased consumption, until demand meets supply at a mutually acceptable price. The ‘Marginal Revolution’ enabled Menger to resolve an old paradox, why diamonds are much more expensive than water, although water is much more useful than diamonds.⁽²⁾ It is because there is much more water than diamonds in the world. Therefore the marginal utility of water is much lower, although its total utility is much greater. While Menger’s analysis was rigorously scientific, it implied that two influential political creeds of his time, Georgism and Marxism, were based on erroneous theories. Furthermore, in a book on the methodology of economics, Menger made important contributions to the theory of spontaneous order—an order which was the result of human action, but not of human design. He was the founder of the ‘Austrian School’ of

(1) Almost simultaneously, and independently, two of Menger’s colleagues, William Stanley Jevons in England and Léon Walras in Switzerland, presented similar explanations of price formation.

(2) Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Bk. I, Ch. IV (Oxford: Oxford University Press, 1976), pp. 44–45.

economics to which two other eminent conservative liberals, Ludwig von Mises and Friedrich von Hayek, both belong.

Menger's Life and Works

Carl Menger was born on 23 February 1840 in the city of Neu-Sandez in Galicia which then belonged to the Austrian part of the Habsburg Empire, but which now is Nowy Sacz in Poland. He was the son of Anton Menger Edler von Wolfersgrün and his wife Caroline, born Gerzabek. His father was a lawyer who belonged to the fifth and lowest order of Austrian nobility, comparable to an English baronetcy, although his three sons did not use the title they inherited. Carl's father died when he was eight years old. He spent a lot of time on his maternal grandfather's estate in whose large library he encountered the works of Adam Smith and other economists. After grammar school, *Gymnasium*, Menger studied law at the University of Vienna in 1859–1860 and at the University of Prague in 1860–1863. Upon graduation he worked as an economic journalist and prepared for his doctoral dissertation, which he defended at the University of Cracow in 1867. He continued working as an economic journalist until he was in 1870 appointed to a position in the Prime Minister's Office in Vienna. A year later he published *Principles of Economics*, largely based on his observations of market behaviour as an economic journalist.⁽³⁾ He wrote the book in a state of morbid excitement: he knew he was transforming economics. It was however only slowly appreciated by others how original his analysis of value and price formation was. 'His fame rests on this work and through it his name will go down to posterity, for one can safely say that since Ricardo's *Principles* there has been no book,' Swedish economist Knut Wicksell wrote, 'which has exercised such great influence on the development of economics as Menger's *Grundsätze*.'⁽⁴⁾ Menger submitted the book as a thesis to become an unsalaried lecturer, *Privatdozent*, in

(3) Carl Menger, *Grundsätze der Volkswirtschaftslehre* (Wien: Wilhelm Braumüller, 1871); *Principles of Economics*, tran. by James Dingwall and Bert F. Hoselitz (Auburn AL: Ludwig von Mises Institute, 2007).

(4) Knut Wicksell, Carl Menger, *Ekonomisk Tidskrift*, Vol. 23, No. 4–5 (1921), p. 118. Wicksell added that it had been even more influential than the works by Jevons and Walras. Cf. Friedrich A. Hayek, Introduction, Menger, *Principles*, p. 21.

economics at the University of Vienna. In 1873 he became a fully paid professor, *Professor Extraordinarius*, and resigned his position at the Prime Minister's Office, to the surprise of his chief, Prince Adolf von Auersperg, who found it difficult to understand how anyone would leave a promising career in government. But for Menger economics was a passion. If he had seven sons, he would want all of them to become economists, he once exclaimed.⁽⁵⁾

In 1876 Menger returned to public service when he became private tutor to Crown Prince Rudolf, the eighteen year old son of Emperor Franz Joseph. The multi-ethnic Habsburg realm was in a permanent constitutional crisis. It had slowly formed over centuries as the dynasty had expanded its territories by conquest or marriage. 'Alii bella gerunt, tu felix Austria nube,' it was said: Let others wage war; you, fortunate Austria, marry. Thus, the Habsburg Empire was a union of many crowns, while the Archduke of Austria was also for almost four centuries the elected Holy Roman Emperor, presiding over a loose federation of German or German-dominated states. In 1804 the Archduke assumed the title Emperor of Austria, and two years later the Holy Roman Empire was dissolved after having existed for a millennium, although never really being Holy, or Roman, or an Empire. Between 1804 and 1867 the Habsburg Empire stretched over what is nowadays Austria, the Czech Republic, Slovakia, Hungary, Slovenia and Croatia, in addition to parts of Poland, Romania, and Italy. The Austrians lost their leadership of the German Confederation after defeat in a war against Prussia in 1866, and a year later they had to make a settlement with the Hungarians. The Habsburg dominions became a union between the Austrian Empire and the Hungarian Kingdom. The Austrian part was often called Cisleithania and the Hungarian part Transleithania, as a tributary of the Danube, Leitha, divided Austria and Hungary. But within both parts of the Realm there were many ethnic minorities. Cisleithania whose official name was 'The Kingdoms and Lands represented in the Imperial Council' was divided into seventeen crown lands. Transleithania whose official name was 'Lands of the Holy Hungarian Crown of St Stephen' was divided

(5) Hayek, Introduction, Menger, *Principles*, p. 36.

into Hungary proper, the Kingdoms of Croatia and Slavonia and the Principality of Transylvania.

The defeat against Prussia in 1866 had a similar salutary impact on Austria as Sweden's defeat in 1721 against Russia and Denmark's defeat in 1864 against the German Confederation: She turned inwards and started to pursue peace and prosperity instead of seeking glory on the battlefield. But the Austrians faced a much harder task than the Swedes and the Danes. While they managed to placate the Hungarians by the 1867 settlement, it caused discontent among smaller ethnic minorities such as the Poles, Czechs, Slovaks, Slovenes and Croats who demanded autonomy and resented the dominance of Germans and Hungarians in the now Dual Monarchy. The rise of nationalism in the nineteenth century greatly threatened the Empire, especially Cisleithania with its seventeen diets, one for each crown land. Menger influenced Prince Rudolf in a liberal direction, as his lectures to him and their correspondence show,⁽⁶⁾ and he travelled widely with him in the two years he served as his tutor. The tutor and his student even wrote together an anonymous pamphlet against the lack of public spirit in the Austrian nobility. Menger kept in touch with Prince Rudolf until his tragic suicide in 1889 which was brought about, Mises suggested, by the despair the heir to the throne shared with Menger over the future of the Empire although personal affairs may also have played a role.⁽⁷⁾ Sometime in the 1870s, Menger said to one of his colleagues: 'The policies as conducted by the European powers will lead to a horrible war that will end with gruesome revolutions, with the extinction of European culture and the destruction of prosperity of all nations.'⁽⁸⁾ But despite all its political problems, the Dual Monarchy in the latter half of the nineteenth century was a large free trade area, providing more opportunities for its citizens

(6) *Carl Menger's Lectures to Crown Prince Rudolf of Austria*, ed. by Erich W. and Monika Streissler, tran. by Monika Streissler and David F. Good (Cheltenham, Glos.: Edward Elgar, 1994).

(7) Ludwig von Mises, *Notes and Recollections* (1978), tran. by Hans Sennholz (Indianapolis IN: Liberty Fund, 2013), p. 23. Crown Prince Rudolf's suicide, alongside his mistress Mary Vetsera, is still shrouded in mystery. It is likely that Vetsera encouraged the already despondent Crown Prince to do what he did: In 2015, letters were found where she discussed a possible double suicide.

(8) Mises, *Recollections*, p. 23. Menger made the comment to Dr. Joachim Landau, a liberal Member of the Austrian House of Deputies and a good friend of his brother Max, apparently in the late 1870s.



Calm before the storm: The house of the Imperial Council in Vienna, the bicameral *Reichsrat* or parliament, for the Cisleithanian part (mostly Austria) of the Habsburg Empire, in 1900, the very year Menger was appointed to the House of Lords, *Herrenhaus*.

than they had known in previous centuries or were to know after its tragic collapse.⁽⁹⁾ It was an era not only of economic growth but also of increased tolerance. 'Live and let live' was the famous Viennese motto, which today still seems to me to be more humane than all the categorical imperatives, and it maintained itself throughout all classes. Rich and poor, Czechs and Germans, Jews and Christians, lived peaceably together in spite of occasional chafing,' Austrian writer Stefan Zweig observed in his eloquent autobiography.⁽¹⁰⁾

In 1879 Menger was appointed to the Chair in Political Economy at the University of Vienna. He was now *Professor Ordinarius* and became renowned for the force and clarity of his lectures. 'I have seldom, if ever, heard a lecturer who possessed the same talent for combining clearness and simplicity of statement with philosophical breadth of view,' an American visitor wrote. 'His lectures are seldom 'over the heads' of his

(9) Pieter M. Judson, *The Habsburg Empire: A New History* (Cambridge MA: Belknap Press, 2018). Judson refutes the myth that the Empire was dysfunctional and sees it instead as a force for progress.

(10) Stefan Zweig, *The World of Yesterday* (New York: Viking press, 1943), p. 29.

dullest students, and yet always contain instruction for the brightest.’⁽¹¹⁾ Readers of Menger’s *Principles* would also concur with Joseph Schumpeter: ‘He was a careful thinker who rarely slipped, if ever.’⁽¹²⁾ In contrast to Menger, economists in Germany tended to deprecate economic theory and instead mainly taught economic history or compiled surveys of the economy and its various sectors. Many of them also used their academic positions to promote socialism and were therefore called ‘Socialists of the Chair’, *Kathedersozialisten*. Frustrated by their rejection of economic analysis, in 1883 Menger published a critique of the German Historical School and a defence of economics as a scientific discipline, *Investigations into the Method of the Social Sciences*.⁽¹³⁾ Economics was according to him a science built on self-interest, scarcity, incomplete knowledge and subjective evaluation on the margin. The leader of the Historical School, Gustav von Schmoller, responded with a hostile review of Menger’s book against which Menger in 1884 wrote a rejoinder, *The Errors of Historicism in German Economics*.⁽¹⁴⁾ Later Schmoller went so far as to say that members of the ‘abstract’ Austrian School were unfit to take up positions at German universities.⁽¹⁵⁾

In his *Investigations*, Menger had explained that money was not originally created by government but developed spontaneously by individual decisions in the marketplace. In their exchanges, people tended to accept certain kinds of easily transferable commodities as payments, and these commodities gradually turned into money. Gold, with its relatively fixed supply, durability and divisibility, for example has long been a widely accepted medium of exchange. Menger published a celebrated paper on the origin of money in 1892,⁽¹⁶⁾ and in the same year the Habsburg Empire adopted the gold standard, on the

recommendation of a commission of which he was a leading member. When a currency is on the gold standard, its supply is not decided by government, but by the amount of gold held in reserve by the central bank: a bank note is a claim on the central bank, redeemable in gold. In 1900 Menger was elevated to the House of Lords, *Herrenhaus*, in the Imperial Council, the Parliament of the Austrian (or Cisleithanian) part of the Habsburg Realm. His brother Max, a liberal lawyer, was member of the House of Deputies; his other brother Anton, a law professor, was a leading socialist. The Menger brothers used to meet regularly with friends at a Viennese coffeehouse, Café Landtmann, close to the main building of the University, to debate ideas and current affairs. In 1903, however, Menger retired from his professorship even though he was only sixty-three years old. This was because of a personal scandal. He had had an affair with his housekeeper, Hermine Andermann, and she had given birth to their son, Karl, whom he acknowledged. Menger devoted his retirement to scholarly research, although he never finished revising the *Principles of Economics*. He assembled a large library with about 20,000 books on economics and kindly received young economists who came to pay their respects to the old master. In 1914 the Great War, as it was then called, broke out, as Menger had predicted decades earlier. Four years later, he witnessed the disintegration of the Habsburg Empire after its defeat in 1918. Menger died on 26 February 1921.

The Subjective Theory of Value

Menger revises one of Adam Smith’s main theses, on division of labour, and rejects another one, on determination of value. He points out that the benefits of the division of labour are often described by reference to a primitive society: If on the desert island Robinson Crusoe is better at fishing and Man Friday better at picking fruit, then the island’s total product would increase if Crusoe devotes himself full-time to fishing and Friday to fruit-picking, with an exchange subsequently taking place between them. If Poland is well suited for corn rearing and Portugal for wine growing, then both countries benefit by trade in which they exchange corn for wine. While this is certainly true and important, as Menger emphasises, division of labour ‘should be regarded only as one

(11) Henry R. Seager, Economics at Berlin and Vienna, *Journal of Political Economy*, Vol. 1, No. 2 (1893), p. 255.

(12) Joseph Schumpeter, *History of Economic Analysis* (London: George Allen & Unwin, 1954), p. 827.

(13) Carl Menger, *Untersuchungen über die Methode der Sozialwissenschaften unter der politischen Ökonomie insbesondere* (Leipzig: Duncker & Humblot, 1883); *Investigations into the Method of the Social Sciences with Special Reference to Economics*, tran. by Francis J. Nock (New York: New York University Press, 1985).

(14) Carl Menger, *Die Irrthümer des Historismus in der deutschen Nationalökonomie* (Wien: Alfred Hölder, 1884).

(15) Hayek, Introduction, *Principles*, p. 25.

(16) Carl Menger, On the Origin of Money, *Economic Journal*, Vol. 2 (1892), pp. 239–255.

factor among the great influences that lead mankind from barbarism and misery to civilization and wealth'.⁽¹⁷⁾ Economic progress means that the economy becomes more complex, with ever-longer chains of production: our daily bread is baked from flour, which is milled from grain, which is harvested in a field, which is fenced off from the commons. Exchanges between Crusoe and Friday, and between Poland and Portugal, take place in *space*: consumer goods change hands between individuals or nations. But exchanges which take place in *time*, between links in chains of production, are no less important. Accordingly, Menger makes a distinction between consumer goods and other goods which he ranks according to their proximity to consumer goods: if they are used directly to produce consumer goods, they are of the second order, and if they are used to produce these goods of the second order, they are themselves of the third order, and so on. Economic progress for Menger is not so much the extension of the division of labour as the extension of the chains which connect consumer goods to the means of production necessary to produce them at different stages. When savages are hungry, they go out hunting; they only know how to satisfy their immediate wants; they mostly produce consumer goods (although their spears would be goods of the second order, according to Menger). In a modern society, under capitalism, people plan ahead; they employ resources to produce goods which are not consumed, but used to produce another goods, and so on, until the final stage is reached where goods are used to produce goods for direct consumption: the bakery selling bread, for example.

Menger rejects Smith's thesis that the 'real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it'.⁽¹⁸⁾ The value of a consumer good does not depend on the value of the goods used to produce it, such as labour. It is the other way around. The value of a good depends on the utility it has for the consumer, either directly if it is a consumer good or indirectly if it is a means of production, a good of a higher order.⁽¹⁹⁾

(17) Menger, *Principles*, p. 73.

(18) Smith, *Wealth*, Bk. I, Ch. V, p. 47.

(19) Menger, *Principles*, p. 57.

It is the anticipated future of a good which determines its value, not its past. It is the evaluative subjective process which takes place after the emergence of the object which is important, not the past history of the object itself. Of course production costs matter: if a good is sold below cost in a competitive market, its producer will not last long. But what is crucial, Menger holds, is that discrete units of the same good have different utilities in the consumer's mind, usually diminishing as the quantity consumed increases: for a hungry man, the fifth loaf of bread is not as tasty as the first one. The economising individual facing scarcity always decides at the margin. When a farmer is left with five sacks of corn after harvest, he reserves one for his bare sustenance, one for keeping himself in good health, one to feed his poultry, one to make his own alcohol and the final one to feed parrots for his amusement. When one sack gets lost, then he ceases to feed the parrots; this is the least urgent of his wants; this is the marginal utility of corn in his case.⁽²⁰⁾ An individual consumer in a modern economy has many needs and faces several ways of satisfying them. He consumes units of a certain good up to the point when the last unit produces as much satisfaction to him as a unit of an alternative good would do. The marginal utility of this final unit will be equivalent to the price he would be willing to pay for it in the marketplace, and it will also be equivalent to the price of a unit of a alternative good with the same capacity to satisfy his needs. Menger emphasises that individuals have different needs and that units of goods are priced in a process in which these individuals participate. It is when prices equal marginal utilities that no further economic improvements can be made by market exchanges.⁽²¹⁾

It follows from Menger's subjective theory of value that something which is found in great quantity has little marginal utility, although it may have great total utility. Thus Menger can resolve the old paradox which had vexed Smith:

(20) The example is given by Eugen von Böhm-Bawerk, *Die Positive Theorie des Kapitals* (Innsbruck: Verlag der Wagner'schen Universitätsbuchhandlung, 1889); *The Positive Theory of Capital*, tran. by William A. Smart (New York: G. E. Stechert & Co., 1930), Bk. III, Ch. IV, p. 150.

(21) An accessible and short introduction to Austrian economics, with practical applications, is Stephen C. Littlechild, *The Fallacy of the Mixed Economy* (London: Institute of Economic Affairs, 1978; rev. ed. 1985).

“ If we ask, for example, why a pound of drinking water has no value whatsoever to us under ordinary circumstances, while a minute fraction of a pound of gold or diamonds generally exhibits a very high value, the answer is as follows: Diamonds and gold are so rare that all the diamonds available to mankind could be kept in a chest and all the gold in a single large room, as a simple calculation will show. Drinking water, on the other hand, is found in such large quantities on the earth that a reservoir can hardly be imagined large enough to hold it all.⁽²²⁾

Menger teaches that the three so-called primary factors of production, land, labour and capital, have no inherent value. They are only goods insofar as they can satisfy human needs. Hayek observes: ‘It was this extension of the derivation of the value of a good from its utility, from the case of given quantities of consumers’ goods to the general case of all goods, including the factors, of production, that was Menger’s main achievement.’⁽²³⁾ Indeed, this extension had significant political implications. The two major challenges to capitalism in the latter half of the nineteenth century, Georgism and Marxism, were based on assumptions of fundamental differences between land and labour on the one hand and capital on the other hand.

George had lived in California during the gold rush of the 1850s, noticing that the price of land rose sharply if gold was expected to be found there. This only benefitted the owner of the land, without any contribution of his own. This was unearned income.⁽²⁴⁾ George then discovered David Ricardo’s theory of rent which was essentially that land could not be produced like other goods. Supply was more or

(22) Menger, *Principles*, p. 140.

(23) Friedrich A. Hayek, *The Place of Menger’s Grundsätze in the History of Economic Thought, New Studies in Philosophy, Politics, Economics and the History of Ideas* (London: Routledge & Kegan Paul, 1978), p. 276.

(24) Henry George, *Progress and Poverty. An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy* (New York: D. Appleton & Co., 1879).



The University of Vienna where Menger taught and after him Böhm-Bawerk and Mises. The Austrian School of Economics conceives of the market as a process rather than an end state and emphasises time and ignorance. Photo: Josef Lex.

less fixed, unlike demand. People were paying rent ‘for the use of the original and indestructible powers of the soil’.⁽²⁵⁾

It was nature that created the rent from land, not landowners. George therefore demanded the expropriation by government

of all land: landowners should pay a tax that would capture all income from unmodified land. George’s demand could be interpreted as a natural deduction from Ricardo’s theory of rent, and in fact two liberal philosophers in nineteenth century England had explored similar ideas, John Stuart Mill and Herbert Spencer. In 1848, Mill had suggested that all the ‘unearned increment’ from land should be taxed.⁽²⁶⁾ Three years later, Spencer had proposed nationalisation of land, although he later rejected this idea, since many landowners had paid full price for their

(25) David Ricardo, *On the Principles of Political Economy and Taxation* (1817), Vol. I, Ch. II, *The Works and Correspondence of David Ricardo*, ed. by Piero Sraffa (Cambridge: Cambridge University Press, 1951), p. 67.

(26) John Stuart Mill, *The Principles of Political Economy* (1848), Bk. V, Ch. 2, §5. *Collected Works*, Vol. III, ed. by John M. Robson (Toronto: University of Toronto Press, 1965), pp. 819–820. Mill used his famous phrase ‘unearned increment’ however later, in a speech in 1873.

property, while the expropriation of land would lead to social upheaval and increase government power.⁽²⁷⁾

If Menger's subjective theory of value is accepted, then Georgism becomes not so much wrong as irrelevant. 'Land occupies no exceptional place among goods. If it is used for consumption purposes (ornamental gardens, hunting grounds, etc.), it is a good of first order. If it is used for the production of other goods, it is, like many others, a good of higher order.'⁽²⁸⁾ Its history is of no importance, only the value it has for potential consumers of the services it can offer. What Ricardo and his disciples had done, Menger says, was to bring attention to isolated factors affecting differences in the value of land, such as fertility or location, but not to provide an explanation of the value of the services of land to economising men. 'The value of a piece of land is determined by the expected value of its services, and not the other way around. The value of a piece of land is nothing but the expected value of all its future services discounted to the present. Hence the higher the expected value of the services of land and the lower the value of the services of capital (rate of interest), the higher will be the value of land.'⁽²⁹⁾ I should add that because of their faulty premises, Georgists tend to ignore entrepreneurship affecting land, such as buying a plot of land to shift from a less to a more profitable use of it, perhaps from tobacco cultivation to dairy farming, or investing in an area of land in anticipation of an economic change, for example a new road leading to it or the growth of a nearby city. Such entrepreneurship is hardly possible unless land is privately owned and can be freely exchanged.

Marx not only rejected private property rights in land, like George, but also in capital. He had become a communist for the same reason as George in 1842 when he observed a change in the use of forests in the Rhineland. It had long been tolerated that poor people would go into the forests to collect fallen wood which they could then use as firewood. But with the

industrialisation of the Rhineland and a growing population, a new law made this illegal. Marx, then a journalist in Cologne, thundered against the law in his newspaper, asking who was the real thief, the poor man collecting fallen wood in the forest or the forest owner depriving him of the opportunity to do so.⁽³⁰⁾ Marx then discovered the labour theory of value which had been proposed in different forms both by Smith and Ricardo: that value was created by labour, and labour alone. This theory fitted in well with Marx' earlier ideas about alienation under capitalism: briefly that the worker lost his soul by selling his services to others.⁽³¹⁾ Marx argued that if labour alone created value, then labour alone should enjoy the fruits. But under private ownership of the means of production, capital deprived labour of these fruits. It paid labour the real value, or market price, of its services, which was the cost of its survival and reproduction, but it was in a position to force labour to put in many more working hours than it had been paid for. The value created in those extra hours was 'surplus value', Marx said, going to capital. This was exploitation. Consequently, labour had to seize power, expropriate the expropriators, capture the surplus value. In fact, there were conservative-liberal thinkers who shared some of Marx' concerns, although more calmly. Both Adam Smith and Alexis de Tocqueville wondered whether division of labour would enervate or enfeeble individuals,⁽³²⁾ and Tocqueville as well as Lord Acton worried about the disadvantages of labour in dealings with capital.⁽³³⁾

Menger however dismisses the labour theory of value and thus the basis for Marx' claims on behalf of labour to the whole of the social product. He denies any necessary connection between the value of a good and whether, or in what quantities, labour and other goods of higher order have been applied to its production. A diamond found accidentally

(27) Herbert Spencer, *Social Statics, or the Conditions Essential to Human Happiness Specified, and the First of Them Developed* (London: John Chapman, 1851), p. 115; *The Man Versus the State* (Indianapolis IN: Liberty Fund, 1981 [1884]), p. 52.

(28) Menger, *Principles*, p. 165.

(29) *Ibid.*, p. 169.

(30) Karl Marx, Debatten über das Holzdiebstahlgesetz, *Rheinische Zeitung* 25, 27 and 30 October and 3 November 1842. Karl Marx and Friedrich Engels, *Werke*, Vol. 1 (Berlin: Dietz, 1981), pp. 109–147.

(31) Karl Marx, Ökonomisch-philosophische Manuskripte aus dem Jahre 1844. *Werke*, Vol. 40 (Berlin: Dietz, 1968), pp. 465–588.

(32) Adam Smith, Report dated 1766, *Lectures on Jurisprudence*, (Oxford: Oxford University Press, 1978), p. 539; Alexis de Tocqueville, *Democracy in America* (1840), tran. by James T. Schleifer, Vol. 3 (Indianapolis IN: Liberty Fund, 2010), p. 982.

(33) Tocqueville, *Democracy*, Vol. 4, p. 1029. Letter from Lord Acton to Mary Gladstone, 24 April 1881. *Letters from Lord Acton to Mary, Daughter of the Right Hon. W. E. Gladstone* (London: Macmillan, 1913, 2nd ed.), p. 72.

and another one obtained from a pit with ample labour may be of the same value. Again, some labour services are completely useless, while others differ in quality: an accomplished artist may devote the same effort to making an object as a common carpenter, and it will be worth much more. A large number of goods cannot be reproduced, for example antiques and paintings by old masters. Prices change over seasons and in time: a hundred years old oak tree may be worth more than the three minutes of labour it once took to plant its seed. It is also wrong that the value of labour itself is its means of subsistence or the minimum of subsistence: it is governed ‘by the magnitude of importance of the satisfactions that would have to remain unsatisfied if we were unable to command the labour services’.⁽³⁴⁾ I should add that perhaps Marx was too parochial. Limiting his vision to nineteenth century industry, he cast society in the image of a large steel factory or a coal mine with only two groups present, owners and workers, capital and labour, whereas modern society is much more complex: most people nowadays possess human capital and earn income from it. Marx not only ignored the services that capitalists perform by accumulating and investing capital, but also the very existence of entrepreneurs, innovative individuals who find new ways of satisfying human needs, or even discover new needs, and thus create new value.⁽³⁵⁾ It is an intriguing thought that Marx may have known of the marginal revolution, directly or indirectly, although he never mentioned it. He had published *Capital* in 1867 when he was in his prime, only 49 years old. Menger and Jevons came out with their main works, outlining the marginal theory of value four years later, in 1871, when Marx was 53 years old and still working hard. His health, although never good, only started seriously to deteriorate after 1877, and he died in 1883. Why did he not himself complete the two remaining volumes of *Capital*? Had he realised that he had wandered into a blind alley theoretically? That his whole edifice would crumble if value was not created by labour alone?

(34) Menger, *Principles*, p. 171.

(35) Their function is clearly and convincingly explained by an economist in the Mengerian tradition, Israel Kirzner, *Capitalism and Entrepreneurship* (Chicago: University of Chicago Press, 1973).

The Organic Understanding of Phenomena

When Menger had put economics on a firm foundation, lucidly explaining the general principles of value and price, he felt it was necessary to defend it as a scientific discipline against those German scholars who focused on history rather than theory. In his *Investigations*, Menger presents what he calls ‘the organic understanding of social phenomena’, when discussing those social phenomena which remind us of natural phenomena because ‘they, too, present themselves to us rather as “natural” products (in a certain sense), as *unintended results of historical development*’.⁽³⁶⁾ A watch may presuppose a watchmaker, but a legal framework does not necessarily require a legislator. Menger’s examples are money, the law (by which he means the common law), language, markets, and the state. Perhaps the state is Menger’s most surprising example. In the liberal tradition, beginning with John Locke, the state is often explained as a rational construct, arising from a social contract. But American philosopher Robert Nozick has taken up Menger’s suggestion, offering an ingenious explanation of the state as the outcome of an unplanned process, emerging without violating individual rights.⁽³⁷⁾ What is noteworthy, Menger believes, is that those ‘unintended results of historical development’ lead to the most important ‘problem of the social sciences; *How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?*’⁽³⁸⁾ This problem is indeed at the heart of conservative liberalism. How has beneficial development without design been possible? How has an order which has proved itself so very advantageous arisen? Both David Hume and Edmund Burke tried to express it in their writings, but above all Adam Smith with his ‘invisible hand’. It is also the idea behind Frédéric Bastiat’s ‘economic harmonies’.⁽³⁹⁾

(36) Menger, *Investigations*, p. 130. Italics in the original.

(37) Cf. Robert Nozick, *Anarchy, State, and Utopia* (Oxford: Blackwell, 1974), pp. 18–22.

(38) Menger, *Investigations* p. 146. Italics in the original.

(39) Norman Barry, *The Tradition of Spontaneous Order, Literature of Liberty*, Vol. V (1982), pp. 7–58.

This is the approach which Hayek and Karl Popper have in the twentieth century developed into a research programme for the social sciences. Hayek says that the aim of social studies should be ‘to explain the unintended or undesigned results of the actions of many men’.⁽⁴⁰⁾ Popper contrasts this scientific method with ‘conspiracy theories’, or the temptation to look for a design or an intention behind all social phenomena, especially unwelcome ones.⁽⁴¹⁾ Popper’s contrast is, again, similar to the one Nozick draws between ‘hidden-hand explanations’ and ‘invisible-hand explanations’.⁽⁴²⁾ There seems to be a difference, however, between Menger on the one hand and Hayek and Popper on the other hand. Whereas Menger speaks favourably about the ‘organic understanding of social phenomena’, Hayek rejects it for the reason that in a real ‘organism most of the individual elements occupy fixed places’ while this need not be so in a spontaneous order.⁽⁴³⁾ Popper argues against it on the ground that individuals (and groups) in society have different and often conflicting aims, unlike different parts of an organism.⁽⁴⁴⁾ This is, I think, an apparent rather than a real difference. Menger would have been the first to admit that perhaps the greatest problem of modern society arises from the need for accommodation of the often conflicting aims of different economising individuals, operating quite unlike the various parts of an organism. He would not have taken the analogy too far. It was meant as an expository device. For him ‘organic’ means grown instead of being constructed.

In my opinion, Menger’s treatment of the German Historical School of Economics, led by Schmoller, is not as interesting as his brief analysis of the German Historical School of Law, whose most prominent

(40) Friedrich A. Hayek, *The Counter-Revolution of Science. Studies on the Abuse of Reason* (Indianapolis IN: Liberty Press, 1979; 2nd edition), p. 41.

(41) Karl R. Popper, Prediction and Prophecy in the Social Sciences, *Conjectures and Refutations* (London: Routledge & Kegan Paul, 1972; 4th Edition), pp. 341–2. Cf. Karl R. Popper, *The Poverty of Historicism* (London: Routledge & Kegan Paul, 1960; 2nd edition), p. 65. It seems to me that Popper is more indebted to Menger than is usually perceived (although there are some references to Menger in *The Poverty of Historicism*).

(42) Nozick, *Anarchy*, p. 19.

(43) Menger, *Investigations*, p. 172; Friedrich A. Hayek, *Law, Legislation and Liberty*, Vol. I (London: Routledge & Kegan Paul, 1973), p. 52.

(44) Karl R. Popper, *The Open Society and Its Enemies*, Vol. I (London: Routledge & Kegan Paul, 1966; 6th edition), p. 174.



For Menger, language is one example of a useful social phenomenon, spontaneously developed, and not designed by reason. Painting by Willem van der Vliet, *A Philosopher and his Pupils*.

representative was Friedrich von Savigny. Menger makes a distinction between the ‘pragmatic liberalism’ of Adam Smith and his followers and the Historical School of Law. Pragmatic liberals always look at social phenomena, Menger says, as ‘the intended product of the common will of society as such, results of expressed agreement by members of society or of positive legislation’.⁽⁴⁵⁾ They are unable to understand that an orderly development could come about without design. Whereas Menger’s critique is cogent, I think it is misdirected. It applies less to Smith and his school than to the English philosophical radicals of the nineteenth century, Jeremy Bentham and his disciples, in particular to legal positivists such as John Austin. Be that as it may, Menger contrasts pragmatic liberals as he conceives of them to adherents of Savigny’s Historical School of Law who think that ‘law, like language, is at least not originally the product in general of an activity of public authorities aimed at producing it, nor in particular is it the

(45) Carl Menger, *Investigations*, p. 172.

product of positive legislation. It is, instead, the unintended result of a higher wisdom, of the historical development of the nations.’⁽⁴⁶⁾

Menger criticises both views as being one-sided. The pragmatic liberals (which, I stress, should be interpreted as utilitarians, followers of Bentham and Austin, rather than of Smith)

“ did not know how to value the significance of ‘organic’ social structures for society in general and economy in particular and therefore was nowhere concerned to *preserve* them. What characterises the theories of A. Smith and his followers is the one-sided rationalistic liberalism, the not infrequently impetuous effort to get away with what exists, with what is not sufficiently understood, the just as impetuous urge to create something new in the realm of political institutions, often without sufficient knowledge and experience.’⁽⁴⁷⁾

Menger argues that the conservative insights of the Historical School act as a necessary corrective to the reformist urges of pragmatic liberals. The aim had to be

“ the full understanding of existing social institutions in general and of organically created institutions in particular, the retention of what had proved its worth against the one-sidedly rationalistic mania for innovation in the field of economy. The object was to prevent the dissolution of the organically developed economy by means of a partially superficial pragmatism, a pragmatism that, contrary to the intention of its representatives, inexorably leads to socialism.’⁽⁴⁸⁾

(46) Ibid., pp. 174–5.

(47) Ibid., pp. 177.

(48) Ibid., p. 177.

Menger’s strictures are similar to those of Burke and Smith. These three conservative liberals endorse the same approach: to try and employ our ‘sagacity to discover the latent wisdom which prevails’ in our inherited institutions, as Burke put it, rather than to design new ones.⁽⁴⁹⁾

When Menger mentions ‘pragmatism that, contrary to the intention of its representatives, inexorably leads to socialism’, he may be making the same observation as Frédéric Bastiat and many other liberals,⁽⁵⁰⁾ that if we look upon matters ‘on their own merits’ rather than in the light of general principles, then we are almost bound to become interventionists. We see the hardship of visible victims of circumstances, for example, but ignore the plight of unseen victims. Moreover, the beneficial effects of government intervention are direct, immediate and visible, whereas its evil effects are indirect and gradual and lie out of sight. This is really the point that our moral and social vision is limited and will turn out to be selective, if unaided by general principles, sometimes taken on faith. This is the anti-pragmatist element in Menger’s thought. Partly, however, Menger may be making the point that concepts applicable to ‘purposeful’ organisations (such as private firms, run for profit, or associations formed to further given goals), may not always be applicable to ‘purposeless’ orders (such as the market order, the common law or language: that is, system of rules which enable individuals and purposeful organizations to further their given goals by coordinating their activities, but which do not have any specific goals of their own). To use Menger’s own terminology, he is concerned with the illegitimate transfer of concepts from ‘pragmatic’ to ‘organic’ phenomena. But why does this conceptual error lead to socialism? Because it consists in the inability to understand, or at least to accept, unintended and unplanned social phenomena, with a consequent demand for a rational reconstruction of society, through planning or legislation. It consists, in other words, in

(49) Edmund Burke, *Reflections on the Revolution in France* (1790), *Select Works of Edmund Burke*, Vol. 2 (Indianapolis IN: Liberty Fund, 1999), p. 102. Cf. Adam Smith’s reflections in the *Theory of Moral Sentiments* on the ‘spirit of system’ (Oxford: Oxford University Press, 1976), Pt. VI, Sect. II, pp. 232–3.

(50) Frédéric Bastiat, What is Seen and What is Not Seen (1850), *Collected Works*, Vol. III (Indianapolis IN: Liberty Fund, 2016), pp. 401–452. Cf. also A. V. Dicey, *Lectures on the Relation between Law and Public Opinion in England During the Nineteenth Century* (London: Transaction Books, 1981: Reprint of 2nd edition from 1914), pp. 257–8; and Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), p. 297.

the inability to understand the forces of spontaneous coordination. On Menger's interpretation, socialism is seen, then, less as a utopian vision of a future without contradictions than as a failure to grasp the invisible hand. It is a demand for a society in which everything is rational in the sense that it has been thought out, planned or intended.

Whereas Menger criticises pragmatic liberals, or constructivists, he does not fully endorse the conservative alternative. Respect for tradition is necessary, but hardly sufficient. Menger points out, for example, that common law, although sometimes useful, has 'also proved harmful to the common good often enough, and on the contrary, legislation has just as often changed common law in a way benefitting the common good.'⁽⁵¹⁾ And he stresses that 'institutions which came about organically find their continuation and reorganization by means of the purposeful activity of public powers applied to social aims'.⁽⁵²⁾ Menger objects to what he sees as a complete and unconditional conservative surrender of reason:

“ The mere allusion to the 'organic origin' of law, to its 'primeval nature' and to similar analogies, is completely worthless. The striving for the specifically historical solution of the above problem is hopeless. There can only be one way to reach the theoretical understanding of that 'organic' process to which law owes its first origin. That is to examine what tendencies of general human nature and what external conditions are apt to lead to the phenomenon common to all nations which we call law.'⁽⁵³⁾

Menger's point is that it is not enough to observe the 'latent wisdom' in inherited institutions, as some conservatives do. We have to explain them in general terms and relate them to our knowledge of 'tendencies of human nature' and of 'external conditions', as he says, in an unconscious

(51) Menger, *Investigations*, p. 233 (Appendix VIII).

(52) *Ibid.*, pp. 157–158.

(53) *Ibid.*, p. 224.

echo of Hume's derivation of the principles of justice. Thus, Menger is a conservative liberal rather than a conservative.

Although the theory of spontaneous order, or the 'organic understanding of social phenomena', may have significant political implications in that it demonstrates the possibility of coordination without commands, at least in the economy, Menger uses it less as an ethical postulate than as an explanatory device. He is therefore not as vulnerable as some conservatives to the charge that they mistake the *survival capacity* of institutions and traditions for *moral value*.⁽⁵⁴⁾ Institutions and traditions may be enduring without being desirable, for example *sati*, the Indian practice of widows burning themselves alive on the funeral pyres of their husbands. Even if this practice came into being without a common will directed toward establishing it, as Menger would put it, it does not serve the common welfare nor is it significant for its development. We may be unable to create traditions, but we may reserve the right to criticise them. There are two ways of understanding 'organic social phenomena', in terms of emergence or endurance. One is an answer to the question how something came into being, the other is an answer to the question why it persists. While the two concepts should not be confused, there is a connection between them because the very insight that something may have come about spontaneously provides, not necessarily a justification, but rather a presumption for it. We have to try and see what it is in it which makes sense, if anything. Menger's 'organic understanding of social phenomena' therefore leads to a preference for gradual and piecemeal reforms over attempts to reconstruct the whole of society.

It should be noted that Menger not only rejects attempts to turn economics into history but that he is also sceptical about attempts to turn it into mathematics. It may be tempting to assume utility to be a differentiable function of quantified goods (including services), because then the powerful and elegant differential calculus which mathematicians have at their disposal can be employed, but in fact the units of a good are discrete in time and space rather than continuous.

(54) Edna Ullmann-Margalit, The Invisible Hand and the Cunning of Reason, *Social Research*, Vol. 64, No. 2 (1997), pp. 181–198.

Many economists think of the economy as an open space, where an auctioneer ‘calls out’ tentative prices, and where the individuals make gradual adjustments on the basis of these prices, which change in the process, until an equilibrium is reached where supply and demand are equated. An equilibrium, then, is a situation where no improvements can be made. On this basis, a mathematical model of a general equilibrium is then constructed. But it is only too obvious that the world is different. These economists have to ignore time lags, delays, bottlenecks and other imperfections of daily life; they have to treat individual needs as given, but not gradually emerging by discoveries in the marketplace; and they have to expect somebody to perform the function of the auctioneer. First and foremost, they have to assume a situation where all the relevant facts are known to the participants; where they will all be together at the same time (as they are in an auction) and share the same set of data. They have to postulate a ‘face-to-face’ situation. It becomes an almost irresistible thought that government could and should act as the auctioneer or at least improve upon this imperfect mechanism. If the market order is judged in terms of an ideal situation, such as a general equilibrium, then it is likely to be rejected as unsatisfactory. For these reasons, economists in the Mengerian tradition are sceptical of neo-classical economics, not necessarily as being erroneous, but rather as being impractical. They do not draw, however, the same conclusions as socialists. They accept that the outcomes of the market process are always imperfect, but they ascribe such imperfections to man’s inevitable ignorance, rather than to the market itself. At any given point in time, there will be many imperfections. What is important is not that a situation is ‘correct’ according to some standard, because that may be more than can be hoped for, but that the basic framework under which we work is such that an imperfect situation is corrigible.

The Austrian School

Menger’s two most prominent disciples, although not his students, were Friedrich Freiherr von Wieser (1851–1926) and his friend and brother-in-law Eugen Ritter von Böhm-Bawerk (1851–1914). The Austrian title of ‘Freiherr’ corresponds to an English Baron, and ‘Ritter’ to a hereditary



Menger’s disciple, Eugen von Böhm-Bawerk, tirelessly exposed errors and inconsistencies in Marxism. Austria’s Finance Minister for a while, he was featured on the old 100 schilling note.

knight. Upon reading Menger’s *Principles of Economics* as young men, Wieser and Böhm-Bawerk realised its originality and importance and set about developing its many insights. Wieser succeeded Menger as

Professor of Economics at the University of Vienna, and served one year as Austrian Minister of Commerce at the end of the First World War. Böhm-Bawerk was thrice Austria’s Minister of Finance, briefly in 1895 and 1897 and then from 1900 to 1904, after which he became Professor of Economics at the University of Vienna until his untimely death. Wieser’s main contribution to economics was an exposition of the concept of opportunity cost: It is the sacrifice involved in choosing one alternative over another, in other words the benefit derived from the best alternative not chosen.⁽⁵⁵⁾ But unlike Menger, he was not a fully-fledged economic liberal, although by no means a socialist. He believed that marginal analysis supported some redistribution from the rich to the poor through a progressive income tax: the same amount of money is worth much more to the poor than to the rich, which means that its marginal utility is much greater for them than for the rich.⁽⁵⁶⁾ This argument seems plausible at first sight. But it has two major defects. First, the rich may be entitled to

(55) Friedrich von Wieser, *Theorie der gesellschaftlichen Wirtschaft* (Tübingen: J. C. B. Mohr, 1914); *Theory of Social Economy*, tran. by A. Ford Hinrichs (London: George Allen & Unwin, 1928).

(56) Wieser, *Social Economy*, p. 434.

their income: there is a crucial difference between the voluntary transfer in market exchanges of assets from their less to their more desired uses, and an involuntary seizure by government of the assets of some for the alleged benefit of others. In the second place, it is by no means self-evident that a given amount of money is always worth less to the rich than the poor. One reason a man may be rich in the first place is that he cares more about money than do others. Another possibility is that he is an avid venture capitalist or an entrepreneur who would like to use all his available money for a promising project and who would therefore regard the loss of even a penny as consequential.

Böhm-Bawerk on the other hand was a true economic liberal. He identified several weaknesses in Marx' labour theory of value on which his theory of exploitation was based. For example, Adam Smith had said that if it cost twice the labour to kill a beaver than a deer, then one beaver would exchange for two deer. Böhm-Bawerk observed that it might be ten times more difficult to catch an uncommon butterfly or a rare edible frog than a deer, but it did not follow that the butterfly or the frog would be ten times more valuable than the deer.⁽⁵⁷⁾ Several other exceptions to the labour theory of value have to be made. The conclusion has to be, Böhm-Bawerk submitted, that Menger's subjective theory of value explains these phenomena much more adequately. Old wine is more valuable than new wine and new bread more valuable than old bread simply because consumers have a preference for old wine and new bread. Böhm-Bawerk also pointed out a basic inconsistency in Marx' theory. In the first volume of *Capital*, published in 1867, Marx had made a distinction between variable and constant capital. Variable capital was the part of capital paid in wages, for the service of labour, whereas constant capital was the part paid for the means of production, such as raw materials, buildings and machinery. According to Marx, the surplus value extorted by the capitalists from the workers was in proportion to variable rather than constant capital. But enterprises are of different composition. Some are mostly dependent on the service of labour, for

example restaurants. In other enterprises wages are a relatively small proportion of total outlays, for example in railways. The problem is that restaurants and railways, with their very different ratios of variable to constant capital, will in a free market be operated with roughly equal profit rates in the long run. Otherwise capital would flow from the less to the more profitable economic sectors. Marx realised the problem and promised its solution in the third volume of *Capital*. When that book was published posthumously in 1894, the solution turned out to be: competition! Marx wrote that 'These different rates of profit are equalized by competition to a single general rate of profit, which is the average of all these different rates of profit.'⁽⁵⁸⁾ Thus, he abandoned the labour theory of value stated in the first volume, that commodities exchange with one another in proportion to the labour they contain, as Böhm-Bawerk was quick to observe.⁽⁵⁹⁾

In the late nineteenth century, Marxism was only a theory. Böhm-Bawerk convincingly refuted its main pillars, the ideas of surplus value and exploitation. But in early twentieth century, Marxism moved from theory to practice. It fell to Böhm-Bawerk's pre-eminent disciple, Mises, to analyse the idea advanced by Vladimir Lenin and other disciples of Marx that a modern economy could be effective without private property rights to the means of production.

(57) Eugen von Böhm-Bawerk, *Kapital und Kapitalzins: Geschichte und Kritik der Kapitalzinstheorien* (Innsbruck: Verlag der Wagner'schen Universitätsbuchhandlung, 1884); *Capital and Interest: A Critical History of Economic Theory*, tran. by William Smart (London: Macmillan, 1890), Bk. VI, Ch. III, p. 380.

(58) Karl Marx, *Das Kapital: Kritik der politischen Ökonomie* (1894), Vol. III, Pt. II, Ch. IX (Berlin: Dietz, 1964), p. 167. In German: 'Diese verschiedenen Profitraten werden durch die Konkurrenz zu einer allgemeinen Profitrate ausgeglichen, welche der Durchschnitt aller dieser verschiedenen Profitraten ist.' English tran. *Capital*, Vol. III, *Marx & Engels, Collected Works*, Vol. 37 (London: Lawrence & Wishart, 2010), p. 157.

(59) Eugen von Böhm Bawerk, *Zum Abschluss des Marx'schen System, Staatswissenschaftliche Arbeiten: Festgaben für Karl Knies* (1896); *Karl Marx and the Close of his System* (New York: Augustus M. Kelley, 1949).



Sumner is an eloquent and uncompromising advocate of voluntary cooperation in the marketplace instead of government compulsion.

William Graham Sumner

(1840–1910)

Some opponents of conservative liberalism seem to avoid debate about its main tenets, the rule of law, separation of powers, private property, free trade, respect for traditions, sound money and the non-aggression principle in international affairs. They prefer to attack ideas not held, and indeed rejected, by conservative liberals. The two most conspicuous examples are Social Darwinism and colonialism. Social Darwinism is a term invented to discredit economic liberals who are certainly not in favour of resolving conflicts by ferocious fights in which the strongest would prevail. Instead, they want free and peaceful competition in the marketplace, under a framework of rules preventing injustice. Many conservative liberals have also been forceful critics of colonialism and imperialism. Whereas Russian dictator Vladimir Lenin taught that imperialism was the final stage of capitalism, it was in fact a radical departure from capitalism, which is based on trade, not conquest. Nowhere is the difference between authentic conservative liberalism and its distortion by opponents plainer than in the case of American sociologist William Graham Sumner. In a series of incisive essays, Sumner criticised economic interventionism and imperialism. Although he was by no means hostile to the poor, he argued against extensive involuntary redistribution by government from rich to poor, as being neither effective nor moral. The best help to the poor was, he believed, to increase opportunities for them to escape poverty on their own. Sumner also roundly condemned attempts by American expansionists at the end of the nineteenth century to enter into the race for colonies in which European powers had long been engaged. In clear and crisp prose, he restated what is perhaps obvious once pointed out, but often overlooked.

Sumner's Life and Works

William Graham Sumner was born in Paterson, New Jersey, on 30 October 1840, to Thomas Sumner and Sarah, born Graham, both recent immigrants from England. The family soon moved to Hartford, Connecticut, where young William grew up with his two siblings. His mother died when he was eight, and his father married again. He was poor, but hard-working and ambitious. Sumner did well at school, and his father was able to save enough money that he could enrol at Yale University, from which he graduated in 1863. The Civil War raged, and Sumner was drafted into the Union Army. Unenthusiastic about the war, with the help of a wealthy schoolmate he hired a substitute and went to Europe. Sumner studied various subjects at the universities of Geneva, Göttingen and Oxford in the following three years, first and foremost theology. He became a lecturer in Greek at Yale in 1866 but resigned three years later to devote himself to service in the Episcopal Church. He married Jeannie W. Elliott in 1871, and they had three boys, one of whom died in infancy. Having lost interest in theology, in 1872 Sumner left his ministry and returned to Yale where he became Professor of Political and Social Science. He soon earned a reputation as a firm believer in economic freedom, as this discussion shows:⁽¹⁾

“ ‘Professor, don’t you believe in any government aid to industries?’
 ‘No! It’s root, hog, or die.’
 ‘Yes, but hasn’t the hog got a right to root?’
 ‘There are no rights. The world owes nobody a living.’
 ‘You believe then, Professor, in only one system, the contract-competitive system?’
 ‘That’s the only sound economic system. All others are fallacies.’
 ‘Well, suppose some professor of political economy came along and took your job away from you. Wouldn’t you be sore?’

‘Any other professor is welcome to try. If he gets my job, it is my fault.

My business is to teach the subject so well that no one can take the job away from me.’

Those who present this amusing exchange as proof of Sumner’s callousness overlook that he is answering a question about government aid to *industries*, not to the weak or the poor. He is making the point that government should not keep unsustainable enterprises afloat with taxpayers’ money. The student’s follow-up question could be rephrased: Hasn’t a private company got a right to government subsidies?

The three decades before the end of the nineteenth century have been called the ‘Gilded Age’ in American history, perhaps a little unfairly, because there was nothing unreal about the extraordinary growth during this period. In 1800, 5.3 million people lived in the United States, less than in the Kingdom of Naples and Sicily. In 1900, the population had increased to 76 million. The Union greatly expanded: In 1840, when Alexis de Tocqueville published the second part of his classic treatise about American society, there were 26 states in the Union. In the next six decades 19 more states joined, from Florida in the south to California on the Pacific Coast. By 1890, the US economy had become the largest in the world. Hundreds of thousands of immigrants arrived each year, escaping misery in Europe, most of them eventually making a decent living. For example, the average annual wage of an industrial worker in the United States rose by almost 50 per cent between 1880 and 1890. What Sumner supported, with some reservations, were the principles, traditions and institutions which made possible this free and flourishing society, unique in world history. He was much influenced by Herbert Spencer’s argument for unfettered competition as a test of the ability of individuals and enterprises to satisfy human needs. This brought Sumner trouble at Yale in 1879 when the President of the University complained that he was teaching Spencer’s *Study of Sociology* which ‘attacks every Theistic philosophy of society’. Sumner threatened to resign if he could not choose his own texts, and he was persuaded to stay. When Spencer visited the United States in 1882, Sumner gave a speech at the farewell dinner for him in New York, hailing him as a pioneer of social studies.

(1) William Lyon Phelps, When Yale Was Given to Sumnerology, *The Literary Digest International Book Review*, Vol. III (1925), p. 661. ‘Root, hog, or die’ is an American catch-phrase, an admonition to people to fend for themselves. Hog is a pig, and to survive in the wild it has to root, forage for its food. Here after Richard Hofstadter, William Graham Sumner, Social Darwinist, *The New England Quarterly*, Vol. 14, No. 3 (1941), p. 460.

In 1883, Sumner published a series of articles which then were collected into a book, *What Social Classes Owe to Each Other*.⁽²⁾ He contrasts societies of status and contract. ‘A society based on contract is a society of free and independent men, who form ties without favor or obligation, and co-operate without cringing or intrigue,’ he writes. ‘A society based on contract, therefore, gives the utmost room and chance for individual development, and for all the self-reliance and dignity of a free man.’⁽³⁾ Themes from the book are found in a famous lecture Sumner delivered in February 1883, ‘The Forgotten Man’.⁽⁴⁾ In 1885, Sumner published *Protectionism: The -Ism which Teaches that Waste Makes Wealth* where he dissects arguments for protective tariffs. He points out that the states of the Union do not impose tariffs on one another. The United States is one large free trade area. But if it is absurd to impose tariffs on other states in the Union, then it is no less absurd to impose tariffs on foreign countries. Moreover, tariffs are costly for those who must pay higher prices for domestic goods than they would have paid for imported goods. They are a transfer scheme from all consumers to some producers.⁽⁵⁾ In 1894, Sumner published an essay against socialism, ‘The Absurd Effort to Make the World Over.’⁽⁶⁾ He cannot see any harm, he says, in some individuals becoming rich. If the state takes over the economy, as socialists envisage, the fight for political power will intensify. Income distribution should be as much according to merit as possible, whereas equal distribution is a principle appropriate for robbers dividing plunder or for monks dividing gifts. Sumner also wrote many articles in support of the gold standard which was hotly debated in the United States in the 1890s.

In the late nineteenth century, imperialism, or territorial expansion by force, became a contentious issue in the United States. Spain had

lost most of her colonies in the first half of the nineteenth century, but still controlled the islands of Cuba and Puerto Rico in the Caribbean Sea and the Philippines in the Pacific Ocean. In Cuba, some members of the local elite wanted to transfer power from Madrid to the island’s capital, Havana, but had not mustered enough strength to drive out the Spaniards. Expansionists in Washington DC had bought Alaska in 1867 and wanted in addition to buy three territories controlled by Denmark, Greenland, Iceland, and the Danish West Indies,⁽⁷⁾ although eventually only the Danish West Indies were bought and renamed the US Virgin Islands. Playing on a widespread Anti-Spanish sentiment in the United States, the expansionists also wanted to take control of Cuba and other Spanish possessions overseas. In this project, they were assisted by the American ‘yellow press’ which carried reports, sometimes exaggerated, of Spanish atrocities in the fight against insurgents. In early 1898, a US battleship exploded and sank in Havana harbour. The yellow press blamed the explosion on the Spanish rulers of Cuba, although it probably happened on board. The US government bowed to pressure and recognised the independence of Cuba, with Spain subsequently declaring war on the United States. After a short war, Spain was defeated and had to recognise Cuban independence, cede Guam and Puerto Rico to the United States and sell the Philippines to it. The US government at the same time annexed Hawaii which had been an independent kingdom. During the Spanish-American War, Sumner joined the Anti-Imperialist League which opposed expansionism, in particular the annexation of the Philippines. Other members of the League included former President Grover Cleveland, steel magnate Andrew Carnegie and writer Mark Twain. Sumner gave a celebrated lecture before the Phi Beta Kappa Society of Yale University on 16 January 1899, ‘The Conquest of the United States by Spain,’ where he criticised expansionism as a radical departure from the ideals of American society.⁽⁸⁾

(2) William Graham Sumner, *What Social Classes Owe to Each Other* (New York: Harper & Brothers, 1883). The articles appeared in *Harper’s Weekly*, Vol. XXVII, Nos. 1366–1376 (February–May, 1883). Repr. (Auburn AL: Ludwig von Mises Institute, 2007).

(3) Sumner, *Social Classes* (2007), p. 24.

(4) Printed for the first time in William Graham Sumner, *The Forgotten Man, The Forgotten Man and Other Essays* (New Haven CT: Yale University Press, 1919), pp. 465–495.

(5) William Graham Sumner, *Protectionism: The -Ism which Teaches that Waste Makes Wealth* (New York: H. Hold & Co., 1885).

(6) William Graham Sumner, *The Absurd Effort to Make the World Over*, *Forum*, Vol. XVII (1894), pp. 92–102. Repr. *War and Other Essays* (New Haven: Yale University Press, 1911), pp. 195–210.

(7) Hannes H. Gissurarson, *Proposals to Sell, Annex or Evacuate Iceland, 1518–1868, Rannsóknir í félagsvísindum* [Investigations in Social Sciences], Vol. XVI (Reykjavik: Institute of Social Science Research, 2015). Available online.

(8) William Graham Sumner, *The Conquest of the United States by Spain*, *Yale Law Journal*, Vol. 8, No. 4 (1899), pp. 168–193. Repr. *War and Other Essays* (1911), pp. 297–334.



In the last quarter of the nineteenth century Sumner was the best known, and most controversial, university teacher in North America. Several unsuccessful attempts were made to remove him from Yale. He was not invited to join the American Economic Association, founded in 1885, which held that ‘the doctrine of laissez-faire’ was ‘unsafe in politics and unsound in morals’.⁽⁹⁾ But he had admirers as well as opponents. One of his colleagues wrote: ‘No one could say that Sumner himself strove to be all things to all men. He never hesitated to strike out against the tide, and he did not fear to be alone in so doing; nor, indeed, did it affect his composure and resolution if he made no headway, but was overborne by the current.’⁽¹⁰⁾ Sumner was however not only an economist but also a sociologist, and in 1907 he published *Folkways*, where he describes habits of individuals and customs of society arising from efforts to

Mulberry Street, Manhattan, New York, in the 1890s. The city was teeming with life. Hundreds of thousands of immigrants arrived each year from Europe, in search of a better future. Most of them found it. Photo: Jacob Riis.

(9) Richard T. Ely, The American Economic Association, 1885–1909, *American Economic Association Quarterly*, 3rd Series, Vol. 11, No. 1 (1910), p. 57.

(10) Albert G. Keller, Introduction, William Graham Sumner, *War and Other Essays* (1911), p. xiv.

satisfy human needs. These are rules that are learned, transmitted from one generation to another, but flexible and somewhat vague, unlike legal statutes or moral principles. They are formed spontaneously, not artifacts. Sumner distinguishes between such folkways and the more formal mores where judgements and moral sanctions are involved.⁽¹¹⁾ Sumner’s other works included two biographies of American politicians, Henry Jackson and Alexander Hamilton.⁽¹²⁾ He was always a hard worker but as the nineteenth century drew to a close, his health declined. He suffered a stroke in 1907, but recovered somewhat. Sumner died in Englewood, New Jersey, on 12 April 1910.

The Forgotten Man

In his lecture on ‘The Forgotten Man’, Sumner discusses the fallacy of directing attention only to a particular obvious fact and leaving out others. When yellow fever breaks out, we feel sympathy for the sufferers, but we ignore the many more people dying each year of consumption (as tuberculosis was called in Sumner’s time). During a depression, we focus on insolvent debtors, even if their number may be insignificant in comparison with victims of commonplace misfortune, who are isolated, scattered, ungrouped and ungeneralised, and therefore not discussed. Sumner comments: ‘As soon as A observes something which seems to him to be wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. Their law always proposes to determine what C shall do for X or, in the better case, what A, B and C shall do for X.’ If A and B are willing to do something themselves for X, Sumner remarks, there is nothing more to be said except that they might better do it directly, and without passing any law. But what Sumner wants to do is to look up C. ‘I call him the Forgotten Man. Perhaps the appellation is not strictly correct. He is

(11) William Graham Sumner, *Folkways: A Study of the Sociological Importance of Usages, Manners, Customs, Mores, and Morals* (Boston: Ginn & Co., 1907).

(12) William Graham Sumner, *Andrew Jackson as a Public Man* (Boston: Houghton Mifflin & Company, 1882); *Alexander Hamilton* (New York: Dodd, Mead & Co., 1890).

the man who never is thought of.’⁽¹³⁾ He is the enthusiastic reformer’s invisible victim.

Sumner observes that remedies are confidently proposed for social problems without any guarantee that they will work. ‘All history is only one long story to this effect: men have struggled for power over their fellow-men in order that they might win the joys of earth at the expense of others and might shift the burdens of life from their own shoulders upon those of others.’⁽¹⁴⁾ Sumner accepts that paupers and the handicapped have to be supported by society. They cannot pay their way. ‘But the weak who constantly arouse the pity of humanitarians and philanthropists are the shiftless, the imprudent, the negligent, the impractical, and the inefficient, or they are the idle, the intemperate, the extravagant, and the vicious.’⁽¹⁵⁾ Sumner adds that nearly all schemes for ‘improving the condition of the working man’ involve an elevation of some working men at the expense of other working men. He emphasises that he is not necessarily against humanitarian measures undertaken by government. Indeed, sometimes the arguments for them may outweigh those against them. But what he desires is to bring out the forgotten element which people ‘always need to remember in order to make a wise decision as to any scheme of this kind’.⁽¹⁶⁾ We must remember ‘the industrious workman going home from a hard day’s work, whom you pass without noticing, who is mulcted of a percentage of his day’s earnings to hire a policeman to save the drunkard from himself.’⁽¹⁷⁾

Sumner says that gambling ‘and less mentionable vices’ cure themselves by the ruin of their victims. Therefore others should not interfere. He then mentions paternalism, when government tries to protect people from themselves. ‘A and B agree to spend Sunday in a certain way. They get a law passed to make C pass it in their way. They determine to be teetotallers and they get a law passed to make C be a

teetotaller for the sake of D who is likely to drink too much.’⁽¹⁸⁾ Should the drunkard be allowed to give alcohol a bad name? Has alcohol ever taken the initiative in harming people? Sumner would not have been surprised by the failure of Prohibition in the United States between 1920 and 1933. Consumption of alcohol only decreased temporarily; its production was driven into the underground; public officials were corrupted; no measurable gains were made in economic productivity; a significant source of tax revenue disappeared, while government took on the costly task of enforcing the new rules.⁽¹⁹⁾ The moderate drinker is the Forgotten Man: his freedom is encroached because others cannot control themselves. Another example Sumner gives is economic regulation. He does not oppose factory legislation to protect children, because they cannot make contracts properly. But adult men must be left to negotiate their own contracts and defend themselves. ‘Now, if we have state regulation, what is always forgotten is this: Who pays for it? Who is the victim of it? There always is a victim. The workmen who do not defend themselves have to pay for the inspectors who defend them.’⁽²⁰⁾ If negligent people are relieved of the consequences of their negligence, those consequences can only be thrown on the people who have not been negligent.

Sumner’s litany of errors continues. Favouritism, for example, has a victim. When one gives a job to a man who is unfit for it, he is keeping out of it somebody, somewhere, who is fit for it. It is the disregarded one who is the Forgotten Man. Another example is when labour unions try to drive up their members’ wages by limiting entry into trades and professions. Now the victims are those who want to get into these markets but cannot do so. They are deprived of opportunities, often without realising it themselves. They are the Forgotten Men. Sumner then turns to what he calls ‘jobbery’ by which he means ‘the constantly apparent effort to

(13) William Graham Sumner, *The Forgotten Man, The Forgotten Man and Other Essays* (New Haven CT: Yale University Press, 1918), p. 466.

(14) *Ibid.*, p. 470.

(15) *Ibid.*, p. 475.

(16) *Ibid.*, pp. 478–479.

(17) *Ibid.*, p. 480.

(18) *Ibid.*, p. 481.

(19) Mark Thornton, *The Economics of Prohibition* (Salt Lake City: University of Utah Press, 1991). Cf. also an interesting point in Bruce Yandle, *Bootleggers and Baptists: The Education of a Regulatory Economist, Regulation*, Vol. 7, No. 3 (1983), pp. 12–16. Bootleggers ‘support Sunday closing laws that shut down all the local bars and liquor stores. Baptists support the same laws and lobby vigorously for them.’

(20) Sumner, *Forgotten Man*, p. 482.

win wealth, not by honest and independent production, but by some sort of a scheme for extorting other people's product from them.'⁽²¹⁾ It is the great plan of all living on each other. The worst example of jobbery is a protective tariff, Sumner asserts. 'This device consists in delivering every man over to be plundered by his neighbor and in teaching him to believe that it is a good thing for him and his country because he may take his turn at plundering the rest.'⁽²²⁾ But the system of plundering each other produces nothing. Wealth comes only from production. Who, then, provides it all? It is the Forgotten Man:

“ He works, he votes, generally he prays—but he always pays—yes, above all, he pays. He does not want an office; his name never gets into the newspaper except when he gets married or dies. He keeps production going on. He contributes to the strength of parties. He is flattered before election. He is strongly patriotic. He is wanted, whenever, in his little circle, there is work to be done or counsel to be given. He may grumble some occasionally to his wife and family, but he does not frequent the grocery or talk politics at the tavern. Consequently, he is forgotten.”⁽²³⁾

Sumner recalls that often the Forgotten Man is a woman. The two of them 'are always forgotten by sentimentalists, philanthropists, reformers, enthusiasts, and every description of speculator in sociology, political economy, or political science'.⁽²⁴⁾ What the Forgotten Man and the Forgotten Woman want and need is true liberty.

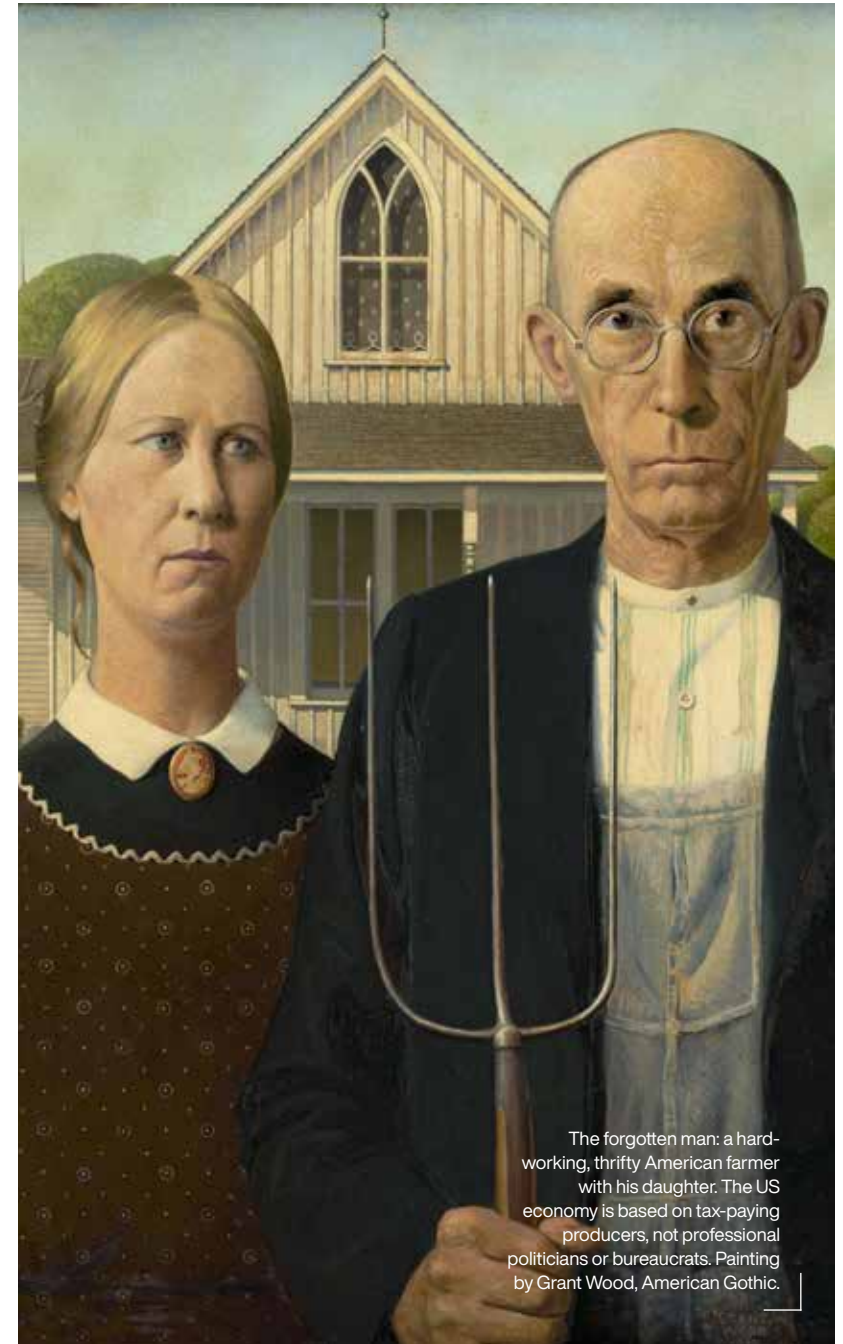
It is clear from Sumner's lecture that he is no more than Herbert Spencer before him a Social Darwinist in the most common sense of the term: for him competition in the marketplace is not a struggle in which

(21) Ibid., p. 488.

(22) Ibid., p. 489.

(23) Ibid., p. 491.

(24) Ibid., p. 493.



The forgotten man: a hard-working, thrifty American farmer with his daughter. The US economy is based on tax-paying producers, not professional politicians or bureaucrats. Painting by Grant Wood, American Gothic.

the weakest will, and ought to, lose.⁽²⁵⁾ The emphasis is not on every man for himself: it is on every man being allowed to keep for himself what he has earned honestly. It is not on ruthless acquisition of money in the economic process: it is on ruthless acquisition of other people's money through political intervention. Sumner accepts that society has to provide for those who cannot provide for themselves, and he does not rule out all other kinds of transfers from rich to poor although he says they would be decided on the basis of expediency rather than justice. Sumner's indignation is however aroused by those who indeed *can* provide for themselves, but who prefer to live off the earnings of others, and also by politicians who try to gain votes by promising to some the money of others. While Sumner certainly admires the innovators and entrepreneurs of his time, he holds that the state should no more favour the rich than the poor. He has only scorn for crony capitalists who want legal protection from competition.

I should add, though, that the account by left-wing historians of 'Robber Barons' in the 'Gilded Age' is not entirely accurate. The label itself is misleading. The original robber barons in Germany during the Middle Ages charged illegal tolls for crossing the territory over which they had control. In contrast to them, American capitalists were no noblemen. They usually did not start out rich, and they did not become rich by robbing others. For example, the oil magnate John D. Rockefeller did not become dominant on the oil market by 'predatory pricing', by using his surplus to lower his prices and drive others out of the market, as is often alleged. He gained his dominance by operating at lower costs than his competitors, and then buying them out.⁽²⁶⁾ The memorable observation by British economic historian Richard H. Tawney that 'freedom for the pike is death to the minnows' may have been intended by him to be a condemnation of capitalism, but it is hardly applicable to it.⁽²⁷⁾ The rich have no pike, and the poor are no minnows; normally the enrichment of

some is not death to others. In a growing capitalist economy the rich get richer and the poor get richer. A pike is an instrument for attack. The pike about which to worry is that held by an agent of government, a policeman or a soldier; it can certainly mean death to dissidents.

Nevertheless, Sumner's message in the lecture about the Forgotten Man is not the whole story, as he probably would have agreed himself. Many feel helpless against the 'blind forces' of the market. They crave security, although they are willing to work. Perhaps Sumner could have been more sensitive to their concerns. His distinction between the deserving and the undeserving poor may be too definite. Human nature is not totally fixed. There are people who would under some circumstances become self-reliant, but who would give up without some initial help. The alternatives need not be to sink or swim. If you are taught to swim, you need not sink. It is worthwhile to try and lift up people, for example by training, scholarships, student loans, mortgages and gentle guidance, perhaps legal as well as moral. While mostly such guidance would be voluntary, the state possibly has a role to play. In some cases, the arguments for government projects (with taxpayers' money) may outweigh those against it, as Sumner indeed allows. Moreover, in the marketplace success is not wholly based on desert. Luck is also important. Some are born healthier, merrier, better looking and more intelligent than others. Some are luckier in their parents than others. There are not only the undeserving poor, but also the undeserving rich. Again, Sumner's message in the lecture is based squarely on the Principle of Equal Freedom which he shares with Herbert Spencer. It is a direct deduction from it. The reason we have to respect the Forgotten Man is that he has an equal right to freedom as the rest. But Sumner does not want to argue from rights: he believes in evolution. What is his response, then, to the possible counter-argument that the Principle of Equal Freedom may be rendered obsolete by evolution? That a welfare state is simply the next historical stage? That what a man has earned is not necessarily his to keep? If his response is that evolution has to be free and spontaneous, he seems to be placing freedom and spontaneity above evolution. Perhaps this is what he ought to do. But this involves a choice, a commitment to freedom as the product of Western civilisation.

(25) In fact, Social Darwinism as a political position seems to be the invention of left-wing sociologist Richard Hofstadter. There are almost no self-proclaimed Social Darwinists, certainly not among economic liberals.

(26) John S. McGee, Predatory Price Cutting: The Standard Oil (N.J.) Case, *Journal of Law and Economics*, Vol. 1 (1958), pp. 137–169.

(27) Richard H. Tawney, *Equality* (London: George Allen & Unwin, 1931), p. 238.

The Conquest of the United States by Spain

Sumner's denunciation of American imperialism, 'The Conquest of the United States by Spain,' is one of his most effective pieces. He says that Spain and the United States are symbols of two different ideas. Spain is a state based on conquest, United States on trade. Sumner suggests that even if the United States won a military victory over Spain in the 1898 Spanish-American War, it was really Spain that defeated the United States, because her militarism, her spirit of conquest, was being adopted by the United States. 'We have beaten Spain in a military conflict, but we are submitting to be conquered by her on the field of ideas and policies.'⁽²⁸⁾ It was not necessary to wage a war against Spain over Cuba, Sumner holds. The decision to do so was a move in the partisan politics of Washington. It was a decision made in a shouting match, not after rational deliberation. 'Patriotism is being prostituted into a nervous intoxication which is fatal to an apprehension of truth.'⁽²⁹⁾ At the time of Sumner's lecture in January 1899, Cuba was already occupied by the United States, Puerto Rico had been annexed, and US military forces were about to suppress an independence movement in the Philippines. American imperialists asserted that the inhabitants of these territories had to be taught to govern themselves. 'The most important thing which we shall inherit from the Spaniards will be the task of suppressing rebellions,' Sumner comments. 'If the United States takes out of the hands of Spain her mission, on the ground that Spain is not executing it well, and if this nation in its turn attempts to be school-mistress to others, it will shrivel up into the same vanity and self-conceit of which Spain now presents an example.'⁽³⁰⁾ Sumner points out that the United States is not conquering these territories in order to settle them. The crucial difference between the early English settlements in North America and Spanish colonies is that Spaniards went to the colonies as profiteers, eager to make fortunes as quickly as possible and then to return to Spain

(28) Sumner, *The Conquest of the United States by Spain* (1899), *War and Other Essays* (New Haven CT: Yale University Press, 1919), p. 297.

(29) *Ibid.*, p. 301.

(30) *Ibid.*, p. 305.



The military of the United States of America was supposed to be for defence, not aggression. Painting by John Trumbull, General George Washington Resigning his Commission.

to enjoy them. This observation has also been made by modern economists who seek to explain the difference between successful and failed nations. They distinguish between *inclusive* and *extractive* societies, between societies composed of free immigrants such as the United States (as well as Canada, Australia and New Zealand) and societies controlled by small elites, often descended from colonial rulers, such as most Latin American countries.⁽³¹⁾

According to Sumner, Spanish colonialism is based on the delusion that some races are superior to others. 'This attitude of mind, wherever you meet with it, is what causes tyranny and cruelty,' he says. 'It is this disposition to decide off-hand that some people are not fit for liberty and self-government which gives relative truth to the doctrine that all men are equal, and inasmuch as the history of mankind has been one long story of the abuse of some by others, who, of course, smoothed over their tyranny by some beautiful doctrines of religion, or ethics, or

(31) Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012).

political philosophy, which proved that it was all for the best good of the oppressed, therefore the doctrine that all men are equal has come to stand as one of the corner-stones of the temple of justice and truth.’⁽³²⁾ The very same year that Sumner gave his lecture, in 1899, Anglo-Polish writer Joseph Conrad published his famous novel about colonialism, *Heart of Darkness*, where one of the characters exclaims: ‘The conquest of the earth, which mostly means the taking it away from those who have a different complexion or slightly flatter noses than ourselves, is not a pretty thing when you look into it too much.’⁽³³⁾ In his lecture, Sumner rejects the suggestion that the new American colonies should be accepted into the Union. There is no escape, he holds, except to give them independence and to let them work out their own salvation, or go without it. If the US government tries to wrest any revenue out of them, then it would only be repeating the conduct of the British government in the eighteenth century which led to the American Revolution. Thus, it would be repudiating the very principles upon which the United States was founded. Moreover, war and expansion would encourage ‘jobbery’, a costly struggle for government favours. Also, the attention of the population at large would be diverted from what the plutocrats at home are doing. Taxpayers’ money would not go into the Treasury, but into the hands of a few schemers. This is a striking anticipation of President Dwight D. Eisenhower’s warning upon leaving office in 1961 of a ‘military-industrial complex’ which threatened peace and prosperity in the United States.⁽³⁴⁾

Sumner warns his compatriots that imperialism will plunge them into a host of problems and perils, without any corresponding advantages. American imperialists however mocked Sumner and his soulmates as ‘isolationists’. True to form, Sumner takes up the challenge. ‘Our ancestors all came here to isolate themselves from the social burdens and inherited errors of the old World,’ he says. ‘What we are doing is that we are abandoning this blessed isolation to run after a share in the

trouble.’⁽³⁵⁾ He points out the inconsistency of those who seek to restrict immigration to the United States at the same time as they want the country to take on responsibility for eight million people abroad, and pay 20 million dollars for it, to boot. Sumner believes that imperialism goes against the ideals of the American Founding Fathers: ‘There should be no manors, no barons, no ranks, no prelates, no idle classes, no paupers, no disinherited ones except the vicious. There were to be no armies except a militia, which would have no functions but those of police. They would have no court and no pomp; no orders, or ribbons, or decorations, or titles.’⁽³⁶⁾ The Americans were not to seek glory on a battlefield; instead, they were to pursue happiness for themselves and their families. ‘My patriotism is of the kind which is outraged by the notion that the United States never was a great nation until in a petty three months’ campaign it knocked to pieces a poor, decrepit, bankrupt old state like Spain. To hold such an opinion as that is to abandon all American standards, to put shame and scorn on all that our ancestors tried to build up here, and to go over to the standards of which Spain is a representative.’⁽³⁷⁾ Lord Acton took a similar stance: ‘Wars of conquest and aggrandisement are literally no better in my eyes than murder,’ he wrote in 1894.⁽³⁸⁾

Unlike Sumner, Lenin, following English economist John Hobson, argued that imperialism, or colonialism, was the final stage of capitalism rather than a chase ‘after a share in the trouble’. For the industrial state, Lenin said, territorial expansion was necessary when economic stagnation set in. It required new markets for capital and commodities. Exploitation of workers by capitalists in the industrial state was thus replaced by exploitation of poor colonies in the South by rich countries in the North.⁽³⁹⁾ Lenin could find some support for his thesis in an offhand remark by Karl Marx that the ‘bourgeoisie’ could partly get over

(32) Sumner, *War*, p. 309.

(33) Joseph Conrad, *Heart of Darkness* (New York: Penguin Books, 2017 [1899]), p. 7.

(34) Stephen Ambrose, *Eisenhower: The President*, Vol. 2 (New York: Simon & Schuster, 1984), pp. 612–614.

(35) Sumner, *War*, p. 326.

(36) *Ibid.*, p. 332.

(37) *Ibid.*, p. 334.

(38) Letter from Lord Acton to Mary Gladstone, 31 January 1894. Here from *Selected Writings of Lord Acton*, Vol. III (Indianapolis IN: Liberty Fund, 1988), p. 515.

(39) John A. Hobson, *Imperialism* (New York: James Pott, 1902); Vladimir I. Lenin, *Imperialism: The Highest State of Capitalism* (London: Lawrence & Wishart, 1948 [1917]).

its regular crises ‘by the conquest of new markets’.⁽⁴⁰⁾ There are several reasons however why Lenin’s theory of imperialism is implausible. First, most capital in rich countries that was invested abroad before the First World War (which was the point of reference) was invested in other rich countries. In the second place, the largest colonial empire, that of Great Britain, maintained free trade, not having to sell goods to captive markets. Thirdly, how would poor people in colonies be able to pay for the capital and goods offered to them by capitalists in search of profits?⁽⁴¹⁾ Without doubt, the colonisers oppressed and exploited their subjects in the colonies, but they may have lost as much or more than they gained from it. The three richest countries of Europe, Switzerland, Norway and Iceland, have not had any colonies for centuries, whereas the country which kept a colonial empire the longest, Portugal, is relatively poor. Sumner points out that the possession of colonies may have done Spain great harm. The gold and silver which poured into the royal coffers in Madrid from the colonies overseas encouraged costly military adventures in Europe. Again, some backward countries never were colonies, for instance Afghanistan, Tibet, Nepal, and Liberia. Another poor country, Ethiopia, was a colony for only six years. The poorest country in the Americas, Haiti, was the second to gain independence, after the United States.

In the twentieth century, colonies have largely disappeared, and consequently Marxists have replaced their old theory of imperialism with that of ‘neo-colonialism’, of economic exploitation rather than political oppression. The poor nations of the south allegedly have to trade on unfavourable terms with the rich nations of the north. But the theory of ‘neo-colonialism’ collides with the two obvious facts that formerly poor countries with the most trade with others, such as Singapore, Hong Kong, South Korea and Taiwan, have become rich, whereas countries with little foreign trade, such as Nepal, remain poor.⁽⁴²⁾ Moreover, the

wealth of the greatest capitalist country, the United States, can hardly be explained by exploitation of other countries, because foreign trade has never been a large proportion of total trade: Americans mostly trade with one another. Of course poor nations that export raw materials may suffer fluctuations in their prices, but the main reason why rich nations invest little in some of them, is that they do not provide a stable and business-friendly environment. If you want to attract capital, you have to be attractive to capitalists. In the thesis about imperialist exploitation, whether through conquest or trade, there is an ounce of truth, but a pound of falsehood.

Sumner’s powerful condemnation of American imperialism at the end of the nineteenth century raises the question what conservative liberals would regard as the sensible foreign policy of a modern super-power like the United States. Would they be isolationists? By a foreign policy countries normally try to promote their own interests: states have few friends and many interests. US foreign policy should be less concerned with making the world safe for democracy than with making it safe for the United States. The main criterion, but perhaps not the only one, for what is permissible in foreign affairs seems to be that in self-defence one state may use force against other states. This does not preclude the peaceful expansion of a country by territorial purchases, as when the United States bought the Louisiana Territory from France, or Alaska from Russia, or the Danish West Indies from Denmark. When the territory in question is fully inhabited, this would require the consent of the inhabitants: In the Danish West Indies, the change was endorsed in a referendum. But it precludes annexing Hawaii (unless the move would be initiated and supported by a large majority of the inhabitants) or going to war with Spain in order to ‘liberate’ her colonies, as the United States did in 1898. It also would seem to preclude joining in 1917 the Great War fought in Europe. Despite some provocations by Germany, there was no urgent need for the United States to fight alongside Britain, France, Russia and Italy against Germany, Austria-Hungary and the Ottoman Empire. If the United States had a general interest in maintaining a peaceful world order, as President Woodrow Wilson then plausibly argued, then that interest was ill-served by helping two warmongers, Georges Clemenceau and David Lloyd George, defeat the

(40) Karl Marx and Friedrich Engels, *Manifest der kommunistischen Partei* (1848). Karl Marx and Friedrich Engels, *Werke*, Vol. 4 (Berlin: Dietz, 1977), p. 468.

(41) Peter T. Bauer, *The Economics of Resentment, Dissent on Development* (Cambridge MA: Harvard University Press, 1979), pp. 150–151.

(42) Peter T. Bauer, *Western Guilt and Third World Poverty, Equality, the Third World, and Economic Delusion* (Cambridge MA: Harvard University Press, 1981), pp. 75–76.



Central Powers. The aftermath of the war illustrates Sumner's warning in his lecture that one intervention will beget another. Germany's collapse and her treatment by the victors eventually led to the Nazi takeover, and after that another world war was almost inevitable. Not only were the Nazis evil, but they also posed a danger to North America

as well as to Europe, although eventually it was Japan that attacked the United States in 1941, with Hitler declaring war on the country a few days later. Therefore, America's participation in the Second World War was in self-defence and justifiable. It should be noted, though, that the United States had provoked Japan by banning virtually all trade with her, which was somewhat ironic given that in 1853 the United States had sent warships to Japan to force her to open up her ports to trade.

United States participation (or rather leadership) in the Cold War would also seem to be justifiable on conservative-liberal principles. The communists ruling Russia and China were as evil and dangerous as the Nazis had been. They were a real threat to a peaceful world order, while new technology in transport and military gear had broken the 'blessed

Filipino casualties in the 1899 war between the United States and Filipino rebels. Although Sumner is often portrayed as a 'Social Darwinist', he was as fiercely opposed to American expansionism as Herbert Spencer had been to British colonialism. Photo: US National Archives 524389.

isolation' enjoyed by America in the first century of her existence and taken for granted by Sumner. In modern times, isolation is not an option. In the Cold War, the old adage applied to Western democracies: We must, indeed, all hang together or, most assuredly, we shall all hang separately.⁽⁴³⁾ However, it is not always easy to discern between legitimate and illegitimate intervention abroad. For example, US military support of South Korea and Taiwan in the 1950s, against communist aggression, has been amply justified by history: These countries have done very well, adopting first capitalism and then constitutional democracy. They are staunch allies of the West. While the conflict in South Vietnam in the 1960s and 1970s appeared to have similarities to that in South Korea, three factors made American intervention more problematic: It was a civil war rather than a full-scale invasion from the north; the war dragged on for decades, because the United States was unwilling to defeat the communist insurgents in a swift, massive effort; and a volunteer army would have been more practical in the circumstances, as the draft had become quite unpopular on the home front where the war was ultimately lost. It is however difficult to argue for US military intervention in Iraq in 2003 and Libya in 2011: Sometimes, the alternative to a cruel despot is not liberal democracy but menacing chaos, coupled with rising anti-Americanism. Oppression in a country is rarely a sufficient reason for invading her, or bombing her cities. America cannot be the unpaid, and unloved, policeman of the world, any more than its school-mistress. While Sumner's isolationism may not be feasible today, it does not mean that febrile interventionism is desirable. Sumner's warnings against the warfare-welfare state are still relevant.

(43) Cf. Raymond Aron, *In Defense of Decadent Europe* (South Bend IN: Regnery/Gateway, 1979).



Two years after the Bolshevik Revolution, Mises pointed out that central economic planning could not achieve its aims: if the means of productions had no market prices, the planners could not calculate costs of alternative decisions.
Photo: Bettina Bien Greaves.

Ludwig von Mises

(1881–1973)

The coup by Russian Bolsheviks in November 1917 turned out to be more fateful than the French Revolution. Whereas around 40,000 people perished at the hands of the Jacobins, it is estimated that communism in the twentieth century cost no fewer than 100 million lives, thereof around 20 million in the Soviet Empire, established by the Bolsheviks. The difference between the Tsarist regime in Russia before the coup and Soviet communism was one of kind, not of degree. From 1825 to 1917, the total number of people sentenced to death in Russia for political reasons was 6,360, of whom 3,932 were executed, thereof 3,741 in 1906–1910, in the aftermath of the 1905 uprising. In March 1918, after four months in power, the Bolsheviks had executed even more people.⁽¹⁾ The main explanation of these atrocities was that the communists were seeking to achieve an impossible end, the total control of society by one body. In early January 1920, only a little more than two years after the Bolshevik coup, Austrian economist Ludwig von Mises demonstrated this impossibility: The Bolsheviks could not calculate the cost of the economic alternatives facing them. Therefore their efforts would lead to ‘planned chaos’ in which they had either to abandon their plans or to try and impose them by force, and if need be, by terror. Mises published his seminal paper later in the year and then a comprehensive treatise on socialism.⁽²⁾

(1) Stéphane Courtois, Introduction: The Crimes of Communism, *The Black Book of Communism* (Cambridge MA: Harvard University Press, 1999), pp. 10 and 13–14.

(2) Ludwig von Mises, Die Wirtschaftsrechnung im sozialistischen Gemeinwesen, *Archiv für Sozialwissenschaften und Sozialpolitik*, Vol. 47, No. 1 (1920), pp. 81–121; Economic Calculation in the Socialist Commonwealth, tran. by S. Adler, *Collectivist Economic Planning*, ed. by F. A. Hayek (London: George Routledge & Sons, 1935); *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922); *Socialism: An Economic and Sociological Analysis*, tran. by J. Kahane (London: Jonathan Cape, 1932).

Although the Bolsheviks refused to learn anything from Mises, his refutation of socialism had in the 1920s a profound impact on a generation of young economists, Friedrich A. von Hayek in Austria, Lionel Robbins in England, Wilhelm Röpke in Germany, Bertil Ohlin in Sweden, and Trygve Hoff in Norway. ‘It was not easy,’ Hayek later remarked. ‘Professor Mises’ teaching seemed directed against all we had been brought up to believe. It was a time when all the fashionable intellectual arguments seemed to point to socialism and when nearly all “good men” among the intellectuals were socialists.’⁽³⁾ When socialism finally crumbled under its own weight in 1989–1991, Mises stood vindicated.

Mises’ Life and Works

Ludwig Heinrich Edler von Mises was born on 29 September 1881 in the city of Lemberg in what was then Galicia in the Habsburg Empire. Edler is a title, not a name. It means ‘Nobleman’ and is roughly equivalent to a hereditary knight in England. In the turbulent twentieth century, his birthplace became first Lwow in Poland and then Lviv in Ukraine. Ludwig’s parents were both Jewish. His father Arthur Edler von Mises was a railway engineer, and his mother Adele, born Landau, came from an affluent family. The family moved to Vienna when Ludwig was a child, and in grammar school he discovered a verse by Virgil that he chose as his motto in life: ‘Tu ne cede malis sed contra audentior ito. (Do not give in to evil but proceed ever more boldly against it.)’⁽⁴⁾ In 1900 Mises enrolled at the University of Vienna, graduating in law six years later. Under the influence of Carl Menger and his disciple Eugen von Böhm-Bawerk, Mises’ main interest had become economics. He attended Böhm-Bawerk’s seminar at the University from 1904 to 1913, engaging in lively debate with other intellectuals about the nature and principles of economics. Participants included socialists like Otto Bauer and Rudolf Hilferding and liberals like Joseph Schumpeter. Even the Russian

Bolshevik Nikolai Bukharin made an appearance at the seminar and tried in his writings (like Hilferding) to respond to Böhm-Bawerk’s powerful critique of Marxist theory.⁽⁵⁾ The fates of some seminar participants illustrate that those desiring a quiet life did badly to be born in the twentieth century. Bukharin was one of the defendants in Stalin’s 1938 show trial, and was subsequently executed. Bauer was briefly Austrian Foreign Minister, but he died of heart failure in 1938 as an exile. Having served twice as German Finance Minister, Hilferding fell in 1941 into the hands of the Gestapo and was tortured to death. Schumpeter escaped to the United States and became Professor of Economics at Harvard University.

In the first decade of the twentieth century, this was all in the unknown future. After graduation, Mises worked in Austria’s financial administration and for a law firm, before joining the Vienna Chamber of Commerce and Industry in 1909. He published his first major work, *Theory of Money and Credit*, in 1912, where he sought to extend Menger’s analysis of subjective value to money: Money was unlike other commodities in that its value was not determined by its future utility, but rather by its past performance as a medium of exchange.⁽⁶⁾ Subsequently, Mises became an unsalaried lecturer, *Privatdozent*, in economics at the University of Vienna. But in 1914, war broke out in Europe. Eleven years earlier, the King of Serbia, Peter I, had seized power in a bloody coup, where his predecessor and his family were killed. He and his officers regarded the Habsburg monarchy as the greatest obstacle to their dream of uniting all Southern Slavs under Serbian leadership. In particular the Habsburg Crown Prince, Archduke Franz Ferdinand, was considered a threat because he wanted to transform the Danube Empire into a federal

(5) Nikolai Bukharin, *The Economic Theory of the Leisure Class* (Moscow: International Publishers, 1927 [1914]); Rudolf Hilferding, Böhm-Bawerk’s Criticism of Marx, *Karl Marx and the Close of His System and Böhm-Bawerk’s Criticism of Marx*, ed. by Paul M. Sweezy (New York: August M. Kelley, 1949 [1904]), pp. 121–196. Bukharin sought not as much to refute the Austrian economists as to unmask them as apologists for capitalism. Hilferding tried, not very successfully, to change the terms of the debate rather than squarely to confront Böhm-Bawerk’s arguments against the labour theory of value and the exploitation theory, as Leszek Kolakowski points out, *Main Currents of Marxism*, Vol. II: The Golden Age (Oxford: Clarendon Press, 1978), pp. 290–297.

(6) Ludwig von Mises, *Theorie des Geldes und der Umlaufsmittel* (München and Leipzig: Duncker & Humblot, 1912); *The Theory of Money and Credit*, tran. by H. E. Batson (London: Jonathan Cape, 1934), reissued by Liberty Fund in 1981. Mises’ works in English are almost all available online at the websites of both Liberty Fund and Mises Institute.

(3) Friedrich A. von Hayek, A Tribute to Ludwig von Mises, Speech delivered 7 March 1956 in New York. Repr. as Appendix Two, Margit von Mises, *My Years with Ludwig von Mises* (New Rochelle NY: Arlington House, 1976), p. 190.

(4) Virgil, *The Aeneid*, VI, 95.

state, with autonomy for Poles, Czechs, Slovaks, Slovenes, Croats, and other ethnic minorities. This might have placated them and saved the Monarchy. A Serbian nationalist with ties to the secret service of Serbia killed Franz Ferdinand and his wife in Sarajevo in Bosnia on 28 June 1914, upon which the Austrian-Hungarian government, backed by Germany, demanded that the Serbian government would suppress secret societies directed against Austria and conduct a full investigation, with Austrian participation, into the assassination of the Archduke and his wife. When Serbia did not accept all of these demands, Austria-Hungary declared war on her, upon which Russia and France mobilised, which in turn led to Germany, in a pre-emptive strike, declaring war against these two powers. Probably, the war would have been a short one, ending in victory for the Central Powers, Germany and Austria-Hungary, if the United Kingdom, fearing Germany's dominance on the continent, had not entered it a few days later on the side of Russia and France. There was nothing much at stake for Britain. She was not Serbia's traditional ally like Russia and not bent on revenge for past defeats like France. Scottish historian Niall Ferguson argues that Britain's intervention in 1914 was 'nothing less than the greatest error of modern history'. The result of that intervention was a stalemate on most fronts which was only broken after 1917 when the mighty United States, also without any apparent geopolitical reason, declared war on Germany and a few months later on Austria-Hungary. The war claimed a total of 9,450,000 human lives, with countless more people wounded or greatly harmed.⁽⁷⁾

During the war, Mises served first as an officer in the Imperial artillery and then as an economist in the War Department. The Habsburg Empire was unstable. It was a state 'unwanted by its subjects', as Mises put it.⁽⁸⁾ In 1916, Emperor Franz Joseph died after a reign of 68 years. He was succeeded by his brother's grandson, Charles, who sought in vain to make a separate peace with Austria's enemies and to establish a federal state. In the autumn of 1918, amidst widespread mutinies and

civil unrest, the armies of Germany and Austria-Hungary capitulated. The Dual Monarchy disintegrated, Emperor Charles went with his family into exile, and new countries were proclaimed on the ruins of the Habsburg Empire, Poland, Czechoslovakia, and Yugoslavia, while Austria and Hungary had to accept loss of large territories, including German-speaking Sudetenland to Czechoslovakia and South Tyrol to Italy and Hungarian-speaking parts of Transylvania to Romania, making a mockery of the principle of national self-determination. The vast Danubian free trade area and currency union split into several independent countries, each of them erecting her own trade barriers and issuing her own currency. With the wisdom of hindsight, Czech writer Milan Kundera observes:

“ The Austrian empire had the great opportunity of making Central Europe into a strong, unified state. But the Austrians, alas, were divided between an arrogant Pan-German nationalism and their own Central European mission. They did not succeed in building a federation of equal nations, and their failure has been the misfortune of the whole of Europe. Dissatisfied, the other nations of Central Europe blew apart their empire in 1918, without realizing that, in spite of its inadequacies, it was irreplaceable. After the First World War, Central Europe was therefore transformed into a region of small, weak states, whose vulnerability ensured first Hitler's conquest and ultimately Stalin's triumph.⁽⁹⁾

In Austria, the socialists entered into a coalition government, and Mises' friend from Böhm-Bawerk's seminar, Otto Bauer, became Foreign Minister. In the winter of 1918–1919 Mises convinced him that any attempt at a socialist revolution would end in disaster. Under Bauer's influence, the socialists refrained from seizing total power, but had

(7) Niall Ferguson, *The Pity of War: Explaining World War I* (London: Allen Lane, 1998), pp. 462 and 295. In Austria-Hungary, 1,100,000 lost their lives in the war. The title of Ferguson's book refers to a line in Wilfred Owen's anti-war poem 'Strange Meeting'.

(8) Ludwig von Mises, *Notes and Recollections*, tran. by Hans Sennholz (Indianapolis IN: Liberty Fund, 2013 [1978]), p. 19.

(9) Milan Kundera, *The Tragedy of Central Europe*, *New York Review of Books*, Vol. 31, No. 7, 26 April 1984.

themselves to leave the coalition government in 1921. During their short tenure, the socialists had however initiated reckless public spending. The new Austrian republic was too weak to impose new taxes, but strong enough to print money. The consequence was hyperinflation, raging until 1922. Mises did everything in his powers to persuade the conservative Chancellor, the Catholic priest Ignaz Seipel, who served between 1922 and 1924, to stop the printing presses in order to stabilise the currency, and he finally succeeded.

In 1918, Mises became Associate Professor of Economics at the University of Vienna, an unsalaried position like his previous lectureship. Two years later he started a fortnightly seminar in his spacious office at the Chamber of Commerce. Participants included Friedrich von Hayek, Fritz Machlup, Gottfried von Haberler, Felix Kaufmann and Oskar Morgenstern (the son of an illegitimate daughter of German Emperor Frederick III) and occasional visitors to Vienna, such as Lionel Robbins from England and Wilhelm Röpke from Germany. The seminar was held on Friday nights. It started at seven o'clock and usually lasted until ten, and thereafter the discussion continued on a lighter note at a nearby restaurant, Ancora Verde. At eleven thirty those who were not yet exhausted went to the favourite haunt of Viennese economists in those days, Künstlercafé, opposite the University. Mises was invariably the last to leave.⁽¹⁰⁾ The participants were pessimistic about Austria's future, not least Mises himself who advised his students to get out before it was too late. 'All around us the barbarian flood was rising and we all knew we were fighting with nothing but forlorn hope.'⁽¹¹⁾ Mises joked that perhaps they could all escape to Buenos Aires where they would start a night club. The aloof Hayek would become head waiter, the suave Machlup would dance with female guests, and the lively Kaufmann would perform as a crooner, whereas the only job Mises could probably manage would be that of the uniformed doorman. Indeed, many of the seminar participants emigrated, but not to Latin America. Hayek became Professor of Economics at the London School of Economics, Haberler at Harvard

(10) Gottfried von Haberler, Mises' Private Seminar, *The Mont Pelerin Quarterly*, Vol. III, No. 3 (October 1961). Repr. in *Planning for Freedom* (South Holland IL: Libertarian Press, 1980), pp. 276–278.

(11) Mises, *Notes*, p. 96.



Prior to his coronation in Budapest as King of Hungary in 1916, Austrian Emperor Charles receives his son Otto. The Danubian Empire of the Habsburgs was a huge free trade area with a common, stable currency. It provided better conditions for peace and prosperity than its successor states, despite some shortcomings. Otto von Habsburg became a friend of Mises and member of the Mont Pelerin Society. Painting by Gyula Éder.

University, and Machlup and Morgenstern at Princeton University, while Kaufmann took up teaching at the New School for Social Research in New York.

Mises was Vice President of the Austrian Economic Society, *Nationalökonomische Gesellschaft*, and in January 1920 he read his celebrated paper to the Society on the impossibility of efficient decision-making under socialism. He published the paper later in the year, and in 1922, he elaborated and extended the argument in a big book on socialism. He set out his own positive agenda in *Liberalism*, published in 1927.⁽¹²⁾ Despite his achievements as a scholar, Mises never became full-time professor in Austria, probably because he was both Jewish and a liberal: one black mark might not have disqualified him, but two did.⁽¹³⁾ In the early

(12) Ludwig von Mises, *Liberalismus* (Jena: Gustav Fischer, 1927); *Liberalism: The Classical Tradition*, tran. by Ralph Raico, 4th ed. (Indianapolis IN: Liberty Fund, 2005 [1962]).

(13) *Hayek on Hayek*, ed. by Stephen Kresge and Leif Wenar (Indianapolis IN: Liberty Fund, 2008 [1994]), p. 59.

1930s, as the Great Depression made itself felt, political conflicts intensified in Austria, leading in February 1934 to a brief civil war between Socialist paramilitary forces and the Austrian Army, supported by the police and ultra-nationalistic paramilitary forces. Several hundred people lost their lives, and more than a thousand suffered wounds. Upon defeating the Socialists, the government of Chancellor Engelbert Dollfuss banned their party and drove their leaders into exile. In July 1934, Austrian Nazis tried to seize power and managed to kill Dollfuss, but their uprising was suppressed by the Army. When Mises was in 1934 offered a professorship at the Graduate Institute of International Studies in Geneva, he immediately accepted and left Vienna in the autumn. While in Geneva, he married, to the great surprise of his friends who had believed he would be a bachelor for life. His wife was Margit Serény, born Herzfeld, a former actress and widow of a Hungarian aristocrat. One of his two stepchildren, Gitta Serény, later became a well-known journalist.⁽¹⁴⁾ Mises was a firm opponent of national socialism no less than of other kinds of socialism, and when the Nazis invaded Austria in the spring of 1938, they seized the books and papers still in his Vienna flat. With the connivance of local Nazis, the German occupiers harassed Austrian Jews many of whom paid a ransom to leave, although the world was now increasingly divided into countries where Jews could not live and countries which they could not enter. Austrian Nazis took particular pleasure in forcing Jews to do humiliating work in front of their leering neighbours, such as scrubbing the pavements of Vienna. Mises however used the tranquillity of Geneva to write a comprehensive treatise on economics in German which was published in 1940.⁽¹⁵⁾ But war had broken out in the autumn of 1939, and in the summer of 1940, the Nazis defeated France. Mises and his wife decided they had to try and escape to the United States. After a harrowing journey through the south of France and Spain to Lisbon in Portugal, and then over the North Atlantic Ocean, in August 1940 they arrived in New York.

(14) For example, Gitta Serény, *Albert Speer: His Battle with Truth* (London: Macmillan, 1995).

(15) Ludwig von Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens* (Geneva: Editions Union Genf, 1940).

Unlike many other European emigrants of lesser stature, Mises could not secure an academic position in the United States, and for some years he had to live off his savings and depend on small research grants from the Rockefeller Foundation. But his robust defence of unfettered capitalism earned him not only enemies, but also admirers. The Volker Fund, directed by economic liberals, decided to support a Visiting Professorship for Mises at New York University, and in 1949 Mises started a weekly seminar there which was attended by many young ‘libertarians’, as liberals in the United States were calling themselves after social democrats had appropriated the word ‘liberal’. The seminar was held on Thursday evenings, between seven thirty and nine thirty, at Gallatin House, One Washington Place, with Mises and some of his students then continuing the discussion less formally at a place nearby, Child’s Restaurant. Mises would typically begin by opening a newspaper and read from it an account of an alleged economic problem. He would then analyse it: either it was a complaint about voluntary choices made by others and therefore not an economic problem at all, or it was the consequence of a distortion in the economy brought about by misguided prior interventions.⁽¹⁶⁾ Participants in the seminar included Israel Kirzner and Murray Rothbard who both were later to make notable contributions to ‘Austrian’ economics,⁽¹⁷⁾ devoted followers of Mises like Hans and Mary Sennholz, Bettina Bien and Percy Greaves, Ralph Raico and Leonard Liggio, and occasional visitors like economic journalist Henry Hazlitt and novelist Ayn Rand.⁽¹⁸⁾ Mises was also an influential associate of the Foundation of Economic Education, an institute in Irvington-on-Hudson which promoted free trade and private property. Sometimes, Mises and his wife entertained in their flat at 777 West End Avenue on Manhattan’s Upper West Side.

During the war, Mises met in New York with Archduke Otto von Habsburg, heir to the Austrian-Hungarian thrones, a strong anti-Nazi

(16) Laurence Moss, Introduction, *The Economics of Ludwig von Mises: Toward a Critical Reappraisal* (Kansas City MO: Sheed & Ward, 1976), p. 5.

(17) Israel Kirzner, *Competition and Entrepreneurship*, 2nd ed. (Indianapolis IN: Liberty Fund, 2013 [1973]); Murray Rothbard, *Man, Economy, and State*, 2nd ed. (Auburn AL: Ludwig von Mises Institute, 2009 [1962]).

(18) Margit von Mises, *My Years*, pp. 133–141.

like Mises. They became good friends, and Mises wrote a report for the Archduke about Austria's prospects and possibilities after the war.⁽¹⁹⁾ Mises 'was convinced that history would have taken a different course if a man like Otto von Habsburg had been at the helm of the Austrian government in 1914'.⁽²⁰⁾ Mises published two books in English during the war, *Omnipotent Government*, where he tried to explain the rise of totalitarianism in Europe, and *Bureaucracy*, where he explored the implications of turning the whole of society into one gigantic post office, as socialists had suggested.⁽²¹⁾ In the spring of 1947, Mises went to Europe for the first time after his narrow escape seven years earlier. His favourite student Hayek had organised a conference of liberal scholars and men of affairs at Mont Pèlerin in Switzerland. There, Mises reinforced his reputation of being intransigent. When some participants agreed that a progressive income tax might be acceptable, he was outraged. He stood up, exclaimed: 'You're all a bunch of socialists,' and stomped out of the room.⁽²²⁾ Swedish political philosopher Herbert Tingsten reacted to Mises' fierce rejection of any form of redistribution by exclaiming: 'If this is liberalism, then I am still a socialist.'⁽²³⁾ Nevertheless, the conference was a success and the participants decided to establish an informal international academy, the Mont Pelerin Society, which would meet occasionally to discuss liberal ideas. While Tingsten did not attend more meetings, Mises remained active in the Society and welcomed his friend von Habsburg into it in 1960. At a Mont Pelerin Society meeting in Stresa, Italy, in 1965 Mises yet again demonstrated his intransigence.

(19) Ludwig von Mises, A Draft of Guidelines for the Reconstruction of Austria (May 1940), *Selected Writings of Ludwig von Mises*, ed. by Richard M. Ebeling, Vol. 3 (Indianapolis IN: Liberty Fund, 2000), pp. 133–168.

(20) Margit von Mises, *My Years*, p. 73.

(21) Ludwig von Mises, *Omnipotent Government: The Rise of Total State and Total War* (New Haven CT: Yale University Press, 1944); *Bureaucracy* (New Haven CT: Yale University Press, 1944). Reissued by Liberty Fund IN in 2011 and 2007, respectively.

(22) Milton and Rose Friedman, *Two Lucky People* (Chicago: University of Chicago Press, 1998), p. 161.

(23) Herbert Tingsten, *Mitt liv* [My Life], Vol. 3 (Stockholm: Norstedt & Söner, 1963), p. 334. Although Tingsten suggests that Mises' intransigence was the reason he did not attend more meetings, Tingsten's compatriot, Arvid Fredborg, in 1960 noted in his diary that the long-time Secretary of the Mont Pelerin Society, Albert Hunold, had told him that Tingsten had been offended because he had not been allowed to go on talking for a long time. Tingsten liked to listen to himself. Cf. Joakim Bröms, Arvid Fredborg som nyliberal [Arvid Fredborg as a Neo-Liberal], undated working paper, Lund University. Bröms quotes Fredborg's personal papers at the Uppsala University Library.



"Former people" such as bankers and merchants collecting garbage in Petrograd after the Bolshevik Revolution, under the watchful eyes of soldiers in the Red Army. These people were fortunate to be alive: In the first four months of their reign, the Bolsheviks executed more people than the Tsars had done in the whole period of 1825–1917. Watercolour by Ivan Vladimirov.

In a discussion about the international monetary order Machlup expressed some doubts about the feasibility of returning to a gold standard. When he tried afterwards to talk to Mises, his old mentor abruptly turned around and marched away. For years, Mises refused to speak to Machlup, until his wife brought them together.⁽²⁴⁾

In 1949, Mises published *Human Action*, the American version of the comprehensive treatise on economics he had written in Geneva.⁽²⁵⁾ In the 1950s, he was active in his New York seminar, at events organised by the Volker Fund and the Foundation for Economic Education as well as the Mont Pelerin Society, and he published a few more books, *The Anti-Capitalistic Mentality* in 1956, *Theory and History* in 1957, and *The*

(24) Fritz Machlup, Ludwig von Mises: A Scholar Who Would Not Compromise, *Homage to Mises: The First Hundred Years: Commemorative Papers for the Ludwig von Mises Centenary*, ed. by J. L. Andrews Jr. (Hillsdale MI: Hillsdale College Press, 1981), pp. 19–27.

(25) Ludwig von Mises, *Human Action*, Vols. 1–4 (Indianapolis IN: Liberty Fund 2007 [1949]). Originally publ. by Yale University Press.

Ultimate Foundation of Economic Science in 1962.⁽²⁶⁾ In the 1960s, his health began to fail. He gave his last New York seminar in 1969, but did not abandon the economic approach, as San Francisco stockbroker Samuel J. Husbands told me. Mises was giving a lecture in San Francisco, and Husbands was looking after him and his wife. He was driving at night with the couple on Broadway where there were a lot of strip clubs, with big outside advertisements in bright neon lights. Mises was dozing off in the back seat. When his wife saw the advertisements, she exclaimed: ‘Lu, Lu, look! Naked ladies, lots of naked ladies.’ Mises woke up momentarily, looked briefly out of the window and drily commented: ‘Bad for the clothing industry!’ Then he returned to sleep. This turned out to be Mises’ last lecture tour. He passed away on 10 October 1973. His widow Margit devoted the rest of her life to the promotion of his ideas. She died at the age of 103 in 1993, lamenting that her husband had not lived to see the collapse of socialism. But the dissolution of the Soviet Empire meant not only the vindication of Mises’ analysis in the lecture he gave in 1919; it led also to the amazing recovery of Mises’ pre-war papers. Seized by the Nazis in 1938, at the end of the war they had fallen into the hands of the Soviet secret police and subsequently had been transferred to Moscow where they were kept in a secret archive. In 1996, Mises’ student Professor Richard Ebeling went to Moscow and was able to make copies of the whole collection. Later Ebeling edited a selection of the papers in three volumes.⁽²⁷⁾

The Bolshevik Coup

Socialism in practice could be observed in Russia after the Bolshevik coup in November 1917. The Great War had taken a heavy toll on the Romanov Empire, and in March 1917, after riots in the capital Petrograd, Tsar Nicholas II abdicated. This was a real revolution, a great social change, backed by the masses, the end of an epoch. A provisional government was

formed, with liberal and radical members. It half-heartedly continued the war, and released political prisoners. The German military command wanted to disrupt the Russian war effort, and sent Lenin, the leader of the anti-war Bolsheviks, in a sealed train from Zürich where he had been in exile, across Germany. With him travelled both his wife and his mistress and a few of his devoted followers. From Germany Lenin travelled over Sweden and Finland to Petrograd. Upon arrival in the capital on 16 April, Lenin, funded by the Germans,⁽²⁸⁾ ordered his Bolsheviks to oppose the provisional government with all their might, to promise peace at once with Germany and redistribution of land to peasants. His slogan ‘Peace and Land’ reverberated all over Russia. In the summer and autumn of 1917 social unrest intensified, workers took control of factories and peasants seized land, while soldiers deserted in droves from the army. On 7 November Lenin felt the time had come. The Bolshevik militia stormed the Winter Palace in Petrograd and imprisoned the ministers of the provisional government. Lenin formed a government where the ministers were called people’s commissars. They were nominally supervised by workers’ councils, soviets, but the Bolsheviks were firmly in control. In elections to a Constituent Assembly two weeks later, on 25 November, the Social Revolutionary Party, mainly supported by peasants, scored a victory with 37.6 per cent of the votes, whereas the Bolsheviks came second with 23.3 per cent. But when the Assembly convened in January 1918, Bolshevik troops forcibly shut it down. Opposition newspapers were banned; ‘counter-revolutionary’ parties were forbidden.

Lenin and his Bolsheviks had intently studied the French Revolution. They were determined not to repeat what they saw as mistakes made then, especially too much leniency. Therefore the difference between the Bolshevik coup and the French Revolution was as if Robespierre’s Jacobins had been in power from the beginning, starting the terror immediately. On 20 December 1917 a secret police, the Cheka, was created under Feliks Dzerzhinsky, according to Lenin a ‘solid, proletarian

(26) They have all been reissued by Liberty Fund, in 2006, 2005, and 2006, respectively.

(27) *Selected Writings of Ludwig von Mises*, ed. by Richard Ebeling, Vols. 1–3 (Indianapolis IN: Liberty Fund, 2000, 2002 and 2012). Besides the books quoted in this chapter there is an accessible and objective introduction to Mises’ thought, Eamonn Butler, *Ludwig von Mises: A Primer* (London: Institute of Economic Affairs, 2010).

(28) Dmitri Volkogonov, *Lenin*, tran. by Harold Shukman (New York: The Free Press, 1994), pp. 111–126; Richard Pipes, Introduction, *The Unknown Lenin: From the Secret Archives* (New Haven CT: Yale University Press, 1996), pp. 12 and 53.

Jacobin’.⁽²⁹⁾ Revolutionary tribunals were set up to judge crimes against the new state. ‘For as long as we fail to treat speculators the way they deserve—with a bullet in the head—we will not get anywhere at all,’ Lenin declared at a meeting.⁽³⁰⁾ In January 1918 the terror intensified. Initially it was mainly directed against people associated with the fallen regime. For example, in Taganrog fifty Tsarist officers, their hands and feet bound, were thrown into a blast furnace. In Evpatoria several hundred officers and ‘bourgeois’ were tied up, tortured, and thrown alive into the sea. In the first six months of its existence, the Cheka executed 12,000 people.⁽³¹⁾ Those who were not turned into corpses, became paupers. The Bolsheviks confiscated all substantial enterprises. Noblemen (numbering two million in 1917), Tsarist officers, bankers, merchants, industrialists and officials were called ‘former people’, harassed, and deprived of civil rights.⁽³²⁾ The Bolsheviks took particular pleasure in forcing ‘former people’ to do hard work in front of smirking soldiers. They wasted no time in transferring the capital to Moscow and making peace with Germany, on unfavourable terms. In the short term, the German Military Command’s support of Lenin had paid off. On 16 July 1918 Tsar Nicholas II and his family were murdered on Lenin’s order.⁽³³⁾ They were taken down to the basement of a house in Yekaterinburg where they had been under arrest, and then shot and stabbed with bayonets. The bodies were taken to a nearby forest where they were stripped and mutilated and then buried in a pit. Most other members of the Romanov family were also killed, including the saintly Grand Duchess Elisabeth, who had left the Imperial Court after the assassination of her husband in 1905 and devoted herself to helping the poor of Moscow. Lenin sneered that ‘virtue with the crown on it is a greater enemy to the world revolution than a hundred tyrant tsars’.⁽³⁴⁾

(29) Nicolas Werth, *A State Against Its People, Black Book of Communism*, p. 57.

(30) *Ibid.*, p. 59.

(31) *Ibid.*, p. 62.

(32) Anton Karlgren, *Bolshevist Russia*, tran. by Anna Barwell (London: Allen & Unwin, 1927), reissued by Routledge in 2017; Douglas Smith, *Former People: The Final Days of the Russian Aristocracy* (London: Macmillan, 2012).

(33) Volkogonov, *Lenin*, pp. 206–219.

(34) Here after Gerard Shelley, *The Speckled Domes: Episodes of an Englishman’s Life in Russia* (London: Duckworth, 1925), p. 220.

Although Lenin had denounced the Russian Empire as the ‘prison of peoples’,⁽³⁵⁾ the Bolsheviks suppressed independence movements of the different nationalities formerly under the Romanovs, wherever they deemed it worthwhile: They wanted wheat from Ukraine and oil from the Caucasus. The countries in those regions were forced to join the Soviet Union, founded in 1922. Soon the terror turned from ‘former people’ to current people. When food distribution broke down, the Bolsheviks sent troops into the countryside to requisition grain from independent farmers, whom they called ‘kulaks’. The Cheka ruthlessly suppressed all resistance, both by farmers and workers. Lenin insisted on no mercy. In August 1918, for example, he sent a telegram to the Penza Bolsheviks: ‘Hang (I mean hang publicly, so that people see it) at least 100 kulaks, rich bastards, and known bloodsuckers.’⁽³⁶⁾ The first concentration camps in the Arctic were established. An assassination attempt on Lenin at the end of August 1918 was used as a pretext to intensify the terror still more. In the course of a few days, around 1,300 people were executed in Petrograd alone.⁽³⁷⁾ The ‘Red Terror’ in the autumn of 1918 claimed the lives of 10–15,000 people.⁽³⁸⁾ Both the Red Army of the Bolsheviks and the White Army of their adversaries committed atrocities in a bitter civil war, fought from the end of 1918 to the beginning of 1920. In Isaac Babel’s novel *Red Cavalry*, an old Jew witnessing the horrors is perplexed: ‘Who is going to tell Gedali which is the Revolution and which the counterrevolution?’⁽³⁹⁾ The Bolsheviks also struck on the home front. The Cheka for example suppressed a workers’ uprising in the Putilov factory in Petrograd in March 1919, arresting 900 and executing more than 200. Widespread strikes elsewhere were put down equally brutally. The masses ‘are so ignorant’, wrote Dzerzhinsky, ‘that they have no idea what is really in their own interest.’⁽⁴⁰⁾ Lenin’s fervour knew no bounds.

(35) Vladimir I. Lenin, *The Revolutionary Proletariat and the Right of Nations to Self-Determination* (1915), *Collected Works*, Vol. 21 (Moscow: Progress Publishers, 1964), pp. 407–414.

(36) Werth, *Black Book*, p. 72.

(37) *Ibid.*, p. 76.

(38) *Ibid.*, p. 78.

(39) Isaac Babel, *Gedali, Red Cavalry*, tran. by Peter Constantine (New York: W. W. Norton, 2003), p. 65.

(40) Werth, *Black Book*, p. 92.



He wanted to kindle the flames of a world revolution, and in late 1919 he summoned representatives of communist parties abroad to Moscow where the Communist International, Comintern, was established. Its member parties organised illegal militias and insurgencies all around the world.

Richard Krebs, a Comintern agent, describes its activities in his book *Out of the Night* which paints as vivid a portrait of the turbulent interwar years as Stefan Zweig did in *The World of Yesterday* about the tranquillity of Europe before 1914.⁽⁴¹⁾

After victory in the civil war Bolshevik troops hunted down peasant rebels all over Russia and killed thousands. When the remnants of the White Army were driven out of the Crimea at the end of 1920, at least 50,000 civilians were massacred.⁽⁴²⁾ Cossacks living in Don and Kuban

Austrian Jews scrubbing pavements in Vienna after the Nazi occupation in 1938. They probably later perished in the Holocaust. Mises had moved to Geneva in 1934, but the Nazis seized all his papers, which after the war ended up in a secret archive in Moscow. Photo: Stringer.

(41) Jan Valtin [Richard Krebs], *Out of the Night* (New York: Alliance Book Corporation, 1941); Stefan Zweig, *The World of Yesterday*, tran. by Benjamin W. Huebsch and Helmut Ripperger (New York: Viking press, 1943).

(42) Werth, *Black Book*, p. 100.

were regarded as enemies of the Revolution. Up to 500,000 of them were killed or deported in 1919 and 1920, out of a population of three million.⁽⁴³⁾ Even in Bolshevik strongholds, people rose up against the oppression and misery. In March 1921, rebels took control of the naval base Kronstadt near Petrograd. After a furious battle of ten days, the Bolsheviks crushed the rebellion. 2,100 people were sentenced to death and 6,500 imprisoned. About 8,000 rebels escaped over the ice to Finland. They were promised amnesty if they returned, but those who did so were immediately sent to labour camps in the Arctic, on Solovetski Islands and Kholmogory by the river Dvina. At Kholmogory, the practice was to kill prisoners by loading them onto barges, bind stones around their necks, tie their arms and legs, and throw them overboard into the river.⁽⁴⁴⁾ In June 1921, a peasant revolt in Tambov which had begun in August 1920 was suppressed. The Bolsheviks used poison gas to kill rebels hiding in the forests.

A great famine raged in Russia between 1921 and 1922. Nearly thirty million people were affected, of which at least five million people died of hunger. The last great famine in Russia, in 1891, had claimed the lives of about 500,000. Back then, Lenin was a young lawyer in Samara, one of the areas worst affected. Of the local intelligentsia he was the only one to oppose all aid to the hungry: the worse things became, the better the prospects were for revolutionaries.⁽⁴⁵⁾ The Bolsheviks had nationalised church property immediately after their coup, and now they used the opportunity to confiscate all precious objects from churches. Those who resisted were shot, including 8,000 priests, monks and nuns. Prominent non-communist intellectuals were exiled. Writers remaining in Russia learned a new genre of literature, the genre of silence.

In 1921 Lenin was forced temporarily to abandon his attempt to impose total abolition of private property and market exchanges upon Russian society. Industrial production has fallen to 10 per cent of that

(43) Ibid., p. 102.

(44) Ibid., p. 114.

(45) Ibid., p. 123.

it had been eight years earlier, in 1913.⁽⁴⁶⁾ The Bolsheviks retreated, accepting the partial reintroduction of an exchange economy, the so-called New Economic Policy, NEP, which lasted until 1927, three years after Lenin's death. It only gave the nations of the Soviet Union temporary relief. After a fierce power struggle in the Kremlin, a faithful Marxist-Leninist, Joseph Stalin, emerged as dictator, ten years after the Bolshevik coup. He decided to abolish private ownership of land and to requisition enough agricultural products from farmers to finance the massive industrialisation of the Soviet Union. All farmers had to join collectives or work on state farms. When they resisted, as many did, they were labelled kulaks, deported to Siberia or starved to death. It was repression on an unprecedented scale, a full-scale war between Bolsheviks and peasants. More than two million were deported and six million died of hunger, thereof four million in Ukraine.⁽⁴⁷⁾ While the famine eleven years earlier had not been a secret, the Bolsheviks tried to suppress all reports of the famine caused by collectivisation. When British journalist Malcolm Muggeridge described it in dispatches from Moscow, he was vilified, both by other foreign correspondents in Russia (who well knew what was happening) and by the Soviet press. Left-wing intellectuals in the West refused to believe Muggeridge and other eyewitnesses.⁽⁴⁸⁾ The Bolsheviks also turned against non-communist industrial managers and experts. They blamed sabotage for the many mishaps in the economy, not communism. The 1928 Shakhty show trial of industrial managers was the first of many.

The Bolshevik terror culminated in the great purges between 1936 and 1938 when Stalin destroyed all potential rivals in the Communist Party, putting many of his old comrades on macabre show trials where they confessed to heinous crimes before they were led into the cellars of the secret police to be shot.⁽⁴⁹⁾ In the major cities of Russia the only sound between dusk and dawn came from 'Black Marias', the trucks of

the secret police, disguised as delivery wagons, but equipped with tiny prison cells, rattling like snakes on the empty streets, transporting people from their homes to prisons.

“ The stars of death hanging over us,
Writhing in pain, innocent Russia
Under the bloody soles of the boots,
Under the tires of the Black Marias.⁽⁵⁰⁾

Day and night, cattle trains packed with people left for labour camps scattered around the Soviet Union and therefore later called the 'Gulag Archipelago' by Aleksandr Solzhenitsyn. Between one and two million people were kept in the camps at any time in the 1930s and 1940s.⁽⁵¹⁾ Trotsky's prediction from a dispute with Lenin in the Bolshevik Party in 1903 turned out to be correct: under Lenin's 'Democratic Centralism', the party would be replaced by the central committee, and the central committee would be replaced by the dictator.⁽⁵²⁾

It came as no surprise to those who rejected both communism and national socialism when Stalin and Hitler in 1939 signed a Non-Aggression Pact, dividing up between them Central and Eastern Europe and enabling Hitler to start the Second World War. Although Stalin kept out of the War, he was Hitler's ally. It was only after Hitler broke their pact and attacked the Soviet Union in 1941 that he joined the Allies, at that time only Great Britain and the Commonwealth countries. After enormous and sometimes unnecessary sacrifices in the War (called in the Soviet Union the Great Patriotic War, and said to have started in 1941), Russian communists were able to extend Marxism to Central and Eastern Europe. Some countries were compelled to join the Soviet Union;

(46) Ibid., p. 115.

(47) Ibid., p. 146.

(48) Robert Conquest, *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine* (London: Hutchinson, 1987); Anne Applebaum, *Red Famine: Stalin's War on Ukraine* (London: Allen Lane, 2017).

(49) Robert Conquest, *The Great Terror: A Reassessment* (London: Pimlico, 1994).

(50) Anna Akhmatova, *Requiem* (1935). Tran. by Alex Cigale.

(51) Werth, *Black Book*, pp. 206–207; Alexander Solzhenitsyn, *The Gulag Archipelago, 1918–1956*, Vols. I–III (London: Collins/Fontana, 1973–1978); Anne Applebaum, *Gulag: A History* (London: Allen Lane, 2003).

(52) Leon Trotsky, *Our Political Tasks* (1904), Pt. II (London: New Park Publications, 1983). Trotsky was protesting against Lenin's stance at the 1903 congress of the Russian Social Democratic Party when it split into Bolsheviks and Mensheviks. He later withdrew his criticism.

puppet governments were formed in others.⁽⁵³⁾ While Stalin's successors repudiated his methods, mostly as a matter of self-preservation, they ruthlessly enforced Soviet dominance in the region, invading Hungary in 1956 and Czechoslovakia in 1968.

Communism was not confined to Europe. In China after the Second World War, communists led by Mao Zedong defeated nationalists in a civil war and in 1949 proclaimed a people's republic. The Chinese attempt to transform society went through similar stages as in Russia, only on a larger scale. First, there were mass executions of 'former people', in particular landowners. Some were buried alive.⁽⁵⁴⁾ Then, there was nationalisation and collectivisation, with a grotesque attempt in 1958–1962 to take a 'Great Leap Forward'. It resulted in the worst famine the world has seen, claiming 44 million lives.⁽⁵⁵⁾ The third stage was the attempt by Mao to quell all opposition within the party in the 'Cultural Revolution' which started seventeen years after the communist takeover.⁽⁵⁶⁾ The resemblance to the Bolshevik venture is uncanny: Stalin's party purges had started nineteen years after the coup. Communist oppression was far worse than that of the Chinese emperors. Mao commented on the most brutal one, Qin Shi Huang: 'He buried 460 scholars alive—we have buried 46,000 scholars.'⁽⁵⁷⁾ In China, about ten million people were kept in concentration camps at any time during Mao's reign.⁽⁵⁸⁾ The Chinese rulers went even further than the Bolsheviks in trying to control minds: their subjects were denied the right to stay silent. With life imitating art in the form of Orwell's *Nineteen Eighty-Four*, they had to proclaim their love of Big Brother on all occasions, at mass meetings or in re-education camps.

(53) Anne Applebaum, *Iron Curtain: the Crushing of Eastern Europe, 1944–1956* (London: Allen Lane, 2012).

(54) Frank Dikötter, *The Tragedy of Liberation: A History of the Communist Revolution 1945–1957* (London: Bloomsbury, 2013).

(55) Frank Dikötter, *Mao's Great Famine: The History of China's Most Devastating Catastrophe, 1958–62* (London: Bloomsbury, 2010).

(56) Frank Dikötter, *The Cultural Revolution: A People's History, 1962–1976* (London: Bloomsbury, 2016).

(57) Speech at the Second Plenary Session of the Eighth Communist Party Central Committee, 17 May 1958. Widely quoted, but apparently the Chinese source is *Mao Zedong si xiang wan sui* [Long Live the Thought of Mao Zedong] (Beijing: 1969), p. 72.

(58) Jean-Louis Margolin, China: A Long March into the Night, *Black Book*, p. 498.

Communism was however abandoned differently in these two giant countries. The Chinese leaders, perhaps influenced by the success of the capitalist Chinese countries, Taiwan, Hong Kong and Singapore, after Mao's death in 1976 gradually introduced 'capitalism by stealth' into their vast domain, accepting private property rights to some means of production and integrating China into the world economy. They however crushed attempts at increasing individual freedom. In Russia, the leaders took much smaller steps out of communism in the 1980s and showed more timidity which in the end led to the disintegration of the Soviet Empire. In the 21st century, neither China nor Russia is a liberal democracy, although it is unlikely that the leaders of these countries will ever return to Marxist fantasies about the abolition of private property rights to the means of production. The economic harvest of socialism has been dismal. In 1980, about the time the Chinese leaders started moving towards capitalism, GDP per capita of China was estimated to be \$1,061, whereas it was then \$10,503 in Hong Kong, \$9,058 in Singapore, and \$5,260 in Taiwan. In 1990, the last year of the Soviet Union, its GDP per capita was estimated to be \$6,894, whereas in the United States it was then \$23,201.⁽⁵⁹⁾

The communist experiment in the twentieth century is one of the defining moments of human history. But remarkably, those Western intellectuals who turned their backs on communism usually did so only after conspicuous and shocking events such as the Moscow show trials of 1936–1938, the Non-Aggression Pact between Hitler and Stalin in 1939, Khrushchev's revelations of (some of) Stalin's crimes in 1956, the invasion of Hungary in the same year, and the invasion of Czechoslovakia in 1968. The cruel treatment of 'former people' in Russia after the Bolshevik takeover, including the confiscation of their property, the denial of civil rights to them and sometimes their imprisonment or execution, or the mass starvation and deportation of farmers during collectivisation in 1929–1933 seem not to have registered strongly with Western intellectuals. Perhaps intellectuals do not identify much with Tsarist noblemen and officers, or with bankers, merchants, industrialists

(59) All figures in 1990 Geary-Khamis dollars. Maddison Historical Statistics, online.

and professionals of the Romanov Empire, or with farmers in Southern Russia and Ukraine. But these were people of flesh and blood just like the intellectuals persecuted by Stalin, although they may not have been as eloquent in describing their sufferings. Surely there was terror under Lenin, even if it may have been less extensive than under Stalin (for lack of ability rather than of will) and even if it may have been directed against ‘class enemies’ rather than his comrades. The same applies to the victims of Mao in China, the Kim dynasty in North Korea, Pol Pot in Cambodia and the Castro brothers in Cuba. It is also extraordinary how reluctant Western intellectuals have been to explore the possibility that the failure of communism is systemic, given the fact that it has failed everywhere, in countries as diverse as Poland and Cambodia, Czechoslovakia and Cuba, Russia and China. As early as 1920, Mises had argued that communism was bound to fail.

The Inevitable Failure of Socialism

In Austria after the First World War, both the large Socialist Party and the small Communist Party had adopted Marxism. They agreed on the need to abolish private property rights to the means of production. Where they differed was in respect of methods: the Socialist Party accepted parliamentary democracy, even if it did not entirely repudiate violence. But what should Marxists do upon gaining power? Marx himself had refused to write any recipes for the kitchens of the future, as he contemptuously put it.⁽⁶⁰⁾ His socialism was scientific, he asserted, not utopian. He was analysing the contradictions of capitalism, and when the proletariat had seized power and abolished private property rights to the means of production, these contradictions would simply disappear. In the *Communist Manifesto*, he and Engels had nonetheless made some scattered remarks about initial measures to be taken after the Revolution: abolition of property in land, heavily progressive income tax, confiscation of the property of rebels, and centralisation of banking,

(60) Karl Marx, Nachwort zur zweiten Auflage (1873), *Das Kapital*, Vol. I. Karl Marx and Friedrich Engels, *Werke*, Vol. 23 (Berlin: Dietz, 1962), p. 25; Afterword to the Second German Edition, *Capital*, Vol. I, tran. by Samuel Moore and Edward Aveling.



Lenin thought it would be as simple to run the whole economy as directing the post office. People could be moved around as easily as parcels. Mises painstakingly pointed out his errors and oversights. Painting by Isaak Brodsky, *Lenin and Manifestation* (1919).

means of communication and of transport. In *State and Revolution*, written in the summer of 1917, before he seized power, Lenin had said that after the proletarian revolution the whole economy would be organised on the line of the post office.⁽⁶¹⁾ In April 1918, Lenin had also written an article about

the immediate tasks of his new government. He basically exhorted his subjects to work harder, keep accurate accounts and accept the guidance of experts, even if they were ‘bourgeois’. He also advocated increased control and tighter discipline. Lenin pointed out that the Bolshevik state possessed enormous reserves of ore in the Urals, coal in Western Siberia, oil in the Caucasus, peat in Central Russia, timber and waterpower; all this should be developed on a large scale.⁽⁶²⁾ But how? This was the question Mises posed in his paper to the Austrian Economic Society in

(61) Vladimir I. Lenin, *State and Revolution* (1917), Ch. 3, Sect. 3. *Collected Works*, Vol. 25 (Moscow: Progress Publishers, 1964), pp. 381–492.

(62) Vladimir I. Lenin, The Immediate Tasks of the Soviet Government, *Pravda* 28 April 1918, also published in a pamphlet (Moscow, 1918). *Lenin's Collected Works*, Vol. 27 (Moscow: Progress Publishers, 1965), pp. 235–277.

the second week of January 1920.⁽⁶³⁾

The economic task of the socialist rulers may not be insurmountable when it is confined to the production and distribution of consumption goods. But socialism is not really about that: it is about control over the means of production. There choices have to be made, for example between utilising a plot of land as pasture or as cornfield, or between transporting timber by road or by ship. People would normally agree that 1,000 litres of wine were preferable to 800 litres of the same good. But what about the comparison between wine and oil? Would 800 litres of wine be preferable to 800 litres of oil? In which units could the two be compared? Moreover, capital goods such as machines usually wear out over time. Should they be repaired or replaced? Lenin mentioned vast reserves of coal in Western Siberia and oil in the Caucasus. But his remarks were not very helpful for deciding which resources to devote to mining coal and which resources to extracting oil. Who should do the extraction and then who the purification, and when and how? In addition, some energy could be produced by harnessing waterfalls, as Lenin later suggested, when he famously exclaimed that communism was Soviet power plus the electrification of the whole country.⁽⁶⁴⁾ But how much relative to coal and oil? All economic choices have to be made in terms of units, but if all the means of production are owned by government there are no such units to be evaluated. Under capitalism, on the other hand, where the means of production are privately controlled and freely transferable, the units are evaluated in an exchange process in which everybody participates. They are priced according to their marginal utility, their capacity to satisfy human needs. This evaluative process, starting with the evaluation of consumption goods, but stretching throughout the chain of production to all capital goods and natural resources, is not perfect, but it makes

economic calculation possible, as Mises explains. ‘It affords us a guide through the oppressive plenitude of economic potentialities.’⁽⁶⁵⁾ Mises elucidates a process which hitherto had gone largely unnoticed, because it takes place spontaneously in the markets for capital goods and natural resources, where not only buildings, furniture, vehicles, and machinery are exchanged at a price, but also shops, factories, laboratories, mills, forges, companies, firms, oilfields, coal mines, waterfalls and plots of land. If wheat becomes much more valuable than milk over the long term, then a landowner will turn a pasture into a cornfield. When an industrial manager has to decide between oil, coal or hydroelectric power, he can compare costs in a common unit, the price.

Mises points out that his argument applies to a modern, dynamic, developed economy. In the small and primitive economy of the past where the tribal chief had an overview of all production, he could make decisions based on his estimates of the needs for various products. Decision-making would be relatively simple since there would only be one or two stages between consumption and production. Everything would be within sight, so to speak. The chief’s calculations would be informal judgements and sometimes inaccurate, but they would normally not be wide off the mark. In a static economy, without any changes, economic calculation would not be an impossible task, either, because existing prices for the means of production could be used. But, as Mises observes, no real economy is like that. There are always some changes taking place, not only normal wear and tear of capital goods such as buildings and machinery, but also unforeseen events such as new technology or a change in demand, or good or bad harvests, not to forget the biblical droughts and plagues. Thirdly, Mises’ argument is not directed to a mixed economy. It would be workable to have some public companies operating besides private companies in such an economy, for example nationalised railways, steel smelters or coal mines, because they could more or less utilise the pricing mechanisms already in place. Fourthly, even if socialists would come to power in some countries and abolish private property rights to the means of production there, they

(63) Mises only knew later that the Dutch economist and liberal politician Nicolaas G. Pierson (1839–1909), Professor of Economics at the University of Amsterdam and Finance Minister in 1891–1894 and Finance Minister as well as Prime Minister in 1897–1901, had also clearly recognised the problem. Nicolaas G. Pierson, *Het waarde-probleem in een socialistische maatschappij*, *de Economist*, Vol. 51 (1902), pp. 421–456; *The problem of value in the socialist society*, *Collectivist Economic Planning*, ed. by F. A. Hayek (London: George Routledge & Sons, 1935), pp. 41–85. Pierson wrote in Dutch, so his contribution went unnoticed elsewhere.

(64) Vladimir I. Lenin, Report on the Work of the Council of People’s Commissars, speech on 22 December 1920. *Lenin’s Collected Works*, Vol. 31 (Moscow: Progress Publishers, 1966), p. 516.

(65) Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth* (1920), tran. by S. Adler (Auburn AL: Mises Institute, 1990), p. 14.

could also more or less be guided by prices in the countries abroad: it would not be efficient, but possible. What is not possible, Mises holds, is rational decision-making in a global exclusively socialist economy where private property rights to the means of production have been completely abolished and where consequently no capital transactions at all take place. His conclusion is unequivocal: ‘In trivial and secondary matters rational conduct might still be possible, but in general it would be impossible to speak of rational production any more. There would be no means of determining what was rational, and hence it is obvious that production could never be directed by economic considerations.’⁽⁶⁶⁾

Consider again the socialists in power. Assume that they cannot rely on any pre-existing prices (which will at least be true in the long run). They then have to decide what size different enterprises should be and appoint their managers, neither of this an easy task. Some of these enterprises will then be ordered to produce consumption goods, but most will produce capital goods, for example tools and vehicles, out of other capital goods such as timber and iron. How will they go about it? How will they evaluate the alternatives facing them if they cannot price them? Mises mentions a proposal to build a new railway line. Should it be built, and if so, which out of the conceivable roads should be chosen? Under capitalism, the decision-makers can calculate, in a common unit, how much will be saved in less expensive transport against the cost of the project, such as hours of labour, iron, coal, building material, machines and other things necessary for the construction and maintenance of the railway line. But under socialism, neither the benefit nor the cost can be calculated in a common unit, because the means of production are not privately owned and therefore cannot be exchanged and priced. The ultimate decision will only be based on vague estimates, not on rational calculations. ‘Where there is no free market, there is no pricing mechanism; without a pricing mechanism, there is no calculation.’⁽⁶⁷⁾ Lenin’s exhortations to Russians about better bookkeeping, tighter discipline and stricter controls offer no practical guidance. The socialist

planners will be floundering in an endless ocean of possibilities with neither a compass nor a lodestar, let alone a nautical chart.

The Grin of the Cheshire Cat

When Mises gave his lecture, Joseph Schumpeter was in the audience and suggested that the socialist government would issue an equal amount of money to each citizen and allow them to choose between goods. In this process goods would be priced and allocated. Mises responded that this did not solve the fundamental problem about economic calculation under socialism, which was how to price *production goods*, not *consumption goods*. If the means of production were not privately owned, then they could not be exchanged, and if they were not exchanged, production goods could not be properly priced.⁽⁶⁸⁾ Their prices had to be formed in a process of exchanges, not only in the consumers’ market, but also in the market for production goods—a market non-existent under socialism. Schumpeter was wrong in believing that by evaluating consumption goods, people were also indirectly evaluating production goods satisfactorily: such goods could only be fully and comprehensively evaluated in a process of exchanges in the markets for capital goods and natural resources. An exchange presupposed two owners.

Schumpeter was not a socialist: he was just conducting a thought experiment, weighing possibilities as an academic. But those socialists who responded to Mises did so mainly in two ways. Some asserted that the very existence of socialist economies refuted Mises’ assertion that socialism was impossible. After all, Bolsheviks had been in power for more than two years when he gave his lecture; the Soviet Union survived for more than seventy years; China was a communist country for a quarter of a century; North Korea and Cuba still exist. But Mises knew quite well that socialists in power could abolish private property rights to the means of production by decree. His point was that they would not be able to steer the economy rationally without such rights. There would develop what he called ‘planned chaos’. The two historical

(66) Mises, *Calculation*, p. 18.

(67) *Ibid.*, p. 25.

(68) Letter from Ludwig von Mises to Emil Lederer, 14 January 1920. Here from Jörg Guido Hülsmann, *Mises: The Last Knight of Liberalism* (Auburn AL: Ludwig von Mises Institute, 2007), p. 378.

examples when market exchanges were almost totally abolished for a while seem to strengthen his argument: Lenin's 'War Communism' in 1918–1921 and the Cambodian economy under the Khmer Rouge in 1975–1979. In both cases, the Marxist rulers were motivated by ideology rather than necessity. Lenin's 'War Communism' was less a temporary response to external challenges than an attempt faithfully to implement Marxist ideology.⁽⁶⁹⁾ The Khmer Rouge leaders also firmly believed in collectivisation of agriculture and nationalisation of industry. Educated in France in the 1950s, they were committed Marxist-Leninists.⁽⁷⁰⁾ They abolished money and all market exchanges: their subjects should produce according to abilities and receive according to needs, where both abilities and needs were defined by the Khmer Rouge. In both cases, the experiments ended in chaos and catastrophe. Lenin had to retreat and adopt the 'New Economic Policy', and the Khmer Rouge were ousted while Cambodia slowly returned to capitalism.

Other socialists responded to Mises by accepting his argument that prices were indispensable in guiding production. They said however that the problem could be solved by giving industrial managers in the socialist economy considerable leverage to trade with one another. It was even conceivable that prices could be set equal to marginal utilities, in a trial-and-error process.⁽⁷¹⁾ Against them, Mises pointed out that these economists ignored the real forces governing supply and demand of capital: the supply was provided by capitalists, and the demand was that of entrepreneurs. In a free economy, these two groups actively priced production goods in an exchange process, whereas under socialism neither group existed, only managers of factories and collectives.

(69) Paul Craig Roberts, 'War Communism': A Re-examination, *Slavic Review*, Vol. 29, No. 2 (1970), pp. 238–261.

(70) Apparently, they were also inspired by obscure Marxist writers such as Samir Amin and Frantz Fanon, both proponents of the thesis that the West exploited the South. A leading Khmer Rouge, Khieu Samphan, completed in 1959 a doctoral dissertation on those lines at the Sorbonne, invoking the so-called dependency theory in an argument for severing Cambodia's ties to world capitalism. The Khmer Rouge and their Western teachers all believed, like Lenin, in liberation through violence. Amin applauded the Khmer Rouge regime, long after its horrors had been exposed. Samir Amin, *The Struggle of Democratic Kampuchea for National Independence and Socialism*, *Contemporary Marxism*, No. 12/13 (1986), pp. 92–106.

(71) Oskar Lange, On the Economic Theory of Socialism, *Review of Economic Studies*, Vol. 4, No. 1 (1936), pp. 53–71, No. 2 (1937), pp. 123–142.



Friedrich von Hayek at a banquet honouring Mises in New York on 7 March 1956. Hayek was one of the young economists of the 1920s who were convinced by Mises that socialism could not work. Photo: Bettina Bien Greaves.

It was not enough that enterprises were run by diligent managers. There was more to them than routine operations or individual incentives. When there were real or anticipated changes in circumstances, decisions had to be made about proper

responses. Managers were however unable to respond in the manner of capitalists or entrepreneurs, for example by selling off parts of their enterprises or merging them with other ones. Under public ownership of the means of production, exchanges of large-scale capital goods were difficult, if not impossible. Instructions from the planning authority to managers, however detailed, could not replace the 'ceaseless search on the part of the capitalists and the entrepreneurs to maximise their profits by serving the consumers' wishes'.⁽⁷²⁾ In a world of risk and uncertainty, public enterprises could not perform like private companies. This was not only true of those private companies which were small family firms, but also of large corporations where ownership and control were largely

(72) Mises, *Socialism*, p. 119.

separated. The ‘committing of one’s own capital to a business whose outcome is uncertain and to men whose future ability is still a matter of conjecture whatever one may know of their past, is the essence of joint stock company.’ Market socialism—a market without capitalists and entrepreneurs—was like the Cheshire cat in Lewis Carroll’s novel: there was no cat, only the grin.

In the book on socialism which Mises published two years after he gave his seminal lecture, he points out that the calculation argument is only one of many arguments against socialism, even if it is conclusive in its own right. The most common other argument against socialism is that of incentives: You work better if you reap the fruits of your labour, instead of having to hand them over to Bolshevik requisition squads. ‘Doubtless the individual working for a time wage has no interest in doing more than will keep his job,’ Mises writes. ‘But if he can do more, if his knowledge, capability and strength permit, he seeks for a post where more is wanted and where he can thus increase his income.’⁽⁷³⁾ This he can do under capitalism, but not under socialism. Under Soviet communism, the incentive problem of workers was tackled, not always successfully, by great wage disparities: those working harder could expect rewards. But the incentive problem of managers remained: How would it benefit them to reduce cost? In a book about his life in the Soviet Union before he escaped to the West, Ukrainian engineer Victor Kravchenko provided much first-hand information about the real workings of the Soviet economy under Stalin. He was once appointed manager of a pipe-rolling factory in Kemerovo in Eastern Russia, on the Tom River. ‘I had to accumulate materials and tools and arrange for their transport and storage. Thousands of skilled and unskilled workers had to be mobilized, then provided with homes and elementary care,’ he writes. ‘Under normal conditions such problems would not involve insurmountable difficulties. Under our Soviet system every step required formal decisions by endless bureaus, each of them jealous of its rights and in mortal dread of taking initiative.’⁽⁷⁴⁾

Logically, the incentive problem is distinct from the calculation problem identified by Mises. But the two are related because under

socialism as it was practised in the Soviet Union managers could not freely buy and sell many capital goods. Such goods were not on the market. For example, Kravchenko needed bricks. Hundreds of prisoners marched from their distant camps to a construction site to work there fourteen hours a day producing brick. But at the same time two large and well-equipped brickyards stood idle in Kemerovo, because they were under the control of a different commissariat in Moscow that wanted to keep them for some future purpose. In vain Kravchenko repeatedly asked for their use. He never got the required permission. Again, Kravchenko needed adequate accommodation for his workers. At the same time a bloc of new houses stood unfinished on the outskirts of the city, a part of a project that had been abandoned for lack of money. Kravchenko had enough money to buy the housing complex, and the organisation that had started the project was willing to sell, but they could never get all the necessary permits for the deal. A tramway running through the area where Kravchenko’s factory was located was nearly completed. The limited amount of money required to finish it was available, but the city council dared not release it without permission from a higher authority. Nothing happened despite pleas from Kravchenko. Meanwhile, thousands of weary men and women spent two and half hours trudging to and from work.

These examples showed ‘the planlessness which is euphemistically called planned economy’ as Kravchenko put it. Similar stories happened in one city after another in the enormous area under communist control. Theoretically, such problems might be solved by transferring control from the centre to the production units themselves, but the real obstacle was that there were no private property rights to the two idle brickyards, to the bloc of empty houses and to the unfinished tramway. If they were owned by the public, or in other words by the Soviet State, then naturally permission from Moscow was required for their transfer from one organisation to another. Moreover, the incentive problem for managers is not the same as for workers in routine jobs: it is not about working hard, but about making sensible use of the available production goods. In the absence of a market for production goods, with real prices, how could their different performances be evaluated?

Modern socialists might ask how the experience of the Soviet Union

(73) Ibid., p. 55.

(74) Victor Kravchenko, *I Chose Freedom* (London: Robert Hale, 1947), p. 328.

and other communist countries, including atrocities perpetrated by Lenin, Stalin and Mao, are relevant to a discussion about the theory of socialism. Does capitalism become any better by revelling in horror stories about communist revolutionaries of the twentieth century? It is not as if history has not seen cruel tyrants before, such as Qin Shi Huang, Nero, and Genghis Khan. But the point is that Lenin, Stalin, and Mao, as well as most of their followers in smaller countries, were faithful Marxists. Their master had taught that modernisation meant industrialisation, and that after industrialisation society would split into two classes, capital and labour, and that then labour would gain class consciousness and seize the means of production and put an end to exploitation. Whereas Marx had referred to a modern industrial state, Lenin and Mao seized power in agricultural societies with a relatively small urban working class. They did what a faithful Marxist would do, which was to try and extract out of agriculture enough capital to industrialise. This was the point of Lenin's requisitions, of Stalin's collectivisation in 1929–1933 and of Mao's Great Leap Forward in 1958–1962. Thus, they believed they were creating the preconditions for the real social revolution in which the working class would become dominant and gain consciousness as a class. They were constructing what Marx had called the base. But false consciousness lingered on from pre-revolutionary times, in what Marx had called the superstructure. It had to be eradicated, not only by killing, exiling, imprisoning or silencing members of the old classes, but also by purging the party itself. This was the point of Stalin's purges in 1936–1938 and of Mao's 'Cultural Revolution' in 1966–1976. Seizing power in pre-industrial societies, Marxists had to transform the base and the superstructure at the same time. A new society had to be built, a new man had to be created. This could not be accomplished by peaceful means. The terror was inevitable, if the revolutionaries were not to suffer the fate of the French Jacobins. The logic was infernal, but impeccable. The difference between bloodthirsty despots like Qin Shi Huang, Nero, and Genghis Khan on the one hand and Lenin, Stalin, and Mao on the other hand was that the Marxists were motivated by theory. They sought to

establish an ideocracy.⁽⁷⁵⁾ What Mises contributed was a demonstration that the whole project was a fantasy, totally impossible to achieve.

Mises' Critique of Interventionism

Those who still call themselves socialists have retreated from what used to be the defining feature of their political creed, a demand for the complete abolition of private property rights to the means of production. The German Social Democrats did this as early as 1959 in Bad Godesberg, confronted by the success of the economic reforms in Germany, implemented by Konrad Adenauer and Ludwig Erhard on the advice of Wilhelm Röpke and other liberal economists. The British Labour Party did this only in 1995, confronted by the success of the economic reforms in Great Britain, implemented by Margaret Thatcher on the advice of Friedrich von Hayek, Milton Friedman and a few British economists. While modern socialists keep their old name, they renounce full-scale nationalisation, embrace democracy and support a mixed economy, standing somewhere between 'unbridled capitalism' and central economic planning. Capitalists might be tolerated and entrepreneurs encouraged—two classes which had no place in the Marxist scheme—but the state should regulate business strictly to ensure that the profit motive does not over-rule moral concerns; it might even run some important enterprises itself, especially those utilising natural resources such as coal or oil or rendering essential services such as education, health, and transport; it should provide social security from cradle to grave and pursue a policy of full employment; and it should redistribute income from rich to poor in the name of 'social justice'. The mixed economy or 'bridled capitalism' sometimes goes by the name of the 'middle way' or the 'third way'.⁽⁷⁶⁾ Mises calls it interventionism and rejects it as

(75) Leszek Kolakowski argues that Leninism is a plausible, although not the only possible, interpretation of Marxism. *Main Currents of Marxism*, Vol. I: The Founders (Oxford: Clarendon Press, 1978), pp. 416–420.

(76) Representative works in this tradition are Marquis Childs, *Sweden: The Middle Way* (New Haven CT: Yale University Press, 1936); Harold Macmillan, *The Middle Way: A Study of the Problems of Economic and Social Progress in a Free and Democratic Society* (London: Macmillan, 1938); Anthony Giddens, *The Third Way. The Renewal of Social Democracy* (Cambridge: Polity Press, 1998).

resolutely as traditional socialism, but with different arguments, mainly aimed at the policies he saw being implemented in the 1920s and 1930s.

Mises agrees with nineteenth century economic liberals Frédéric Bastiat, Herbert Spencer, and William Graham Sumner that the state should basically be what socialists with disdain had called the ‘Night-watchman State’. It should first and foremost seek to prevent injustice. Mises’ arguments against economic interventionism, based on the subjective theory of value, add theoretical support to Bastiat’s brilliant insights about the folly of protectionism and to Spencer’s and Sumner’s forceful applications of the Principle of Equal Freedom. If people are allowed freely to trade in the marketplace, they reach agreements about prices which reflect the marginal utilities of goods and services; this means that their needs are fulfilled to the extent possible. Of course people make mistakes and commit errors, but in the market process such mistakes and errors are corrected, as people revise their offers and their bids and respond to changes. All business deals, including the sale of land, labour or capital, are trade-offs where some goods and services are chosen and others are rejected and if those deals take place at the margin, then the result cannot, by definition, be improved. If market prices are however distorted by government intervention, the implication is that human needs are less well fulfilled than would have been possible.

One common kind of interventionism is paternalism, prohibiting or restricting the consumption of goods deemed dangerous or immoral such as guns or whisky. Mises points out the logical consequences: ‘Once the principle is acknowledged that the consumption choices of the individual are to be supervised and restricted by the authority, how far this control will expand depends only on the authority and the public opinion which motivates it.’⁽⁷⁷⁾ Nowadays, for example, in many countries the state assumes financial responsibility for the medical treatment of citizens. This arguably makes their health a public rather than private concern. Some of those citizens suffer from the consequences of what used to be called gluttony and considered a vice: they endanger their health by eating or drinking too much. They

do not restrain themselves. Should the state protect the interests of taxpayers by reducing the possibility to put on weight, for example by restricting public consumption of sugar? Or by making minimal exercise obligatory for all? Why should people simply not be responsible for their own behaviour? Nevertheless, as an economist Mises is less concerned about restrictions on consumption than on production. He concentrates on measures intended to divert production from the ways it would take in a free economy. Do they achieve their intended aims? Such measures include forbidding the manufacture of certain goods, banning the application of certain methods of production, and making manufacture by such methods more difficult and more expensive. Indisputably, Mises says, the ultimate effect of all such measures, however harmless they may seem, is that some means of fulfilling human needs are eliminated. They always reduce the total supply of goods one way or another. For Mises, restrictive measures are mainly means of creating privileges for certain groups, not a general stimulus for production. They are about directing spending, not production.

One kind of interventionism is protectionism. In the early twentieth century a tariff on grain protecting Prussian landowners, *Junkers*, did not increase the production of grain. Instead, it transferred resources from German grain consumers to Prussian *Junkers*. The same was done for British landowners before the 1846 repeal of the Corn Laws, and for contemporary winemakers in France, protected by the Common Agricultural Policy, CAP, of the European Union, EU. Another restrictive measure discussed by Mises is price control. It has a similar effect, whether it is about a minimum or a maximum. Minimum wage laws harm those whose labour is worth less to potential employers than the statutory minimum, for example unskilled teenagers or the handicapped, as well as those businessmen who would otherwise hire them. The laws price some out of the market and remove profit opportunities for others. Such measures however benefit other sellers of labour. Laws against usury (which could be called maximum interest laws) harm those who cannot get credit except at relatively high rates and those who would be willing to risk lending money to them. The laws benefit those with special access to credit because they drive down its supply and thus create excessive demand for it and a need to ration it. If interventionists object

(77) Mises, *Interventionism* (1940), tran. by Thomas F. McManus and Heinrich Budd (Indianapolis IN: Liberty Fund, 2011), p. 12.



that there is a difference in bargaining power between an unskilled teenager and a factory owner, or between a desperate Bassanio and a prosperous Shylock, Mises has an answer: it is to look at the alternatives. Human beings live in a world of scarcity, not in Arcadia. The unskilled teenager willing to accept low pay, and the toff in sudden need of money prefer the proposed business deals to the alternatives, although they would of course also both welcome better deals than those which others are normally prepared to do with them.

A deceptively innocuous kind of interventionism is what Mises, somewhat unfairly, calls ‘inflationism’ (people may admit to being paternalists or protectionists, but nobody calls himself an inflationist, although he may accept inflation as a side effect of his preferred policies). Inflation occurs when the interest rate, the price of money, is artificially lowered by credit expansion from what would be established freely in the financial market. The reason is usually that government needs more money than it can obtain by taxation, not only for its own purposes (as in Austria after the Great War) but also allegedly to stimulate the economy.

Mises teaches that interventionism reduces the total economic product and tends to be self-reinforcing. The mixed economy is the name, not of a stable situation, but of the gradual and unintended transition from capitalism to socialism. Photo: Bettina Bien Greaves.

Mises explains that time preference is the real source of interest. People value present goods higher than future goods. The house into which you can move today is usually worth more to you than an equally good house into which you can only move after a year. For the urgent purpose of wooing Portia, Bassanio needed the money from Shylock now, not in three months. But as credit expands artificially because the interest rate is forced down, money flows into the economy. Demand rises, leading to the false impression that some enterprises are profitable, whereas in fact they are unsustainable. A boom results. But no new wealth has been created. Sooner or later demand falls: bust follows boom, as the unprofitable enterprises go bankrupt, and people lose their jobs. Thus, the instability of capitalism is often because the steady progress of the economy has been disturbed by artificial booms and ensuing busts. Mises points out that inflation, or a sustained fall in the value of money, is a tax on those who hold money: it transfers assets from creditors to debtors, but in the process it does immeasurable harm to the economy by distorting the price mechanism. The cure for inflation is simple, Mises says: to stop the printing presses, as he persuaded the Austrian government to do after 1922. A second-best option is to index prices, he suggests. Although not ideal, it would remove some distortions.⁽⁷⁸⁾ However the best long-term monetary system is the gold standard, Mises holds, because then government cannot debase the currency.

Mises presents two general arguments against interventionism. First, restrictive measures are harmful for society as a whole, not only against one group. They do not imply a net transfer of resources. The benefit for some is usually much less than the harm to others, especially in the long run. For example, tariffs on wine encourage over-investment and reduce efficiency and innovation in the wine industry. Often, in the long run, the weak are the unseen victims of interventionism, for example unskilled workers whose possible jobs disappear because of minimum wage laws or people too poor to own a place and facing reduced supply of rental housing as a result of rent control. In the second place, one restrictive

(78) Mises' disciple, Murray Rothbard, in the 1970s criticised Milton Friedman for suggesting indexation of prices to reduce the negative effects of inflation. But as Richard Ebeling points out, Mises suggested this in 1922: *The Restoration of Austria's Economic Situation*, *Selected Writings of Ludwig von Mises*, Vol. 1 (Indianapolis IN: Liberty Fund, 2012), pp. 264–270.

measure leads to another, as government tries to remedy the distortion caused from one measure by introducing others. Consider a government enterprise which is set up for jobs, not profits. It makes a loss which has to be covered either by taxes or credit. The taxes are transferred from the economy and thus they destroy jobs. If the loss is financed by credit, it leads to inflation which will also destroy jobs. Either way, a new problem emerges which government will try to solve by further restrictive measures. Once the camel gets his nose in the tent, his body will soon follow, as the Arabs say. Thus, according to Mises, the term ‘the mixed economy’ is really not the name of an economy, but rather of the unintended gradual transition from capitalism to socialism.

Mises is right, I think, that several kinds of interventionism, such as import tariffs and price controls, produce effects opposite to those intended, decrease the total social product, and may create the need for ever-more intervention, eventually spiralling out of control. Some countries in Latin America are examples of the baleful effects of such intervention. But assume that an interventionist reads Mises and decides to reduce price distortions. Can he establish some kind of a mixed economy, without serious side effects? One possibility would be the welfare state, the provision by government of social security from cradle to grave, and within a market economy. But a welfare state funded by taxation would have a serious side effect, not only the obvious one of an increase in shirking as incentives to work are removed, but also of a call for immigration controls. If you are entitled to welfare benefits as a citizen of a country, irrespective of your social contribution, then there will be demand by foreigners with no intention of contributing to move to your country in order to enjoy the welfare benefits offered there. This suggests however that there is a kind of interventionism to which Mises’ strictures would not fully apply: It is the creation by law of an obligation for everybody to pay into social insurance schemes (which could be privately operated), and to confine their ensuing benefits to payments out of the funds thus accumulated, for example unemployment allowances, disability benefits, reimbursements for

health care, and old-age pensions.⁽⁷⁹⁾ The only remaining obligation for government in terms of social security would then be to provide for those who cannot provide for themselves, such as paupers and invalids, but in a growing economy this would be an ever-dwindling proportion of the population and an easy task. In other words, security can be produced without significantly distorting the information and incentives found in the marketplace. This would be almost a non-authoritative intervention.

Efficiency is Not Enough

Mises’ defence of unbridled capitalism is a magnificent edifice whose clarity and internal consistency has attracted many admirers, not least businessmen. The American philanthropist John Howard Pew and his wife Helen attended the Mont Pelerin Society meeting in 1953 in Seelisberg, Switzerland. One morning Mrs. Pew went out shopping with Margit von Mises. In the course of the conversation she told Mrs. Mises: ‘You know, Margit, I ought to be very angry with your husband, but, of course, I am not.’ Mrs. Mises asked, ‘What is the matter, Mrs. Pew, what has happened?’ She replied, ‘It was in 1949. I wanted so much to take a cruise with my husband, and finally he agreed. For months I had been looking forward to this cruise, for I knew I would have him all to myself for two weeks. And what happened? On the night of the departure he went out and bought Human Action. We boarded the ship, he started reading, and that was the last I got to see of him. He never stopped reading until we came back to New York. That was my cruise.’⁽⁸⁰⁾ What some saw as Mises’ intransigence, others applauded as courage. As perhaps his most distinguished student in America, Professor Israel Kirzner, once said to me: ‘Mises was a true intellectual hero.’ He held fast to his liberalism against all odds. He did not go along to get along.

(79) In a market order, allocation of payments out of such funds would be on different principles for each type of insurance. Pensions paid out would be in proportion to payments from wages into pension funds; health care reimbursements and disability benefits would be according to need; and unemployment allowances would be equal for all and determined by the cost of living.

(80) Margit von Mises, *My Years*, p. 146.

Nevertheless, if the argument for unbridled capitalism is as strong as Mises holds, why is it then not supported more widely? Why was Mises such a voice in the wilderness in the 1920s, and later? One of Mises' own explanations is envy: Under capitalism, the successful are envied. Hence, interventionists develop programmes to deprive them of the fruits of their successes. The goal becomes to bring down the rich instead of lifting up the poor. I think this explanation cannot be easily dismissed, although envy, a cardinal sin, is rarely discussed in political philosophy. Another explanation for anti-capitalism, not quite identical, is frustrated ambition leading to resentment. Then, your complaint is about your own failure rather than about the success of others. In a society based on status, individuals can blame adverse fate on forces beyond their control. But in a society based on contract, and therefore on choice, their reward depends on their own contribution, or as Mises would say, on the marginal utility of their services to others. People are reluctant to accept this, Mises submits, and if they fail they persuade themselves that this is through no fault of their own. Instead they indict the system. In particular, intellectuals tend to oppose capitalism. 'The professor despises the alumni who are more interested in the university's football team than in its scholastic achievements. He feels insulted if he learns that the coach gets a higher salary than an eminent professor of philosophy.'⁽⁸¹⁾ Intellectuals do not always realise that freedom for themselves can only thrive under capitalism, where the means of productions are owned by many, not by one. 'Marx, the dissenter, could live, write and advocate revolution, at ease, in Victorian England just as the Labour Party could engage in all political activities, at ease, in post-Victorian England. In Soviet Russia not the slightest opposition is tolerated. This is the difference between liberty and slavery.'⁽⁸²⁾

For Mises, a choice always involves trade-offs. Sometimes it is between a greater and a lesser evil. This explains his comment on fascism that left-wing intellectuals are fond of quoting:⁽⁸³⁾ 'It cannot be

(81) Mises, *Mentality* (2006), p. 12.

(82) *Ibid.*, p. 59.

(83) For example, Perry Anderson, 'The Intransigent Right at the End of the Century', *London Review of Books*, vol. 14, no. 18 (1992), p. 8.

denied that Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history.'⁽⁸⁴⁾ But Mises should not be quoted out of context, because he continues: 'But though its policy has brought salvation for the moment, it is not of the kind which could promise continued success. Fascism was an emergency makeshift. To view it as something more would be a fatal error.' Mises' point is the plausible one that for a liberal faced with two evils, fascism and communism, fascism seems the lesser one, not least because it is possibly reversible. It is authoritarian rather than totalitarian: It aims not at total control of mind and body, but rather of body alone. Because it does not abolish private property rights to the means of production, it does not unite all economic control in one body. What Mises was referring to in the 1920s was that the ex-socialist Benito Mussolini in Italy and Admiral Miklós Horthy in Hungary hindered communist takeovers, although in Hungary the communists actually ruled by terror for a few months. Later examples might be Francisco Franco in Spain and Augusto Pinochet in Chile. Be that as it may, European fascism of the 1920s was quite different to Hitler's national socialism with its horrible antisemitism.⁽⁸⁵⁾ It should also be pointed out that in the 1920s Austria was surrounded by hostile neighbours and that her only potential ally and protector then was Mussolini's Fascist Italy.⁽⁸⁶⁾

Mises was often right. Where he was wrong, I believe, was in insisting that the case for a free society was ultimately a utilitarian one. There certainly are powerful utilitarian arguments for freedom, but they are not conclusive. A fair and open-minded critic might accept Mises' well-

(84) Mises, *Liberalism* (2005), p. 30.

(85) It is doubtful whether Horthy, Franco and Pinochet could be called fascists in the same clear sense as could Mussolini, although in their respective countries they certainly sought and accepted the support of fascist elements. Cf. Stanley Payne, *A History of Fascism, 1914–1945* (Madison WI: University of Wisconsin Press, 1995).

(86) Indeed, as soon as Mussolini informed Hitler in the spring of 1938 that he would not object to a Nazi annexation of Austria, Hitler invaded the country. Pleased with Mussolini, Hitler told an envoy: 'You may tell him that I thank him ever so much!' Hitler added: 'I shall stick to him, whatever may happen, even if the whole world were against him!' Joachim Fest, *Hitler*, tran. by Richard and Clara Winston (New York: Harcourt, 1975), p. 548.

argued thesis that many means suggested by socialists would be counter-productive, but he could say that ultimately the conflict between liberals and their opponents is about ends, not means. It is about identity, who you are or aspire to be, not about efficiency, how many pounds or dollars or euros you can have in your pocket. Conservatives as well as socialists might present this criticism. Consider a mundane, yet relevant example. Mises finds out that it would be cheaper for the state to pay winemakers for doing nothing instead of producing their good. But such a solution is impractical, to say the least, because nobody wants to be told that he is useless. The winemaker clings to his identity.⁽⁸⁷⁾ A different way of eliminating the waste identified by Mises has to be found. Another example might be of an activist who would not really regard it as all that relevant whether poverty relief (or, to take another example, development aid) achieves its stated aim. For him it is more important that the state demonstrates that it *cares*. The state has to make a symbolic gesture, and it is more important that the measure is seen than that it works. A hard-core socialist might also dismiss Mises' ideal, the utmost possible satisfaction of human wants, as just the illusion of the epoch. He would ask: Whose wants? Which wants? The socialist has different goals, such as building a new man, at any cost, or giving the globe back to nature. These examples are not products of my wild imagination. In the attempt to build a new society and create a new man, communism claimed 100 million human lives, as we recall; Islamic fundamentalists who reject 'Western materialism' are the rulers of Iran and they wield considerable power in many other countries; less dramatically, eco-fundamentalists have enlisted international agencies in their endeavour to stop whaling in offshore waters where whale stocks are plentiful, and to ban pesticides which would have saved millions from dying of malaria.⁽⁸⁸⁾

When Mises is asked whose wants, and which ones, to satisfy he would retort: the wants of all, and all the wants whose satisfaction does not encroach on the satisfaction by other people of their wants.

(87) Unkind observers might say that the winemaker is like the embittered intellectual in that he does not want to have his nothingness revealed by looking at his own reflection in the marketplace.

(88) Hannes H. Gissurarson, *Green Capitalism: How to Protect the Environment by Defining Private Property Rights* (Brussels: New Direction, 2017).

Individuals meet as equals in the marketplace and bargain in such a way that the price of every good will be set at its marginal utility. But by such an answer he would be presupposing something like Spencer's Principle of Equal Freedom, or even Locke's defence of natural rights. Mises would be reaffirming his own identity as a citizen of the West, not only the efficiency of capitalism. He would be revealing himself as what he indeed is, an individual with the will and ability to make choices. Perhaps Mises would agree with me here. He thinks that ultimately ideas, and not interests, rule the world. He knows that some values do not have a price, for example integrity and honour (both of which are a bit like virginity: you only lose it once). He believes that some principles are objective and that they can be learned by reason instead of being taught by force. The failure of liberalism that he witnessed in his lifetime was quite evitable. 'Should our civilisation perish, it will not be because it is doomed, but because people refused to learn from theory or from history. It is not fate that determines the future of human society, but man himself. The decay of Western civilisation is not an act of God, something which cannot be averted. If it comes, it will be the result of a policy which still can be abandoned and replaced by a better policy.'⁽⁸⁹⁾ Mises was a pessimist in the short run, but an optimist in the long run.

(89) Mises, *Interventionism*, p. 95.

Friedrich von Hayek

(1899–1992)

In March 1944, a book was published in England which was to become one of the most influential political works of the twentieth century. *The Road to Serfdom* was by an Austrian-born Professor of Economics at the London School of Economics, Friedrich A. von Hayek. It was an eloquent warning that the liberal democracies of Western Europe and North America might unintentionally slide down the disastrous path of Austria and Germany between the wars. Lenin's international socialism and Hitler's national socialism were related creeds, Hayek taught, both demanding the total reconstruction of society in order to achieve a goal, the empowerment of the proletariat or the glory of the nation, respectively, and both trying to unite the masses against an alleged enemy, the Capitalists or the Jews. Hayek also argued that democratic socialism was an illusion, however well-intentioned its proponents might be, because they could not implement central economic planning without resorting to various coercive means of moulding public opinion. Total control of the body required total control of the mind. After the publication of *The Road to Serfdom*, the quiet, aloof author increasingly turned to political philosophy. In April 1947, he organised a meeting of liberal scholars and men of affairs at Mont Pèlerin in Switzerland, where they decided to found an informal international academy, the Mont Pelerin Society.⁽¹⁾ Its members had significant impact on Europe's recovery after the Second World War: Luigi Einaudi, President of Italy, Wilhelm Röpke, adviser to the German government, Jacques Rueff, adviser to General de Gaulle in France, and Gottfried von Haberler, inside international organisations a tireless advocate of free trade. In

Hayek tries to explain the immense achievements of Western civilisation despite the limits of individual knowledge. His explanation is in terms of the acquisition, utilisation and transmission of knowledge, practical as well as theoretical. Painting by Rodrigo Moynihan.

(1) Although the Society was founded at Mont Pèlerin in Switzerland, it was incorporated in the United States as the Mont Pelerin Society, which is therefore its formal name.

the last quarter of the twentieth century, leading members of the Mont Pelerin Society again gained prominence, especially Hayek himself and American economist Milton Friedman, reinforced by a sprawling network of think tanks producing countless studies with evidence for the superiority of spontaneous coordination over commands from above. In his many books, Hayek has presented a profound defence of Western civilisation: in spite of individual ignorance, its enormous achievements have been brought about by the acquisition, transmission and utilisation of knowledge, practical as well as theoretical.

Hayek's Life and Works

Friedrich August von Hayek was born on 8 May 1899 in Vienna, the son of a physician, August Edler von Hayek, and his wife Felicitas, born von Juraschek. His parents were affluent, but not rich, although his mother came from a wealthy family. Both his grandfathers were scholars, Gustav Edler von Hayek a biologist and Franz Ritter von Juraschek an economist, and young Friedrich took it for granted that he would himself pursue an academic career. Brought up in the comfort and security of late Habsburg Empire, he was a serious child who preferred the company of adults. When he was fifteen years old, the twin monarchies of Austria and Hungary plunged into war, in alliance with Germany against Serbia, Russia, France, and the United Kingdom and later also against Italy and the United States. In March 1917, Hayek joined a field artillery regiment of the Austrian Army and fought on the Italian front. Decorated for bravery, he returned to Vienna in November 1918 after the defeat of the Empire. The mindless, brutal war had a great impact on him, like his contemporaries, and he decided to study social sciences, earning degrees in law and politics from the University of Vienna. He read economics under one of Carl Menger's disciples, Friedrich von Wieser, and was much impressed by Menger's works. Hayek also personally knew another of Menger's disciples, Eugen von Böhm-Bawerk, a friend of his maternal grandfather. In the autumn of 1921, before he had finished his studies, Hayek applied for a job in the Austrian Office for Peace Settlements. He went with a recommendation from Wieser to one of the directors, Ludwig von Mises, who also lectured in economics

at the University and who was known as one of Austria's few remaining economic liberals. Mises read Wieser's letter, looked at Hayek and said: 'Wieser says you're a promising young economist. I've never seen you at my lectures!'⁽²⁾ Nevertheless, Hayek got the job. Attracted by socialism as a young man, he became convinced by Mises' argument that the socialist project was bound to fail because the planners could not, in the absence of a market for factors of production, make the calculations necessary to choose rationally between different alternatives.⁽³⁾ Witnessing the havoc which post-war hyperinflation wrought on Austrian society, Hayek also became a champion of monetary and fiscal stability.

In March 1923 Hayek went on leave to the United States where he was for a while research assistant to a professor at New York University and used the opportunity to study statistics and gain fluency in English. When he returned to Vienna in May 1924, he found out to his dismay that his childhood sweetheart, Helene Bitterlich, a distant cousin, had married under the mistaken assumption that their relationship was over. Hayek returned to the Office of Peace Settlements and on the rebound he married one of the secretaries, Hella von Fritsch. They had a daughter, Christine, in 1929. Hayek also regularly attended Mises' fortnightly seminar on economics. In 1927, he became Director of a new research institute in Vienna that Mises helped him set up. His publications aroused the interest of the English economist Lionel Robbins who arranged for him to give a series of lectures at the London School of Economics, LSE, in 1931. The lectures, dealing with business cycles and eventually published under the name *Prices and Production*,⁽⁴⁾ intrigued the staff and students at the school, and Hayek and Robbins became good friends. Hayek's wife and daughter had moved with him to England, and in 1932 he was appointed to a Professorship in Economics at the LSE, only 33 years old. Hella gave birth to a son, Laurence, in 1934. But the marriage was not happy. Hayek had stayed in contact with his

(2) *Hayek on Hayek*, ed. by Stephen Kresge (Indianapolis IN: Liberty Fund, 1994), p. 67.

(3) Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922); Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, tran. by J. Kahane (Indianapolis IN: Liberty Fund 1981 [1936]).

(4) F. A. Hayek, *Prices and Production* (London: George Routledge & Sons, 1931).

old girlfriend Helene who also had two children by her husband. They came to the conclusion in 1934 that they ought to marry, but Hayek's wife refused him a divorce.

In England, Hayek sought to introduce Mises' powerful argument against socialism to an English-speaking audience. He edited a collection of articles on calculation under socialism in 1935 and added to it some papers of his own, where he refined, strengthened and expanded the argument, presenting it in terms of knowledge rather than calculation.⁽⁵⁾ At the LSE, Hayek conducted a celebrated seminar on economics, with Robbins and Arnold Plant, attended by students, colleagues and visitors, including Ronald Coase, John Kenneth Galbraith, John Hicks, Abba Lerner, and George Shackle. Hayek also conducted a smaller seminar on his own. A visitor from his native Austria, the philosopher Karl Popper, once read a paper there: 'Hayek's open-mindedness was one of his most striking virtues. He was, as you know, an anti-socialist. But he took great trouble to convince communist and socialist students that they were welcome in his lectures and seminars; and they found, indeed, that he was ready to listen to them with sympathy.'⁽⁶⁾ Later, Popper became Hayek's colleague at the LSE.

In the early 1930s, Hayek was widely seen in England as the main rival of John Maynard Keynes, then the most famous economist in the English-speaking world. But Keynes' remedy for the Great Depression, to reduce unemployment by government spending, seemed much more attractive to economists and politicians than Hayek's complicated theory of different production periods which apparently led to the view that the bigger the bankruptcies, the better, because the economy had to correct past excesses: the bust had to follow the boom. Slowly Hayek lost his audience, and his *Pure Theory of Capital* which sought to develop Austrian capital theory found few readers.⁽⁷⁾ During the Second World War, the London School of Economics relocated to Cambridge, and

(5) *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism*, ed. by F. A. Hayek (London: Routledge & Kegan Paul, 1963 [1935]).

(6) Karl R. Popper, Tribute to the Life and Work of Friedrich Hayek, *Hayek: Economist and Social Philosopher. A Critical Retrospect*, ed. by Stephen F. Frowen (London: Palgrave Macmillan, 1997), p. 311.

(7) *The Pure Theory of Capital* (London: Macmillan, 1941). Repr. in *The Collected Works of Friedrich August Hayek*, Vol. 12.



In 1917–1918 Hayek served in the Austrian Imperial Army, on the Italian Front. The collapse of the Habsburg Empire weighed heavily on him and his compatriots. They witnessed a great civilisation collapse. Photo: Hayek family archive.

Hayek and Keynes who shared many cultural interests became good friends, although they continued to disagree on economic policy. When Hayek published *The Road to Serfdom* in 1944, Keynes responded in a letter. ‘In my opinion it is a grand book,’ Keynes wrote. ‘We all have the greatest reason to be grateful to you for saying so well what needs so much to be said. You will not expect me to accept quite all the economic dicta in it. But morally and philosophically I find myself in agreement with virtually the whole of it: and not only in agreement with it, but in deeply moved agreement.’ Nonetheless, Keynes held that more planning was inevitable.⁽⁸⁾ Other ‘social liberals’ who agreed with Keynes on the need for more planning, although they wanted to maintain intellectual freedom, took less kindly to the book. English philosopher Isaiah Berlin likened ‘the awful Dr. Hayek’ to his teacher Mises, ‘just as much of a dodo, if not more so.’⁽⁹⁾ Austrian philosopher Rudolf Carnap told his compatriot Popper that he was surprised to see him applaud Hayek’s book; Carnap hastened to add that he had not read it himself: in America it was ‘praised mostly by the protagonists of free enterprise and unrestricted capitalism, while all leftists regard him as a reactionary’.⁽¹⁰⁾

In Great Britain the publication of Hayek’s *Road to Serfdom* was an event, but in the United States it was a sensation, not least because *Reader’s Digest* published a condensation of it, skilfully done by Max Eastman. The extract and a series of cartoons made out of it reached millions.⁽¹¹⁾ Hayek went on a lecture tour to North America in the spring of 1945, for five weeks, speaking for the first time in his life to mass audiences. When he returned to England, he found himself in the midst of a political controversy. Prime Minister Winston Churchill had been greatly impressed by the *Road to Serfdom* and in a party broadcast

on 4 June before the 1945 election he said: ‘No Socialist government conducting the entire life and industry of the country could afford to allow free, sharp, or violently-worded expressions of public discontent.’ Churchill added: ‘They would have to fall back on some form of Gestapo, no doubt very humanely directed in the first instance.’⁽¹²⁾ British socialists immediately seized on his words, and in his party broadcast the next day Labour Leader Clement Attlee commented that Churchill’s ‘Gestapo speech’ was a ‘second-hand version of the academic views of an Austrian professor, Friedrich August von Hayek’.⁽¹³⁾ Attlee ignored the fact that Hayek had been a British subject since 1938, calling him by a full name he had abandoned himself, to make it sound as German as possible. The British electorate was hardly ready for any suggestion of an association between the Labour Party and the Gestapo. The soft-spoken Attlee seemed an unlikely Hitler. The Conservatives lost the election by a wide margin. The ‘Gestapo speech’ had not helped. Some time later Hayek, at a social event, met Churchill who said to him: ‘You are completely right; but it will never happen in Britain!’⁽¹⁴⁾

The *Road to Serfdom* was translated into German by Wilhelm Röpke’s wife Eva and published in Switzerland in 1945.⁽¹⁵⁾ In order to accommodate the Soviet rulers, still allies of the Western powers, the book was banned in occupied Germany and copies had to be smuggled in. Perhaps the greatest immediate political impact of *The Road to Serfdom* was in the Scandinavian countries where its publication led to lively debates.⁽¹⁶⁾ In all three countries, democratic socialists, triumphant after a significant shift to the left in politics, seemed intent on implementing radical changes. The Nordic business communities viewed their ideas with alarm and welcomed Hayek’s book, and a few intellectuals publicly

(8) Letter from J. M. Keynes to F. A. Hayek, 28 June 1944. John Maynard Keynes, *Collected Writings*, Vol. XXVII, ed. by D. Moggridge (Cambridge: Cambridge University 1980), p. 385.

(9) Letter from Isaiah Berlin to Elisabeth Morrow, 4 April 1945. *Flourishing: Letters 1928–1946*, ed. by Henry Hardy (London: Chatto & Windus, 2004), p. 540. The dodo, of course, was the flightless bird in Mauritius which became extinct in the seventeenth century.

(10) Letter from Rudolf Carnap to Karl Popper, 9 February 1946. Here from Mark Notturmo, Popper’s Critique of Scientific Socialism, or Carnap and His Co-Workers, *Philosophy of the Social Sciences*, Vol. 29, No. 1 (1999), p. 41.

(11) George H. Nash, *The Conservative Intellectual Movement in America Since 1945* (New York: Basic Books, 1976). Nash dates the origin of the movement to the publication of Hayek’s book.

(12) *Victory: War Speeches by the Right Hon. Winston S. Churchill* (London: Cassell, 1946), p. 189.

(13) Richard Toye, Winston Churchill’s ‘Crazy Broadcast’: Party, Nation, and the 1945 Gestapo Speech, *Journal of British Studies*, Vol. 49, No. 3 (2010), pp. 655–680.

(14) *Hayek on Hayek*, p. 94.

(15) F. A. Hayek, *Der Weg zur Knechtschaft* (Erlenbach-Zürich: Eugen Rentsch, 1945).

(16) F. A. Hayek, *Vägen till trældom*, tran. by M. Loya and C. Sterzel (Stockholm: P. A. Norstedt & Söner, 1944), republ. in 1996 tran. by Margareta Eklöf (Stockholm: Timbro). F. A. Hayek, *Vejen til trældom*, tran. by Sten Gudme (København: Gyldendal, 1946), repr. in 1981 (Forlaget i Haarby). *Veien til treldom*, tran. by Gunnar Chr. Røed (Oslo: Dreyer, 1949).

supported him. In Sweden, *planhushållningsdebatten*, the debate on central planning, was particularly intense.⁽¹⁷⁾ One of the country's most prominent intellectuals, Professor Herbert Tingsten, turned his back on the Social Democrats and, inspired by Hayek, issued dire warnings against central planning.⁽¹⁸⁾ Another well-known intellectual, Professor Bertil Ohlin, who had become leader of the Social Liberal Party in 1944, was an effective critic of the socialist project.⁽¹⁹⁾ After the debate, the Social Democrats quietly shelved their most radical ideas, and their best-known ideologue, Professor Gunnar Myrdal, in 1947 left the government and took a job abroad. In Norway, Hayek had an ardent follower, economist Trygve Hoff, editor of an influential business magazine. He had written his doctoral dissertation on the calculation debate and now published a book about the socialist threat to peace and freedom.⁽²⁰⁾ In Denmark, Hayek's warning that central planning was incompatible with a liberal democracy was also discussed extensively in *Demokratidebatten*, the debate on democracy,⁽²¹⁾ and Hayek gave a lecture in Copenhagen in January 1946.⁽²²⁾ Some Danish scholars expressed sympathy for Hayek's message, but there was no forceful and outspoken liberal intellectual thinker in Denmark comparable to Tingsten in Sweden and Hoff in Denmark.⁽²³⁾ Nonetheless, in the Danish debate a poem by Danish educationalist Nikolaj F. S. Grundtvig was often quoted:

(17) Leif Lewin, *Planhushållningsdebatten* [The Debate on Central Planning] (Stockholm: Almqvist & Wiksell, 1967).

(18) Herbert Tingsten, *Demokratiens problem* (Stockholm: P. A. Norstedt & Söners Förlag, 1945). It was almost immediately trans. into Danish, *Demokratiets Problemer* (Copenhagen: Gyldendal, 1946).

(19) There are two liberal parties in Sweden, the social-liberal Folkpartiet, later Liberalerna, and the conservative-liberal Moderata samlingspartiet.

(20) Trygve J. B. Hoff, *Økonomisk kalkulasjon i socialistiske samfund* (Oslo: Aschehoug, 1938); *Economic Calculation in the Socialist Society* (Indianapolis IN: Liberty Fund, 1981). *Fred og fremtid: liberokratiets vei* [Peace and the Future: The Road to Liberty] (Oslo: Aschehoug, 1945).

(21) Theodor Geiger, *Demokratiet under Debat* [Democracy Debated], *Nationaløkonomisk Tidskrift*, Vol. 85 (1947), pp. 132–150. Contributions by both (or all) sides, communists, democratic socialists and a sole liberal, Poul Andersen, were printed in *Ordet eller Sværdet* [The Word or the Sword] (Copenhagen: Forlaget Fremad, 1945). Hayek was criticised by legal positivist and democratic socialist Alf Ross in *Hvorfor Demokrati?* (Copenhagen: Munksgaard, 1946); *Why Democracy?* (Cambridge MA: Harvard University Press, 1952).

(22) F. A. Hayek, *Fuld beskæftigelse* [Full Employment], *Nationaløkonomisk Tidskrift*, Vol. 84 (1946), pp. 18–29.

(23) Sympathisers included Law Professor Poul Andersen and Economics Professors Carl Iversen and Thorkil Kristensen, but none of them actively supported Hayek in the debate.

“ Frihed lad være vort Løsen i Nord,
Frihed for Loke saavel som for Thor.

(Let freedom be our Nordic resolution, freedom for Loke as well as for Thor.)⁽²⁴⁾ In all three Scandinavian countries, the business communities established information agencies, called ‘Libertas’ both in Sweden and Norway and ‘The Information Agency of Danish Business’ in Denmark (Erhvervenes Oplysningsråd). For a few years, these agencies were quite active, but as in the 1950s and 1960s a consensus on redistribution replaced the conflict on nationalisation, they slowly declined.

After the publication of *The Road to Serfdom*, Hayek travelled widely in Europe and North America and met many isolated scholars who shared his worries about the future of the free society. He also regarded it as essential to try and integrate Germany anew into the West. When unexpectedly funds became available for holding an international meeting of liberal thinkers and men of affairs, he welcomed the opportunity. In April 1947, thirty-nine intellectuals met on his personal invitation for a week at the elegant Swiss Hotel du Parc in Mont Pèlerin, near Geneva, to discuss the problems and prospects of a free society. Participants included Hayek's friends from Vienna, Mises, Haberler and Machlup, all now living and teaching in the United States, Röpke from Switzerland, Rueff, Maurice Allais and Bertrand de Jouvenel from France, Friedman, Frank H. Knight, Aaron Director, and George J. Stigler from the United States, and two of Hayek's colleagues at the LSE, Popper and Robbins. Only one resident of occupied Germany could make the trip to Mont Pèlerin, Walter Eucken. One day the participants went on an excursion to Coppet, the nearby residence of Benjamin Constant and Germaine de Staël. After lively discussions for more than a week in which the participants disagreed on several issues, they nevertheless decided to found a society which should function like an informal international academy of conservative-liberal intellectuals. It should convene regularly, conduct its meetings in English, not get involved in politics or any kind of activism, and seek no publicity. It should devote itself

(24) In Nordic mythology, Loke was a trickster deity, whereas Thor was a forthright and honest deity: one was at best morally ambiguous, the other one a bit thoughtless.

to further studies where a few topics were singled out: the distinction between totalitarianism and the liberal order; the idea of maintaining minimum standards without sacrificing economic liberty; investigations into the abuse of history; and the creation of an international order for peace. They decided to name the society after their meeting place, and Hayek was elected the first President of the Mont Pelerin Society, a position he filled for the next fourteen years. Four of the economists at the meeting were later to receive the Nobel Prize in Economics, Hayek, Friedman, Stigler, and Allais, and economists have always formed the largest group in the society. Italian economist Luigi Einaudi, then Governor of the Central Bank of Italy and later President of his country, was unable to attend the meeting, but became a founding member. Alongside scholars, some journalists, businessmen and politicians also were members of the Mont Pelerin Society in its early days, including Antony Fisher from the United Kingdom, Leonard Read (a founding member), Jasper Crane, J. Howard Pew and Pierre F. Goodrich from the United States, Economics Minister Ludwig Erhard of Germany and Finance Minister Thorkil Kristensen of Denmark (although Kristensen was never active in the Society).

While Hayek was organising the Mont Pelerin Society, he was also preoccupied with his personal affairs. Soon after the war he was reunited with his old girlfriend Helene Bitterlich in Austria, and they decided that they could not live without each other. Helene's husband agreed to this, but not Hayek's wife Hella. Instead she took legal advice. Hayek nevertheless decided to go through with a divorce, although he could not do it in England under current law. But he had to provide for his wife and their children in England which was difficult to do on a regular professor's salary. He therefore began looking for a position in the United States. He found it at the University of Chicago where the Volker Fund, controlled by economic liberals, was willing to fund a professorship for him at the interdisciplinary Committee on Social Thought, with a generous salary and no teaching duties. In July 1949, Hayek attended the second meeting of the Mont Pelerin Society in the small Swiss town of Seelisberg. The choice of the meeting place was not a coincidence. It was right by the mountain meadow Rütli where the Swiss Confederacy had been established in 1307, in defence against foreign tax collectors. At



Hayek addresses the first meeting of the Mont Pelerin Society on 1 April 1947, with his secretary Dorothy Hahn at his side. Seated in front row from left: William Rappard, Switzerland, Ludwig von Mises, United States, Walter Eucken, Germany, and Carl Iversen, Denmark. Seated behind them from left: Herbert Cornuelle, United States, and Bertrand de Jouvenel, France. Photo: MPS Archive, Hoover Institution.

the end of the year, Hayek went to the United States where he attended the annual meeting of the American Economic Association in New York. His compatriot Joseph Schumpeter gave a lecture there on 'The March into Socialism' where he listed recent interventionist measures and commiserated with the Mont Pelerin Society: 'I believe that there is a mountain in Switzerland on which congresses of economists have been held which express disapproval of all or most of

these things. But these anathemata have not even provoked attack.'⁽²⁵⁾ Although Schumpeter personally was in favour of capitalism, he thought that a fight for it was futile. Soon thereafter, in early 1950, Hayek's personal life took a dramatic, but carefully planned turn. He resigned from his professorship at the LSE, taught for a term in Arkansas where divorce laws for residents were permissive, obtained the divorce there,

(25) Joseph Schumpeter, *The March into Socialism*, *The American Economic Review*, Vol. 40, No. 2, Papers and Proceedings of the Sixty-second Annual Meeting of the American Economic Association (1950), p. 449.

returned to Europe and married Helene in Vienna. ‘The heart has its reasons of which reason knows nothing,’ as Pascal remarked.⁽²⁶⁾ In late 1950 Hayek settled down in Chicago with his new wife. During the next decade, he was rarely able to see his children who remained in England, but he also lost one of his best friends, his former colleague Robbins. They had been neighbours in London and their wives had been good friends. Robbins felt that Hayek should not have left his wife for another woman, even if he provided adequately for her financially. He resigned from the Mont Pelerin Society and cut all ties with Hayek. The two only became reconciled after the death of Hayek’s first wife in 1960.⁽²⁷⁾

In Chicago, Hayek conducted a seminar on social thought, attended by colleagues, students and invited guests. Friedman was a regular participant and said: ‘They were wonderful seminars primarily because of the range of people he brought in as speakers.’⁽²⁸⁾ For a while, Hayek’s students in Chicago, Ralph Raico, Ronald Hamowy and their friends, published the *New Individualist Review*, brimming with ideas and insights.⁽²⁹⁾ Hayek continued to be active in the Mont Pelerin Society and edited a collection of papers read at its Beauvallon meeting in 1951 on ‘Capitalism and the Historians’. The reason why many intellectuals had opposed capitalism was the mistaken belief that it had worsened the living standards of workers, according to Hayek.⁽³⁰⁾ But outside the small enclave of the Mont Pelerin Society Hayek was an isolated figure. When in 1955 he attended a large conference in Milan on the future of freedom, organised by the US-backed Congress for Cultural Freedom, he was almost alone in his emphasis on the connection between capitalism and freedom. Most other participants, including Hannah Arendt and

John Kenneth Galbraith, held that there was no longer any fundamental difference between liberals and social democrats in the West.⁽³¹⁾ Hayek, in a passionate speech, criticised the other delegates for preparing to bury freedom instead of saving it. ‘Hayek, honestly believing that state intervention is bad and inherently totalitarian, found himself in a small minority of those who still took the cleavages within the democratic camp seriously,’ American political sociologist Seymour Martin Lipset commented somewhat condescendingly.⁽³²⁾ Two distinguished French delegates at the Milan conference, Jouvenel and Raymond Aron, eventually resigned from the Mont Pelerin Society. They regarded it as being too narrowly focused on economic freedom.

In Chicago, Hayek wrote *The Constitution of Liberty*, a comprehensive restatement of liberal principles, which came out in 1960.⁽³³⁾ It was respectfully, if not enthusiastically received by his fellow liberals,⁽³⁴⁾ ignored by social democrats and socialists and dismissed by a conservative Oxford don as a ‘magnificent dinosaur’ stalking on to the scene, ‘seemingly impervious to the effects of natural selection.’⁽³⁵⁾ Hayek stepped down as President of the Mont Pelerin Society in 1961 and moved a year later from Chicago to Freiburg where he taught until 1968, upon which he accepted a position in Salzburg, with an interlude of one year as a Visiting Professor at the University of California in Los Angeles, UCLA. By this time, Hayek felt that he might have strived in vain: Perhaps he was

(26) Blaise Pascal, *Thoughts* (1671), §LXII, tran. by Edward Craig (Boston: Gould, Kendall & Lincoln, 1849), p. 340.

(27) Lanny Ebenstein, Hayek’s Divorce and Move to Chicago, *Econ Journal Watch*, Vol. 15, No. 3 (2018), pp. 301–321.

(28) Interview with Milton Friedman on Friedrich Hayek, Lanny Ebenstein, *Chicagonomics: The Evolution of Chicago Free Market Economics* (New York: St. Martin’s Press, 2015), p. 211.

(29) It was later reprinted with an introduction by Milton Friedman, *New Individualist Review* (Indianapolis IN: Liberty Fund, 1981). It was perhaps an indication of the intellectual isolation of classical liberals in the humanities that those two able and erudite scholars were unable to get prestigious academic positions in North America.

(30) *Capitalism and the Historians*, ed. by F. A. Hayek (Chicago: University of Chicago Press, 1954).

(31) Edward Shils, The End of Ideology?, *Encounter*, Vol. 5 (November, 1955), pp. 52–58; Daniel Bell, *The End of Ideology: On the Exhaustion of Political Ideas in the Fifties* (Glencoe IL: The Free Press, 1960). Cf. other works in the same spirit by ex-members of the Mont Pelerin Society, Raymond Aron, *L’Opium des intellectuels* (Paris: Calmann-Lévy, 1955); Herbert Tingsten, *Från Idéer till idyll* (Stockholm: P. A. Norstedt & Söners Förlag, 1966).

(32) Seymour M. Lipset, *Political Man: The Social Bases of Politics* (New York: Doubleday, 1960), pp. 404–405.

(33) F. A. Hayek, *The Constitution of Liberty* (London: Routledge & Kegan Paul, 1960).

(34) The reviews by Robbins and Aron are typical. Lord Robbins, Hayek on Liberty, *Economica*, Vol. 28, No. 109 (1961), pp. 66–81; Raymond Aron, La définition libérale de la liberté, *Archives Européennes de Sociologie*, Vol. 2, No. 2 (1961), pp. 199–218. However, the book was well received by others, *Agenda for a Free Society: Essays on Hayek’s The Constitution of Liberty*, ed. by Arthur Seldon et al. (London: Hutchinson, 1961).

(35) Anthony Quinton, Introduction, *Political Philosophy* (Oxford: Oxford University Press, 1967), p. 2. The joke, obviously directed at Hayek’s support for competition in the marketplace, was a bit silly, as the dinosaurs were apparently not victims of natural selection: they were wiped out in a catastrophe. It was also misplaced in a textbook (which was for example required reading at the University of Iceland when I studied philosophy there as an undergraduate).

like the mythical Cassandra who was cursed to utter true prophecies, but never to be believed. In 1974, this suddenly changed. Hayek was awarded the Nobel Prize in Economics, jointly with Gunnar Myrdal. It was joked that Hayek was as surprised to receive the Prize as Myrdal was at having to share it.⁽³⁶⁾ The award rejuvenated Hayek personally and served to bring attention and respectability to his work. He retired in 1977 and moved back to Freiburg. In 1973–1979 he published *Law, Legislation, and Liberty* in three volumes, where he continued his attempts to reformulate the principles of a free society and trenchantly criticised the notion of ‘social justice’.⁽³⁷⁾ He also proposed a radical new idea: the ‘denationalisation of money’, the abolition of the monopoly of central banks to produce money. Could money not be privately produced?⁽³⁸⁾

Hayek retained his British citizenship, followed politics in the United Kingdom with keen interest and often travelled to London. In 1975, Margaret Thatcher was elected Leader of the Conservative Party. As a student at Oxford in the 1940s, she had attentively read *The Road to Serfdom*.⁽³⁹⁾ Moreover, she, and other leading British politicians, had concluded from the experience of the 1960s and early 1970s that Keynesian policies to maintain full employment at any cost were counter-productive. In the end they only led to ‘stagflation’, inflation and economic stagnation. Inflation had to be brought under control, and trade unions should not be allowed to become states within the state, using violence to further their goals. Market forces had to be given greater scope. Shortly after the leadership contest, she attended a meeting at the Conservative Research Department where a member of the staff was arguing for the ‘middle way’. She reached into her briefcase and took out a book which she held up for all to see. It was Hayek’s *Constitution of Liberty*. ‘This,’ she said firmly, ‘is what we believe,’ and banged it down on the table. Around that time Hayek met Thatcher for the first time at a meeting which the influential free-market Institute of Economic Affairs, IEA, arranged at its premises. She listened carefully

to Hayek. After she left, the IEA staff gathered around Hayek, seeking his reaction to the meeting. After a long pause, he said, with obvious feeling: ‘She’s so beautiful.’⁽⁴⁰⁾ Michael Foot, soon to be Labour Leader, said that Thatcher was in thrall to a ‘mad professor’.⁽⁴¹⁾ Thatcher did not try to hide her intellectual debt to Hayek. When she became British Prime Minister in May 1979, he sent his congratulations, and she responded: ‘I am very proud to have learnt so much from you over the past few years. I hope that some of those ideas will be put into practice by my Government in the next few months.’⁽⁴²⁾

Hayek was now much in demand internationally as a political pundit. He was widely seen as one of the main thinkers behind the sea change in economic thought in the last quarter of the twentieth century. President Ronald Reagan of the United States expressed his admiration for him, and he was revered in Central and Eastern Europe where his readers had lived under the serfdom against which he had warned in 1944. But Hayek’s health was slowly deteriorating. It was discovered that he had a heart condition which had been misdiagnosed as depression. The last two Mont Pelerin Society gatherings he attended were in 1984, a regional meeting in Paris in February and a general meeting in Cambridge in September. The same year the Queen appointed him Companion of Honour, the most exclusive award in the gift of the Crown. In 1988, Hayek published a book which was to be his last, *The Fatal Conceit: The Errors of Socialism*. It was edited by Popperian philosopher William W. Bartley who was supposed to write a joint biography of Popper and Hayek, but who died before he could complete that task. On Bartley’s invitation, I assisted a bit with the editing.⁽⁴³⁾ The fatal conceit, Hayek

(36) Alan Ebenstein, *Friedrich Hayek: A Biography* (New York: Palgrave, 2001), p. 261.

(37) F. A. Hayek, *Law, Legislation and Liberty*, Vols. I–III (London: Routledge & Kegan Paul, 1973–1979).

(38) F. A. Hayek, *The Denationalisation of Money* (London: Institute of Economic Affairs, 1976).

(39) Charles Moore, *Margaret Thatcher*, Vol. 1 (London: Allan Lane, 2013), p. 51.

(40) Richard Cockett, *Thinking the Unthinkable: Think-tanks and the Economic Counter-Revolution 1931–1983* (London: HarperCollins, 1995), pp. 174 and 176.

(41) *Daily Telegraph* 14 May 1978, here after Ebenstein, *Hayek*, p. 293.

(42) Letter from Margaret Thatcher to Friedrich von Hayek, London 18 May 1979. Reproduced on the Margaret Thatcher Foundation website.

(43) What I limited myself to doing, was to eliminate repetitions (of which there were many) in the manuscript and to rearrange material to let the course of arguments flow better. Bartley was quite respectful of Hayek, and I was not under the impression that he was trying to insert his own ideas into Hayek’s book, as some have suggested, but I would not exclude the possibility, perhaps not always intentionally. I was however busy in Iceland, and not too unhappy when Bartley, a difficult person, relieved me of my duties as his assistant editor, for lack of commitment.

argues, is socialism which seeks to do the impossible. It is an intellectual error rather than a political alternative: modern civilisation cannot survive without the use of dispersed knowledge. But by the time Hayek reached ninety in 1989, he was largely confined to his flat in Freiburg. He passed away on 23 March 1992.

Hayek in Iceland

When I first read *The Road to Serfdom* as a teenager, it had a huge impact on me. It was an eloquent articulation of views that I had already loosely formed on my own. I felt that Hayek's book provided a basis for those views with great erudition, solid evidence and sound arguments. A few like-minded friends and I founded the Icelandic Libertarian Association on Hayek's eightieth birthday, 8 May 1979. I wrote to Hayek, told him about this and invited him to Iceland, and he graciously replied and told us he would very much like to visit. He was able to fit a trip to Iceland into his schedule over Easter 1980. I arranged for him to stay in the guesthouse of the Central Bank of Iceland where a friend, Geir H. Haarde (later Iceland's Prime Minister), worked. At Reykjavik Airport on 1 April 1980, I saw Hayek for the first time. He looked exactly the part, a tall, aristocratic scholar, old and dignified, friendly, but slightly reserved, white haired and wearing glasses.⁽⁴⁴⁾ We drove him to the guesthouse and I gave him a copy of *The Road to Serfdom* which I had just translated into Icelandic. In the evening, Haarde and I took him to a seafood restaurant in the city centre. Iceland, a country of fishermen, offers some of the best seafood in the world, and our guest found the dishes excellent. With it he drank a Burgundy, his favourite wine, he told us. He sat opposite me and to Haarde's left, as he was almost deaf in his left ear. 'The irony is that I am deaf in my left ear, and Marx was deaf in his right ear,' he joked. His English was elegant, but with a slight German accent, especially in the way he pronounced his Rs and Zs.

(44) Some (perhaps most) of the comments Hayek made to me, he also made elsewhere. I have occasionally used accounts by others as reference points, to refresh or correct my memory, mostly the book *Hayek on Hayek*.



Hayek in 1948 with his students at the London School of Economics. In the 1930s, he had presented an alternative to Keynesianism, but his critique of the attempt to maintain full employment by demand management was only accepted much later. Photo: Paul Popper/Getty Pictures.

Haarde is an economist, and the conversation turned to economists that Hayek had known, especially the most famous one, John Maynard Keynes. He was not shy to share his opinion of Keynes: 'He was probably one of the most intelligent and charming men I have ever met, but I think he was fundamentally wrong, not least in his lack of a long-term perspective. His General Theory was really a tract for the times.' Hayek recalled the nice letter that Keynes had written to him about *The Road to Serfdom* and told us about the last time he had met him. This was in Cambridge in January 1946. Hayek observed that some of his disciples, mentioning Richard Kahn and Joan Robinson, were presenting inflationary ideas. Was Keynes not worried about that? 'No, Kahn and Robinson are really just fools. As you know, I wrote my book in the thirties when we had to tackle unemployment. If inflation becomes the main problem, then I shall turn public opinion around like that!' Then Keynes snapped his fingers. Six weeks later he was dead. Haarde asked Hayek about Myrdal, his co-recipient of the 1974 Nobel Prize. Hayek said that he had known him in the 1930s when he had

been quite a competent economist, but that he had become a sociologist rather than an economist. Probably the prize had been shared between the two of them to reduce criticisms of the choice. ‘His wife Alva was very attractive,’ Hayek added with a twinkle in his eye. He told us however that he had thought highly of Myrdal’s compatriot Ohlin, and that it was a matter of regret to him that Ohlin had been unwilling to become a member of the Mont Pelerin Society, probably out of consideration for his political career in Sweden. After dinner, Hayek took some snuff, and we drove him back to the guesthouse. We did not want the schedule of our eighty-one year old guest to be too heavy.

The next day, on 2 April 1980, Hayek gave a lecture at the University of Iceland, outlining his proposals for competition in currency. The festivities hall of the University was full, and in the audience a leading social democrat passed out when he heard Hayek’s message. After the lecture, the professors at the Faculty of Economics and Business Administration invited Hayek to lunch. In the evening, the governors of the Central Bank of Iceland gave a dinner for Hayek at a hotel in Reykjavik, inviting some prominent Icelandic economists along. One of them, Professor Gylfi Gislason, a former Leader of the Social Democratic Party, had personally known Harold Laski, Hayek’s colleague at the LSE and a well-known member of the Labour Party. Gylfi was astonished when he heard from Hayek that Laski was a pathological liar. Hayek told us about an evening in August 1939 when he and Laski met in the London house of a colleague. Laski had raved about the great achievements of the Soviet system. Then they listened to the wireless at half past seven, when the news came through that Stalin and Hitler were to sign a Non-Aggression Pact. Upon hearing this, Laski abruptly changed tack and used the remainder of the evening to attack Bolshevism. Lord William Beveridge was also well-known in Iceland: in 1943 a collection of his articles had been published in an Icelandic translation and it had influenced the Social Democrats who implemented some of his proposals when they were in government from 1944 to 1949.⁽⁴⁵⁾ Hayek

told us that in his opinion, Beveridge had no understanding whatsoever of economics. He was a lawyer, and what he could do deftly, Hayek said, was to deliver a lawyer’s brief. Haarde asked Hayek whether he had foreseen the Great Depression. Hayek replied that some remarks of his from early 1929 had been dug up occasionally, but that he could not claim that they were a prediction of the Depression. The establishment economists at the dinner politely expressed reservations about Hayek’s proposal for competitive currencies, some privately produced. Hayek explained that he had as a young economist supported a gold standard as a means to achieve monetary stability and restrain government, but that it was no longer practical. ‘The gold standard is a bit like monarchy. It certainly works, but it depends on an illusion, and once that illusion is broken, it ceases to work,’ he said.

On 3 April, Geir Hallgrímsson, Leader of the Independence Party and former Prime Minister, held an afternoon reception at his home in honour of Hayek. In the spring of 1945, as a law student at the University of Iceland, Geir had come across the condensation of *The Road to Serfdom* in *Reader’s Digest*. He persuaded one of his teachers, Economics Professor Olafur Björnsson, to translate the extract, which was published in a few instalments in the conservative-liberal daily *Morgunblaðið* during the summer. A heated public discussion ensued, with the organs of the left socialists and the social democrats attacking Hayek, sometimes viciously, and *Morgunblaðið*, Geir and Olafur defending him. A young economist in the Socialist Party, Jonas H. Haralz, was one of Hayek’s fiercest critics.⁽⁴⁶⁾ Later Haralz turned his back on socialism and became an eloquent spokesman for economic freedom. Now, some 35 years after their debate, Olafur and Haralz were both at the reception. It was a memorable occasion and everybody was in a good mood. Afterwards our group in the Libertarian Association took Hayek to dinner at a nice restaurant, full of Icelandic paintings. Hayek recalled the years he had spent as a voice in the wilderness after writing *The Road to Serfdom*. For example, at a meeting of the American Economic Association at the end of 1949, he had congratulated a young economist on a new book he had

(45) William Beveridge, *Traustir hornsteinar: erindi og greinar um félagslegt oryggi* [Solid Pillars: Lectures and Articles about Social Security], tran. by Benedikt Tomasson (Reykjavik: Menningar- og fræðslusamband althydu, 1943).

(46) I give a brief account of the debate, Liberalism in Iceland in the Nineteenth and Twentieth Century, *Econ Journal Watch*, Vol. 12, No. 2 (2017), pp. 241–273. Available online.

just published. He was later told that after he had left, colleagues of that economist had gathered around him and commented: ‘Now you have just got the kiss of death!’ Certainly, times had changed. Hayek told us that he thought highly of Thatcher. Her ideas on economics were sound, he said, but her problem was that she lacked support in her own party. He mentioned that at our forthcoming meeting he would be saying something on the same lines as he had done in a talk at the Monday Club in London on 26 March, only a few days earlier. It was intended as an indirect response to arguments given by Thatcher’s opponents in the Conservative Party. Hayek also discussed German politics. It was a pity, he said, that the two ablest politicians in the country, Economics Minister Otto Count von Lambsdorff of the Liberal Democrats and Bavarian Minister President Franz Josef Strauss of the Christian Social Union, could not work together. ‘A man combining their best qualities would really be a formidable leader.’ He recalled how old he was and joked: ‘I tried old age, but I didn’t like it so I abandoned it!’

On 4 April, Good Friday, Haarde and I took Hayek to Thingvellir, the site of the old parliament, established in 930. For more than three hundred years, until 1262, Iceland was ruled by law, but without a government. The weather was rough, as it often is at that time of year in Iceland, windy and rainy. We shivered. We visited Thingvellir Church where the Guardian of the Thingvellir National Park received us and gave an outline of the history of the place. On 5 April, Hayek gave his second talk in Iceland at a meeting of the Libertarian Alliance, on ‘The Muddle of the Middle’. He explained that the muddle was John Stuart Mill’s belief that a meaningful distinction could be made between laws on production on the one hand and laws on distribution on the other hand, so that what had been produced by one could be freely distributed to another. Hayek stressed that income was a price and that it was an indispensable signal about how one could use one’s abilities to satisfy the needs of others. Geir, Olafur and Harald were all in the audience, and so were some young people who were to play an important role in the liberalisation of the Icelandic economy after 1991. In the evening, the Icelandic Chamber of Commerce held a sumptuous dinner in honour of Hayek, with forty guests. The Minister of Fisheries and Leader of the rural Progressive Party, Steingrímur Hermannsson, told Hayek that he



In *The Road to Serfdom*, Hayek argues that socialist planners have, in order to simplify their tasks, to try and control minds no less than bodies. They have to eliminate possible dissent so that their plans become manageable. People have to march to one tune, like these women at the 1951 World Youth Festival in East Berlin. Photo: Martin/Bundesarchiv 183-11500-0994.

thought economic principles did not apply to such a small country as Iceland. Hayek disagreed, politely, but firmly. Economic principles were valid everywhere, he said. On 6 April, Easter Day, one of our group in the Libertarian Association, Fridrik Fridriksson, took Hayek to dinner at his parents’ home. Fridrik also went with Hayek to the Western Fjords where they lunched with

a local entrepreneur and visited a fish processing plant. Impressed by the modern machinery, Hayek exclaimed: ‘Now I understand why you are so prosperous!’ Three of us in the Libertarian Association had lunch with Hayek on his last full day in Reykjavik. We discussed the plays of Tom Stoppard some of which were about individual freedom. Fridrik asked Hayek whether he could recommend any universities in the United States, as he wanted to pursue graduate studies there. Hayek told us that he found most interesting the research on property rights by Armen Alchian and Harold Demsetz at the University of California in Los Angeles, UCLA, and the economic analysis of politics, often called ‘public choice’, by James M. Buchanan and Gordon Tullock at Virginia

Polytechnic Institute and University in Blacksburg. We noticed that he did not mention the University of Chicago. On 8 April, Hayek left for London, having invited me as his guest to the upcoming Mont Pelerin Society general meeting at Stanford University.

‘Don’t Become Hayekians’

When conservatives and liberals gathered in Stanford in the autumn of 1980, it felt like the world was changing. There seemed to be a new dawn of liberty. It was bliss to be alive and very heaven to be young, as the poet said. Although the Mont Pelerin Society was, and is, mostly an academy of scholars, its members followed current affairs with interest. Thatcher had recently become Prime Minister of the United Kingdom, and Reagan was expected to be soon elected President of the United States. Friedman’s television series ‘Free to Choose’ was being watched all over the world. Hayek could not be in Stanford for health reasons, but I next met him at the regional meeting of the Society in Stockholm a year later, although I did not have the chance to have much conversation with him. By then I had completed my studies at the University of Iceland and moved to Oxford where I was working on a doctoral dissertation in politics about ‘Hayek’s Conservative Liberalism’. We met again at the Mont Pelerin Society general meeting in Berlin in 1982 which was the first and only time I saw him with his wife, a good-looking, elegant woman, but not overly friendly. After the closing dinner, they danced together. Watching them, it was difficult to imagine that he was eighty-three years old and that she was only younger by a year. My supervisor at Oxford, John Gray, and one of my fellow students, Chandran Kukathas from Australia, were also studying Hayek’s works,⁽⁴⁷⁾ and in the spring of 1983 he paid us a visit. Gray held a reception for him at his college, Jesus, where his wife Marie took a few photographs. Hayek told us that he liked Chinese food,

(47) John Gray, *Hayek on Liberty* (Oxford: Blackwell, 1984); Chandran Kukathas, *Hayek and Modern Liberalism* (Oxford: Clarendon Press, 1989). Kukathas’ book is a revised version of his dissertation; I was busy in Iceland after completing my studies and therefore published my dissertation unrevised, Hannes H. Gissurarson, *Hayek’s Conservative Liberalism* (New York: Garland, 1987). Hayek liked Gray’s book, the first edition. I am not sure he would have liked the third edition (London: Routledge, 1998), where Gray basically rejects Hayek’s political thought, although he still considers him the most significant thinker of the ‘Right’.

whereas he found Japanese food rather bland although it usually looked good. In the evening we therefore invited him to a Chinese restaurant, Xian on Banbury Road. The conversation was mainly between Hayek and Gray, not least about the concept of spontaneous order. Hayek said: ‘The task of the economist is really to explain why he is not needed. Under proper rules, the economy can basically look after itself. But of course many of my colleagues would resist playing such a modest role.’ He told us that some young economists were exaggerating the differences between the Austrian School and the Chicago School. The truth was that members of the two schools agreed on most things, although he had issues with his friend Friedman’s methodology. At the end of the dinner, Hayek gave a toast and said a few words which he directed to Chandran, me and a third student who was there, Andrew Melnyk from England. We had asked him for permission to found a Hayek Society at Oxford. ‘I am of course quite happy that young people are interested in my ideas and arguments. It is a welcome change. But you have to promise me one thing. I have noticed that the Marxists are much worse than Marx and that the Keynesians are much worse than Keynes. Therefore you have to promise me that you do not become Hayekians. You have to maintain a critical attitude and think independently.’

Later that spring, Chandran, Andrew and I founded the Hayek Society at Oxford, inviting a distinguished scholar to give a lecture every other week during term, on Friday afternoons, in a seminar room at the Social Studies Faculty Centre in George Street. Afterwards we usually took the speaker to dinner, continuing the discussion, often at a small place on Little Clarendon Street, Michel’s Brasserie. This was invariably the liveliest part of the event. We tried to follow Hayek’s request and sometimes invited people who were critical of economic liberalism, such as the socialists David Miller and Raymond Plant and the communist Gerald A. Cohen, but most of our guests were sympathetic to Hayek’s ideas, including Norman Barry, Jeremy Shearmur and Antony Flew.⁽⁴⁸⁾

(48) Both Barry and Shearmur published useful studies of Hayek. Norman Barry, *Hayek’s Social and Economic Philosophy* (London: Macmillan, 1979); Jeremy Shearmur, *Hayek and After: Hayekian Liberalism as a Research Programme* (London: Routledge, 1996). The most informative book on Hayek is Bruce Caldwell, *Hayek’s Challenge: An Intellectual Biography of F. A. Hayek* (Chicago: University of Chicago Press, 2004). Two excellent recent books on his thought are Eamonn Butler, *Friedrich Hayek:*

In February 1984, I met Hayek again at a regional meeting of the Mont Pelerin Society in Paris. I asked him whether he liked to be called Fritz, and he confessed that he had always rather disliked this nickname, although he had politely put up with it. He said that he preferred to be called by his anglicised name Frederick. When I met him again at the general meeting of the Mont Pelerin Society in Cambridge in the autumn, I gave him a short report on the Hayek Society at Oxford and asked whether he could meet us again. He said that he would contact me next time he was in London. So he did in the spring of 1985, telling me that he might be available for a meeting one night. I wrote to Leonard Liggio who was in charge of the Hayek Fund at the Institute for Humane Studies in Fairfax, Virginia, and he was able to get us a small grant, so that we could entertain Hayek in proper style, at the Ritz. Five of us took the train up to London, besides me Chandran and Andrew, and two other students who had joined us at the Hayek Society, Emilio Pacheco from Venezuela and Stephen Macedo from ‘The People’s Republic of Massachusetts’, as he used to say.⁽⁴⁹⁾

I collected our guest of honour at the Reform Club in Pall Mall where he usually stayed in London. It was a short taxi ride to the Ritz. Hayek was in good spirits. He told us of his meeting with Thatcher in September 1979, four months after she became Prime Minister. She heard that he was in town and invited him for lunch at 10 Downing Street.⁽⁵⁰⁾ When he arrived, she greeted him at the door with the following words: ‘Professor Hayek, I know precisely what you are going to say. You are going to say that I have not done enough. And of course you are absolutely right!’ Hayek laughed heartily and said that with these opening remarks she had completely disarmed him. He said that even if he had been born in Austria and spent a lot of time in the United States and Germany,

The Ideas and Influence of the Libertarian Economist (Petersfield, Hampshire: Harriman House, 2012); Peter Boettke, *F. A. Hayek: Economics, Political Economy and Social Philosophy* (London: Palgrave Macmillan, 2018).

(49) Chandran became Professor of Politics at the LSE and then Dean of the School of Social Sciences, Singapore Management University; Andrew became Professor of Philosophy at the University of Missouri, Columbia, Emilio Director of Liberty Fund in Indianapolis, and Stephen Professor of Politics at Princeton University.

(50) It was on 17 September 1979, according to Thatcher’s engagement diary, reproduced on the Margaret Thatcher Foundation website.

he remained a British subject and felt that England was his real home. Therefore he had been quite pleased when he was made Companion of Honour in the spring of 1984, on Thatcher’s recommendation. He went to Buckingham Palace and had an audience with the Queen. He told us that she had surprised him. The monarch had been much better informed than he had expected, charming and gracious. Hayek also told us about the four American presidents he had met. Unbelievably, as he remarked, the first one was Calvin Coolidge who had in December 1923 held a reception for the American Economic Association at the White House during Hayek’s first trip to the United States.⁽⁵¹⁾ The second one was Herbert Hoover, whom he met long after he had left office. He had met two more presidents in the White House, John F. Kennedy and Reagan, and had found Reagan to be much more thoughtful and actually less of an actor than Kennedy. While Kennedy only pretended to be familiar with his works, Reagan told him straightaway that he had read one book of his, *The Road to Serfdom*, and that he agreed with him.⁽⁵²⁾ Hayek added that he felt Reagan was underestimated by many intellectuals. He had a lot of common sense, although Thatcher might sometimes be in better command of details. Reagan made up for it with his excellent advisers. Hayek told us with some pride that he was an Honorary Fellow of the Hoover Institution at Stanford University, alongside Reagan and Russian writer Aleksandr Solzhenitsyn. He recalled that he had met Solzhenitsyn at the Nobel Prize festivities in Stockholm in December 1974. The Russian author had been awarded the Nobel Prize in Literature in 1970, but he had been unable to receive it until exiled in early 1974. He told Hayek that he could hardly believe that somebody who had not lived in Russia could see the effects of socialism as clearly as Hayek had described them in *The Road to Serfdom*.

Hayek told us that he firmly believed that socialism was based on an intellectual error rather than on a disagreement about ends and that he had suggested a debate between liberals and socialists to bring this out.

(51) The reception was at 12:30 on 27 December 1923. Program of the Thirty-Sixth Annual Meeting, *The American Economic Review*, Vol. 14, No. 1, Supplement (1924), p. 1.

(52) In his diary (available online), Ronald Reagan wrote on Thursday, 17 November 1983: ‘Met 85 year old Frederick Von Hayek—the great economist, a pupil of Von Mises. I’ve read his works & quoted him for years.’



Such a debate should take place in Paris where people were genuinely interested in ideas. The difficulty would be to select a plausible socialist team. He could envisage the writer Iris Murdoch as a member of the socialist team, but not the economist John Kenneth Galbraith because he was not really interested in truth.⁽⁵³⁾ He also mentioned two teachers at the LSE, James Meade and Arthur Lewis (who both had by then received the Nobel Prize in Economics). They were honest scholars in his opinion. Friedman, a skilful debater, should definitely be on the liberal team. During dinner, we spent a long time discussing liberty. Stephen asked Hayek about Pinochet's dictatorship in Chile. Hayek replied that a distinction had

A revolutionary tribunal after the Bolshevik coup in Russia condemns a landlord and a priest to death. In a centrally planned economy, the judiciary cannot be independent because everything has to go according to plan. Those who allegedly stand in the way have to be eliminated. Watercolour by Ivan Vladimirov.

(53) The antipathy was mutual. The same year, in 1985, Stephen Macedo and I had dinner with Galbraith at the Oxford Union before he gave a talk there. I told Galbraith that I was writing a dissertation on Hayek. 'I attended his seminar at the London School of Economics,' Galbraith said. 'He was the most boring person imaginable.' I was astonished. Almost at a loss for words, I managed to say that Hayek was having great influence on contemporary politicians such as Reagan and Thatcher. 'That only shows the intellectual sterility of the Right,' Galbraith retorted.

to be made between authoritarianism and totalitarianism. Both were bad, but totalitarianism was much worse. At least authoritarianism was reversible. Sometimes the choice was between two evils, a greater and a lesser one. In Chile, the socialist Salvador Allende had tried to establish a totalitarian system, but this had been prevented by the military coup in 1973. Economic reforms now being implemented in Chile hopefully would lead to political reforms. During the discussion, Hayek repeated the point that he had made in his recent books, that liberty required social restraint: it had to be liberty under the law where law included the moral code of a society. 'Liberty is completely opposite to liberation,' he said. This was something that for example Keynes had never fully understood, despite his great abilities, he added. Hayek made some critical remarks about 'liberation theology', then popular in Latin America. He added that he had met Pope John Paul II some years ago, and that the prelate had been pleased when he, during the meeting, had suggested not to call principles which could not be proved and had to be taken on authority, such as religious dogmas, 'superstitions', using instead the term 'symbolic truths' about them. After dinner, three musicians who moved between tables and played tunes on request approached us. They asked if we had a favourite song. Stephen replied: 'Something from Vienna!' They started playing the famous melody from the 1914 song 'Vienna, City of Our Dreams'. When Hayek heard the first tones, he beamed and started singing the song in German. This was the last time I saw him.

National Socialism: a Branch of Socialism

The three main tenets of Hayek's *Road to Serfdom* are: that Hitler's national socialism was not a tool of big business, but rather an outgrowth of traditional socialism; that central economic planning is not only inefficient, but will also lead to the loss of traditional liberties; and that a liberal society, based on free trade and private property, is both possible and desirable. The first tenet, on the nature of national socialism, was based on Hayek's own observations of political developments in Germany after her unification in 1871. Liberalism had enjoyed significant support in what had become a new empire, not least in the trading towns on the North Sea and the Baltic and in Rhineland. But when Prussia, under Otto

von Bismarck, basically took over Germany, this changed, for various reasons. After a few years, Bismarck abandoned free trade. This reduced competition and encouraged the growth of industrial cartels which, in turn, eroded middle-class support for entrepreneurial capitalism. In an attempt to lure workers away from the growing German Socialist Party Bismarck laid the foundations for an extensive welfare state. Although the socialists were mostly in opposition, they gradually became a part of the informal German consortium of Big State, Big Business, and Big Labour, squeezing out competition. The Socialist Leader, August Bebel, was only being half-ironical when he said that ‘the Imperial Chancellor can rest assured that German Social Democracy is a sort of preparatory school for militarism’.⁽⁵⁴⁾ Meanwhile, in German universities the ‘Socialists of the Chair’ conducted a campaign against entrepreneurial capitalism which was, they said, un-German. Gustav von Schmoller publicly exclaimed that followers of the liberal Austrian School of Economics were unfit to teach at German universities and used his influence at the German Ministry of Education to exclude them.⁽⁵⁵⁾ The future was supposed to belong to organisation, central planning, and the German virtues of obedience and discipline. The rector of the University of Berlin exclaimed that the institution was ‘the intellectual bodyguard of the House of Hohenzollern’.⁽⁵⁶⁾

The Great War of 1914–1918 reinforced trends that already were stronger in Germany than elsewhere. The whole of society was reorganised to serve one purpose, the defeat of the enemy. The conception of the state changed. It became the director of all activities rather than an amiable night watchman. The humiliating defeat in 1918 was blamed on lack of organisation rather than on adventurous government policies, while hyperinflation after the war impoverished

much of the middle class; and then mass unemployment in the wake of the 1929 economic crash eroded still further support for entrepreneurial capitalism. While democratic socialists received support from unionised urban workers and communists from non-unionised workers, according to Hayek national socialism could be considered to be the rebellious socialism of the lower middle class, including peasants, artisans and petty capitalists. German Big Business on the other hand was wary of the Nazis, although quick to appease them when that was deemed necessary.⁽⁵⁷⁾ The two total wars fought in the twentieth century also had a profound effect on the democracies involved. It became one of their main objectives to direct the mind and body of civilians to the war effort. Total commitment had to be created. No diversion could be tolerated, even if this meant violating human rights. It was confirmed that ‘truth is the first casualty of war’. Censorship was immediately introduced in all the warring countries. Dissent was not allowed. British philosopher Bertrand Russell was imprisoned for five months in 1918 because he spoke out against the participation of the United Kingdom in the Great War. People were persecuted for who they *were*, not for what they *did*. More than one hundred thousand Japanese-Americans were interned in the United States during the Second World War for no crime, just because of their ancestry.⁽⁵⁸⁾ After the war, British and American forces ‘repatriated’ two million people to the Soviet Union, mostly against their will.⁽⁵⁹⁾ Even small, civilised Norway retroactively made membership of the Norwegian Nazi Party a criminal offence.

Traditional socialists, democrats as well as communists, shared with national socialists the belief that conscious organisation had to replace the spontaneous order which had been developing for centuries in the West and which, according to all these groups, had failed. Traditional socialists as well as national socialists tried to gain support by blaming sinister forces for present troubles: the Capitalists and the Jewry, respectively.

(54) *Stenographische Berichte über die Verhandlungen des Reichstags*, II. Session (1892/93), Vol. I, p. 303. Cf. Hayek, *Road to Serfdom*, p. 182. Bebel was being ironical because the Chancellor had remarked that socialist soldiers were just as well disciplined as others. But Bebel was precisely conceding the point that they were well trained, although for other purposes than the Chancellor had in mind. Bert Hoselitz, Professor Hayek on German Socialism, *American Economic Review*, Vol. 35. No. 5 (1945), pp. 929–934.

(55) F. A. Hayek, Introduction, Carl Menger, *Principles of Economics* (1871), tran. by James Dingwall and Bert F. Hoselitz (Auburn AL: Ludwig von Mises Institute, 2007), p. 25.

(56) Speech by Emil du Bois-Reymond on 3 August 1870, *Reden*, Vol. 1, 2nd ed. (Leipzig: Veit, 1912), p. 418.

(57) This was confirmed by Henry Ashby Turner, *German Big Business and the Rise of Hitler* (Oxford: Oxford University Press, 1985).

(58) Richard Reeves, *Infamy: The Shocking Story of the Japanese American Internment in World War II* (New York: Henry Holt, 2015).

(59) Nicholas Bethell, *The Last Secret: The Delivery to Stalin of Over Two Million Russians by Britain and the United States* (New York: Basic Books, 1974).

While traditional socialists wanted to abolish private property rights to the means of production, national socialists intended instead to bridle capitalism and drive it towards their goal. Traditional socialists thought in terms of the working class, which was to seize power, eliminate the bourgeoisie, eradicate remnants of ‘false consciousness’ and march united into the radiant future. Hitler’s Nazis thought in terms of the nation to which capitalists belonged alongside workers, but from which Jews and other ‘alien elements’ had to be excluded. For the nation to stand united at her borders, proud and prepared for everything, such elements had to be eliminated. Neither national nor traditional socialists formed ordinary political parties, competing for votes with other parties in free elections: their parties were basically training camps for groups preparing to seize power and put an end to parliamentary democracy. The idea of a collective which embraces all activities of the individuals from cradle to grave was first implemented by socialists in Germany and Austria where Hayek had observed them.⁽⁶⁰⁾ It was the socialists (including democratic socialists) who began to collect children into political organisations to make sure they grew up as good proletarians. It was they who thought of organising sports in party clubs where the members would not be ‘infected’ by other views. It was they who started distinguishing themselves from others by modes of greeting and forms of address. It was they who organised paramilitary groups. All these activities were then imitated by national socialists: Komsomol was replaced by the Hitlerjugend, clenched fists became straightened hands, Redshirts were challenged by Brownshirts. There were differences, of course: social democratic paramilitary forces were not as aggressive as the communist ones; and Italian fascists did not go as far in many ways as German Nazis. But what all these groups had in common was a rejection of the liberal order where individual ends were to be mutually adjusted, not replaced by the decisions of a party. What all these groups demanded was conformity instead of diversity.

Hayek’s *Road to Serfdom* is no fantasy. The book is an interpretation of real events. It is written from the vantage point of somebody who saw some parallels in Britain to what he had already witnessed or studied in

Germany, Austria and Russia. If British citizens could be treated like serfs in wartime, they could also be so treated in peacetime. If serfdom was required to implement central economic planning in the Soviet Union, it would probably also be required in Britain. If the Nazis could exploit the disintegration of the German middle class, brought about by anti-liberalism, corporatism and economic mismanagement, then British socialists might travel, or rather slide, down the same road. In the mid-nineteenth century, Alexis de Tocqueville had argued that the Terror of the French Revolution, followed by Napoleon’s military dictatorship, was the consequence of centuries of centralisation in France where intermediate social institutions had been eliminated one after another, with the individuals reduced to ‘dust and powder’, as Edmund Burke put it,⁽⁶¹⁾ confronting a state embodied first in an absolute king by the grace of God and then in an almighty assembly by the grace of the Nation.⁽⁶²⁾ In the mid-twentieth century, Hayek argued that the Terror in the totalitarian states of the Nazis and communists was a consequence of the centralisation of power deemed necessary to create complete agreement about the goals of the rulers. That part of civil society which had not already been destroyed, had been devoured by a state, embodied in an almighty communist congress or Nazi rally, and led by a Lenin, Stalin or Hitler. Both Tocqueville and Hayek referred to momentous events in world history—on the one hand the Jacobin Terror followed by military dictatorship and on the other hand the totalitarianism of Russian Bolsheviks and German Nazis—in order to restate and reinforce conservative-liberal political theory.

The Conflict between Planning and Liberty

I agree with Hayek that there are strong family resemblances between traditional socialism and national socialism. Both are totalitarian creeds, even if national socialists did not go as far in economic centralisation as

(60) Hayek, *Serfdom*, pp. 84–85.

(61) Edmund Burke, *Reflections on the Revolution in France* (1790), *Select Works*, Vol. II (Indianapolis IN: Liberty Fund, 1999), p. 192.

(62) Alexis de Tocqueville, *The Old Regime and the Revolution*, tran. by John Bonner (New York: Harper & Brothers, 1856).



traditional socialists, probably because they were not orthodox Marxists. The German Nazis basically reintroduced the German ‘war socialism’ of 1914–1918. I also find Hayek’s second tenet plausible: that central economic planning will lead to the loss of traditional liberties and ultimately to totalitarianism. His thesis has often been misinterpreted as a prediction about inevitable consequences of increased government intervention in Western democracies. Millions of university students around the world have been compelled to read Paul Samuelson’s textbook, *Economics*, where Hayek’s message was summarily dismissed. He was supposed to have claimed that ‘government modification of market laissez faire must lead inevitably to political serfdom’.⁽⁶³⁾ Samuelson then gleefully pointed

Hayek looks on, as Alexander Solzhenitsyn receives the Nobel Prize in Literature from King Carl XVI Gustaf of Sweden, 12 December 1974. Solzhenitsyn told Hayek that the description of life under totalitarianism in *The Road to Serfdom* corresponded surprisingly well to his own experience in the Soviet Union. Both Hayek and Solzhenitsyn were Honorary Fellows at the Hoover Institution, Stanford University. Photo: Keystone Press/Alamy.

(63) Paul Samuelson, *Economics*, 9th ed. (New York: McGraw-Hill, 1973), p. 885. The remark appeared unchanged in the 10th and 11th editions, and in 1980 Hayek wrote to Samuelson complaining that he had misrepresented him. Samuelson politely promised to look into the matter for the next edition but did not do so.

to the Scandinavian democracies where government intervention had increased considerably in the years since Hayek published his book. Where was the serfdom? Likewise, American economist Jeffrey Sachs rejected Hayek’s argument: ‘In strong and vibrant democracies, a generous welfare state is not a road to serfdom but rather to fairness, economic equality and international competitiveness.’⁽⁶⁴⁾ Again, French economist Thomas Piketty mentions Hayek’s scepticism in 1944 about the policies of the Swedish Social Democrats as ‘a judgment to which history has not been kind, given Sweden’s success’.⁽⁶⁵⁾

These three left-wing economists are mistaken. In the *Road to Serfdom*, Hayek is not making a prediction about economic intervention. He is issuing a warning about central planning: If socialists try to replace entrepreneurial capitalism by central economic planning, as was their stated aim in 1944, it may lead to the loss of traditional liberties. Hayek’s warning is based on two main arguments. One of them is easily understood and had actually often been uttered before Hayek restated it, even by socialists. It is that a significant increase in the economic power of the state will threaten not only economic, but also political liberties of citizens, because they will become overly dependent on government. John Stuart Mill had presented it in 1859:

“ Every function superadded to those already exercised by the government, causes its influence over hopes and fears to be more widely diffused, and converts, more and more, the active and ambitious part of the public into hangers-on of the government, or of some party which aims at becoming the government. If the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the government: if, in addition, the municipal corporations and local boards, with all that now devolves on them,

(64) Jeffrey D. Sachs, *Welfare States Beyond Ideology*, *Scientific American*, Vol. 295, No. 4 (2006), p. 42.

(65) Thomas Piketty, *Capital and Ideology* (Cambridge MA: Harvard University Press, 2019), p. 484.

became departments of the central administration; if the employés of all these different enterprises were appointed and paid by the government, and looked to the government for every rise in life; not all the freedom of the press and popular constitution of the legislature would make this or any other country free otherwise than in name.⁽⁶⁶⁾

In the same spirit, Marxist writer Rosa Luxemburg had observed in debates with Lenin: ‘Freedom only for the supporters of the government, only for the members of one party—however numerous they may be—is no freedom at all. Freedom is always and exclusively freedom for the one who thinks differently.’⁽⁶⁷⁾ Where can dissidents hold their meetings if all meeting places are controlled by government? Where shall they print their books if all printing presses are publicly owned? Leon Trotsky had summed up the point: ‘In a country where the sole employer is the State, opposition means death by slow starvation.’⁽⁶⁸⁾

Hayek’s argument about the potential conflict between economic centralisation and political liberty is well illustrated by the publication history of his own book in the United States. The manuscript of *The Road to Serfdom* had been rejected by three major publishing houses before the University of Chicago Press accepted it. A reader for one of the other publishing houses, William Miller, wrote to the Director of the Press:

“As to your query whether I intended to suggest that this book was unfit for publication by a reputable house, my answer is that that is what I say, not merely suggest. It just happens that I personally had the opportunity to say as much to the great house for which I read manuscripts, and that I then also took the

opportunity to say that in my opinion the book would sell very well. I recommended, nevertheless, that they rejected it and remain gratified, as I think they do, that they did.⁽⁶⁹⁾

Imagine that the University of Chicago Press had not existed and that in the whole country there had only been the three publishing houses that already had turned down Hayek’s *Road to Serfdom*. Then it is doubtful that his book would have been published at all in America. Those few who would have heard about it might have ordered a few copies by mail from England (if they were intent on obtaining it and if existing import and exchange controls allowed this), just as interested readers in occupied Germany where it was banned were able to smuggle in some copies from Switzerland and share them. Which works better for freedom of expression, the hope for open-minded decision makers or a large number of independent businesses?

Compare the travails of another writer. No less than four publishing houses in the United Kingdom rejected the manuscript of *Animal Farm*, George Orwell’s brilliant satire about the Bolshevik Revolution. One of them was Jonathan Cape after it had received a warning against it from a government official, later exposed as a Soviet spy.⁽⁷⁰⁾ Another publishing house which turned down Orwell’s satire was Faber & Faber on the advice of Anglo-American poet Thomas S. Eliot. In a letter to the author, Eliot makes revealing statements. In Orwell’s fable, as we recall, the animals on a farm, led by the pigs, rebel successfully against the human tyrant, but then a power struggle takes place within the herd of pigs, with Napoleon defeating Snowball. He establishes similar tyranny to that of the farmer. The rebellion is a failure: all are equal, but some are more equal than others. Eliot points out that in the story the pigs are the most intelligent animals and therefore the best qualified to rule, so what is needed, someone might argue, is ‘more public-spirited pigs’.⁽⁷¹⁾ At last, Secker & Warburg agreed

(66) John Stuart Mill, *Essay on Liberty* (1859). *Collected Works*, Vol. XVIII, ed. by John M. Robson, (Toronto: University of Toronto Press, 1977), p. 306.

(67) Rosa Luxemburg, *Die russische Revolution* (1918), repr. in *The Russian Revolution and Leninism or Marxism?* tran. by Bertram D. Wolfe (Ann Arbor MI: University of Michigan Press, 1961), p. 23.

(68) Leon Trotsky, *The Revolution Betrayed: What is the Soviet Union, and Where Is It Going?*, tran. by Max Eastman (Garden City NY: Doubleday, Doran & Co., 1937), p. 283.

(69) Letter from William Miller to William T. Couch, here after William T. Couch, *The Sainted Book Burners*, *Freeman*, Vol. 5, No. 10 (April 1955), p. 423.

(70) The spy was Peter Smollett, Hans Peter Smolka, in the Ministry of Information.

(71) Peter Lewis, *George Orwell: The Road to 1984* (London: Heinemann, 1981), p. 96.

to publish Orwell's book. It is indeed remarkable that a Soviet agent could hinder the publication of the book by a reputable publishing house. But imagine if there had been only four publishing houses operating in the United Kingdom, and not the fifth one, Secker & Warburg: Then *Animal Farm* would hardly have been published in the United Kingdom, at least for quite a while. Moreover, consider Eliot's comment that if the animal rebellion had failed, what is perhaps needed was 'more public-spirited pigs'. This was also Keynes' suggestion to Hayek. 'Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue,' he had written. 'Dangerous acts can be done safely in a community which thinks and feels rightly, which would be the way to hell if they were executed by those who think and feel wrongly.'⁽⁷²⁾

Like Eliot, Keynes was an elitist. Keynes' friend, Roy Harrod, gave his elitism a name: the 'Presuppositions of Harvey Road', after the location of the Keynes residence in Cambridge. Keynes believed, Harrod wrote, 'that the government of Britain was and would continue to be in the hands of an intellectual aristocracy using the methods of persuasion'.⁽⁷³⁾ But one problem with relying on good people is that they may not always be there. Recall the story of Hayek's last meeting with Keynes when he told Hayek that if inflation became an issue, he could easily change public opinion. But a few months later Keynes was dead. 'Unhappy the land that needs heroes.'⁽⁷⁴⁾ Again, most people would regard Miller and Eliot, two men of culture, as being 'rightly orientated in their own minds and hearts to the moral issue', but if they had been the only ones to make decisions, *The Road to Serfdom* would not have been published in the United States and *Animal Farm* not in the United Kingdom. Two other problems about elite rule are those of identification and corruption. Perhaps there are people who could be entrusted with power. But how are they to be identified? Moreover, when they have got power, they tend to change, often to the worse. They have to do things they would never do as private persons, the least of which is to lie.

(72) Keynes, Letter to Hayek, *Collected Writings*, Vol. XXVII, p. 385.

(73) Roy Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), pp. 192–193.

(74) Bertolt Brecht, *Leben des Galilei* (1939), Sc. 13.

Economic Control and Thought Control

Hayek's argument about the danger for liberty from uniting political and economic power in one body is really about an end state. It is a description of serfdom which has already arrived in everything except name: when all the people depend on the state for the satisfaction of most of their material needs, they will find it practically impossible to resist the state in any way. This is the argument Mill, Luxemburg and Trotsky made. Even Keynes saw this danger, believing however that it could be averted by choosing the right rulers (Eliot's 'public-spirited pigs'). Hayek's second argument is subtler and less familiar. It is about the process, not the end state: the road, not the serfdom. It is inspired by, but not wholly dependent on the theory that he and Mises had articulated about the 'natural limits' of economic control, on the one hand the impossibility of rational central planning and on the other hand the tendency for interventionism to develop into total central planning, often unintentionally. Briefly, this second argument is that the planners have to minimise disagreement about ends if they want to implement their plans. Hayek had presented this argument already in the debate about the impossibility of central planning:⁽⁷⁵⁾

“ The difficulty is that, in order to plan at all on an extensive scale, a much more extensive agreement among the members of the society about the relative importance of the various needs is required than will normally exist and that, in consequence, this agreement will have to be brought about and a common scale of values will have to be imposed by force and propaganda.

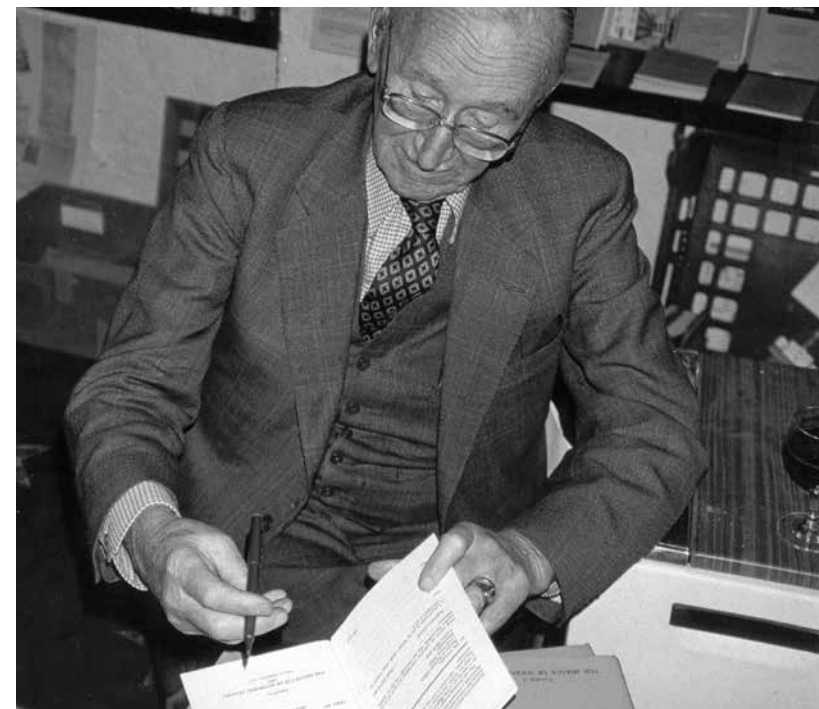
If the planners are serious about gaining full control of the economy, they have to take control of the forces which mould public opinion, such as the press, the schools, the courts, the arts, and even science and sports. This was the logic behind Stalin's famous remark that writers had to be

(75) F. A. Hayek, Socialist Calculation: The Competitive 'Solution', *Economica*, Vol. VII, No. 26 (1940), p. 148.

‘engineers of the human soul’.⁽⁷⁶⁾ The planners have to try and simplify their tasks by eliminating those ends which would disturb the implementation of their plans. The easiest way to eliminate them is to remove them as real alternatives.

Central planning is similar to the mobilisation of society in war in that government chooses the goals for all instead of coordinating individuals in their pursuit of their different goals. It sets people marching instead of just directing the traffic. Such planning is not impossible: after all, it had been practised in the Soviet Union for almost two decades when Hayek wrote his book. What is however impossible in the absence of market prices is *rational* planning which would satisfy to a tolerable degree the material needs of the population, composed of different individuals. Therefore the inevitable dissatisfaction of the subjects has to be suppressed or, if possible, eliminated. Unity has to be created. The goal of the planners will be not the utmost satisfaction of human needs brought about by entrepreneurial capitalism, but something else: the glory of the nation, extension of territories, rapid industrialisation, a population increase, a strong military or simply power for power’s sake, wielded by a self-appointed elite. In order to make the goals of the planners also the goals of the population, steps have to be taken similar to those in war: censorship, relentless propaganda, the prohibition of apparently harmless associations not serving the purpose of the plan, such as the Boy Scouts or the Freemasons, and possibly not only the silencing, but also the imprisonment of dissidents, even or perhaps in particular distinguished ones like Russell. One of the most prescient chapters in *The Road to Serfdom* is ‘Why the Worst Get on Top’, where Hayek draws lessons from the Nazi takeover in Germany. The lowest common denominator may unite the largest number of people; the docile and gullible are influenced by persistent propaganda; people can best be mobilised by presenting them with an enemy. This is the socialist road to power: the way in which socialism turns into totalitarianism.

(76) In a speech at the home of Maxim Gorky on 26 October 1932, in preparation for the first Congress of the Union of Soviet Writers, Stalin said that the production of souls was more important than the production of tanks: ‘I raise my glass to you, writers, the engineers of the human soul.’ Frank Westerman, *Engineers of the Soul: The Grandiose Propaganda of Stalin’s Russia*, tran. by Sam Garrett (New York: Overlook Press, 2011).



Hayek signs copies of his trilogy, *Law, Legislation, and Liberty*, at the Alternative Bookshop in Covent Garden on 27 March 1980. Operated in 1978–1985, the bookshop specialised in conservative and classical liberal literature and was a magnet for freedom fighters from all over the world. Photo: David Farrer.

Whereas Churchill told Hayek that what had happened in Germany could never take place in their country, an eminent English novelist has written a famous dystopia. Orwell’s *Nineteen Eighty-Four* is about ‘ingsoc’, totalitarian socialism in England, a country which has, after a nuclear war, become ‘Airstrip One’, a part of the super-state Oceania. The name of the chief protagonist, Winston Smith, is a combination of the first name of the British conservative leader, as a reminder of the past, and the most common English surname, as a symbol of the people. I think there is little doubt that Orwell—who wrote out the story after he had read Hayek’s book with care and comprehension—was inspired by it, not least by the chapter on ‘The End of Truth’, although he may have got the general idea for his novel earlier:

“ The most effective way of making people accept the validity of the values they are to serve is to persuade them that they are really the same as those which they, or at least the best among them, have always held, but which were not properly understood or recognised before. The people are made to transfer their allegiance from the old gods to the new under the pretence that the new gods really are what their sound instinct had always told them but what before they had only dimly seen. And the most efficient technique to this end is to use the old words but change their meaning. Few traits of totalitarian regimes are at the same time so confusing to the superficial observer and yet so characteristic of the whole intellectual climate as the complete perversion of language, the change of meaning of the words by which the ideals of the new regimes are expressed.⁽⁷⁷⁾

Under totalitarianism, the living language, with all its shades and nuances, is replaced by Newspeak. The real drama of Orwell's novel is how the control of the body is extended to the mind.⁽⁷⁸⁾

Hayek charts ways in which constitutional democracy can gradually become totalitarian, and perhaps remain a nominal democracy. The familiar one is by ever-expanding economic interventionism, a vicious spiral. It is this 'slippery slope' argument that many have found less convincing that the description of an end state where all economic and political power are held by one body with little scope for individuals to make real choices. However there are examples of such a slippery slope, in particular Venezuela since 1999 and perhaps also Chile under the socialists in 1971–1973, before the military coup.⁽⁷⁹⁾ But Hayek is

(77) Hayek, *Serfdom*, p. 117.

(78) Another interesting dystopia set in Great Britain was Constantine Fitzgibbon, *When the Kissing Had to Stop* (London: Cassell, 1960), describing the gradual emergence of a left-wing totalitarian state.

(79) On Hayek's view on Chile, Bruce Caldwell and Leonidas Montes, Friedrich Hayek and his Visits to Chile, *Review of Austrian Economics*, Vol. 28, No. 3 (2015), pp. 261–309. It is misleading, to say the least, of Thomas Piketty to remark in *Capital and Ideology*, p. 469, that Hayek's ideas 'would inspire Augusto

adamant that there is nothing inevitable about such a development. It can be halted before nations fall over the precipice. This is precisely what happened in the West after the Second World War, perhaps partly under the influence of Hayek's book, partly because many political leaders were determined not to repeat the mistakes of the Versailles Treaty, the Great Depression and tariff walls, and partly because aspiring planners ran into economic and political trouble in pursuing policies they had earlier loudly proclaimed. Crucially, they nowhere totally abolished private property rights to the means of production. Even if this was a part of the programme of the British Labour Party, for example, during their tenure in office between 1945 and 1951 they 'only' nationalised about 20 per cent of industry and then when the Conservatives under Churchill returned to power some companies were denationalised. In the East central planning was implemented with the disastrous consequences for liberty of which Hayek had warned, but in the West socialists in power turned to other measures, such as regulation of industries, the introduction of welfare provisions by the state and redistribution of income through taxes. They did not go too far however down that road. Robert Skidelsky, Keynes' biographer, writes: 'By the 1970s there was some evidence of the slippery slope ... and then there was Thatcher. Hayek's warning played a critical part in her determination to "roll back the state".'⁽⁸⁰⁾

It is somewhat disingenuous of Samuelson, Sachs, and Piketty to invoke Sweden in their attempt to refute Hayek's 'Road to Serfdom Thesis'. Sweden certainly is a civilised, successful country where civil rights are largely respected. But Sweden's success is *despite* and not *because of* social democracy. When the Social Democrats became politically dominant in the early 1930s, Sweden was already a prosperous country with relative income equality. There was also a strong liberal

Pinochet and Margaret Thatcher'. Pinochet himself had probably never heard of Hayek until his advisers mentioned him, long after he had staged his 1973 coup. Hayek certainly lent his full support and authority to the comprehensive (and successful) liberalisation of the Chilean economy beginning in the mid-1970s, plausibly arguing, as he did to us in 1985, that authoritarianism with economic freedom was less evil than totalitarianism with no economic freedom. Contrary to what Piketty bluntly asserts, p. 707, Hayek was never an active supporter of Pinochet's dictatorship. He was however dismayed by the inaccurate and misleading reports from Chile in the international press. Piketty is not really making a scholarly argument: he is employing the old rhetorical trick of 'Guilt by Association'.

(80) Robert Skidelsky, Hayek versus Keynes: the road to reconciliation, *The Cambridge Companion to Hayek*, ed. by Edward Feser (Cambridge: Cambridge University Press, 106), p. 106.

tradition in Sweden—the tradition of Lawspeaker Torgny and Anders Chydenius—which undoubtedly had a sobering effect on the Social Democrats.⁽⁸¹⁾ What really matters is that private property rights to the means of production were never abolished in Sweden. She has always maintained an open economy and respected the rule of law.

Certainly it has also helped that Sweden, like the other Nordic countries, is socially cohesive, quite homogeneous. There is much less disagreement about ends there than in more diverse societies. Nevertheless, every paradise has its serpent, sometimes more than one. For example, under the influence of socialist ideologue Gunnar Myrdal and as a part of a eugenics programme, more than sixty thousand people were sterilised in Sweden, some against their will and with no good reason, between 1935 and 1975.⁽⁸²⁾ In the second place, the Swedes prudently stayed out of the Second World War, but arguably they were too accommodating to the triumphant Nazis during the first half of the War when they allowed transport of German troops over Swedish soil and banned books that Hitler disliked,⁽⁸³⁾ while they were too accommodating to the victorious Soviet Union at the end of the war, treating Latvian refugees as Soviet citizens (which they were not, as Latvia had been occupied by the Soviet Union, not joining it freely) and handing them over to Stalin, against their will.⁽⁸⁴⁾ Thirdly, after the War, the Social Democrats built a huge power machine, even using the security police to spy on their opponents. Their comrades in Norway and Denmark did the same. Worried scholars wondered whether a ‘one

(81) Johan Norberg, *Den svenska liberalismens historia* (Stockholm: Timbro, 1998).

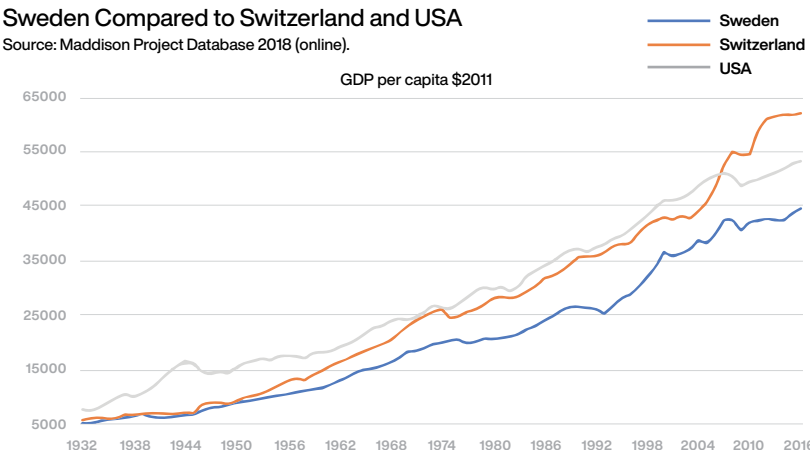
(82) It was necessary, the Myrdals said, to ‘circumscribe the reproductive freedom of the slightly feeble-minded’. Alva and Gunnar Myrdal, *Kris i befolkningsfrågan* (Stockholm: Nya Doxa, 1997 [1934]), p. 223. Cf. Alberto Spektorowski and Elisabet Mizrahi, Eugenics and the Welfare State in Sweden: The Politics of Social Margins and the Idea of a Productive Society, *Journal of Contemporary History*, Vol. 39, No. 3 (2004), pp. 333–352.

(83) For example, the poet Ture Nerman, a colourful former communist (who had escorted Lenin in Stockholm on his way to Russia in the spring of 1917), served three months in prison for anti-Nazi writings. He later became a staunch anti-communist and supporter of Sweden’s membership of NATO. Hermann Rauschning’s book about Hitler, *Samtal med Hitler*, tran. by Alf Ahlberg (Stockholm: Natur & Kultur, 1940), translation of *Hitler Speaks* (London: Butterworth, 1939), was confiscated hours after it left the press.

(84) Janis Zalcmanis, *Baltutlämningen 1946 i dokument* [The 1946 Repatriation of Baltic People in Documents] (Stockholm: Militärhistoriska förlaget, 1983).

Sweden Compared to Switzerland and USA

Source: Maddison Project Database 2018 (online).



party state’ was forming in the Nordic countries.⁽⁸⁵⁾ In a crafty move, the Swedish Social Democrats around 1960 gained widespread acceptance of the welfare state they were constructing by extending welfare benefits to the middle class.⁽⁸⁶⁾ They were essentially doing the same for, or perhaps to, the Swedish middle class as Chancellor Bismarck was doing for the German working class with his welfare schemes of the late 1870s.

Moreover, Sweden’s economic success should not be exaggerated, as is illustrated in the figure above. If she would try to join the United States of America, she would be in the poorer half of the union. Her economy has not performed nearly as well as that of Switzerland, the most comparable European country, like Sweden mostly free from ravages of war in recent times and with a population of a similar size. Hayek’s *Road to Serfdom* is however directly relevant to Sweden in two ways. First, after the debate on central planning following the

(85) Jens Arup Seip, *Fra embedsmannsstat til ettpartistat og andre essays* [From Officialdom to One Party State] (Oslo: Universitetsforlaget, 1963); Erik Anners, *Den socialdemokratiska maktapparaten* [The Social Democratic Power Machine] (Stockholm: Askild & Kärnekull, 1976). Seip was Professor of History at the University of Oslo. Anners was Professor in History of Jurisprudence at Stockholm University.

(86) In 1960, they abandoned means testing for children’s benefits.

book's publication in Swedish in 1944, the Social Democrats quietly shelved their most radical programmes. Secondly, the much-touted 'Swedish Model' of the 1970s and 1980s, when left-wing ideologues had replaced pragmatists at the helm of the party, turned out to be unsustainable. The Swedes abandoned it in the 1990s, liberalised the economy and lowered taxes. Sweden is not a counter-example to Hayek's 'Road to Serfdom Thesis'. On the contrary, it is a good example of one of his points in the book: aspiring planners either have to abandon their plans to take total control of the economy, or they have to impose them by means that most civilised people, including well-meaning democratic socialists, would find unacceptable. The Swedes, to their credit, twice chose the former alternative.

Invisible Restrictions and Servility

Since 1944 traditional liberties have on the whole been maintained in the West despite the growth of the state, not least because it was halted in the 1980s and 1990s. But two important qualifications should be made. Some restrictions on liberty may be invisible, and others may be 'internalised'. Consider this comment about Hayek's warning by Arthur C. Pigou:

“ He does not distinguish, as it seems to me he should do, between the State's *directing particular individuals* into specific jobs, as it has often to do in war-time, and its *determining the number of persons* to be admitted into different occupations, and securing this number by manipulating rates of pay, and so on. In the former case, individual liberty is, of course, directly attacked: but in the latter, are individuals really less free than they would be if the numbers to be admitted into different occupations were determined by the play of the market?⁽⁸⁷⁾

(87) A.C. Pigou, Review of *The Road to Serfdom*, *Economic Journal*, Vol. 54, No. 214 (1944), p. 218. Italics in the original.

Pigou is right that there is an important difference between a direct order to somebody to do a certain job, which comes close to being what is meant by serfdom, and government measures which will indirectly bring about a different allocation of workers to jobs from that which would result from market exchanges. Examples of such measures would be not only the manipulation of pay, mentioned by Pigou, but also artificial limits to entry into certain markets, maintained alike by medieval guilds and modern interest groups as diverse as taxi drivers and medical doctors. But Pigou is wrong that the individuals affected by such measures would not be less free than those who can freely choose between occupations, only being constrained by the same freedom of others to choose. The choices of those affected would be manipulated, often without their knowledge. The young man who is not accepted as an apprentice because he cannot fulfil the legal requirement to find a sponsor is a victim; he has had his freedom to choose reduced.⁽⁸⁸⁾ This is of course less of a restriction on liberty than a direct command, but a restriction it is. In a regulated economy, there are many such invisible restrictions on liberty. It should indeed be one of the tasks of an economist to make such restrictions visible, to study limits to entering occupations, the causes and effects of interfering with consumers' choices, and the real principles according to which government benefits are distributed.⁽⁸⁹⁾

A second qualification, related but not the same, is that some restrictions on liberty may be 'internalised'. The journalist who practises self-censorship out of fear of public opinion, or his trade union, or his employer, may do so unconsciously, and his choices are not necessarily manipulated by others (as they were in Pigou's example of government deciding on pay differentials). The journalist may sincerely believe he is free. But is he? With time, and in an attempt to justify himself, his fear may even turn into approval. Like the fox in the fable, he may find the few grapes he gets delicious and plentiful, and dismiss those denied to

(88) This was forcefully argued in William Graham Sumner, *The Forgotten Man, The Forgotten Man and Other Essays* (New Haven CT: Yale University Press, 1919), pp. 465–495. Cf. the chapter on Sumner in this book.

(89) George J. Stigler, *Reflections on Liberty, The Citizen and the State: Essays on Regulation* (Chicago: University of Chicago Press, 1975), p. 18.

him as sour or even non-existent. This is what has been called ‘adaptive preference formation’.⁽⁹⁰⁾ One of Hayek’s main points in *The Road to Serfdom* is ‘that the most important change which extensive government control produces is a psychological change, an alteration in the character of the people.’⁽⁹¹⁾ This may be a slow affair, a process extending over one or two generations. But Hayek emphasises that the political ideals of a people are as much the *effect* as the *cause* of the political institutions under which they live. In free societies of the West, like Great Britain and the Nordic countries, certain virtues have been widely respected, such as ‘independence and self-reliance, individual initiative and local responsibility, the successful reliance on voluntary activity, non-interference with one’s neighbour and tolerance of the different and queer, respect for custom and tradition, and a healthy suspicion of power and authority.’⁽⁹²⁾ When Keynes wrote to Hayek that ‘dangerous acts’ would be safe if he, Hayek and other like-minded people were in control, and when Churchill told him that what had happened in Germany could not happen in Britain, they were both tacitly assuming that preferences were fixed and that they would keep on living in the country they knew. But as Skidelsky notes: ‘A society in which “dangerous acts” by governments become continuous will lose its understanding of why they are dangerous—that is, its sense of what it is to be free.’⁽⁹³⁾

Internalisation implies that the future may become a foreign country. The Britain of Winston Churchill may turn into the Airstrip One of Winston Smith. New preferences will possibly be formed. Ancient virtues cannot be taken for granted. You may become a collectivist if you live under a collectivistic regime.⁽⁹⁴⁾ What is regarded

(90) Jon Elster, *Sour Grapes: Studies in the Subversion of Rationality* (Cambridge: Cambridge University Press, 1983).

(91) F. A. Hayek, *The Road to Serfdom After Twelve Years*, *Studies*, p. 224.

(92) Hayek, *Serfdom*, p. 159.

(93) Skidelsky, *Hayek versus Keynes*, p. 104.

(94) Sir Isaiah Berlin made a mistake in the first version of his celebrated paper on two kinds of liberty, negative and positive, as he later recognised himself: He initially spoke of liberty as the absence of obstacles to the fulfilment of a man’s desires. But then it follows that liberty can be increased not only by removing obstacles, but also by losing desires. Isaiah Berlin, Introduction, *Four Essays on Liberty* (Oxford: Oxford University Press, 1969), p. xxxviii. Berlin’s distinction between negative and positive liberty is derived from Benjamin Constant’s distinction between modern and ancient liberty, although

as a perhaps necessary evil at one time, may change into acceptable behaviour at another time. Mundane examples might include police brutality (if you live in Russia), or denunciation of your neighbour for being a tax cheat (if you live in Norway). Even if you will always get what you want and you will never want what you cannot get, you may not be living in a free country. This is something akin to the ‘internalised serfdom’ that Tocqueville described where the state ‘covers the surface of society with a network of small, complicated, minute, and uniform rules, which the most original minds and the most vigorous souls cannot break through to go beyond the crowd; it does not break wills, but it softens them, bends them and directs them; it rarely forces action, but it constantly opposes your acting; it does not destroy, it prevents birth; it does not tyrannise, it hinders, it represses, it enervates, it extinguishes, it stupifies.’⁽⁹⁵⁾ This point about internalisation is by its very nature difficult to quantify: How and when do we morph into meekness? Clearly, though, the more you depend on government for your livelihood, the more relevant this point becomes. You may not only lose your negative liberty, your self-ownership, the absence of control by others, but also your positive liberty, your self-mastery, your control of yourself.

‘The Trouble with Competitions’

Hayek’s third main tenet in *The Road to Serfdom*, that a liberal society, based on free trade and private property, is both possible and desirable, goes against a view common in the first half of the twentieth century neatly summed up in Orwell’s comment on Hayek’s book: ‘The trouble with competitions is that somebody wins them.’⁽⁹⁶⁾ Orwell believed that competition was self-defeating and would lead to monopoly. Big corporations would replace a myriad of small businesses. They would

Berlin, perhaps because of the Cold War, does not emphasise as much as Constant that it would be desirable to enjoy positive as well as negative liberty.

(95) Alexis de Tocqueville, *Democracy in America*, Vol. 4 (1840), tran. by James T. Schleifer (Indianapolis IN: Liberty Fund, 2010), p. 1252.

(96) George Orwell, Review of *The Road to Serfdom*, etc., *Observer* 9 April 1944, repr. in *Collected Essays, Journalism and Letters*, Vol. III (Harmondsworth, Middlesex: Penguin, 1970), p. 143.

serve their managers rather than their customers. In his essay on ‘The End of Laissez-Faire’ Keynes made a related point:

“ One of the most interesting and unnoticed developments of recent decades has been the tendency of big enterprise to socialise itself. A point arrives in the growth of a big institution—particularly a big railway or big utility enterprise, but also a big bank or a big insurance company—at which the owners of the capital, i.e. the shareholders, are almost entirely dissociated from the management, with the result that the direct personal interest of the latter in the making of great profit becomes quite secondary.

Keynes went on: ‘In fact, we already have in these cases many of the faults as well as the advantages of State Socialism. Nevertheless we see here, I think, a natural line of evolution. The battle of Socialism against unlimited private profit is being won in detail hour by hour.’⁽⁹⁷⁾ Joseph Schumpeter agreed. He thought that entrepreneurial capitalism was slowly being transformed into corporate capitalism, because monopoly was more efficient than competition. In the process, it was becoming more and more dependent upon government intervention. It was being transformed into ‘capitalism in an oxygen tent’.⁽⁹⁸⁾

Is entrepreneurial capitalism unsustainable, with economic concentration bound to replace competition? Hayek’s response is that such concentration is frequently brought about by government intervention. One example would be when corporate profit is taxed at a lower level if reinvested than if paid out to shareholders. Therefore, Hayek suggests that corporations should be compelled to call upon their shareholders to decide whether to pay out profits or not.⁽⁹⁹⁾ Another and more important case of government intervening against competition would be when

it erects barriers to entry. Import tariffs protect domestic industries from competition from abroad and thus enable them to grow beyond what they would have done in the absence of the tariffs. Volkswagen gets customers who otherwise would buy from Renault, Fiat, Ford and Toyota. Nowadays, such protection is less by direct tariffs on foreign products than by excessively strict rules about environmental control and labour practices in the country of origin, quality certificates, standards of weights and measurements, bureaucratic obstacles, and suchlike. A related case of government intervening against competition is one which Pigou mentioned and dismissed: occupational licences. While they create monopoly profits inside occupations such as dentistry, accounting and plumbing, they raise prices for customers and reduce opportunities for young people seeking future employment. Incumbents win, newcomers lose. Often barriers to entry are indirect and invisible, such as artificial restrictions on the number of students admitted to certain university faculties or to vocational schools. Of course some barriers to entry may be justified, for example in medical care, but the evidence shows that many of the justifications offered are excuses rather than reasons.

The way to remove monopolies protected by government would seem to be to abolish the direct or indirect obstacles to enter markets, first and foremost by facilitating international free trade. Adam Smith points out that the division of labour is limited by the extent of the market: the bigger it is, the more likely it is that there will be competition between different providers of goods and services. The less the danger of economic concentration will also become: Volkswagen is big on the German market, but small on the international market. In modern times, moreover, economic concentration is likely to shrink naturally for two reasons: population increase and technological progress. Imagine a remote fishing town in Iceland with one thousand inhabitants which can only sustain one grocer’s shop. If the population increases to two thousand, another grocer’s shop may appear; the precondition for some competition has at least emerged. Alternatively, if a road is built between two such remote towns, reducing driving time between them from half an hour to five minutes, again the precondition for competition between two grocers’ shops, one in each town, has emerged. The introduction of

(97) John Maynard Keynes, *The End of Laissez-Faire* (1925), *Essays in Persuasion. Collected Writings*, Vol. IX (Cambridge: Cambridge University Press, 1972), pp. 289–290.

(98) Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Bros., 1942).

(99) F. A. Hayek, *The Corporation in a Democratic Society*, *Studies*, pp. 307–308.



first the telegram, then the telephone and now the internet, should all have greatly facilitated trade and increased competition.

Despite these weighty considerations, Orwell's worry remains, that somebody wins the competitions, even after the abolition of government obstacles and with new technology reducing distances. Will the small grocer's shop not be superseded by a big shopping centre? Are there not immense economies of scale in producing and selling various industrial goods? Of course in some markets there are economies of scale. When fixed costs are high and variable costs low, increased production seems to pay. But economies of scale have their limits: No tree grows to the sky. There are diseconomies of scale, for example when companies grow so big that managers lose perspective and control. People who sell services based on their special knowledge, such as lawyers, doctors, dentists, construction engineers, software designers, antique dealers, gardeners, electricians, plumbers, carpenters, and gourmet cooks, typically run small businesses, some of them, like owners of hotels or restaurants, perhaps on a franchise which essentially only provides regular quality control. New technology also

Hayek lectures on the 'Muddle of the Middle' in Reykjavik, Iceland, 5 April 1980. The muddle is J. S. Mill's belief that the production and distribution of goods were different and separable activities. Photo: Einar G. Einarsson.

brings about changes in both directions. While big shopping centres may have driven many grocers' shops out of business, they are in turn challenged by electronic commerce in the twenty-first century. In the late nineteenth century, some worried about railway monopolies, but then cars came along, and later aeroplanes. Now most people are their own little travel agency, searching for online deals themselves, and new technology enables them to share their homes and cars at will, through internet companies like Airbnb and Uber.

What Hayek and other economists in the Austrian tradition emphasise is *potential* rather than *actual* competition. When there is free entry into a particular market, producers there know that if they charge exorbitant prices, it will be profitable for others to enter and challenge them. If it so happens that there is just one unchallenged producer in this particular market, it would usually mean that he is better at producing the good offered there than are the potential competitors. He may know something they do not know, and his customers benefit by his special knowledge. It is not the size of the firm that matters: it is the price and the quality of its product. The firm is not efficient because it is a monopoly. It is a monopoly because it is efficient. The upshot of the argument is that the monopoly about which to worry is first and foremost natural monopoly which cannot be overcome by new technology, at least at present, for example local provision of water and electricity by utilities. It is an open question whether such utilities should be operated as private enterprises or public companies. But in his comment on Hayek, Orwell was not referring to natural monopoly. He was talking about an alleged tendency in the marketplace. Therefore, his comment is misplaced. The trouble with competitions is not that somebody wins them, but that government often hinders them. The liberal message on monopoly would therefore be that of Diogenes of Sinope to Alexander the Great: 'Stand out of my light!'⁽¹⁰⁰⁾

The alleged separation of ownership and control in big corporations, mentioned by Keynes, is an issue different from, although related to, monopoly. It is often assumed, without much evidence. If it were true,

(100) Diogenes Laërtius, *Lives of the Eminent Philosophers* (c. 250), tran. by Pamela Mensch (Oxford: Oxford University Press, 2018), Bk. VI, p. 278.

then one would expect big corporations, with dispersed ownership, to operate on lower profit margins than small businesses and their managers to have longer tenure, which is not self-evident. Moreover, managers of big corporations are subject to various controls. A distinction is usually made between two means of exercising control: voice and exit. At general meetings, shareholders have the possibility of voice. But more effectively, they have the possibility of exit, to sell. Share prices are indirect judgements on the actual or expected performance of managers and thus act as a check on them. Managers are also monitored directly by shareholders and by the media. If shareholders feel they lack the requisite knowledge themselves to do such monitoring, then they can hire somebody to do it. Likewise, shareholders usually have some say when managers are hired or fired. Again, managers do not act like a single person; there is rivalry between them which shareholders or their representatives can exploit. Thus, managers are to some extent accountable to shareholders.⁽¹⁰¹⁾ But it is equally important that they are accountable to the general public: they have to produce goods or services of no higher price or worse quality than the competition. They are subject to the discipline of the market. It should not be assumed, either, that a big corporation is controlled in the same way as a small business. Nobody can provide the same direct supervision there as the manager of a small business does. This is a difference in kind rather than in degree; it is not a difference between a giant and a dwarf, but rather between a decentralised order and a directly administered organisation.⁽¹⁰²⁾ Confronted with Keynes' observation that owners do not control big corporations, one might also ask: Why should they? They buy shares in a company in order to make money, not in order to manage the company. This is yet another advantage of the division of labour, between shareholders providing capital and managers renting out skills. Perhaps the separation of ownership and control is the solution rather than the problem.⁽¹⁰³⁾

(101) Armen Alchian, Corporate Management and Property Rights, *Economic Forces at Work* (Indianapolis IN: Liberty Fund, 1977), pp. 240 and 242.

(102) Gordon Tullock, The New Theory of Corporations, *Roads to Freedom*, ed. by Erich Streissler (London: Routledge & Kegan Paul, 1969), pp. 287–307.

(103) Israel Kirzner, Capital, Competition, and Capitalism, *Perception, Opportunity, and Profit* (Chicago: University of Chicago Press, 1979), p. 104.

Is Capitalism Inherently Unstable?

Another objection to Hayek's case in *The Road to Serfdom* for entrepreneurial capitalism is that it is inherently unstable, and can therefore lead to mass unemployment, which was exactly what happened in the Great Depression of the early 1930s. Hayek agrees that capitalism is subject to fluctuations, or trade cycles. But he makes a similar point to that on monopoly: at least government should not aggravate the problem by misguided intervention. Hayek's explanation of economic fluctuations is, briefly, that booms are created by artificial credit expansion, when the interest rate is kept below its natural rate. The expansion leads to misguided investments, which inevitably will be followed by busts, periods of correction. Government should refrain from artificial credit expansion and interfere as little as possible in its necessary correction. It should concentrate on keeping its own house in order, aim at monetary stability and fiscal rectitude. Therefore, in the massive deflation of the early 1930s, Hayek did not argue for anti-deflationary measures by central banks, such as the purchase of government bonds, although he did not support 'liquidationism', as is often charged.⁽¹⁰⁴⁾ Later however he came to accept Friedman's conclusions from a study of the Great Depression that by allowing a massive contraction of the money supply to happen the US Federal Reserve Board turned a moderate recession into a serious depression.⁽¹⁰⁵⁾

I find it a plausible criticism of Hayek that he is more sensitive to the social repercussions of inflation than to the political danger from mass unemployment. Some would say that this was unsurprising, because the Austrian upper middle class to which Hayek belonged lost all their savings in the hyperinflation of the 1920s, whereas as a tenured university professor in the 1930s he was not much affected personally by the mass unemployment of the Great Depression. Keynes, another member of the upper middle class, seems to have understood much better than

(104) Larry White convincingly refutes this charge against Hayek, Did Hayek and Robbins Deepen the Great Depression? *Journal of Money, Credit and Banking*, Vol. 40, No. 4 (2008), pp. 751–768.

(105) Milton Friedman and Anna J. Schwartz, *The Great Contraction 1929–1933* (Princeton: Princeton University Press, 1973). *A Discussion with Friedrich A. von Hayek* (Washington DC: American Enterprise Institute, 1975).

Hayek that mass unemployment is a breeding ground for extremism. The immediate political danger is from mass unemployment, while the mischief made by inflation usually works more slowly.

However, it should be pointed out that it was not the massive public works initiated in the early 1930s in the United States, first under Herbert Hoover and then Franklin D. Roosevelt, that ended the Great Depression: It reached its peak in 1933 and the economy recovered rather quickly after that, although unemployment lingered on until the Second World War. The real argument should have been about monetary policy, not public works. If the Federal Reserve Board had not created a great deflation, then the mass unemployment the public works were supposed to reduce would not have occurred, at least not on such a large scale. Be that as it may, Hayek was surely right on another issue: The US government made a fatal mistake in the 1930s by introducing import tariffs which led to a chain reaction in other countries. Thus, governments in the United States and elsewhere not only threw away the immense benefits from division of labour, but also created a temptation to obtain necessary goods by means other than trade. When goods are not allowed to cross borders, soldiers will.⁽¹⁰⁶⁾ In the case of the United States, this was confirmed four years later when Japan attacked Pearl Harbor after a long process in which trade between the United States and Japan had been severely restricted.

Hayek's later position, when he rejected deflation as well as inflation, seems sensible to me. Governments should not aggravate economic fluctuations with their monetary and fiscal policies. Instead, they should do what is within their powers to try and stabilise the economy. Hayek is also right, I think, in rejecting attempts to reach what is supposed to be an appropriate trade-off between inflation and unemployment. These are different phenomena and not two interchangeable goods in a marketplace.

(106) This pithy observation is often wrongly attributed to Frédéric Bastiat. It was apparently first uttered at the Berlin meeting of the International Chamber of Commerce in 1937: 'When there is a proper flow of goods and services both ways across borders, there is no need for soldiers crossing them.' Thomas J. Watson, *World Peace Through World Trade*, *The Rotarian* (November 1937), p. 51. This was then repeated by the Chief Economist of the US Dept. of Trade: 'If soldiers are not to cross international boundaries, goods must do so. Unless shackles can be dropped from trade, bombs will be dropped from the sky.' Otto Tod Mallory, *Economic Union and Enduring Peace*, *Annals of the American Academy of Political and Social Science*, Vol. 216, No. 1 (1941), p. 125.

One difference between them is a moral one. Inflation is usually the consequence of cheating, whereas unemployment is a temporary mishap. Recall a simple story from ancient Icelandic literature. The Icelandic Halldor Snorrason served at the court of Norwegian King Harold the Stern in the mid-eleventh century. His tight-fisted master tried to pay him in coins with less content of silver and more of copper than prescribed. Halldor refused to accept them, throwing them on the floor in the royal palace. King Harold became angry and pointed out that others accepted these coins. Halldor did not budge, and next when the king needed the help of the hardy Iclander in one of his numerous military expeditions, he relented and paid him in coins with the correct silver content.⁽¹⁰⁷⁾ What was the king trying to do? By paying his courtiers in debased currency, he was cheating them. He was giving them less than what they had bargained for. When the presses run day and night printing money, as in Berlin and Vienna in the early 1920s, the same principle is at work. The currency is being consciously debased. This is also the case with artificial credit expansion in modern economies even if it is less transparent. Money is created without a corresponding increase in material products; the consequence is that prices of products go up and the value of money goes down. The price mechanism is distorted, and an involuntary transfer of resources is made from creditors to debtors.

Unemployment is a different phenomenon. It is a temporary adjustment problem, not a conscious distortion of the price mechanism. You do not find a bidder for your services at the price you charge. Nobody is necessarily cheating. It is a mishap with which you have to deal yourself. In a growing economy, you will move into locations or professions where bidders are to be found, or new bidders may appear in your current occupation as a result of economic growth. You may also try to improve the services you offer by acquiring new skills. If you want to attract employers, you have to make yourself attractive to them. Even if the economy is not growing, eventually you should be able to find a bidder by lowering the price you charge. In other words, it is the proper task for the individual to seek and find employment, not

(107) The Tale of Halldor Snorrason II, *The Complete Sagas of Icelanders*, Vol. 5 (Reykjavik: Leifur Eiriksson, 1997), pp. 223–230.

for others. It is true, however, that in modern society there are many obstacles to mobility and flexibility in the labour market, such as local subsidies for housing, barriers to entry into professions, attempts by labour unions to hinder necessary wage adjustments and generous unemployment benefits. Also, new technology will make some jobs obsolete, and some of those who held them may find it difficult to adjust. What an honest government should do would be to remove artificial obstacles to mobility and flexibility in the labour market and to resist the temptation to cheat the citizens by printing money. Mass unemployment should certainly be recognised as an urgent political problem, even as a danger to democracy, but its real causes and cures have to be properly understood.

The attempt to avoid unemployment by Keynesian demand management, knowing that it will bring about inflation, is not only a moral issue in that inflation caused in this way is cheating by government, whereas unemployment is a temporary disappointment of individual expectations. This policy is also ineffective in the long run, because, as with other kinds of repeated cheating, people learn to circumvent or counteract it. The ‘money illusion’ does not last. As the saying goes: You can fool some of the people all of the time, and all of the people some of the time, but not all of the people all of the time. The problem is usually that some jobs have become unprofitable on current wages. Government wants to maintain those jobs, and it does this with artificial credit creation which enables employers to pay the same nominal wages, but lower real wages: thus, some jobs remain profitable despite the original problem. You keep your job, while each pound you receive buys fewer products. But the trade unions learn from the experience, and they will use their monopoly power to impose wage raises on the economy. A constant race will start between the government printing presses and the business agents of the trade unions, as Chicago economist Jacob Viner predicted in his review of Keynes’ book on the Great Depression.⁽¹⁰⁸⁾ Inflation cannot stimulate the economy unless it keeps increasing. Government has to inject ever more money into the

(108) Jacob Viner, Mr. Keynes on the Causes of Unemployment, *Quarterly Journal of Economics*, Vol. 51, No. 1 (1936), p. 149.



Young economist Geir H. Haarde shows Thingvellir, the site of the ancient Icelandic Parliament, established in 930, to Hayek during his visit to Iceland in April 1980. For more than three hundred years Iceland had no government, only the law. Haarde was Finance Minister in 1998–2005, Foreign Minister in 2005–2006 and Prime Minister in 2006–2009. Photo: Fridrik Fridriksson.

economy in order to stimulate it and create false expectations. At the same time, people become unwilling to hold on to money as its value is steadily falling. Thus the velocity of money increases, creating more demand for it. A vicious spiral develops. This is clearly untenable in the long run, if government wants to avoid hyperinflation. But when stimulation stops to work, you end up with a combination of inflation and stagnation

which in the 1960s gained the unlovely name ‘stagflation’. Moreover, the issue is not only whether you can solve the problem by throwing money at it, but also whether you will be better off by delegating investment decisions to politicians and bureaucrats. Does the ability to convince them really coincide with the ability to make a profit?

This was the reason why Thatcher’s government in the United Kingdom and many other governments around the world in the 1980s abandoned the policy of full employment through demand management, accepting that this might imply considerable unemployment in the short run, whereas unemployment would inevitably go down in the long run,

when economic growth replaced stagnation and wages became flexible. When I was at Oxford at that time unemployment in the United Kingdom reached record levels, more than 10 per cent of the total workforce. In a lecture, one of my teachers, legal philosopher Ronald Dworkin, criticised Thatcher at length for inflicting unemployment on British workers. I raised my hand. He smiled and paused, and I said: ‘But is unemployment not that the supply of labour exceeds the demand? And will this not be solved eventually by the market, through price adjustments and economic growth? Surely most workers prefer low pay to no pay.’ Dworkin’s smile broadened and he replied: ‘Yes, of course, but it takes just such a long time.’ Soon after this exchange, unemployment started to go down and was at less than 7 per cent when Thatcher left office in 1990. The theory worked, adjustments were made, new jobs were created. It was also unfair of Dworkin to blame Thatcher for the high level of unemployment in the early 1980s. She had to close unprofitable coal mines and steel smelters, because in the long run they drew money from more profitable enterprises and thus destroyed more future jobs than they maintained. If anyone was to blame for the high level of unemployment at the time, then it was the labour unions by resisting innovations and keeping wages inflexible.

The most serious depression after the Great Depression of the early 1930s was the international financial crisis of 2007–2009. It seems to me that it confirms rather than refutes Hayek’s approach to trade cycles. The financial crisis was a clear example of a recession brought about by artificial credit expansion, not least the low interest rate long maintained by the US Federal Reserve System and the extension in the United States through government intervention of mortgages to people who obviously were unable to pay them back, but also by the introduction of various kinds of financial instruments where the risk was difficult to estimate, but where the effect was also to expand credit. This was, in other words, a typical ‘Austrian’ recession, although the counter-measures employed by almost all governments were certainly not to let it run its course, but rather to avoid the mistakes of the Great Depression and to maintain liquidity in the financial system at any cost. The response to the financial crisis was in the spirit of Friedman rather than Keynes: It was to use monetary instruments to avoid bank panic and deflation, not to initiate

massive public works. But arguably, most governments went too far in rescuing banks, postponing problems instead of resolving them. Some countries were left with heavy and perhaps unsustainable debts, for example Greece.⁽¹⁰⁹⁾ The recovery in the United States and other Western countries has also been slower than after the worst years of the Great Depression.

If banks operate according to the rule that they can reap the profits during an upsurge and pass the losses over to taxpayers in a sudden downturn, they will take more risk than would be prudent. Why should banks not be operated at their own risk like other private companies?⁽¹¹⁰⁾ The answer is that in a financial crisis, banks use depositors as human shields against government: If you do not bail us out, then there will be a run on banks, possibly followed by riots in the streets. We are ‘Too Big to Fail’ and we know it.⁽¹¹¹⁾ This creates not only moral hazard for the banks themselves, but also discretionary power in the hands of government. Why was Bradford & Bingley rescued in the United Kingdom, and Heritable Bank closed down?⁽¹¹²⁾ Why was Goldman Sachs rescued in the United States, and Lehman Brothers forced into bankruptcy? It is understandable, though, that responsible persons do not want to see a whole banking system crash on their watch. Perhaps the banks were in fact too big to fail. But what should be rescued in a dire financial crisis? Whose interests should be protected? Those of the reckless bankers? I believe that here Iceland can serve as a model. When the Icelandic banks were collapsing in the autumn of 2008, the government did not bail them out. Instead, it made bank deposits into priority claims on the

(109) Yanis Varoufakis, *Adults in the Room: my Battle with Europe’s Deep Establishment* (London: Bodley Head, 2017). Whereas the author, former Finance Minister of Greece, is by no means a supporter of the free market, his account of the crisis management by the European Union and by Greece is quite informative.

(110) John Kay, *Other People’s Money: Masters of the Universe or Servants of the People* (London: Profile Books, 2015).

(111) Andrew Ross Sorkin, *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves* (London: Allen Lane, 2009). A television drama was made out of the book which offers a detailed description of the course of events in the United States before and during the crisis.

(112) I discuss this in more detail in the section on Iceland in chapter on Friedman in this book. Cf. also Hannes H. Gissurarson, *The 2008 Icelandic Bank Collapse: Foreign Factors* (Reykjavik: Ministry of Finance and Economic Affairs, 2018). Available online.

estates of the fallen banks, leaving other creditors as well as shareowners with residual claims. With this, a bank panic was avoided, at the cost of other creditors and the bank owners. But unlike most depositors, other creditors are professional investors and can look after themselves. And bank owners should be prepared to lose their equity if they, and the managers they hired, have been reckless. It would be sensible generally, I would suggest, to make deposits priority claims on banks, but at the same time to abolish direct or indirect government guarantees to banks. Thus, the law would offer some protection and reassurance to innocent, normal people, typical depositors, while avoiding massive government liabilities.⁽¹¹³⁾

Competition as a Discovery Procedure

The reason I am focusing on Keynes' discussion of *The Road to Serfdom* is not only that he was probably the most famous and influential economist of the twentieth century, but also because he was, like Hayek, but unlike many of his disciples, a genuine liberal, late in life perhaps even somewhat of a conservative liberal, when he had shed his early beliefs,⁽¹¹⁴⁾ married and become a solid patriot. For example, in late 1939 Keynes wrote that the object in the Second World War, 'this mad, unavoidable struggle,' was not to conquer Germany, but to bring her back within the historic fold of Western civilisation of which the institutional foundations were 'the Christian Ethic, the Scientific Spirit and the Rule of Law. It is only on these foundations that the personal life can be lived.'⁽¹¹⁵⁾ A year later, Keynes publicly expressed his belief that capitalism had to be reformed, but that the reformers should 'concede a great deal to preserve that decentralisation of decisions and of power which is the prime virtue

(113) Hannes H. Gissurarson, *Lessons for Europe from the 2008 Icelandic Bank Collapse* (Brussels: New Direction, 2017).

(114) John Maynard Keynes, *My Early Beliefs* (1938), *Collected Writings*, Vol. X, ed. by Elizabeth Johnson and Donald Moggridge (Cambridge: Cambridge University Press, 1978), pp. 433–451. Cf. on p. 448: 'It did not occur to us to respect the extraordinary accomplishment of our predecessors in the ordering of life (as it now seems to me to have been) or the elaborate framework which they had devised to protect this order.'

(115) Here from Robert Skidelsky, *Keynes: Fighting for Britain, 1937–1946* (London: Macmillan, 2000), p. 51.

of the old individualism. In a world of destroyers, they must zealously protect the variously woven fabric of society, even when this means that some abuses must be spared. Civilisation is a tradition from the past, a miraculous construction made by our fathers.'⁽¹¹⁶⁾ Keynes' response to Hayek's *Road to Serfdom* was made in good faith. He and the author were having a conversation rather than a debate, although they were both passionate about their beliefs. It was not about what was worth preserving that Keynes disagreed with Hayek. It was about how much of it needed to be changed. Keynes wrote to Hayek: 'The line of argument you yourself take depends on the very doubtful assumption that planning is not more efficient. Quite likely, from the purely economic point of view, it is efficient.' He added: 'That is why I say that it would be more in line with your general argument to point out that even if the extreme planners can claim their technique to be the more efficient, nevertheless technical advancement even in a less planned community is so considerable that we do not today require the superfluous sacrifice of liberties which they themselves would admit to have some value.'⁽¹¹⁷⁾

The crucial disagreement between Keynes and Hayek as economists rather than liberals was that Keynes sincerely believed that some kind of planning was likely to be more efficient as a mechanism for economic growth and stabilisation than entrepreneurial capitalism. The worst effects of economic fluctuations could thus be avoided and Western civilisation—which he supported as firmly, although perhaps not as fervently, as did Hayek—could be saved. Here I think Keynes was wrong and that he came to have this idea because he had not fully considered Hayek's strongest argument for entrepreneurial capitalism, which is that it brings about the acquisition, transmission and utilisation of dispersed knowledge indispensable to any hope of economic success and indeed to our very survival. Hayek first made this argument explicitly in 1937 and reinforced it in 1945.⁽¹¹⁸⁾ Whereas his mentor Mises had cogently argued

(116) Here from *ibid.*, p. 68.

(117) Keynes, Letter to Hayek, *Collected Writings*, Vol. XXVII, p. 386.

(118) F. A. Hayek, *Economics and Knowledge*, Presidential Address to the London Economic Club, 10 November 1932, *Economica*, Vol. IV, No. 13 (1937), pp. 33–54; *The Use of Knowledge in Society*, *American Economic Review*, Vol. 35, No. 4 (1945).

that central planners, in the absence of market pricing for the means of production, could not make the calculations necessary to choose rationally between alternatives, Hayek extends and reinforces the argument as being one about knowledge. It is a problem because so little of it is possessed by any one human being at any given time and place, whereas so much of it is needed for society to function. Hayek points out that in their models of a market equilibrium economists usually assume that agents possess adequate knowledge of the relevant data. But it is precisely this knowledge which is acquired on the market. It is the result of the market process, not its starting point. As new data come in, such as an increase in population, a shift in preferences, new technology, or a change in natural conditions, the process continues. ‘The problem which we pretend to solve,’ Hayek writes, ‘is how the spontaneous interaction of a number of people, each possessing only bits of knowledge, brings about a state of affairs in which prices correspond to costs, etc., and which could be brought about by deliberate direction only by somebody who possessed the combined knowledge of all those individuals.’⁽¹¹⁹⁾

When Keynes told Hayek that probably planning was more efficient than competition, but that the two of them should try to persuade future planners not to deprive people of their individual liberties, even if this could be costly, he took for granted the knowledge which can only be acquired, transmitted and utilised under entrepreneurial capitalism. It should be emphasised that Hayek’s argument is about knowledge rather than incentives, even if incentives certainly are important. Under entrepreneurial capitalism, the two kinds of incentives are supposed to be the carrot and the stick: the hope of profit and the fear of loss. People tend to run faster if they see a carrot in front of them or want to avoid the stick behind them. Socialists believed that these two kinds of material incentives would become superfluous in their society: If people owned the means of production, then they would be running as fast as they could of their own free will. This turned out to be a fantasy. The carrot and the stick are both indispensable instruments for increasing efficiency. But what Hayek added was a third instrument, the signal. It is

(119) Hayek, *Economics and Knowledge*, p. 49.



Hayek meets with Pope John Paul II in Rome on 22 December 1980. The prelate was pleased that Hayek had abandoned the word ‘superstitions’ about beliefs that had to be accepted on authority, using instead the term ‘symbolic truths’. Photo: Hayek family archive.

not enough to run fast, with a carrot in front of you and a stick behind you. You also have to know in which direction to run. This is what signals are for. Prices are signals which guide you. They enable you to adjust your plans to those of others. They bring about the moves required for buyer to meet seller, and for supply to equal demand, and for investment to be based on savings. Whenever you mix up the signals, you distort indispensable information. Thus, there is no trade-off between efficiency and liberty. Efficiency requires liberty. What Keynes did not see clearly is how costly it is to deprive people of their individual liberties which would limit their access to all the information processed and provided by the free market.

Hayek’s knowledge argument is not only about information, or knowledge that can be fed into a computer, such as the number of people living in a place or the tonnes of coal found in a mine. He is also talking about personal knowledge which by its nature is inalienable and therefore always dispersed, such as skill in obtaining and using different commodities, and familiarity with the conditions under which they are

actually obtained and used. He is talking about ‘knowledge how’ as well as ‘knowledge that’. Consider investors who are consistently successful. They are sometimes called ‘financial wizards’ because there is no good explanation for their success. Of course there is nothing magical about them. But there is something special about them. They have something that others lack, something like a sixth sense for money. But their special abilities can only be utilised in the marketplace, not by a computer. These abilities are only revealed in the process of capital transactions. Less dramatically, consider the knowledge ordinary individuals acquire by experience, in a slow and gradual learning process, by trial and error. It is personal and inalienable.

Therefore, Hayek argues that the model used by economists of perfect competition can be as misleading as their idea of perfect equilibrium. The model is of a state of affairs where a homogeneous commodity is offered and demanded by a large number of relatively small sellers and buyers, all of whom have complete knowledge of all relevant factors. But real competition is not a state of affairs; it is an activity, a discovery procedure. Its objective is precisely to obtain the information which we did not have when the competition began. A singing contest would be superfluous if we already knew who the finest singer was. Likewise, market competitions would hardly be necessary if we already knew who should do what in the operation of a firm, what should be the composition of capital in the economy, why we should produce more rather than less of a good and how we should go about producing and selling that good. It is because we do not know any of this that we enter into competitions. Efficiency, or the minimisation of costs, cannot be planned; it can only emerge out of an experimental, competitive process.

Moreover, the market is selective as well as competitive. It does not only tell people what to do, but also what not to do, if they aim at economic success. While the market does not prohibit uneconomic behaviour, it provides information to people that they are not likely to benefit from such behaviour. It is a filter mechanism: only those who turn out to be efficient, continue to operate. The others either leave voluntarily or are forced out by the ultimate recourse of the market, bankruptcy—a recourse much more humanitarian than that of central planning, the executioner. Efficiency is a survival trait rather than a personal attribute.

Therefore it has to be discovered in the market process and cannot be postulated or planned.

Some of the practical knowledge we need but do not possess, is not the personal knowledge of others, but what could be called social knowledge, also unfit to be fed into a computer. This is the knowledge embodied in dispositions, habits, customs, manners and traditions that have withstood the test of time. This is ‘the wisdom of our ancestors’. This is certainly valuable knowledge. What explains the different performance of two outsider groups in European society, the Jews and the Roma (Gypsies)? Perhaps one explanation is that the Jews were born into a tradition that valued education and virtues such as industriousness, thriftiness and honesty. Why do people of Swedish origin in the United States earn a higher average income than the average American and a much higher income than Swedes in Sweden herself? Perhaps the answer is that Swedish immigrants brought with them the traditional Swedish virtues of hard work and self-reliance which in turn were rewarded better in America than back in Sweden.⁽¹²⁰⁾ The explanation is hardly that Jews and Swedes are ‘better’ or ‘abler’ than other groups. Instead, the explanation is in terms of the dispositions, habits, customs, manners, and traditions into which the members of these groups have been born and which they carry with them, often unconsciously. They have access to the accumulated knowledge of past generations. A related observation is that in some societies there is a high level of trust, whereas it is much lower in others. I have observed this myself when I move between my two homes in Iceland and Brazil. The pervasive lack of trust in Brazil raises the cost of transactions: cumbersome checking procedures are in place; nothing is paid in advance; credit facilities (the division of labour between the present and the future) are much less extensive and flexible than in many other countries. After all, the word ‘credit’ is derived from the Latin word ‘credere’, to trust or believe.

Not only do we notice strong cultural differences when we travel from one country to another or move from one group to another; we can

(120) Nima Sanandaji, *Scandinavian Unexceptionalism: Culture, Markets and the Failure of Third-Way Socialism* (London: Institute of Economic Affairs, 2015). There are many pertinent observations about culture and communities in Thomas Sowell, *Ethnic America* (New York: Basic Books, 1981).

also observe them in sometimes surprising statistics. Why is Switzerland such a successful society on most criteria? Why is the crime rate so high in Brazil and so low in Japan? How could Britain control her vast empire with such limited manpower? Why is the drop-out rate lower in Catholic schools in America than in public schools? At least some possible explanations are likely to be in terms of social knowledge: local traditions as both mutual adjustments of generations and informal enforcements of individual plans. This does not mean, of course, that there are not dispositions, habits, customs, manners and traditions which turn out to be immoral or inefficient by modern standards. Errors are made, blind alleys are taken. Some groups or societies have much less social knowledge than others. But there is a tendency, over time, to correct errors by elimination or emulation, although such social processes must be much slower than the price mechanism of the free market. Social knowledge is valuable for its possessors. Groups with a good reputation, derived from the known fact that most of its members follow a strong tradition, often receive preferential treatment. You tend to trust Mormons and invest in politically stable countries. This may seem unfair, but it is a means of coping with ignorance. Others perhaps feel bypassed, but if they learn from their own mistakes and the successes of others, they may also benefit. Try to emulate the emphasis on education in Jewish society; the reliance on hard work among Swedes; the English gentleman whose behaviour is eminently predictable; the personal honesty prevalent in Japan. The main point is that the market needs a moral framework properly to function, and this moral framework is provided by dispositions, habits, customs, manners, and traditions that are passed on from one generation to another. It is inherited rather than created. It is difficult or even impossible however to include social knowledge in the calculations of planners. Virtue cannot be legislated.

The Agenda of Government

Hayek's knowledge argument has significant political implications. If the personal and social knowledge people possess as individuals in time and space, including their inalienable special skills and inherited traditions, are to be utilised, then they need protected domains in which to act on

their knowledge. The dispersal of knowledge requires the decentralisation of decisions. It is an argument not only for the impossibility of socialism, if man is not to descend into a primitive tribal society, but also for the indispensability of entrepreneurial capitalism, with private property, free trade and limited government, if the billions of people now living on earth are to survive. The political insights derived from Hayek's knowledge argument can be put into perspective by briefly recalling the theories of St. Thomas Aquinas and David Hume. Aquinas believed in natural law. He taught that human law was an ordinance of reason for the common good. If a legal statute was contrary to reason or not for the common good, for example if it discriminated against certain groups in society (such as Jews in Nazi Germany or Blacks in Apartheid South Africa), then it was no law. Hume was a sceptic who rejected natural law, but nevertheless he presented a theory which could be interpreted as being about the 'minimum content of natural law'. Two fundamental facts of life, the niggardliness of nature and the limited altruism of human beings, led to the evolution of a system with three basic principles, private property, freedom to trade, and compliance with contracts.

What Hayek does is to present a theory similar in structure to that of Hume about the 'minimum content of natural law', but with a much larger minimum. It is based not on limited altruism, but on the limited knowledge of each individual combined with the understanding and acceptance of the free order as a process in which all these bits and pieces of knowledge could be used in common. Like Aquinas, Hayek requires law to be in accordance with reason and for the common good. But it is the social reason embodied in the principles of the free order, not only the limited reason of a bespectacled scholar, however intelligent and erudite, lecturing to his students, quoting authorities. And the common good is a system of mutual adjustments, spontaneous coordination, not serving any one pre-set goal. It is a system which is purposeless, although it is not pointless. Thus, Hayek's political theory, based on the knowledge argument, expands the theories of Aquinas and Hume and provides a workable agenda for government.⁽¹²¹⁾

(121) Cf. my discussion of natural rights and system-utilitarianism in the chapters on Aquinas, Hume and Herbert Spencer in this book.

Therefore yet another argument Keynes made in his conversation with Hayek seems implausible. ‘You agree that the line has to be drawn somewhere, and that the logical extreme is not possible. But you give us no guidance whatever as to where to draw it.’⁽¹²²⁾ In fact, in *The Road to Serfdom* Hayek gives plenty of guidance as to where to draw the line between the agenda of government and what should be left to transactions between individuals in the marketplace, although he addresses the issue in much more detail in his later works. The basis of the free society, according to Hayek, is the Rule of Law, that society should be governed by general principles equally applicable to all and not by arbitrary power. This means that law should be non-discriminatory: it should be for the common good, as Aquinas had taught, not for special interests when they are in conflict with the common good. Indeed, many interventionist measures go against the Rule of Law because they are discriminatory in such a way. Examples would be not only the well-known and direct ones like segregation in the South of the United States in the one hundred years after the Civil War or discrimination over centuries against non-Muslims in the Ottoman Empire, where they were tolerated but had to pay higher taxes than Muslims. More mundane examples would in modern societies be laws in favour of or against particular people, occupations, industries or regions. In the United States, discriminatory measures in conflict with the Rule of Law would include farm price-support programmes, diverse tariffs and quotas for imported items, tax deductions for interest paid on home mortgages, rent control, community-development grants, legislation giving labour unions exclusive rights to represent workers, and giving certain producers monopoly in cable television or postal service.⁽¹²³⁾ Yet another example would be affirmative action which in effect creates group privileges, whether by gender or colour or by some criteria other than individual merit for the task in question. Of course, plain redistribution, the transfer of assets from rich to poor just for the sake of it, would also be discriminatory, even if implemented in the name of ‘social justice’.

Whereas the agenda of government would thus be narrower in

(122) Keynes, Letter to Hayek, *Collected Writings*, Vol. XXVII, p. 386.

(123) Gregory B. Christainsen, What Keynes Really Said to Hayek About Planning, *Challenge*, Vol. 36, No. 4 (1993), pp. 50–53.



Hayek in the spring of 1983 with the founders of the Hayek Society at Oxford, from left Chandran Kukathas, Andrew Melnyk, and me. In old age, Hayek was pleased that young people were taking interest in his ideas. Both Kukathas and I wrote our doctoral dissertations on Hayek's political ideas. Photo: Marie Gray.

Hayek's free society than can be observed in contemporary countries, his state could hardly be called the Night-watchman State of Frédéric Bastiat, Herbert Spencer, Mises, or Ayn Rand, restricting itself to preventing injustice. Hayek accepts the use of coercive power, through taxation or other means, for the provision of public goods, including

education, transfer payments to the needy and helpless to ensure a minimum, licensure and certification, building codes, health and safety standards, and prevention of private monopoly. He adds, though, that care has to be taken that such measures are not counter-productive. But is the line Hayek draws by his requirement of the Rule of Law really a line between freedom and serfdom? A possible (and common) counter-argument might be that all laws with any substantive content would always be discriminatory because they would affect different groups differently. For example, in the United States the Catholic Church is practically the only religious group of significance running private schools. A ban on tax credits for school fees paid by parents sending their children to 'sectarian' schools would seem non-discriminatory

between religious groups, but in practice it would only affect Catholics. (Historically, a ban on any public support for ‘sectarian’ schools was indeed aimed at Catholics, although couched in more general terms.) You can always find a general term which in practice only affects some. I am not sure however that this counter-argument has much practical relevance. It is only in a trivial sense that all laws are discriminatory. In most cases it is relatively easy to distinguish between unacceptable and acceptable discrimination. Hayek’s concept of the Rule of Law has to be interpreted as including protected domains, based on the knowledge argument. This interpretation of the concept would allow some legal measures and exclude others. A part of the protected domain seems to be, for example, that parents should be able to have some say in the education of their children. If education is a public good, then they should at least be able to supplement what the state does to further it, which is precisely what tax credits for school fees seek to accomplish.

When it is said that a law has to be non-discriminatory, what is meant is that the discrimination implied in it is material, relevant and desirable. Consider some of the examples just mentioned. Under the Rule of Law, import tariffs would be excluded. They are clear cases of unacceptable discrimination. Farm-support programmes are also cases of unacceptable discrimination, unless it would be accepted that farming should be an assisted lifestyle. On the other hand, possibly tax deductions for interest paid on home mortgages could be regarded as cases of acceptable discrimination, if it is generally believed that an ownership society would produce more stability and promote more individual independence than the alternatives. The Rule of Law, or a society governed by general, universal and predictable principles, does not necessarily lead to a morally impartial state. The state should be partial not only between justice and injustice, but also between virtue and vice, although it should for prudential reasons tolerate vices harmless to others. If law is an ordinance for the common good, the discrimination or partiality brought about by legal statutes must not go against the common good. Therefore, for example, subsidies for education may be cases of acceptable discrimination if it is generally believed that an educated society would produce more stability and promote more individual independence than the alternatives. Perhaps, subsidies to

parenthood could also be regarded as cases of acceptable discrimination if it is generally believed that they would be to the common good. The line thus drawn between the agenda and the non-agenda of government would not be fixed once and for all. It would move with changing conceptions of the common good, but some tasks would clearly belong to the state, while others should as clearly be left to the market—many more than at present. In this sense, Hayek is a radical. But is he also a conservative?

Why Hayek is a Conservative Liberal

In 1957, Hayek’s Mont Pelerin Society was to celebrate its tenth anniversary at a meeting in the elegant Suvretta House in the Swiss resort of St. Moritz. The President decided to explain in his address why he was not a conservative. Perhaps one reason was that an American political scientist, Russell Kirk, had recently tried to transplant to America aspects of the conservative reaction in Europe to the French Revolution which, being alien to the American tradition, seemed to Hayek a bit odd.⁽¹²⁴⁾ Hayek saw in Kirk an unsystematic and anti-liberal writer who tended to romanticise the past instead of trying to offer guidance to the future. He was not pleased when he learned that the Secretary of the Mont Pelerin Society had invited Kirk to the St. Moritz meeting and that he had even arranged for Kirk to respond to the presidential address he was about to deliver.⁽¹²⁵⁾ In his address, Hayek conceded that conservatism was ‘a legitimate, perhaps necessary, and certainly widespread attitude of opposition to drastic change’. However, the decisive objection to it was that it could not offer an alternative to the direction in which society was moving. It could resist change, but not indicate another direction. To apply the brake was sometimes necessary, but what was really important was to hold the steering wheel. Indeed, what now seemed most urgent in many

(124) Russell Kirk, *The Conservative Mind: From Burke to Santayana* (Chicago: Henry Regnery, 1953). Kirk, a convert to Catholicism, did not drive, abhorred television and liked to dress up in his Michigan house as an English country squire.

(125) Letter from Albert Hunold to Friedrich A. von Hayek, 5 June 1957; Letter from Friedrich A. von Hayek to Albert Hunold, 8 June 1957. Here from Philip Plickert, *Wandlungen des Neoliberalismus: Eine Studie zu Entwicklung und Ausstrahlung der „Mont Pelerin Society“* (Stuttgart: Lucius & Lucius, 2008). Initially, Hayek had seen merit in Kirk’s book. Kirk’s journalism in the meantime changed his mind.



parts of the world, Hayek exclaimed, was to sweep away obstacles to the free growth of society. He pointed out that in the special situation of the United States it was still possible to support individual liberty by defending long-established institutions. In general, however, conservatives often were fearful of uncontrolled social forces and too fond of authority, while they lacked understanding of economic principles. They believed in hierarchies and entrenched elites, whereas a liberal would be ‘fully aware of the important role that cultural and intellectual elites have played in the evolution of civilisation’, and also believe ‘that these elites have to prove themselves by their capacity to maintain their position under the same rules that apply to all others’. Moreover, conservatives usually were nationalists and obscurantists, whereas Hayek saw himself as a federalist and a firm supporter of science. He ended his lecture by admitting that he had some difficulty in defining his own position, as he rejected the rationalistic liberalism of nineteenth century utilitarians, whereas in the United States social democrats had appropriated the name ‘liberal’.

At the Paris Mont Pelerin Society meeting in February 1984, the Mayor, Jacques Chirac—later President of France—invited us to the town hall, Hôtel de Ville. Standing between Chirac and Hayek is Lord Harris of High Cross, Director of the Institute of Economic Affairs in London and President of the MPS in 1982–1984. Photo: J. P. Plunier.

The best he could come up with was to call himself ‘an unrepentant Old Whig’ in the tradition of Burke, Tocqueville and Lord Acton.⁽¹²⁶⁾

Kirk gave a spirited response to Hayek’s lecture which some of the more conservative members of the Society enjoyed.⁽¹²⁷⁾ He was invited again, but not by Hayek, to the 1961 Mont Pelerin Society meeting in Turin where he participated in a panel. When Kirk subsequently remarked that the Mont Pelerin Society was hopefully turning away from its ‘rigid adherence to nineteenth-century Liberal dogmas and a rationalistic hostility toward Christianity’, three of the founders, Director, Friedman, and Stigler, publicly protested: the society was devoted to the discussion of ideas, with no single position imposed on its members, least of all on religion.⁽¹²⁸⁾

Occasionally, conservatives were again invited to state their view of economic liberalism at meetings of the Mont Pelerin Society. When Friedman was President of the Society, he persuaded American journalist Irving Kristol to read a paper on the subject at the twenty-fifth anniversary meeting at the Palace Hotel in Montreux, Switzerland, close to Mont Pèlerin. In his paper, Kristol admitted the cogency of Hayek’s argument against socialism. He and other economic liberals had won that battle. They could also convincingly demonstrate that many government measures were counter-productive. Capitalism deserved two cheers. But it did not deserve three cheers, because the real battle was not about efficiency. It was about ends, not means. Present-day anti-capitalists, such as environmentalists and communitarians, were not searching for new means to commonly agreed ends. They were rejecting those ends in themselves.⁽¹²⁹⁾ The problem was that on its own capitalism could not command loyalty. As Kristol put it, ‘no society that fails to celebrate the union of order and liberty, in some specific

(126) F. A. Hayek, Postscript, *Constitution of Liberty*, pp. 397–411.

(127) Henry Regnery, *Memories of a Dissident Publisher* (Chicago: Regnery Books, 1985), p. 159.

(128) Russell Kirk, The Mt. Pelerin Society, *National Review*, Vol. 11 (21 October 1961), p. 270; Aaron Director, Milton Friedman, and George Stigler, The Mont Pelerin Society, *National Review*, Vol. 11 (2 December 1961), p. 390.

(129) Cf. Keynes, The End of Laissez-Faire, *Collected Writings*, Vol. IX, pp. 293–234: ‘Many people, who are really objecting to capitalism as a way of life, argue as though they were objecting to it on the ground of its inefficiency in attaining its own objects.’

and meaningful way, can ever hope to be accepted as legitimate by its citizenry.’⁽¹³⁰⁾ Moreover, capitalism had a tendency, Kristol said, to erode its own moral basis. Under capitalism, anything goes. Capitalists happily sell material which celebrates pornography, denounces the family, and denigrates the ‘acquisitive spirit’. They do not reaffirm, and perhaps do not themselves practise, traditional civic virtues such as honesty, sobriety, diligence, and thrift. In short, capitalism might be economically efficient, but it was hardly morally sustainable. Under naked, unbridled capitalism, virtue loses all its loveliness.

I do not find Kristol’s objections to capitalism persuasive. They are directed too narrowly against acquisitive individuals trading with one another. The liberal order is a much more comprehensive concept. It will not collapse even if pornography, prostitution, gambling, drug abuse (including alcoholism) and other victimless crimes are tolerated. There is something irrelevant and almost comical about the obsession of some conservatives with vices which have been with us from the beginning of time. Such vices should be actively discouraged by the state but not outlawed which would be counter-productive. Conservative liberals do not believe in the neutral state. But neither do they believe in the ‘nanny state’. Virtue can be promoted, but not legislated.

In the second place, capitalism may weaken some virtues, such as courage, as Adam Smith and Tocqueville feared, but it strengthens others, such as honesty, thrift, industriousness and prudence. It may even transform militant virtues like valour on the battlefield into prowess in business. Perhaps capitalism as a system tears apart some threads in the social fabric, but it has a surprising capability to weave into it some new threads. Moral capital, as it is sometimes called, is both eroded and reproduced in a free society, and it is probably reproduced at a faster rate than it is consumed. A farmers’ community in the Alps, a mining town in Wales and a fishing village in Iceland may decline as a result of economic rationalisation, and with them various attachments and ties will probably disappear, but the loss is more than compensated by the vibrant urban communities replacing them and providing many more

opportunities, including new ties and attachments, for its members.

Thirdly, it is doubtful whether capitalism is unable to command loyalty. In fact, when ordinary people are given the opportunity to vote with their feet, they almost always prefer more to less capitalism: they go from Mexico to the United States, from Romania to the United Kingdom, from China to Hong Kong. They are not necessarily seeking freedom of speech, but rather the chance of a better life for themselves and their families. As Tocqueville observed in the nineteenth century, no country was then more patriotic than the United States: then it had the world’s most typical capitalistic system. It is however true that capitalism has not been able to command the loyalty of some intellectuals. Is the alienation they speak about not their own alienation? Their sense of being underappreciated in a society where the main question is not how well you do at examinations, but how effectively you can serve the needs of your neighbours?

I participated in a third discussion on the relative merits of liberalism and conservatism at a regional meeting of the Mont Pelerin Society in Sydney in 1985, where John Gray of Oxford and Kenneth Minogue of the LSE both defended liberal conservatism.⁽¹³¹⁾ I suggested, on the other hand, that Hayek’s stand against a certain kind of conservatism, such as the romanticisation of an imaginary past and the unprincipled use of state power by self-appointed guardians, was as cogent as the conservative critique of a certain kind of liberalism, such as the romanticisation of the licentious individual and the futile effort to make society over according to principles deemed rational. Neither the reactionary fervour of Count Joseph de Maistre and Viscount Louis de Bonald nor the rationalistic hubris of Jeremy Bentham or John Stuart Mill was intellectually satisfying. Instead, I submitted, there was a kind of liberalism which respected traditions and was indeed itself the articulation of a tradition, the Western political tradition of individuality, diversity and spontaneous evolution. This was conservative liberalism, for which Hayek had provided the best theoretical support. The premise was the same as that of many conservatives: the inevitable limits of

(130) Irving Kristol, Capitalism, Socialism, and Nihilism, *The Public Interest*, Vol. 31 (1973), pp. 13–14. Kristol’s paper was repr. in *The Portable Conservative Reader*, ed. with an Introduction by Russell Kirk.

(131) *Ideas about Freedom: A Discussion* (Sydney: The Centre for Independent Studies, 1986).

individual reason, the ignorance and frailty of human beings. But where Hayek differed from fully-fledged conservatives was in presenting a theory on how people could overcome this inevitable ignorance by the acquisition, transmission and utilisation of knowledge, both theoretical and practical, personal and social, in a free and progressive order, in short within the Western Civilisation which has been developing for the last two or three millennia. From Hayek's knowledge argument followed both liberal principles, mainly those of private property, free trade, and limited government, I said, and conservative dispositions, such as awareness of the importance of virtues like honesty, thrift, industriousness, fortitude, temperance, prudence and fairness, and respect for the spontaneous associations which constitute civil society, not least the family. Putting it briefly, Hayek is conservative, but not a conservative. He is a liberal, but a conservative liberal. The noun is liberal, the adjective is conservative. Or yet again: the position is liberal; the disposition is conservative.

In my talk in Sydney I added that two main issues seem to divide liberal conservatives such as Minogue and Gray, and also for that matter the influential English philosopher Sir Roger Scruton—who is, like them, very much in favour of the free market—from conservative liberals like Hayek.⁽¹³²⁾ These issues were progress and universalism. Conservatives do not believe in progress: they try to restrain the present rather than to release forces to create a future. Hayek and other liberals in his tradition would agree that progress is not inevitable. It is not an historical necessity. Society is not riding on a train to Destination Freedom. The tragic history of the twentieth century largely succumbing to totalitarianism amply demonstrates this. Nevertheless, progress is possible, in at least three senses. First, the vast improvement of living standards all around the world since the fall of communism cannot be denied.⁽¹³³⁾ Crime has gone down, so has child mortality, food production has gone up, two recurrent historical curses, famines and plagues, have largely been banished, hundreds of millions have stepped out of dire poverty as if wearing the

(132) Roger Scruton, Hayek and Conservatism, *The Cambridge Companion to Hayek*, pp. 208–231.

(133) Matt Ridley, *The Rational Optimist: How Prosperity Evolves* (New York: Harper, 2010); Johan Norberg, *Progress: Ten Reasons to Look Forward to the Future* (London: Oneworld Publications, 2017).



Hayek with Emilio Pacheco at the dinner the Hayek Society at Oxford gave for Hayek at the Ritz in London in the spring of 1985. He told us that liberty was the opposite of liberation. Pacheco later became Executive Director of Liberty Fund.

seven-league shoes of folklore. The numbers are staggering. Moreover, economic growth under capitalism is sustainable: environmental problems can for example in most cases be solved by defining private property rights to resources and thus by taking them into stewardship.⁽¹³⁴⁾ Those who argue that

progress is an incoherent idea because a whole society, composed of diverse elements, cannot move in a given direction, commit, I believe, what philosophers call a category error. Progress is three-dimensional, not two-dimensional. It is like an expansion in all directions, usually maintaining what already was around.

Three examples from my own country Iceland may illustrate this three-dimensionality of progress. First, in the early thirteenth century, it would have cost a fortune to produce a copy of a book, at least £10,000. Only rich Icelanders like Snorri Sturluson could do it. Now a paperback edition of

(134) Roger Scruton, *Green Philosophy: How to Think Seriously about the Planet* (London: Atlantic, 2011); Hannes H. Gissurarson, *Green Capitalism: How to Protect the Environment by Defining Private Property Rights* (Brussels: New Direction, 2017).

Snorri's *Heimskringla* can be bought for £10 a copy, and it would only take twenty minutes for an Icelandic worker to earn the required amount of money. In the second place, between 1891 and 1897, Jon Thorlaksson, who was to become founder of the Independence Party and Prime Minister, attended a grammar school in Reykjavik. He was a farmer's son from the north, and it took him at least twenty-four hours to ride on horseback to Reykjavik.⁽¹³⁵⁾ Nowadays, people travel this distance in three hours in a car, saving twenty-one hours for doing something else. Thirdly, Iceland is a country of fishermen, and in the year 2008 she reached a milestone: this was the first year on record when nobody drowned in Icelandic waters. These examples are all of clear betterments, but it should be noted that the old alternatives remain. If you want to produce a hand-written book out of calf skin, with all what it takes, you can do so. If you want to ride on horseback from the north to Reykjavik, you can also do so, and some do, because they enjoy horse riding. If you refuse to learn how to swim, do not use the available telecommunications equipment and take unnecessary risks at sea, you may drown.

Progress is possible in two other senses, both of them involving expansion, inclusion without exclusion. The pool of common, but dispersed knowledge upon which mankind can draw has been greatly enlarged with increased international trade. This is a pool produced by experiment, innovation, discovery, trial and error, as Hayek explains. Every individual possesses some personal knowledge which he or she can only share with others through spontaneous interaction, mostly market transactions, at the same time as groups can avail themselves of social knowledge. Again, Hayek would be the first to admit that liberty is not a goal, set at meetings of the Mont Pelerin Society, but rather a hard-won achievement of our civilisation, the result of ceaseless struggles, failures as well as successes. Conservative liberalism is not about end states, let alone utopias; it is about processes. The liberal order is not a football game in which the final whistle has been blown. Freedom is only the end of history in a very narrow sense. Hayekian liberals believe that, in principle, all human beings are fit for freedom, not only people of

Anglo-Saxon heritage like Minogue, Gray, and Scruton. No group has a monopoly on freedom. It was after all successfully transplanted to North America in the eighteenth century, to Oceania in the nineteenth century and to some countries in Southeast Asia in the twentieth century. It can be shared by non-European peoples. It is a skill rather than a goal, but it is a skill which can be learned (and, sadly, unlearned as well). It is only in this limited sense that conservative liberals like Hayek would talk about freedom as the end of history.

The belief that in principle all human beings are fit for freedom can be called liberal universalism. But it need not be liberal imperialism. There is in Hayek's political theory no 'liberal project' to conquer the world.⁽¹³⁶⁾ Instead, it can best be described as the extension of the moral vision to the whole of mankind, a recognition by Westerners of other peoples as potential members of the free international community, *Universitas Hominum*, as the Catholic Church called it,⁽¹³⁷⁾ based on private property, free trade, limited government and traditional virtues. To paraphrase two enemies of freedom, Rousseau and Marx: Of course other peoples should not be forced to be free; their emancipation has to be the work of themselves. Critics of liberal universalism are right that the West should normally not dispatch military forces to illiberal countries in the name of emancipation, like Iraq in 2003 and Libya in 2011. The criterion has to be that the safety of the West, broadly conceived, is at stake which it was not in either of those cases. This criterion would justify the Second World War and the Korean War, and perhaps the Vietnam War (when international communism was a clear and present danger), but it would hardly justify the American Civil War, the Spanish-American War or the First World War.⁽¹³⁸⁾ These critics of universalism claim too much: a distinction has to be made between the idea that normally you should not try to impose liberty on other nations and the very different—

(136) Therefore John Gray's strictures do not hit Hayek as hard as they do American neo-conservatives like Irving Kristol. Cf. Gray's *False Dawn: The Delusions of Global Capitalism* (London: Granta, 1998).

(137) George H. Sabine, *A History of Political Theory* (New York: Henry Holt, 1937), pp. 244–263.

(138) On the American Civil War, Letter from Lord Acton to Robert E. Lee, Bologna 4 November 1866. Acton-Lee Correspondence, *Selected Writings*, Vol. I (Indianapolis IN: Liberty Fund, 1985), p. 363. On the Spanish-American War, William Graham Sumner, The Conquest of the United States by Spain, *Yale Law Journal*, Vol. 8, No. 4 (1899), pp. 168–193. Repr. *War and Other Essays* (1911), pp. 297–334. On the First World War, Niall Ferguson, *The Pity of War: Explaining World War I* (London: Allen Lane, 1998).

(135) Hannes H. Gissurarson, *Jon Thorlaksson forsætisradherra* [Prime Minister Jon Thorlaksson] (Reykjavik: Almenna bókafélagid, 1992).

and odious—idea that somehow other nations deserve their cruel tyrants and corrupt elites, as a part of their traditions.⁽¹³⁹⁾

Again, critics of liberal universalism are right when they point out that a commitment to Western civilisation may seem inconsistent because not only the liberal order, but also communism, fascism and nazism are products of Western civilisation. Totalitarianism was not some revived ‘Asian despotism’. It was a Western construction. There was a radical difference, in kind and not in degree, between Tsarist authoritarianism and Bolshevik totalitarianism. The communists who seized power in Russia, China, Vietnam and Cambodia, were imbued with ideas that they had learned from Western books and in Western universities. Indeed, in many ways these ideas were alien to the societies to which they applied them. But again, these critics of universalism claim too much. Totalitarianism is only a product of Western civilisation in the sense that it emerged in opposition to it. I would suggest that it derives from two recent historical factors in the West, the decline of religion and the success of science. Totalitarianism holds that all is permissible, because God is dead, and that all is possible, because science is omnipotent while almost all technological problems of production have been solved. A new society can be reconstructed, totally different from the present, a new man created. The journey to Heaven—a society of plenty, without contradictions and conflicts—should not be postponed for the afterlife. This was the Marxist project, which the national socialists emulated in their own way, as Hayek well describes in *The Road to Serfdom*.⁽¹⁴⁰⁾

In the thirty-five years which have passed since I debated conservatism and liberalism with Minogue and Gray, I have remained a supporter of liberal universalism. Hayek’s knowledge argument is as relevant in Mongolia as in Mexico; Cambodians are as fit for freedom as Californians. But I would now regard nationalism, often but wrongly regarded as incompatible with liberal universalism, with more sympathy. Hayek’s hostility to nationalism, defined as the desire by a nation to

establish her own state, may partly stem from his personal experience of how the relatively liberal late-Habsburg Empire, a vast free trade area with a stable common currency, had disintegrated, under the nationalist banner, into many small, illiberal states, mutually hostile, erecting trade barriers between one another and struggling in vain to maintain workable currencies. But a nation need not be an intellectual construct. It can be and is in some places a living reality, spontaneously developed, voted for in a daily plebiscite, as Ernest Renan put it.⁽¹⁴¹⁾ When Snorri Sturluson in the 1220s composed the speech supposedly delivered two centuries earlier by an humble Icelandic farmer against demands by the Norwegian king, he was reaffirming a national identity: ‘But if the people of this country wish to keep their freedom, which they have had since this land was settled, then it will be best to grant the king no foothold on it, either in possession of land here or by payment from here of specific taxes which may be interpreted as acknowledgement of allegiance.’⁽¹⁴²⁾ The Icelanders thought of themselves as related to, but different from, the Norwegians.

Similar considerations apply to Estonians, Norwegians, Poles, Hungarians, and many other nations which have chosen to establish independent states instead of remaining within larger political entities. They felt they belonged in their own state. They also wanted their own representation.⁽¹⁴³⁾ If a nation is backed by a state, then there is a body representing the nation. Then she has a spokesman, a voice, whether or not others are prepared to listen. The difference between a language and a dialect is, as Yiddish scholar Max Weinreich bitterly observed, that ‘a language is a dialect with an army and a navy’.⁽¹⁴⁴⁾ Yiddish is struggling and will eventually disappear: Hebrew survives, because it has the support of a state.

The nation state provides a sense of belonging for its members, representation and protection of the national heritage. What brought

(139) In his remarks at the 1985 MPS meeting, Gray said that ‘no conservative can accept the view of the classical liberals that, in virtue of human nature or the tendencies of social development, freedom is fated to be the condition of all humankind.’ *Ideas about Freedom*, p. 25. Perhaps not. But are there groups which are in principle unfit for freedom? Why would that be?

(140) Cf. also Michael Oakeshott, *The Masses in Representative Democracy, Rationalism in Politics and Other Essays*, 2nd ed. (Indianapolis IN: Liberty Fund, 1991), pp. 363–383.

(141) Ernest Renan, *What Is a Nation?* Lecture 1882. Many English editions, including *Nation and Narration*, ed. Homi K. Bhabha (New York: Routledge, 2004).

(142) Snorri Sturluson, *Heimskringla* (ca. 1220–30), Vol. II, tran. by A. Finley and A. Faulkes (London: Viking Society for Northern Research, 2014), *The Saga of Saint Olav*, Ch. 125, pp. 143–144. I discuss the speech in the chapter on Snorri Sturluson in this book.

(143) I also discuss ‘national liberalism’ in the chapter on Lord Acton in this book.

(144) Max Weinreich, *Der YIVO un di problemen fun undzer tsayt, YIVO Bleter*, Vol. 25, No. 1 (1945).



vividly home to me that the desire by a nation to establish her own state might sometimes be reasonable and indeed prudent, was the recent history of Iceland, especially two events. In the 1970s, the fish stocks in the Icelandic waters were declining. The Icelanders felt that it was a matter of life and death to take control of the Icelandic waters, and they therefore extended the fisheries zone in stages, eventually to 200 miles. This had not by then become international law, and the United Kingdom fought hard against the extensions, even sending in the Royal Navy. Discreetly, the Americans intervened on Iceland's behalf and the British government relented. The last foreign fishing vessel left Icelandic waters in 1977. But if we had not been a sovereign nation, there would have been no extension until much later, when the fish stocks would have been completely depleted (like they are on the Grand Banks). Iceland would have become as marginal as Shetland. She would have had no voice in the conversation of mankind. The second event was in the 2007–2009 financial crisis. After the

The financial crisis of 2007–2009 was a typical 'Austrian' recession, brought about by artificial credit expansion in the preceding years. Financial authorities did not respond with Keynesian remedies, massive public works. Instead they followed Friedman's advice and provided liquidity, but only to some financial institutions, for example not to Lehman Brothers nor to the Icelandic banks. Photo: Oli Scarff/Getty Images.

collapse of a privately-owned Icelandic bank, the British Government demanded a guarantee by the Icelandic Treasury of all deposits by British subjects in the bank: this was at the time an enormous amount of money against which stood the bank's asset collection of uncertain value. It was a financial commitment which was estimated to be heavier per capita than the war debt Germany was forced to accept after the First World War. In order to further their claims, the British Labour leaders in government even invoked an anti-terrorism law against Iceland and put the Icelandic Treasury and the Central Bank of Iceland on the same list at the British Treasury's website as Al-Qaeda and the Taliban. Nevertheless, this demand was rejected in two national referenda. If we had not been a sovereign nation, we might have been consigned to a virtual debt prison for decades, like the one into which Haiti was led by France after the 1804 slave revolution.⁽¹⁴⁵⁾

The Power of Ideas

Hayek's idea of a liberal order based on private property, free trade and limited government may be criticised from yet another angle. Arguably, the very idea of limited government is utopian because it is in the nature of the state to grow beyond its acceptable limits. Perhaps, as anarchists would say, the monster should be slain, not bridled, because it never can be. More than most political thinkers, Hayek recognises the tendencies of the state to grow. This is what his warning in *The Road to Serfdom* is about. But he believes that history is governed by ideas, not by any irrevocable laws, or even by an interplay of vested interests. Therefore ideas have to be changed. In 1945, there was a knock on Hayek's office door at the London School of Economics. The visitor was a young pilot in the Royal Air Force, Antony Fisher, who had read the condensed version of *The Road to Serfdom* in *The Readers' Digest*. He had been convinced, even captivated, by Hayek's ideas. Now he wanted to do whatever he could to stop the march into socialism. He told Hayek that he was thinking about going into politics. Hayek responded that this would be

(145) This was compensation to French plantation owners for slaves who had been freed in the revolution. The final payment was made in 1947.

a waste of time. It was ultimately opinion, in a wide sense, that brought about political change. Paradoxically, if Fisher wanted to change policies, he should stay out of politics. What he might do, Hayek suggested, was to encourage solid research on the possibilities of solving problems by pricing rather than taxing, by market exchanges instead of government directives. The intellectual elite had to be persuaded, and this could only be done with ideas, backed by facts and arguments. In such an endeavour it was essential, Hayek added, to take a long-term view.⁽¹⁴⁶⁾ Some years later, Fisher was at a Conservative Party meeting in his constituency of East Grinstead in Southern England where a young economist, Ralph Harris, gave a lively talk in support of the free market. When they walked together back to the railway station, Fisher told Harris about the project that had formed in his mind after the conversation with Hayek: ‘One day when my ship comes in I’d like to create something which will do for the non-Labour Parties what the Fabian Society did for Labour.’ Harris responded: ‘If you get any further I’d like to be considered as the man to run it.’ They kept in contact while Fisher continued to run his business.⁽¹⁴⁷⁾

In November 1955, Fisher felt that he had enough means that he and a few likeminded academics and businessmen could establish the Institute of Economic Affairs in London. Soon they hired Harris as Director and an old student of Hayek at the LSE, Arthur Seldon, as Chief Editor of the publications that started to flow from the IEA. Slowly, the institute gained ground. It took care to be apolitical, confining itself to suggesting free-market solutions to problems and to maintain its independence by not being over-reliant on any one source of funds. Fisher helped to establish similar research institutes in other countries, such as the Fraser Institute in Vancouver in 1975 and the Manhattan Institute in 1977. In 1981, Fisher who had by now moved to the United States, established an international organisation, the Atlas Economic Research Foundation, later called the Atlas Network, which sought to support and connect

independent think tanks around the world. Fisher’s enthusiasm was infectious, as I observed on many occasions. In 1986–1987 I helped him and Professor Richard Wong set up the Hong Kong Centre for Economic Research. Fisher and his second wife Dorian, whom he had first met at a Mont Pelerin Society meeting, lived in the same block of flats as Milton and Rose Friedman on the Russian Hill neighbourhood in San Francisco, 1750 Taylor Street. They had a stunning view over the bay. The Fishers also kept an elegant flat on Cadogan Square in London. They entertained frequently in both places, but always to further the cause to which they were both devoted. They were practical idealists, somewhat akin to Richard Cobden and John Bright in the nineteenth century. Fisher was knighted by the Queen in 1988. When he passed away later in the same year, he left behind an extensive network of active think tanks all around the world, on the model that Hayek had outlined in their talk in 1945.

Fisher’s Atlas Network has been as important in many ways as Hayek’s Mont Pelerin Society to spread the twin ideas of government as the problem and the free market as the solution. Some of the most active institutes in the network besides those four just mentioned are the Adam Smith Institute in London, the Cato Institute in Washington DC, Timbro and Ratio in Stockholm, CEPOS in Copenhagen, the Austrian Economics Center in Vienna and the Centre for Independent Studies in Sydney.⁽¹⁴⁸⁾ Two large and influential American institutes belong to the Atlas Network although they were established long before Fisher started his activities, American Enterprise Institute in Washington DC and the Hoover Institution at Stanford. Hayek’s influence is also strongly felt in the inconspicuous but effective Liberty Fund in Indianapolis set up by Pierre F. Goodrich, already noted as one of the early members of the Mont Pelerin Society.⁽¹⁴⁹⁾ Another successful intellectual entrepreneur is Dr. Edwin Feulner who built up the Heritage Foundation in Washington DC as a robust think tank with an emphasis on conservative values, but

(146) Cf. one of Hayek’s best-known papers, *The Intellectuals and Socialism*, *The University of Chicago Law Review*, Vol. 16, No. 3 (1949), pp. 417–433. In their *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), Milton and Rose Friedman liken a major change in the intellectual climate to a tide. They make a distinction between three major tides in recent Western history, the Adam Smith Tide, lasting until late in the nineteenth century, the Fabian Tide, extending over most of the twentieth century, and the Hayek Tide, beginning in the last quarter of that century and still rising. They, like Hayek, believe that it is a change in ideas that turns a tide.

(147) Gerald Frost, *Antony Fisher: Champion of Liberty* (London: Profile Books, 2002), p. 44.

(148) According to the network’s website, in the beginning of 2020, it has 502 partners in 99 countries around the globe. Some of the institutes are named after thinkers discussed in this book, such as the Acton Institute in Michigan and the Ayn Rand Institute in California. Some of the institutes are more concerned with identifying and supporting promising young scholars than with promoting any particular public policies, for example the Institute for Humane Studies at George Mason University in Virginia and Mannkal Economic Education Foundation in Perth.

(149) Dane Starbuck, *The Goodriches: An American Family* (Indianapolis IN: Liberty Fund, 2001).

also promoting free-market solutions. Feulner was long Treasurer of the Mont Pelerin Society and its President in 1996–1998.⁽¹⁵⁰⁾

Indeed, there was a sea change in public opinion during the last quarter of the twentieth century, towards the free market. This has led left-wing intellectuals to try and construct a narrative which goes roughly like this: Hayek, funded mainly by right-wing businessmen in America, in 1947 established the Mont Pelerin Society whose real purpose it was to reshape public discourse and make neoliberalism respectable. This Hayek and his Society managed to do with skill and persistence, not least by setting up an international network of think tanks, always ready to provide arguments and propose solutions for aspiring politicians with neoliberal sympathies, such as Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States, not to mention Augusto Pinochet in Chile. But in reality, the neoliberals are elitists, for inequality and against democracy, and covertly backed by corporate money. Their political project is the takeover of the state by the market. They are a sinister force which has to be unmasked.⁽¹⁵¹⁾

The main problem with this narrative is not how the ideas of Hayek and other prominent members of the Mont Pelerin Society are misrepresented: That will be evident to anyone who bothers to read their books. It is that its proponents ignore what made Hayek's message attractive in the 1980s and 1990s. It had little to do with any dominance of public discourse. It was rather that Hayek was seen to be right on two key issues. First, there was no example anywhere of successful central economic planning. The Chinese communists had already abandoned it when in 1991 it ended in the Soviet Union, not with a bang but with a whimper. In the second place, the Keynesian policy of full employment

(150) Lee Edwards, *Leading the Way: The Story of Ed Feulner and the Heritage Foundation* (New York: Crown Forum, 2013).

(151) For example, Bernhard Walpen, *Die offenen Feinden und ihre Gesellschaft* [The Open Enemies and their Society] (Hamburg: VSA Verlag, 2004); David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005); *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, ed. by Philip Mirowski and Dieter Plehwe (Cambridge MA: Harvard University Press, 2009). Other writers pick out different villains from the MPS: It is Milton Friedman in Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (London: Penguin, 2008) and James M. Buchanan in Nancy MacLean, *Democracy in Chains: the Deep History of the Radical Right's Stealth Plan for America* (New York: Viking, 2017). For somebody like me who knew personally Hayek, Friedman and Buchanan, and who read their books avidly, the claims made by these left-wing extremists and conspiracy theorists (mostly self-proclaimed Marxists) are truly preposterous.



President Ronald Reagan and Prime Minister Margaret Thatcher in 1984 under a portrait of Prime Minister Winston Churchill. Hayek's *Road to Serfdom* inspired all three leaders. Photo: Peter Jordan/Alamy.

through demand stimulation had also failed. It had led to inflation and stagnation. What worked was private property and free trade, not perfectly, but better than anything else on offer. This was observed in one country after another, in the comparison between North

and South Korea, Cuba and Chile, Jamaica and Singapore, even Sweden and Switzerland. It is however noteworthy about these attempts at constructing a narrative about Hayek and the Mont Pelerin Society that its proponents think that the real task is mind control, to shape the public discourse. They are just complaining that in this Hayek and his followers outdid the Left. This is precisely how totalitarian planners think, both in fact and fiction: there is no truth, only intellectual hegemony. But even these unfair and occasionally vicious attacks on Hayek confirm my widely shared conclusion that he presented the most powerful and profound defence of the free society in the twentieth century.

Wilhelm Röpke

(1899–1966)

In the spring of 1945, Germany lay in ruins. She had been defeated in a ferocious war for five and a half years, in which 5.7 million Germans had lost their lives, while more than 10 million people of German origin were being expelled from countries of Central and Eastern Europe and sent to Germany. She was divided into four occupation zones, administered by her enemies in the war, the United States, the Soviet Union, the United Kingdom and France, and the occupiers, especially the Russians, were busy dismantling her factories and seizing everything valuable, with the aim of turning Germany into an agricultural country. When the victorious forces discovered the terrible Nazi extermination camps, it seemed that the Germans, by their support of the Nazis, had become new Barbarians, sharing a collective guilt over these and other atrocities.⁽¹⁾ Ten years later, in 1955, the three Western powers ended their occupation of what had in 1949 become the Federal Republic of Germany, West Germany, whereas the Soviet Zone had been turned into the German Democratic Republic, East Germany, a Soviet puppet state. The economy of West Germany was growing rapidly, and the wounds of war were healing. The Federal Republic even joined the defence alliance of the West, the North Atlantic Treaty Organisation, NATO, the very same year, in 1955. The 'German Economic Miracle', *Wirtschaftswunder*, was widely applauded. But it was no miracle: it was the outcome of policies initiated in 1948, with the aim of liberalising and stabilising the German

Röpke, an outspoken opponent of national socialism as well as communism, had to emigrate from Germany after Hitler's takeover in 1933. Photo: Süddeutsche Zeitung/Alamy.

(1) Karl Jaspers, *Die Schuldfrage* (Heidelberg: Lambert Schneider, 1946); *The Question of German Guilt*, tran. by E. B. Ashton (New York: The Dial Press, 1947). Cf., more recently, Daniel Goldhagen, *Hitler's Willing Executioners: Ordinary Germans and the Holocaust* (New York: Alfred A. Knopf, 1996). Jan Narveson makes a plausible philosophical case against such arguments, Collective Responsibility, *The Journal of Ethics*, Vol. 6, No. 2 (2002), pp. 179-198.

economy, under the firm leadership of Konrad Adenauer, Chancellor in 1949–1963, and Ludwig Erhard, Minister of Economic Affairs during that period and Chancellor in 1963–1966. One of their most prominent advisers, Professor Wilhelm Röpke, also published several learned works in which he argued for a new conservative liberalism, based on moral values rather than crass materialism. Röpke and other likeminded German economists, the *Ordo* liberals, gave crucial initial support to today's strong, stable and prosperous Germany, the dominant power in Europe, and they also made significant contributions to conservative-liberal political thought.

Röpke's Life and Works

Wilhelm Röpke was born on 10 October 1899 in the village of Schwarmstedt in Lower Saxony, near Hannover. He was the son of the local physician, Wilhelm, and his wife, Margarethe, born Rechten, the daughter of a Lutheran pastor. Röpke was brought up and remained to the end in the Lutheran faith of his family. He was fifteen when the German Empire, in alliance with the dual monarchy of Austria-Hungary, rushed into war with Russia, Britain and France, later called the First World War. Upon completing grammar school, in 1917 Röpke began reading law and economics at the University of Göttingen, but he was soon drafted into the Army. He was wounded in the war and decorated with the Iron Cross Second-Class. After Germany's defeat in late 1918, the collapse of the Empire and foundation of the Weimar Republic, he resumed his studies in Göttingen. He moved on to the University of Tübingen but defended his doctoral dissertation at the University of Marburg in 1921. He met his future wife, Eva, born Fincke, in Marburg, and they were to raise one son, Barthold, and two daughters, Ilse and Renate. Like many young men of his generation, Röpke was disillusioned by the war. He briefly flirted with socialism but was convinced by Austrian economist Ludwig von Mises that it was unrealistic. Without private ownership of the means of production the costs of alternative economic

decisions could not be calculated.⁽²⁾ Röpke worked briefly at the Ministry of Foreign Affairs in Berlin, dealing with war reparations. There he observed the intransigence of the French authorities, seeking revenge over the Germans, not reconciliation, and in 1923 he wrote in a letter to his personal friend Gustav Heinemann (later President of Germany) that French aggression, Bolshevism, Hitlerism, and antisemitism all were expressions of a new Barbarism. 'Liberals of the World, unite! You have a lost civilisation to recover!'⁽³⁾ In 1924, Röpke was appointed Professor of Economics at the University of Jena. The youngest university professor in Germany at the time, he soon gained reputation as a staunch economic liberal. He went on a study tour to the United States in 1926–1927 and after short periods in Jena and at the University of Graz in Austria he moved to his *alma mater*, the University of Marburg, in 1929.

In the following years Röpke joined forces with the few other economic liberals in Germany, in particular Walter Eucken and Alexander Rüstow, to defend a competitive economy. Eucken, a conservative Professor of Economics at the University of Freiburg, criticised other conservatives for rejecting free trade and for allowing special interests to capture government agencies. Rüstow originally had socialist sympathies, but in the 1920s as an official in the Ministry of Trade he became critical of the powerful cartels in heavy industry, while he saw the Social Democrats as spineless. From 1924 Rüstow was Director of Policy for the German Engineering Association. The task of Röpke, Eucken, Rüstow and other German anti-socialists was not made easier by the Great Depression, starting in late 1929. In the 1930 parliamentary elections the National Socialist Workers' Party, led by an Austrian immigrant, the rabid Antisemite Adolf Hitler, suddenly became the second largest party, after the Social Democrats, with the Communists in third place. Many Germans believed Hitler's promises that he would reduce unemployment and repeal the Versailles Peace

(2) Ludwig von Mises, *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922); Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, tran. by J. Kahane (Indianapolis IN: Liberty Fund 1981 [1936]).

(3) Letter from Wilhelm Röpke to Gustav Heinemann, Berlin 19 November 1923. Here after Hans Jörg Hennecke, *Wilhelm Röpke: Ein Leben in der Brandung* (Stuttgart: Schäffer-Poeschel Verlag, 2005), p. 45.

Treaty forced upon Germany in 1919. The Social Democrats were unwilling to assume responsibility for the many difficult decisions that had to be taken; the parties of the middle class, never firmly committed to economic freedom, had lost ground; and a minority government of the Catholic Centre Party under Heinrich Brüning began to govern by presidential decrees. In newspaper articles Röpke criticised socialism, arguing that ‘our often so reckless anti-capitalists would do well to get thoroughly acquainted with the voluminous literature on economics, which demonstrates that in practice socialism must founder on the impossibility of economic calculation in a socialist community. Let them try their hand at a refutation which no one has yet managed.’⁽⁴⁾

Dark clouds continued to gather on the horizon. The elderly President, retired general Paul von Hindenburg, had come under the influence of a small clique of reactionary officers and Prussian landowners, *Junkers*. In May 1932 he dismissed Brüning and appointed a non-political cabinet under the opportunistic Franz von Papen, nominally a member of Brüning’s Centre Party. The new Chancellor enjoyed little support and called elections in July 1932 where the Nazis became the largest party. The political situation went from bad to worse. Nazi and communist militias fought on the streets, and the political parties were unable to form a government. Papen therefore continued as Chancellor, again with almost no support. He called new elections in November 1932 where the Nazis made some losses. President Hindenburg dismissed Papen and asked General Kurt von Schleicher to form a government. The new Chancellor was a notorious schemer whom nobody except Hindenburg trusted, and Papen conspired with some of his reactionary friends and with the Nazis to have the President invite Hitler to form a coalition government. Hitler, fearing further electoral losses, seized the opportunity and became Chancellor in late January 1933.

Röpke was swift to react to the Nazi takeover. In a lecture on 8 February 1933 he denounced national socialism as a revolt against reason. He also defended liberalism:

(4) Wilhelm Röpke, The Intellectuals and ‘Capitalism’ (article series in *Frankfurter Zeitung* 1931), *Against the Tide*, tran. by Elizabeth Henderson (Chicago: Henry Regnery, 1969), p. 28. Repr. by the Mises Institute and available online, like most other Röpke’s works in English.

“ The conviction that true creative power can prosper only in liberty and not in the graveyard silence of prescribed opinions, that without intellectual individuality society and the state must eventually wither, that man has a right to protection against arbitrary power and the abuse of power, that the crushing of every divergence of opinion and of any individual cast of mind must eventually lead to a boredom in which the nation’s intellectual life is stifled, which lacks the happiness of laughter, every sign of humor, and the spice of life, and in which nothing flourishes but the brutish earnestness of the fanatic—that conviction, and nothing else, constitutes the liberal’s much-maligned and much-misunderstood *individualism*.⁽⁵⁾

Despite widespread violence and intimidation against their rivals, the Nazis failed to gain an absolute majority in the parliamentary elections of March 1933. Hitler therefore sought emergency powers from the Parliament, using the danger of a communist coup as a pretext. Incredibly, the Centre Party voted for him with the Nazis and the reactionaries. The communist members of parliament were either in prison, abroad or hiding, and the Social Democrats were the only ones to vote against him. Hitler afterwards wasted no time in dissolving all parties except the Nazis, establishing a dictatorship and sending his opponents to concentration camps. Blacklisted by the Nazis, both Röpke and Rüstow hurried into exile. After a brief stay in England and the Netherlands, Röpke became professor of economics at Istanbul University. Rüstow went to Switzerland and then on to Turkey where Röpke helped him to obtain a professorship at Istanbul University. Eucken remained in Freiburg where he courageously tried to resist the nazification of the University. From afar, Röpke and Rüstow anxiously watched Hitler set about creating a totalitarian state. In the ‘Night of the Long Knives’ in

(5) Wilhelm Röpke, *End of an Era? Against the Tide*, p. 85. Italics in the original.



July 1934 he had many of his political rivals inside and outside the Nazi Party killed. Upon the death of President Hindenburg in August 1934, Hitler assumed his office. By the Nuremberg Laws in September 1935 Jews were deprived of citizenship and many civil rights. In March 1936, Hitler blatantly violated the Versailles Treaty by sending the German Army into the Rhineland. In August 1936, the Summer Olympics in Berlin were widely seen as a triumph for the Nazi regime.

Röpke spent almost four years in Istanbul where he published *Economics of the Free Society*, a readable introduction to economics. Mises' influence on the author is obvious. Röpke says: 'To economise is simply to be constantly making a choice from among different possibilities. Economics is at bottom nothing other than the science of alternatives.' He also remarks that 'the "capitalistic" economic process can be compared to a continuing plebiscite in which each piece of currency represents a ballot and in which the consumers, via their demands, are constantly voting to decide what types and amounts of

How could savages like Hitler's national socialists, here listening spellbound to a speech by the Führer in the Reichstag on 11 December 1941, gain power in a civilised country like Germany? Röpke replies that the main explanation is found in the erroneous ideas of socialism, not in an alleged German national character. Photo: Bundesarchiv 183-1987-0703-507.

goods shall be produced,' although he notes that in this case the ballots are unequally distributed.⁽⁶⁾ In the autumn of 1937 Röpke moved to Geneva to become Professor of Economics at the Graduate Institute of International Studies. One of his colleagues there was Mises. From Geneva Röpke could observe how the Nazis in his land of birth continued their pursuit of total power, still largely unopposed, and now moving outside Germany's borders. Hitler reached an agreement with Italian dictator Benito Mussolini that he could annex Austria, and so he did in March 1938. He reached an agreement with Britain and France that he could annex the German-speaking parts of Czechoslovakia, the Sudetenland, and so he did in October 1938. Röpke was alarmed. 'I was treated by an American colleague as a poor half-wit,' he later recalled, 'when I declared that Czechoslovakia was lost and, moreover, that Europe was heading for disaster.'⁽⁷⁾ Indeed, a few months later, in March 1939, Hitler violated the agreement and invaded what was left of Czechoslovakia. The Western powers, Britain and France, made feeble protests, but did not take military action. Hitler reached an agreement with Soviet dictator Joseph Stalin in August 1939, the Non-Aggression Pact, under which the two despots divided up between them Central and Eastern Europe. When Hitler invaded Western Poland in September 1939, Britain and France finally decided that they had to act. They declared war on Nazi Germany, but not on the Soviet Union which some weeks later invaded Eastern Poland, Finland and the Baltic states which had all been assigned to Stalin under the Non-Aggression Pact.

When the Nazis defeated France in June 1940, occupying the northern part and allowing French reactionaries to govern the southern part, Röpke and his colleagues in Geneva had to make difficult choices. While Mises escaped to the United States, after a long journey fraught with danger, Röpke decided to stay. During the war years, in the relative tranquillity of Geneva Röpke explored ways of reviving liberalism. He thought it had become uninspiring to many. Although he agreed with

(6) Wilhelm Röpke, *Die Lehre von der Wirtschaft* (Wien: Julius Springer, 1937); *Economics of the Free Society*, tran. by Patrick M. Boorman (Chicago: Henry Regnery, 1963), pp. 14 (the whole passage is in italics in the original) and 197.

(7) Wilhelm Röpke, *Die Deutsche Frage* (Erlenbach-Zürich: Eugen Rentsch, 1945); *The German Question*, tran. by E. W. Dickers (London: George Allen & Unwin, 1946), p. 26.

Mises that socialism was bound to fail, he considered him too narrowly focused on economics as a utilitarian calculus. Market prices were indispensable, but so were moral values. Röpke often recalled when he was walking with Mises through a workers' district in Rotterdam in the early 1930s. The local residents had been allotted small plots of land where they could grow their own vegetables. 'What an inefficient way of producing food!' Mises exclaimed. 'But it may be an efficient way of producing happiness!' Röpke responded.⁽⁸⁾ The good society was not only about the utmost consumer satisfaction. Modern totalitarianism had to be confronted by a new liberalism, wider in scope than Mises' advocacy of strict non-interventionism. People wanted their lives to have a meaning. Röpke presents his ideas in a trilogy. In *The Social Crisis of Our Time* he rejects the 'cult of the colossal' and argues for decentralisation and 'de-proletarianisation'. In *Civitas Humana* he analyses the disintegration of Western civilisation where totalitarianism is both a cause and a consequence, offering Switzerland as an example of a successful society.⁽⁹⁾ In *International Order and Economic Integration* he argues that peace will not be achieved by holding more disarmament conferences, but through free trade whose preconditions are stable convertible currencies and recognised international standards.⁽¹⁰⁾ As the

(8) This anecdote exists in many versions, e. g. Stefan Kolev, Paleo- and Neoliberals: Ludwig von Mises and the 'Ordo-Interventionists', *Wilhelm Röpke (1899–1966): A Liberal Political Economist and Conservative Social Philosopher* (Cham: Springer International, 2018), p. 85; Hennecke, *Röpke*, p. 3; Russell Kirk, *The Sword of Imagination: Memoirs of a Half-century of Literary Conflict* (Grand Rapids MI: William B. Eerdmans Publishing, 1995), p. 205. In Kirk's version the exchange between Mises and Röpke takes place in Geneva after the war. Kirk claims that Röpke told him the story, whereas Hennecke more convincingly refers to an article by Röpke.

(9) On 12 December 2002 I was at a literary café in Reykjavik, introducing a book I had written on how Iceland could become the 'Switzerland of the North' as a financial centre, offering low taxes and a stable legal framework. The room was packed. A well-known left-wing author, Hallgrímur Helgason, was in the audience. He asked: 'Why should we try to emulate Switzerland? They have not produced anything except the cuckoo clock!' He was of course referring to Orson Welles' famous quip in *The Third Man* (1949): 'In Italy for thirty years under the Borgias, they had warfare, terror, murder, and bloodshed, but they produced Michelangelo, Leonardo da Vinci, and the Renaissance. In Switzerland, they had brotherly love, they had five hundred years of democracy and peace, and what did that produce? The cuckoo clock.' I replied: 'First, it is a myth that Switzerland produced the cuckoo clock. It was invented in the Black Forest of Bavaria. Secondly, the annals of a happy nation have blank pages. Fortunately, nothing very interesting happens in Switzerland. It is an argument *for* it, not *against* it. Thirdly, remember that Switzerland, even if she does not have a totally unblemished record, was an asylum for both people and their property from tyrants and dictators.'

(10) Wilhelm Röpke, *Die Gesellschaftskrisis der Gegenwart* (Erlenbach-Zürich: Eugen Rentsch, 1942); *The Social Crisis of Our Time*, tran. by Annette and Peter Schiffer Jacobsohn (Chicago: University of Chicago Press, 1950). *Civitas Humana: Grundfragen der Gesellschafts- und Wirtschaftsreform*

war was coming to an end, Röpke also published a book on *The German Question* which is highly relevant to German recovery and reintegration into Europe, as we shall see. Its message is best summed up in a quote from Schiller used by Röpke: 'The enemy who has merely been overthrown can rise again, but the enemy reconciled is truly overcome.'⁽¹¹⁾

In post-war Germany, the small group of economic liberals who had opposed national socialism found a more receptive audience than before. They also strengthened their ties to likeminded people abroad. In April 1947 Röpke and Eucken joined Mises, Friedrich von Hayek, Karl R. Popper, Bertrand de Jouvenel and other liberals in establishing the Mont Pelerin Society, an international academy devoted to the discussion of liberal ideas.⁽¹²⁾ Röpke also gave lectures in Stockholm and Copenhagen in October 1947, weighing in on the lively Scandinavian debate about central planning.⁽¹³⁾ A year later Eucken and his associates at the University of Freiburg started publishing a yearbook, *Ordo* (the Latin word for order). From the beginning, Röpke and Hayek were associated with the journal. In 1949, Rüstow returned to Germany and became professor at the University of Heidelberg. After Eucken's premature death in 1950, his colleagues and friends, including Röpke and Rüstow, carried the torch. Röpke became very much a public intellectual in the 1950s, commenting on current affairs in the press, writing books and advising politicians and high officials in

(Erlenbach-Zürich: Eugen Rentsch, 1944); *Civitas Humana: A Humane Order of Society*, tran. by Cyril Spencer Fox (London: William Hodge, 1948). Repr. as *The Moral Foundations of Civil Society* (New Brunswick NJ: Transaction Publishers, 1996). *Internationale Ordnung* (Erlenbach-Zürich: Eugen Rentsch, 1945), updated as *Internationale Ordnung – heute* (Erlenbach-Zürich: Eugen Rentsch, 1954); *International Order and Economic Integration*, tran. by Gwen E. Trinks, Joyce Taylor and Cicely Kaufer (Dordrecht: D. Reidel, 1959).

(11) Röpke, *Question*, p. 182.

(12) The impact of the Ordo liberals on the early MPS was significant. Stefan Kolev, Nils Goldschmidt, and Jan-Otmar Hesse, Debating liberalism: Walter Eucken, F. A. Hayek and the early history of the Mont Pelerin Society, *The Review of Austrian Economics*, Vol. 33, No. 4 (2020), pp. 433–463. <https://doi.org/10.1007/s11138-019-0435-x>

(13) Wilhelm Röpke, *Har Kollektivismen spillet Fallit?* [Has Collectivism Failed?], tran. by Louis Pedersen (København: Gyldendal, 1948); *Kollektivismens kris* [The Crisis of Collectivism] (Stockholm: Natur & Kultur, 1948). Translations of *Die Krise des Kollektivismus* (Erlenbach-Zürich: Eugen Rentsch, 1947) which reproduces the content of the lectures. Röpke was, with Hayek, an inspiration for Nordic liberals. For example both *Civitas humana* and *The German Question* were published in Swedish, *Civitas humana: en människovärdig stat* [Civitas Humana: A State Protecting Human Dignity], tran. by Alf Ahlberg (Stockholm: Natur & Kultur, 1945); *Det tyska problemet*, tran. by William Freij and Axel Werkström (Stockholm: Natur & Kultur, 1948).

West Germany, Austria and Switzerland, even exerting some influence on the conservative-liberal movement in the United States. Röpke was as vehement a critic of the international communist movement after the war as he had been of the Nazis before the war. He also wrote a lot about economic integration, suggesting that Europe should become a large free trade area rather than a common market surrounded by tariff walls. He feared centralisation if political integration would follow economic integration. Therefore Röpke was sharply critical of the European Economic Community established by the Treaty of Rome in 1957 which later became the European Union. He also rejected Keynesian policies and a society of unearned entitlements which he contrasted to a society with adequate provisions for the poor and helpless.⁽¹⁴⁾ Meanwhile, Rüstow published a monumental study of Western civilisation in three volumes, largely written during his exile in Turkey. There he contrasts two political principles, *Herrschaft* or lordship, the heritage of Roman law, and *Genossenschaft* or fellowship, the basis of German folk law, but of universal application and relevance.⁽¹⁵⁾ Like Hegel, Rüstow sees the history of mankind as the history of freedom, but it is not as in Hegel the march of any World Spirit, *Weltgeist*, towards self-consciousness, instead the perilous journey of frail and fallible human beings towards a goal they have glimpsed and seek to gain.⁽¹⁶⁾

Much has been made of the difference between Röpke and other Ordo liberals on the one hand and what is sometimes seen as the less moderate

Austrian and Chicago schools on the other hand.⁽¹⁷⁾ I think this is a difference more about emphasis than content, more about circumstances than ultimate aims. The Ordo liberals found themselves in an anti-liberal culture: Support for free trade, self-reliance and the pursuit of profit was dismissed by many as being un-German, ideas imported from Manchester. Therefore they felt a need to distance themselves from phrases like ‘capitalism’ and to stress instead the social nature of the free market. In the second place, when the Ordo liberals called for a strong state to promote competition, it should not be overlooked that their country had long been divided into petty exploitive principalities. It had only recently been united in a single state which subsequently had protected monopolies instead of creating conditions for competition. Agrarian feudalism had been complimented by industrial feudalism, as Röpke remarks.⁽¹⁸⁾ Thirdly, and consequently, monopoly, the main source of disagreement, was much more of an issue in Germany than in the United States or the United Kingdom. In the first half of the twentieth century cartels dominated German heavy industry, not least because of protectionism. It was only later that studies persuasively suggested that anti-trust laws in the United States often were counter-productive. This was thus a debate about means rather than aims. The question was which government policies were most effective in promoting competition, and there was no single and final answer to it; circumstances varied. Germany was different from the United States, and monopoly was more of a problem in one period than in another. The evidence suggests, for example, that in early twentieth century there was more economic concentration in the United States than there was later.⁽¹⁹⁾

Finally, the Ordo liberals were criticising what they believed to be lacking in the intellectual defence of the liberal order, not rejecting this defence in itself. They felt that a free economy had to be built on a moral basis. Like Edmund Burke, Benjamin Constant, Alexis de Tocqueville

(14) Wilhelm Röpke, *Jenseits von Angebot und Nachfrage* (Erlenbach-Zürich: Eugen Rentsch, 1958); *A Humane Economy: The Social Framework of the Free Market*, tran. by Elizabeth Henderson (Chicago: Henry Regnery, 1960).

(15) Alexander Rüstow, *Ortsbestimmung der Gegenwart. Eine universalgeschichtliche Kulturkritik*, Vols. I–III (Erlenbach-Zürich: Eugen Rentsch, 1950–1957). A condensed version has been published in English, *Freedom and Domination*, tran. by Salvator Attanasio (Princeton NJ: Princeton University Press, 1980). Likewise, in the thirteenth century Icelandic chronicler Snorri Sturluson contrasted the ‘good old law’, the folk law, based on tradition, custom and consensus, with legal decrees issued by kings, as I describe in the first chapter of this book. Snorri’s account of the power struggles in Norway from the foundation of a Norwegian kingdom in the 860s onwards (of which the Icelanders were independent observers until 1262) can be interpreted as a conflict between *Genossenschaft* and *Herrschaft*. Rüstow’s analysis is in some ways similar to that of Otto von Guericke, *Das deutsche Genossenschaftsrecht*, Vols. I–IV (Berlin: Weidmannsche Buchhandlung, 1868–1913).

(16) Cf. the illuminating discussion in Carl J. Friedrich, *The Political Thought of Neo-Liberalism, The American Political Science Review*, Vol. 49, No. 2 (1955), p. 522. Friedrich, a member of the Mont Pelerin Society, makes a persuasive case that many liberals, also in Germany, have misinterpreted Hegel as an anti-liberal.

(17) Ralph E. Ancil, Röpke and Von Mises: The Difference, *The Wilhelm Röpke Review* (1994), pp. 5–6. Ivan Pongracic argues against that view, *How Different Were Röpke and Mises? Review of Austrian Economics*, Vol. 10, No. 1 (1997), pp. 125–132.

(18) Röpke, *Question*, p. 191.

(19) George J. Stigler, *Five Lectures on Economic Problems* (London: Longmans, Green & Co., 1949).

and Lord Acton before them they taught that this basis lay in the three pillars of civil society, family, property, and religion, and in respect for ‘bourgeois’ virtues such as assiduity, frugality, fidelity, temperance, friendliness and fairness, whereas American economists took a well-developed civil society with an accepted code of conduct rather for granted. It fell to outsiders like Tocqueville to point out how important, indeed indispensable, it had been to the liberal order in America.⁽²⁰⁾

After the success of the ‘social market economy’, as it was called, the Ordo liberals enjoyed much international respect, and Röpke succeeded Hayek as President of the Mont Pelerin Society in 1961. Emotional, touchy and outspoken, but in indifferent health, he took to heart a dispute raging inside the society about administrative matters. It involved the former Secretary, Röpke’s ardent supporter Albert Hunold, who had alienated many members by inconsiderate behaviour. The dispute ended with Röpke resigning in 1962 after which he and Hunold left the Society.⁽²¹⁾ A year later, Röpke’s close friend Rüstow passed away. Separated from former associates, in 1964 Röpke courted controversy when he published a paper on South Africa praising the ‘pioneering spirit’ of the white population and expressing the view that Blacks in the country were not only of a different race, but also from a different type and level of civilisation.⁽²²⁾ Some have interpreted Röpke’s remarks as being racist, but they were not really about any racial superiority of Whites over Blacks, but rather about what Röpke saw as the superiority of Western civilisation over African tribalism. He did not however categorically condemn apartheid, unlike two prominent members of the Mont Pelerin Society, Hayek and William H. Hutt, who regarded it as both unjust and injudicious, an example of misguided government policy.⁽²³⁾ Perhaps Röpke’s position could be explained (rather than

(20) Alexis de Tocqueville, *Democracy in America* (1835 and 1840), tran. by James T. Schleifer, Vols. I–II (Indianapolis IN: Liberty Fund, 2012). Available online.

(21) Ronald M. Hartwell describes the ‘Hunold Affair’ in some detail in *A History of the Mont Pelerin Society* (Indianapolis IN: Liberty Fund, 1995).

(22) Wilhelm Röpke, Südafrika: Versuch einer Würdigung, *Schweizer Monatshefte: Zeitschrift für Politik, Wirtschaft, Kultur*, Vol. 44, No. 2 (1964–1965), pp. 97–112; *South Africa: An Attempt at a Positive Appraisal* (New York: Information Service of South Africa, 1964).

(23) William H. Hutt, *The Economics of the Colour Bar* (London: Andre Deutsch, 1964); Friedrich A. Hayek, Internationaler Rufmord: Eine persönliche Stellungnahme, *Politische Studien*, Sonderheft 1



Economically, socialism is so inferior to capitalism that the socialist masters have to lock in their subjects, as is illustrated by the Berlin Wall, erected in 1961 and standing until 1989. Guards had orders to shoot anyone trying to escape. Photo: Bundesarchiv B145-P061246.

excused) by the argument that at the time black supremacy might have seen even worse than white supremacy. But it would have fit in well with Röpke’s admiration for Swiss decentralisation if, to reduce the danger of totalitarian democracy in South Africa, he had proposed a division of the country into many largely self-governing cantons, as South

African liberals later did.⁽²⁴⁾ From the vantage point of 2020 another idea which seemed somewhat quaint when Röpke presented it may have aged better. It is his preference for small units and artisan culture. What has happened in the technological revolution between 1990 and 2020, not least with the introduction of the internet, is that such small units have become more feasible. Today’s artisans are private investors, designers and software engineers operating online in their own small companies, often working from home, sometimes located in the countryside. In the

(1978), pp. 44–45.

(24) Leon Louw and Frances Kendal, *South Africa: The Solution* (Bisho, Ciskei: Amagi Publications, 1986). I discuss this proposal in the chapter on Benjamin Constant in this book.

1960s, Röpke's health continued however to decline, and he passed away on 12 February 1966.

The German Question

In my early twenties I once visited the Icelandic Nobel Laureate in Literature, Halldor Laxness, on behalf of a magazine that I and some other young conservative liberals were publishing, *Eimreidín* (The Locomotive). Laxness and I discussed socialism (in the traditional sense: as the abolition of private property rights to the means of production). He had been a staunch socialist in the 1930s and 1940s, always prepared to defend Stalin. In trips to the Soviet Union, he had in the autumn of 1932 witnessed the famine in Ukraine and in the spring of 1938 the Moscow show trials, returning to Iceland and telling his compatriots that socialism was flourishing in the only country in which it was being implemented.⁽²⁵⁾ Looking back, he explained to me the reason he finally rejected socialism. 'It became clear to me that the Tartar Khan was still residing in the Kremlin.' In fact, Laxness in a vivid and concise way was presenting a widely held theory about Stalinism: It was more of a Russian tradition than the consequence of an imported political doctrine. The Russians had never known freedom; they had always been pliant subjects of tyrants, be they Mongol invaders, Tartar Khans or Russian Tsars. Perhaps the most learned exponent of this theory was American historian Richard Pipes.⁽²⁶⁾ I would disagree with Laxness and Pipes. While I would admit that Russian Marxism, in the interpretation of Lenin and Stalin, took on special Russian features, it remained Marxism, an attempt by a small band of fanatics forcibly to reconstruct the whole of society at any cost. Tsarist oppression pales in comparison with Bolshevik terror.⁽²⁷⁾ As Mises and Hayek argue, the abolition of private property

rights to the means of production inevitably leads to a totalitarian state. This is highly relevant to Röpke's message in his book on *The German Question*. It is that the German nation should not be blamed alone for the atrocious crimes of Hitler and his Nazi henchmen.⁽²⁸⁾ The main culprit is totalitarianism, Röpke argues, not the German nation even if she is by no means blameless.

Röpke points out that foreigners are partly responsible for German national socialism in at least two ways. First, some of the Nazi ideas were derived from writers outside Germany, including Count Arthur de Gobineau's race theory and Georges Sorel's celebration of violence. There is nothing especially German either about antisemitism which has existed in various countries over many centuries, even millennia. Moreover, the Nazis seem to have learned a lot from the practices of Mussolini in Italy and of Stalin in Russia. (Although Röpke does not mention it, Joseph Goebbels was a secret admirer of the communist propaganda chief Willi Münzenberg.)⁽²⁹⁾ Secondly, many foreign decision makers ignored or underestimated the danger from Hitler's Nazis, and in their attempts at appeasement unintentionally strengthened them. They treated the Nazi government just like any other government, even if it was clear from the beginning that it was a bunch of brutal thugs who did not hesitate to imprison, torture and kill their opponents. The Nazis were allowed to play hosts to the Olympics in 1936; and in 1937 the International Chamber of Commerce held a congress in Berlin. Hitler met little or no resistance from abroad when he systematically started violating international treaties that Germany had signed. If military action had been taken, even just mobilisation, for example by the powerful French Army in the Rhineland in 1936 or jointly by the French Army and the well-equipped Czechoslovak Army in Sudetenland in 1938, the German Army might have turned against Hitler and ousted

(25) Cf. Hannes H. Gissurarson, Halldor K. Laxness: A Twentieth Century Intellectual, *Totalitarianism in Europe: Three Case Studies* (Brussels: ACRE, 2018), pp. 32–50. Available online.

(26) Richard Pipes, *Russia Under the Old Regime* (New York: Charles Scribner's Sons, 1974); *Russia Under the Bolshevik Regime: 1919–1924* (New York: Alfred A. Knopf, 1993). Solzhenitsyn commented that Pipes was presenting 'The Polish version of Russian history'. Solzhenitsyn held that Marxism was a Western idea imported into Russia, whereas Pipes argued that its Bolshevik version had deep roots in Russian history.

(27) Robert Conquest, *The Great Terror* (London: Macmillan, 1968); Alexander Solzhenitsyn, *The*

Gulag Archipelago, Vols. I–III, tran. by Thomas P. Whitney and A. Willets (London: Fontana/Collins, 1973–1978); Dmitri Volkogonov, *Lenin: Life and Legacy* (London: HarperCollins, 1994); *The Black Book of Communism*, ed. by Stéphane Courtois (Cambridge MA: Harvard University Press, 1999).

(28) Indeed, Anti-Germanism seems to be inverted antisemitism, replacing the ugly Jew with the ugly German. This applies specially to Goldhagen's book on the Germans. He was really exposing a weakness in human character, not in the German character.

(29) Sean McMeekin, *The Red Millionaire: A Political Biography of Willy Münzenberg, Moscow's Secret Propaganda Tsar in the West* (New Haven CT: Yale University Press, 2008).

him. Röpke observes: ‘Today it seems almost incredible that the world should have been able for so long to harbour the illusion that the Nazis might treat foreign countries better than they treated their own people; its doing so is inexcusable.’⁽³⁰⁾

The theory held by many socialists that fascism is the last desperate attempt by capitalists to maintain their privileged position is also wrong, Röpke says. Classes have no collective consciousness and do not act as a unified force. Hitler’s party was called the National Socialist Workers’ Party of Germany. It was a socialist party seeking the votes of the working class. It should be added that modern historical research reinforces this view: the German business community did not significantly support Hitler; the Nazi Party was mainly financed by small contributions from individual members, in other words by what has since been called ‘crowdfunding’.⁽³¹⁾ However, once Hitler had gained power, German industrialists worked with him. In politics, the behaviour of businessmen typically is adaptive rather than ideological. Neither was national socialism a sudden bout of madness in the Germans; it was the German form of an international tendency; it was the mark of a period, not of a nation. ‘Whether in Bolshevism, Fascism, or Nazism, we meet continually with the forcible and ruthless usurpation of the power of the State by a minority drawn from the masses, resting on their support, flattering them and threatening them at the same time.’⁽³²⁾ Röpke presents a theory of totalitarianism which is essentially a twentieth century version of Constant’s analysis of revolutionary Jacobin terror: When the many intermediate institutions and traditions of society are destroyed in the name of popular sovereignty, nothing will be left on the political arena except fragmented masses in front of an almighty state which tries to mobilise them for a cause, and to achieve this it tries to mould their minds. Röpke’s theory of totalitarianism is in many ways similar to, and certainly compatible with, those of his friend and contemporary Hayek and of two other Mont Pelerin Society members,

(30) Röpke, *Question*, p. 34.

(31) Henry Ashby Turner, *German Big Business and the Rise of Hitler* (Oxford: Oxford University Press, 1987).

(32) Röpke, *Question*, p. 37.

Jouvenel and Popper,⁽³³⁾ except that he stresses more than they do the moral disintegration of modern society brought about by the loss of faith and by the deterioration of traditional virtues.

One of Röpke’s intellectual heroes, Edmund Burke, had exclaimed that he did ‘not know the method of drawing up an indictment against an whole people’.⁽³⁴⁾ Nazi atrocities should be blamed primarily on the Nazis themselves, on the ideas guiding them and the possibilities offered to them, not on the German nation. This does not mean, Röpke says, that the nation was blameless. ‘The guilt of the Germans is different to that of the National Socialists; it is the guilt of the seduced, not of the seducers, the degradation of the violated, not the infamy of the violators.’⁽³⁵⁾ He recalls that in the last real parliamentary elections in Germany in March 1933, the Nazis, by then in government and widely using intimidation and violence, received no more than 44 per cent of the votes: faced with a clear choice, a majority of Germans rejected national socialism. But once the Nazis had taken over, using all the powers of the state to mobilise the people for their cause and to monitor them, they could hardly be deposed except in a military coup or by foreign intervention. ‘Who that has not experienced it can realise what it meant to live under the continual pressure of an inconceivable terror and in an atmosphere in which a man could no longer trust his neighbour or his friend or his own child?’⁽³⁶⁾ Röpke asks.

He insists, however, that the Germans had to recognise their responsibility and to repent. After all, they let themselves be seduced. The reasons why the Germans were more susceptible to totalitarianism than other Western European nations and why they became accomplices to crimes, although not becoming criminals themselves as a nation, are according to Röpke to be found in special circumstances, in the national character of the Germans, and in their historical heritage.

(33) Friedrich A. Hayek, *The Road to Serfdom* (London: George Routledge, 1944); Bertrand de Jouvenel, *Du Pouvoir: Histoire naturelle de sa croissance* (Genève: Éditions du Cheval ailé, 1945); Karl R. Popper, *The Open Society and Its Enemies*, Vols. I–II (London: George Routledge, 1945).

(34) Speech of Edmund Burke on Moving his Resolutions for Conciliation with the Colonies 22 March 1775, *Select Works of Edmund Burke*, Vol. 1 (Indianapolis IN: Liberty Fund, 1999), p. 251.

(35) Röpke, *Question*, p. 57.

(36) *Ibid.*, p. 51.



The special circumstances were defeat in the First World War, the humiliation inflicted on the German nation by the Versailles Peace Treaty, not to forget the financial burden imposed on her by the Treaty, the hyperinflation in the early 1920s which hit the middle class hard, and the mass unemployment in the early 1930s as a result of the Great Depression. Röpke observes, however, that other nations had to deal with similar problems without the dire consequences seen in Germany. The second factor, the national character of the Germans, invites vague speculation rather than objective analysis, but Röpke quotes Chesterton's remark that 'a national soul is as indefinable as a smell, and as unmistakable'.⁽³⁷⁾ We all feel it in countless little details when we move from one country to another and suddenly step into a different society.⁽³⁸⁾ According to the

Konrad Adenauer and Ludwig Erhard, German Chancellors successively from 1949 to 1966, at the 1965 Party Congress of the Christian Democrats. Röpke advised both of them, and Erhard was a member of the Mont Pelerin Society. The German economic miracle was but the foreseeable outcome of economic freedom. The real miracle was political, that Germany chose liberal economic policies. Photo: KAS-ACDP/Peter Bouserath, CC-BY-SA 3.0 DE.

(37) Ibid., p. 100. Quoted from G. K. Chesterton, *The Victorian Age in Literature* (New York: Henry Holt, 1913), p. 13.

(38) Two examples from my own travels: When an Iclander arrives in the Faroe Islands, he

old joke, the European dream was that the policemen would be British, the road engineers German, the cooks French, the central bankers Swiss and the lovers Italian, whereas the European nightmare was that the policemen would be German, the road engineers French, the cooks British, the central bankers Italian and the lovers Swiss. Not only does the joke show that every nation mocks other nations but also that all of them are right, as German philosopher Arthur Schopenhauer observed. Some personal traits are found in all countries, but are perhaps more prevalent in Germany than elsewhere. They may to some extent explain features of national socialism, Röpke suggests, especially the lack of moderation. The Germans have a reputation of being methodical, energetic, industrious, punctual, thrifty, thorough, conscientious, obedient, and disciplined. In the service of unscrupulous rulers, these virtues can become vices. Röpke tells a story about the German respect for authority:

“ During the revolutionary days of November, 1918, a menacing crowd of workers had collected in front of Dresden Castle. One of the king's aides-de-camp came out and asked them what they wanted. When he learned that they were complaining that they had no work to do, he shouted innocently, 'Why, you silly asses, you ought to be glad!' There were roars of laughter at the good joke, and the crowd dispersed peacefully.⁽³⁹⁾

Röpke also suggests that the Germans are torn between different sentiments. They are on the one hand sentimental, on the other hand ruthless. They love nature, but sometimes forget that civilisation implies liberation from nature. In a word, the Germans tend to be unbalanced.

The third German factor facilitating the triumph of national socialism, besides special circumstances and certain national traits, is the historical

immediately senses that he is no longer in Iceland. But he also knows that he is not far from Iceland. Faroese society is somehow in-between Icelandic and Danish society which is unsurprising, given the location and history. Again, when you travel from Finland to Estonia, you notice a difference, but also the resemblance.

(39) Röpke, *Question*, p. 108.

heritage. Röpke rejects two theses about German exceptionalism, that the country never belonged to the Roman Empire and that Christianity came late to it. The same could be said about the Scandinavian countries, some of the most civilised countries in the world. Röpke sees more merit in the thesis that in Germany peasants and townsmen never gained the same independence as in some other European countries. Their position was precarious within the weak framework of the Holy Roman Empire of the German Nation. Ruled mostly by petty tyrants for almost thousand years, from the beginning of the Empire in 962 to its end in 1806, the Germans slowly acquired some national traits. They

“tended to conformity, to implicit obedience, even to servility; they lacked experience, understanding, and interest in all questions of the life of the community; they left the consideration of political issues to the authorities, who could make such decisions as they thought fit; they were almost entirely without any tradition of democratic self-government; they took dangerous refuge in dreams of the unreal and in the world of words and of abstract ideas, in which the German found his realm of ‘inner freedom’ (later called ‘German freedom’).

There were relatively liberal places, Hansa cities like Bremen and Hamburg, and regions like Hannover, for almost two centuries in a personal union with England. But they were exceptions to the rule. Therefore no strong civic tradition developed in Germany, and the disastrous doctrine of *Staatsräson* took hold: that less restrictive moral principles applied to princes than to their subjects.

After the demise of the tottering Holy Roman Empire—the First Reich—in 1806 liberalism made some gains in Germany, even in Prussia, which had become one of the two most powerful German states, besides Austria. A German confederation was established and it liberalised trade while the rule of law was slowly strengthened. But Prussia, more so than any other German state, was built on conquest. She was not a country

with an army; she was an army with a country.⁽⁴⁰⁾ Röpke believes that in 1866 the real Germany ceased to exist when Prussia defeated Austria in a war and drove her out of the German Confederation while annexing large parts of West Germany.⁽⁴¹⁾ Five years later, when the smaller German states joined Prussia in an Empire governed from Berlin—the Second Reich—what emerged was essentially Greater Prussia. ‘German unification took place amid contempt and suppression of the democratic movement and by means of “blood and iron”, that is to say civil war, conquest, broken pledges, intimidation, flatteries, and bribery, by the ultimate hegemony of Prussia, and by the artificial whipping-up of German nationalism against France.’⁽⁴²⁾ The old dream of unity in liberty was replaced by the demand to sacrifice liberty for unity. The cynical, unscrupulous and canny Minister-President of Prussia, Otto von Bismarck, a *Junker*, became Chancellor of the Reich.⁽⁴³⁾ At first, he cooperated with Germany’s national liberals, but in 1879, under pressure from special interest groups, he changed course and abandoned free trade. Germany retreated behind tariff walls. Another important factor in weakening German forces of liberty in the Empire was that in practice economic liberals were excluded from university positions. In other countries the most vocal and effective supporters of freedom were found among university professors of economics.

Of course, no nation has a character or a heritage that would make totalitarianism either inevitable or impossible. But because of her special circumstances, her national character and her historical heritage, as Röpke describes, Germany in the early 1930s was fertile ground for

(40) Ibid., p. 147. The quote is from the French revolutionary Count Mirabeau.

(41) In his readable best-selling book, *The Rise and Fall of the Third Reich: A History of Nazi Germany* (New York: Simon & Schuster, 1960), p. 95, American journalist William L. Shirer quotes Röpke’s profound observation that in 1866 Germany ceased to exist because it was transformed into Greater Prussia. But Shirer uses it, unlike Röpke, to try and establish German exceptionalism, *Sonderweg*: that national socialism was deeply rooted in German society. He does not distinguish between the seducer and the seduced or adequately analyse European totalitarianism of which national socialism was the German version. The author is expressing a widespread Anglo-Saxon prejudice against the ‘Ugly German’.

(42) Röpke, *Question*, p. 153.

(43) Erich Eyck, *Bismarck*, Vols. I–III (Erlenbach-Zürich: Eugen Rentsch, 1941, 1943 and 1944). In this monumental work, liberal German historian Eyck, a founding member of the Mont Pelerin Society, argues that German unification would have been possible without the violent means employed by Bismarck.

totalitarian seeds. At the end of his book Röpke gives an outline of the reforms necessary for a new Germany. They can be summed up in two terms: federalism and free trade. If Germany was turned into a real federal state, with largely self-governing units, she would no longer be Greater Prussia. The Prussian spell would be broken. Röpke points out that Germany is a nation of nations. For example, Bavaria, Baden and Württemberg had been independent countries until they joined the German Empire under the Prussian king. Most of the Prussian possessions in West Germany also had been independent states, until annexed. Centralisation is one of the preconditions of totalitarianism, while decentralisation through a federation of relatively equal countries significantly reduces the totalitarian danger. In addition, free trade was necessary to break the monopoly which the big industrial cartels had enjoyed since Bismarck changed course in 1879. Inside tariff walls, they had grown excessively big. With free trade, Germany could enjoy and contribute to the international division of labour. She could specialise in what she did better than others and benefit from goods and services others offered at lower prices than she could do. This meant that the economy would not be as self-sufficient as it had been under the Nazis where they had at short notice been able to turn it into a war machine, not much dependent on imports.

The German Answer

In history, there occasionally comes a time when everything hangs in balance and anything could happen. In Germany, the four first years after the defeat in the Second World War was such a period. Stalin was busy imposing socialism on the military zone under his control, while in the three western zones there was strong political pressure to continue the economic interventionism of the Nazi period which would have made reintegration into Europe more difficult. But by now Röpke had gained a new disciple in Germany: Ludwig Erhard, an economist who was employed during the war at a research institute. Even though Röpke's books were banned in Germany, Erhard was able to obtain copies the content of which he 'devoured like the desert the life-giving



Luigi Einaudi, President of Italy in 1948–1955, and Alcide de Gasperi, Prime Minister in 1945–1953. Einaudi, a member of the Mont Pelerin Society, was Röpke's good friend. It was an alliance of economic liberals and Christian Democrats which oversaw European recovery after the war. Photo: Office of the Italian President.

water', he later said.⁽⁴⁴⁾ Erhard and his circle of friends quietly started to prepare for the Germany that would emerge after the inevitable defeat. They were convinced that vigorous entrepreneurship had to replace central economic planning. In January 1947, the American and British military zones were placed under single administration, and in April 1948 Erhard, untainted by any association with the Nazis, was appointed Director of Economics in the Bizone, as it was called. He was faced with enormous challenges. Inflation was rampant, and the Reichsmark was almost worthless. The German economy had deteriorated into a barter economy. Firms employed so-called compensators on their staff, looking for ways to obtain necessary goods for their production. Food and other necessities were rationed. People had to stand in lines for hours even to get a permit to buy such stuff. Officials were unfriendly and arrogant. As a result of food shortages,

(44) Here after Gottfried Dietze, Foreword, Röpke, *Against the Tide*, p. ix.

workers were absent from their jobs for days, cultivating their gardens, foraging in the countryside for goods or trading on the black market. The economy was slowly becoming paralysed.

It was decided to introduce a new currency in the three western zones on 20 June 1948, exchanging 10 old Reichsmark for one Deutsche Mark, but cancelling claims against the old German Reich which had ceased to exist.⁽⁴⁵⁾ When the impending currency reform became known, the supply of goods, already scanty, dried up because nobody wanted to be in possession of the old Reichsmark on the day of change. Erhard decided on a daring strategy. It was to use the opportunity to abolish price controls and rationing of most consumer goods. On Saturday 19 June, all shops were empty. When they opened again on Monday 21 June, they were full of goods. Overnight the black market had disappeared. Erhard's gamble had paid off, even if he had gone against the will of the occupation forces and their Keynesian advisers. American economist John Kenneth Galbraith who worked for the American military governor commented confidently on Erhard's initiative: 'There never has been the slightest possibility of getting German recovery by this wholesale repeal.'⁽⁴⁶⁾ Röpke remarked, not without some bitterness, that the allied commanders in Germany were not only discharging their old jeeps in Germany, but also their New Dealers.⁽⁴⁷⁾

Soon after Erhard's successful repeal of price controls, on 1 August 1948, the French military zone was formally united with the British-American Bizone, and work started on a constitution for a new Germany. A Constituent Assembly, *Parliamentarischer Rat*, with representatives from the *Länder* in West Germany deliberated in the winter of 1948–1949. The President of the Assembly was the leader of the newly founded Christian Democratic Union, CDU, the former Mayor of Cologne, Konrad Adenauer, a devout Catholic whom the Nazis had dismissed soon after their takeover and imprisoned for a

while. He shared Röpke's dislike of the past Prussian domination of Germany and had repeatedly suggested the secession of the Rhineland from Prussia. The German Basic Law, *Grundgesetz*, was ratified on 23 May 1949, the foundation day of the new Federal Republic of Germany. The Basic Law signified that the Greater Prussia which had come into existence in 1866, was no longer, with Schleswig-Holstein becoming a *Land*, Hannover merging with smaller states to become Lower Saxony, and the Rhineland being divided up between two *Länder*, North Rhine-Westphalia and Rhineland-Palatine, while the central part of the former Prussia was in the Soviet zone and the eastern part had been ceded by the Allies to Poland and the Soviet Union. The *Länder* had each their own government and parliament, and tax revenues were divided up between the three tiers of government, the Federal Republic, the *Länder* and local communities.

Besides the federal principle, there were numerous other checks and balances written into the constitution of the Republic, almost as if it had been designed by the American Founding Fathers, or Constant, Tocqueville and Röpke. The legislature was bicameral: Representatives of the *Länder* governments sat in the Federal Council, *Bundesrat*, the upper house, with veto power over legislation, and delegates elected directly in each *Land* sat in the Federal Parliament, *Bundestag*, the lower house, which held legislative power. The President was largely a figurehead, without the authority to issue emergency decrees, but with veto power over legislation, and the Chancellor was chosen by the *Bundestag*.⁽⁴⁸⁾ The break with the centralised past was seen in new names: the *Reichsrat* was replaced by the *Bundesrat*, and the *Reichstag* by the *Bundestag*. The new Germany was a *Bund*, not a *Reich*. Moreover, important authorities were located in different cities, although Bonn was the country's temporary home of the executive and legislative branches, until Berlin much later became the capital of a reunified Germany. The Central Bank of Germany, *Bundesbank*, was in Frankfurt; both the Federal Constitution Court, *Bundesverfassungsgericht*, and the Federal Court of Justice, *Bundesgerichtshof*, Germany's Supreme Court, were in Karlsruhe.

(45) The currency reform was in fact much more complicated, Friedrich A. Lutz, The German Currency Reform and the Revival of the German Economy, *Economica*, Vol. 16, No. 62 (1949), pp. 122–142.

(46) John Kenneth Galbraith, The German Economy, *Foreign Economic Policy for the United States*, ed. by Seymour E. Harris (Cambridge MA: Harvard University Press, 1948), p. 95.

(47) Letter from Wilhelm Röpke to Klaus Dohrn, 1 June 1948. Here after Hennecke, *Röpke*, p. 174.

(48) Gottfried Dietze, The Federal Republic of Germany: An Evaluation After Ten Years, *The Journal of Politics*, Vol. 22, No. 1 (1960), pp. 112–147.

In the 1949 parliamentary elections, Adenauer's CDU emerged as Germany's largest party. Adenauer became Chancellor and Erhard became Minister of Economics in a coalition government of centre-right parties. Erhard tirelessly worked for further liberalisation of the German economy, repealing controls, cutting taxes and keeping down inflation. When he came under heavy criticism in 1950, Adenauer asked Röpke for an assessment of his policies. Röpke wholeheartedly endorsed Erhard which may have strengthened the resolve of the Chancellor to give support to his Economics Minister.⁽⁴⁹⁾ However, Hungarian-English economist Thomas Balogh, an influential adviser to the British Labour Party (later Lord Balogh), sternly criticised Erhard's liberal policies and pointed in 'a final warning to the gains which the Soviet Zone of Germany has been able to record'.⁽⁵⁰⁾ Together, Adenauer and Erhard provided the leadership Germany needed. The electoral support of the Christian Democrats went from 31 per cent in 1949 to 45 per cent in 1953, and up to 50 per cent in 1957. Adenauer shrewdly steered a middle course between the three Western occupation powers and the many Germans who were reluctant to accept the loss of vast territories in the east. In 1955, the formal occupation of West Germany ended; as the Federal Republic joined NATO, a German army was established. The economic recovery of Germany was astonishing despite reparations which the Allies demanded and despite their confiscation of much industrial equipment and of all German patents. In the 1950s economic growth was on average close to 8 per cent a year. 'The achievement of the Germans in the aftermath of their defeat is beyond praise,' British historian Noël Annan commented; he worked for the British occupation force immediately after the war.⁽⁵¹⁾ The Social Democrats, who had supported central planning after the war, changed course. At their congress in Bad

Godesberg in 1959 they removed from their programme the traditional socialist clause on abolition of private property rights to the means of production. The Social Democrats also more or less accepted Adenauer's and Erhard's foreign policy which aimed at free trade in Europe through economic integration and at military cooperation with the United States inside NATO, bearing in mind that the US was the only real bulwark against the Soviet Union.

The success of West Germany's social market economy was amply demonstrated in the summer of 1961 when the communist regime in East Germany built a wall between East and West Berlin in order to stop the steady flow of refugees to the West. The comparison between East and West Germany was like a real-life experiment in economics. In creating the new liberal Germany, reviving the magnificent and civilised country of Gutenberg, Bach, Goethe, Schiller, and Beethoven, and the anonymous millions of hard-working, decent and honest citizens, Adenauer and Erhard received support and encouragement from Röpke and other Ordo liberals. Erhard became a member of the Mont Pelerin Society and told Hayek: 'I hope you don't misunderstand me when I speak of a social market economy. I mean that the market as such is social, not that it needs to be made social.'⁽⁵²⁾ In Italy a similar, if less spectacular, recovery also took place after the war under coalition governments of economic liberals and social conservatives. Alcide de Gasperi, a devout Catholic and leader of Italy's largest party, the Christian Democrats, was Prime Minister in the crucial period between 1945 and 1953, and the respected liberal economist Luigi Einaudi, Röpke's friend and a member of the Mont Pelerin Society, was President of Italy in 1948–1955. Einaudi belonged to the small Liberal Party founded by the eminent philosopher Benedetto Croce after the fall of fascism in 1943. But Italian conservative liberals, unlike their German counterparts, were constrained in their reforms by a strong communist party. Another kind of constraint applied in Austria, a part of which was occupied until 1955 by the Russians. The Austrian conservatives and socialists shared power, with the aim of maintaining a common front opposite the

(49) Wilhelm Röpke, *Ist die Deutsche Wirtschaftspolitik richtig?* (Stuttgart: W. Kohlhammer, 1950), pp. 16–19 and 67–69.

(50) Thomas Balogh, Germany: An Experiment in Planning by the 'Free' Price Mechanism, *Banca Nazionale del Lavoro Quarterly Review*, Vol. 3 (1950), pp. 71–102. Footnote on p. 101. Balogh adds: 'There is no unemployment in the Soviet Zone. There are no riches amid poverty, no Nazi collaborators prospering.' I tell the story of one Nazi (not only a collaborator) prospering in East Germany in A Surprise Encounter, *Totalitarianism in Europe* (2018), pp. 18–31.

(51) Noël Annan, *Changing Enemies: The Defeat and Regeneration of Germany* (Ithaca NY: Cornell University Press, 1995), p. 234.

(52) Alfred C. Mierzejewski, *Ludwig Erhard: A Biography* (Chapel Hill NC: The University of North Carolina Press, 2004), p. 31.

Russian occupiers. Nevertheless, Reinhard Kamitz, Finance Minister between 1952 and 1960, Governor of the Central Bank between 1960 and 1968 and member of the Mont Pelerin Society, oversaw the liberalisation and stabilisation of the Austrian economy in the spirit of Ordo liberals, with the result that it grew rapidly.⁽⁵³⁾ Moreover, it greatly facilitated the general reconstruction of Europe after the war that tariff walls were not widely erected between nations. Economic liberals like Gottfried von Haberler, a founding member of the Mont Pelerin Society, were influential in international agencies such as GATT which promoted free trade.

Erhard not only deregulated, liberalised and stabilised the German economy. He also took some steps towards privatisation, a word coined in 1959 by a British newspaper: 'Erhard selected the rich Preussag mining concern for his first experiment in privatisation.'⁽⁵⁴⁾ This was the Preussische Bergwerks -und Hütten AG, producing coal and steel. It still exists as a large company, but it has diversified after worldwide demand for steel declined. It would be an informed guess that if it had remained federal property, it would have become a huge loss-making company and a burden on taxpayers. Erhard sold federal government shares in Volkswagen in 1961, although the *Land* of Lower Saxony where the company is based kept some shares. Volkswagen is the largest manufacturer of cars in the world, overtaking Toyota in 2016. In 1965, Erhard privatised yet another company, Veba, United Electricity and Mining Ltd. But in the 1960s, in Italy and Germany the post-war alliances between economic liberals and social conservatives were dissolved. After the premature death of de Gasperi, Italy did not enjoy the same political stability as Germany and Austria. The Italian Christian Democrats turned sharply to the left in 1963 after entering into a coalition government with the Socialists. In Germany, Adenauer and Erhard lost their majority

(53) Kamitz, who had been on the staff of the Institute for the Study of the Business Cycle, founded by Mises and Hayek, played a less than honourable role during the Nazi occupation of Austria, but of course this is irrelevant to his liberal policies after the war. Mises thought highly of his performance as Finance Minister. Jörg Guido Hülsmann, *Mises: The Last Knight of Liberalism* (Auburn AL: Mises Institute, 2007), p. 837.

(54) *News Chronicle* 28 July 1959. Here after Germa Bel, Retrospectives: The Coining of 'Privatization' and German National Socialist Party, *Journal of Economic Perspectives*, Vol. 20, No. 3 (2006), pp. 187–194.



Mont Pèlerin overlooking Lake Geneva, Switzerland. Röpke points out that Switzerland is one of the freest, stablest and most prosperous countries in the world, not least because of decentralisation and other checks on power. Photo: Xavier von Erlach.

in the parliamentary elections of 1961, although the CDU received a respectable 45 per cent of the votes, and they had to govern with the small party of Free Democrats. Their coalition partner insisted in 1963 on the resignation of Adenauer. Even if the CDU scored a victory in the parliamentary elections of 1965, receiving 48 per cent of the votes, the Free Democrats who had lost some support, left the coalition government in 1966, and Erhard had to step down, both as Chancellor and Leader of the CDU. A coalition government of Christian Democrats and Social Democrats was formed. The era of liberalisation was over, but to this day German governments have pursued cautious, moderate economic policies, based on balanced budgets and price stability, with the result that the German economy is strong and resilient.

The real miracle was not the rapid economic recovery of Germany. It was the fact that Adenauer and Erhard, with Ordo liberalism as an indispensable lodestar, navigated the ship of state on an even keel through rough waters. The German miracle was a *political* miracle. One of the most remarkable achievements of the new Germany was the absorption

of more than ten million German-speaking immigrants who had fled or been expelled from areas under communist rule in Central or Eastern Europe after the Second World War. Czechoslovakia expelled her three million German-speaking citizens from Sudetenland, even though they and their ancestors had lived there for centuries. From former parts of Germany which had been ceded to Poland or the Soviet Union came seven million Germans. The individuals expelled were given short notice and they were only allowed to take with them items that they could carry themselves; all their other property was confiscated. The expulsions were often brutal.⁽⁵⁵⁾ The most cautious estimates of casualties in and as a result of the expulsions are of a little less than a million; some estimates are much higher. The aim was to create homogeneous populations in the communist-controlled states of Central and Eastern Europe. This was a strange aim for the followers of Marxism which stresses the common identity of all workers and rejects nationalism. Another irony was that in the 1946 Nuremberg trials of Nazi leaders they were rightly accused of the abomination of mass expulsions. But the main point is that Adenauer's and Erhard's ship of state was so expertly built and so skilfully navigated that it could without significant problems handle the greatest population transfer in history. This was a miracle within the German miracle. The strength and resilience of the German economy was again put to a test in 1990 when the Federal Republic admitted as members the five much poorer *Länder* of East Germany, the Soviet puppet state which had collapsed: The reunification put an enormous strain on West Germany, but it succeeded, not least because of the swift and efficient

privatisation of the means of production in East Germany.

The reunification of Germany in 1990 under Chancellor Helmut Kohl, Leader of the CDU, led to worries in other European countries. The spectre of the 'Ugly German' which Röpke had in 1945 tried to exorcise reared its head. As a French poet had once exclaimed, his compatriots loved Germany so much that they wanted two of them. But the new Germany which had risen up from the ashes was nothing like the old Greater Prussia. The German Problem was centralisation, making totalitarianism possible, whereas the German Solution was decentralisation, liberty under the law. It facilitated a friendly relationship with her neighbour Poland that reunified Germany recognised the Oder-Neisse border which had been unilaterally set by the victors at the end of the Second World War. Germany, now consisting of sixteen *Länder* (three of them being the cities of Berlin, Hamburg and Bremen), had regained her true soul. She had cast off the spell of Prussia.

“ Nur der verdient sich Freiheit wie das Leben,
Der täglich sie erobern muß.

(Only those deserve freedom and life who must conquer them anew every day.)⁽⁵⁶⁾ The most powerful and populous country on the continent—and the world's fourth largest economy—had been reintegrated into Europe. She had again become an important and respected part of the West. This was no mean achievement, to which Röpke and other conservative liberals in Germany, such as Eucken and Rüstow, significantly contributed.

(55) Raymond M. Douglas, *Orderly and Humane: The Expulsion of the Germans after the Second World War* (New Haven CT: Yale University Press, 2012). Even if instances of cruelty against Germans in the twentieth century obviously pale in comparison to the Holocaust and to other Nazi atrocities, historians in the Anglosphere have largely, and unjustly, neglected this issue. Not many realise that the victorious Allied Powers in the First World War maintained their blockade of Germany for eight months after the armistice in November 1918, seeking to starve the civil population into submission. During the war itself, approximately 750,000 Germans died of hunger and malnutrition. C. Paul Vincent, *The Politics of Hunger: The Allied Blockade of Germany, 1915-1919* (Athens OH: Ohio University Press, 1986). One of the most shocking episodes after the Second World War was the refusal by the Danish Medical Association to treat any of the 250,000 German civilians who had crossed the Baltic Sea in flight from the Soviet Army. As a result, around 7,000 German children under five died in Danish refugee camps, mostly of easily treatable diseases. This was less than the total number of Danes losing their lives because of the war (estimated to be 6,000). Kirsten Lyloff, *Barn eller Fjende? Uledsagede tyske flygtningebørn i Danmark 1945–1949* [Children or Enemies? Unescorted German refugee children in Denmark 1945–1949] (Aarhus: Aarhus University Press, 2006).

(56) Johann Wolfgang von Goethe, *Faust*, Pt. II (1832), Act V, 11574.

Michael Oakeshott

(1901–1990)

In 1945, the Labour Party won a resounding victory in parliamentary elections in the United Kingdom, on a platform of nationalisation and central planning. ‘We are the masters now,’ one of their leaders exclaimed.⁽¹⁾ To many, the Conservatives seemed too cowardly to fight and too fat to run.⁽²⁾ Socialists controlled the trade unions and most of the academy, with only a few lonely voices being raised in protest against their programme. One such voice belonged to a Cambridge don, Michael Oakeshott, who in a series of articles in the 1940s and 1950s advanced original, elegant and subtle arguments against the kind of politics propagated by British Labour: the politics of sweeping changes from above, following a blueprint, without regard for settled ways of life, traditions, customs, habits and manners. For Oakeshott, politics should not be a contest between different projects, an ideological battlefield, but rather the ‘activity of attending to the general arrangements of a set of people whom chance or choice have brought together’.⁽³⁾ He criticised what he called rationalism, the idea that individual reason was the only source of authority. This was a plain error, he taught. Practical knowledge, transmitted through traditions, was even more important than technological knowledge. Oakeshott presented an intriguing interpretation of Western civilisation and its discontents: In the late



Oakeshott's disposition is conservative, and his economic thought is liberal: The state should try and prevent bad things from happening, not make futile attempts to produce happiness. Photo: London School of Economics.

(1) This was Attorney General Hartley Shawcross, in a debate in the House of Commons on 2 April 1946 about repeal of the Trades Disputes Act of 1927. Shawcross' fellow Labour MP, Donald Bruce, later Lord Bruce of Donington, who was sitting immediately behind him, insists that he said this, while a milder version is found in *Hansard*, vol. 421, c. 1213: ‘We are the masters at the moment, and not only at the moment but for a very long time to come.’ Cf. The Cover-Up, *New Statesman* 28 July 2003, p. 5.

(2) Here from *A Thousand & One Epigrams: Selected from the Writings of Elbert Hubbard* (East Aurora, NY: Roycroft Press, 1911), p. 96.

(3) Michael Oakeshott, *Political Education* (1951), *Rationalism in Politics and Other Essays*, 2nd ed. (Indianapolis IN: Liberty Fund, 1991), p. 44.

Middle Ages, the modern European state started to develop, in response to the rise of individuality, as people acquired the will and ability to make choices for themselves. It was a state which laid down rules for individuals about how to pursue their self-chosen goals instead of imposing on them common goals. But individuality also begot its opposite, the faceless masses who lacked the will or ability to make choices for themselves and who therefore tried to retreat into a different kind of state, a community with a predetermined purpose. Although Oakeshott himself resisted attempts to classify him politically, he can plausibly be regarded as a conservative liberal: conservative in his emphasis on tradition, liberal in his celebration of individuality.

Oakeshott's Life and Works

Michael Joseph Oakeshott was born on 11 December 1901, one of the three sons of Joseph Francis Oakeshott and his wife Frances Maude, born Hellicar. His father was a civil servant, employed at the Inland Revenue, and member of the Fabian Society which promoted the gradual transformation of Great Britain into a socialist country. His mother was a nurse. As she came from a wealthy family the Oakeshotts lived in relative comfort. The father was agnostic, but the mother was deeply religious, and also a champion of women's rights. The young Michael was sent to a progressive public school which encouraged individuality, and in 1920 he went to Cambridge where he read history at Gonville and Caius College. Upon graduation, Oakeshott studied theology for a while in Germany, at Tübingen and Marburg. In 1925 he was elected a Fellow in History at Gonville and Caius after a brief interlude as English teacher in a grammar school. He married Joyce Fricker in 1927, and they had one son, Simon. Oakeshott published his first book in 1933, *Experience and Its Modes*, a defence of philosophical idealism, done with a sure touch, but carrying an unfashionable message. It was written under the influence of Oxford philosopher Robin G. Collingwood which led another Oxford philosopher, Sir Isaiah Berlin, somewhat unfairly to dismiss Oakeshott (apparently without having read any of his stuff) as 'Collingwood

warmed-up'.⁽⁴⁾ In 1934, Oakeshott left his wife and their son. By that time, he had become an inveterate womaniser. His interest was reciprocated by women. 'Oakeshott was an extraordinarily handsome young man,' his friend John Casey remarked.⁽⁵⁾ Oakeshott's next book, *A Guide to the Classics*, which came out in 1936 was co-written with another Cambridge don, the classicist Guy T. Griffith, but the innocuous title belied the fact that it was about betting in horse races, a hobby that the two dons shared. Oakeshott married his second wife, Kate Burton, in 1938, but the couple had little in common. In 1939 Oakeshott edited an anthology, *The Social and Political Doctrines of Contemporary Europe*. In the Introduction he suggested that the crucial disagreement in politics was not between Left and Right but between those who would 'plan and impose a way of life upon a society' and those who 'not only refuse to hand over the destiny of a society to any set of officials but also consider the whole notion of planning the destiny of a society to be both stupid and immoral'.⁽⁶⁾

Oakeshott enlisted in the army at the beginning of the Second World War and volunteered for covert operations on the Continent, but the military found his appearance to be 'too unmistakably English' for such missions.⁽⁷⁾ He served until the end of the war in an intelligence unit called 'Phantom', analysing information about artillery targeting behind enemy lines. After the war Oakeshott resumed his research and teaching and divorced his wife. He also became editor of the *Cambridge Journal* where he published some of his best-known essays, such as 'Rationalism in Politics' and 'The Political Economy of Freedom'. While he remained a lifelong Fellow at Gonville and Caius, he accepted a fellowship in 1949 at Nuffield College, Oxford. He only spent a year there, because in 1950 he was appointed Professor of Political Science at the London School of Economics. The British Left was dismayed. One of its luminaries,

(4) Noël Annan, *The Dons: Mentors, Eccentrics and Geniuses* (Chicago: University of Chicago Press, 1999), p. 223. But one could just as well say that Berlin, in his celebrated essay on two concepts of liberty, was 'Constant warmed-up', except that Constant's paper on two concepts of liberty, discussed in the chapter on Constant in this book, seems in many ways superior to that of Berlin.

(5) John Casey, *Philosopher of Conversation*, *Spectator* 25 May 1985.

(6) *The Social and Political Doctrines of Contemporary Europe*, ed. by Michael Oakeshott (Cambridge: Cambridge University Press, 1939), p. xxii. Mises' *Socialism* is on the list of books provided on socialism, p. 159.

(7) John Gray, *Last of the Idealists*, *Literary Review*, No. 422 (July 2014).

Richard Crossman, complained that Oakeshott belonged to the extreme Right which ‘deifies Tradition because it fears the democratic principles which challenge privilege and status’.⁽⁸⁾ In a different vein, a colleague of his at the LSE remarked: ‘He had exquisite manners and enjoyed the company of beautiful women, and he radiated a kind of old-fashioned charm which bewildered some of the thoroughly modern technocrats and bureaucrats and politologues he met when he moved to the London School of Economics.’⁽⁹⁾ In his inaugural lecture at the LSE in 1951 Oakeshott rejected ideological rigidity in politics.

“ In political activity, then, men sail a boundless and bottomless sea; there is neither harbour for shelter nor floor for anchorage, neither starting-place nor appointed destination. The enterprise is to keep afloat on an even keel; the sea is both friend and enemy; and the seamanship consists in using the resources of a traditional manner of behaviour in order to make a friend of every hostile occasion.”⁽¹⁰⁾

At the LSE Oakeshott gave regular lectures on the history of political thought to large audiences. One of his students recalled: ‘He would slip onto the stage of the large lecture room at LSE through an opening in the curtains, usually dressed in a deep green or deep red velvet jacket and small gold reading-glasses perched on his nose, and hold an audience of hundreds enthralled with topics that might, in lesser hands, induce drowsiness—such as the distinction between *auctoritas* and *potestas* in Roman thought.’ Oakeshott also conducted a seminar on the history of political thought where his manner was radically different; ‘he would look meditatively at the table while others held forth, murmuring an encouraging “yes, yes” to keep the conversation afloat. And in that he invariably succeeded; his greatest gifts were for conversation and

friendship, both sustained by knowledge and by a boyish enthusiasm.’⁽¹¹⁾

In 1962, Oakeshott published *Rationalism in Politics and Other Essays*, a collection of ten incisive and readable papers, some previously published, which greatly enhanced his reputation as a conservative thinker. Despite his heavy academic and administrative duties which he performed efficiently, Oakeshott found time for numerous affairs with, among others, the novelist Iris Murdoch. He was said to have three mistresses at any one time. With one of them, Mary Walsh, he had an illegitimate son, Sebastian, but he did not pursue the relationship. He even managed to seduce the girlfriend of his son Simon. Oakeshott engaged in other non-academic activities. He liked nude bathing, and once he was given notice about this by the police, to his immense annoyance and to his friends’ quiet amusement.⁽¹²⁾ ‘He is firmly bohemian, and for much of his life was addicted to camping and the open air. Despite his avowed attachment to Augustinian Christianity he has always seemed a quite unembarrassed Romantic child of nature,’ Casey wrote.⁽¹³⁾ In 1968 Oakeshott retired from the LSE, although he continued to conduct his seminar on political thought for some years. Now he found time to restate his political theory more systematically. In 1975, he published his major work, *On Human Conduct*, where he analysed two kinds of associations. The civil association, *societas*, has been developing in Western society since the late Middle Ages. It is held together by the shared acknowledgement of an authority. By contrast, an enterprise association, *universitas*, unites people for shared purposes. A state which would lay down non-instrumental rules and act solely as an umpire, not as a player, would be a civil association, whereas enterprise associations would include churches, corporations, political parties, factories, fraternities, schools, sports clubs, trade unions and other organised interest groups. It is only in a civil association, under the rule of law, that individuals

(8) Richard Crossman, The Ultimate Conservative, *The New Statesman and Nation*, Vol. 42 (1951), p. 61.

(9) Maurice Cranston, Remembrances of Michael Oakeshott, *Political Theory*, Vol. 19, No. 3 (1991), p. 323–324.

(10) Oakeshott, Political Education, *Rationalism*, p. 60.

(11) Patrick Riley, Michael Oakeshott, Philosopher of Individuality, *The Review of Politics*, Vol. 54, No. 4 (1992), p. 662.

(12) On Oakeshott’s private life, Robert Grant, The Pursuit of Intimacy, or Rationalism in Love, *A Companion to Michael Oakeshott*, ed. by Paul Franco and Leslie March (University Park PA: Pennsylvania University Press, 2012), pp. 15–44.

(13) John Casey, Philosopher of Conversation, *Spectator* 25 May 1985, p. 18.



The House of Commons in 1833, after the Great Reform Act of 1832 when the vote was extended to most property owners, also in cities, and some electoral abuses were corrected. The Whigs sit to the left and the Tories, in opposition, to the right, and in the foreground stand some members of the House of Lords. Oakshott's idea of the state as a civil association, united in recognition of general rules and enabling individual freedom, has been to some extent practised (and articulated) in Great Britain.

Painting by Sir George Hayter.

are fully free to pursue their own aims, Oakeshott maintains. As the state is compulsory, it is in so far as it is a civil association that it can claim authority over the individual, limiting itself to stipulating how to do things, but not what things to do. The modern error is to try and transform a civil association into an enterprise association, turn the umpire into a player, impose uniformity on individuality. Oakeshott concedes however that all existing states are mixed: the two concepts are ideal types, analytical tools.⁽¹⁴⁾ Oakeshott further explained his approach in *On History and Other Essays* in 1983, especially on the Rule of Law.⁽¹⁵⁾

Oakeshott never tried to establish a school or found a movement, although he had a strong impact on many of his readers and students. Unlike two other prominent professors at the London School of Economics, Friedrich von Hayek and Karl Popper, he was not a member of the Mont Pelerin Society, an international academy of conservative and liberal scholars, although he attended some meetings of the Society.⁽¹⁶⁾ He avoided Popper's seminars at the LSE because he found them 'combative' and 'tiresome'.⁽¹⁷⁾ Oakeshott rarely commented on current affairs and avoided political engagements. In the early 1960s, for example, while chairing a public lecture on British entry to the European Community, he was asked for his opinion. He responded: 'I do not find it necessary to hold opinions on such matters.'⁽¹⁸⁾ Although Oakeshott was widely seen as a conservative philosopher, he was not active in the Conservative Party. Nevertheless, he accepted invitations to lecture to the Conservative Philosophy Group.⁽¹⁹⁾ He was also a supporter of Conservative Leader Margaret Thatcher, Prime Minister of the United Kingdom between 1979 and 1990, commenting that she

'seems to be more of a genuine Conservative than her predecessors'.⁽²⁰⁾ But Oakeshott preferred a leisurely conversation to a heated argument. When Thatcher and another participant in the Conservative Philosophy Group once got into a wrangle, Oakeshott wound up and set going a cage full of mechanical singing birds, as if he was saying: Stop bickering and chat cordially, please!⁽²¹⁾ Seemingly indifferent to wealth and rank, unlike many conservatives, he turned down Thatcher's invitation to be made Companion of Honour, the most prestigious award in the gift of the Crown, although perhaps it shows more vanity to decline an honour (and let it be known) than to accept it.⁽²²⁾

In 1965 Oakeshott had married for the third time, Christel Schneider, a painter much younger than him. By all accounts it was a happy union. Upon retirement, the Oakeshotts moved into a cluster of rustic cottages at Acton, Langton Matravers, a village on the Dorset coast, but they frequently visited friends in London and elsewhere. What Oakeshott valued the most was love and friendship. For many of his friends, he was the epitome of the English gentleman. He was also an English patriot. 'But for all his determination to eschew overt political engagement, he remained deeply committed to the traditional political forms and procedures of his own country. He had a strong feeling for England and it was chiefly from his reflections on the political experience and achievements of England that he drew the conclusion that the civil condition must rest on a slowly evolving practice of civility,' his friend Nevil Johnson commented.⁽²³⁾ Oakeshott passed away on 19 December 1990.

(14) Michael Oakeshott, *On Human Conduct* (Oxford: Clarendon Press, 1975).

(15) Michael Oakeshott, *On History and Other Essays* (Oxford: Blackwell, 1983).

(16) Leslie Marsh, Oakeshott and Hayek: Situating the Mind, *A Companion to Michael Oakeshott*, p. 265.

(17) Bhikhu Parekh, Living as an Immortal, *Cambridge Review*, Vol. 112 (1991), p. 101.

(18) Noël Annan, *Our Age: English Intellectuals between the World Wars—Portrait of a Generation* (London: Weidenfeld & Nicolson, 1990), p. 400.

(19) John Casey, The Revival of Tory Philosophy, *Spectator* 17 March 2007. When Oakeshott 'outlined his theory of politics, the politicians simply could not believe that he was serious', Casey wrote. Hayek and Milton Friedman also addressed the Club, amongst others.

(20) Michael Oakeshott, Conservative Essays (Review), *Daily Telegraph* 29 June 1978, repr. in *The Vocabulary of a Modern European State*, ed. by Luke O'Sullivan (Exeter: Imprint Academic, 2008), p. 282.

(21) This meeting took place on 9 February 1981, according to Thatcher's engagement diary, on the website of the Margaret Thatcher Foundation. John Casey, Philosopher of Practice, *The Achievement of Michael Oakeshott*, ed. by Jesse Norman (London: Duckworth, 1993), p. 63.

(22) The reason Oakeshott turned down the invitation was surely not that he wanted to register any disapproval of the Thatcher government, as Luke O'Sullivan suggests in his Introduction to *The Vocabulary of a Modern European State*. It was rather that he did not care for such honours, or at least he wanted to be seen as not caring about them: It was a part of his self-image.

(23) Nevil Johnson, Michael Joseph Oakeshott 1901–1990, *Proceedings of the British Academy*, Vol. 80 (1993), p. 419.

Rationalism in Politics

In the essay ‘Rationalism in Politics’ Oakeshott considers ‘the most remarkable intellectual fashion of post-Renaissance Europe’. This is rationalism which according to him is the idea that thought is free from obligation to any authority except that of reason. The rationalist ‘has no sense of the cumulation of experience, only of the readiness of experience when it has been converted into a formula: the past is significant to him only as an encumbrance.’⁽²⁴⁾ Oakeshott finds it surprising that rationalism has been carried into politics, ‘always so deeply veined with both the traditional, the circumstantial and the transitory’.⁽²⁵⁾ The rationalist approaches political tasks as technical problems, like an engineer. ‘Political activity is recognized as the imposition of a uniform condition of perfection upon human conduct.’⁽²⁶⁾ Examples of rationalistic projects in politics are not only attempts to reconstruct the whole of society, as in the French and Russian revolutions, but also, according to Oakeshott, open diplomacy, Henry George’s single tax, the Beveridge plan for a welfare state in the United Kingdom, federalism, nationalism, the destruction of the Austro-Hungarian Empire, the revival of Gaelic as the official language of Eire, and the proposal to establish a World State. Rationalism, Oakeshott says, is based on a certain conception of knowledge, that it is only technical and not practical. But this is an error, because these two sorts of knowledge are the twin components of the knowledge involved in every concrete human activity. For example, cookery is not only what can be written down in a cookery book, but also the skill acquired and practised by good cooks. Cricket cannot be learned from a manual, only in the game itself. Thus the knowledge involved in political activity is both technical and practical. Whereas technical knowledge can be formulated in rules, principles, directions, and maxims, practical knowledge is expressed in a traditional way of doing things. Not only does the rationalist mistake the part for the whole, but he also wrongly believes that the technical knowledge on which

he relies is certain. He overestimates human reason. ‘And under this influence, the intellect in politics ceases to be the critic of political habit and becomes a substitute for habit, and the life of a society loses its rhythm and continuity and is resolved into a succession of problems and crises. Folk-lore, because it is not technique, is identified with nescience, and all sense of what Burke called the partnership between present and past is lost.’⁽²⁷⁾

Oakeshott describes how in modern times traditions of behaviour have been replaced by ideologies. What has grown up and established itself unconsciously over a period of time has given way to the consciously planned and deliberately executed. The old politics of repair has become the new politics of destruction and creation. Even the resistance to rationalism has been converted into an ideology. ‘This is, perhaps, the main significance of Hayek’s *Road to Serfdom*—not the cogency of his doctrine, but the fact that it is a doctrine. A plan to resist all planning may be better than its opposite, but it belongs to the same style of politics,’ Oakeshott asserts. ‘And only in a society already deeply infected with Rationalism will the conversion of the traditional resources of resistance to the tyranny of Rationalism into a self-conscious ideology be considered a strengthening of those resources.’⁽²⁸⁾ In an unmistakable further reference to Hayek Oakeshott adds that ‘so necessary is it to have a book, that those who have hitherto thought it possible to get on without one, have had, rather late in the day, to set about composing one for their own use.’⁽²⁹⁾ At the end of his essay Oakeshott yet again reveals his irritation at the strong impact that Hayek’s *Road to Serfdom* had on British conservatives when he comments that

“ we have the spectacle of a set of sanctimonious, rationalist politicians, preaching an ideology of unselfishness and social service to a population in which they and their predecessors have done their best

(24) Oakeshott, *Rationalism in Politics*, *Rationalism*, p. 6.

(25) *Ibid.*, p. 7.

(26) *Ibid.*, p. 10.

(27) *Ibid.*, p. 27–28.

(28) *Ibid.*, pp. 26–27.

(29) *Ibid.*, p. 27.

to destroy the only living root of moral behaviour; and opposed by another set of politicians dabbling with the project of converting us from Rationalism under the inspiration of a fresh rationalization of our political tradition.⁽³⁰⁾

Oakeshott also thinks that John Locke produced a popular, long-lived and valuable ‘political crib’, an abridgement of the British political tradition purporting to elicit its truth, but from which the full significance of the tradition inevitably escaped. Locke, in turn, inspired the American Founding Fathers who according to Oakeshott erroneously grounded their principles in postulates about human nature instead of regarding them as products of a civilisation.

Oakeshott’s critique of rationalism, as he understands it, is perceptive and plausible. Practical knowledge, ignored by rationalists, is indispensable in politics as well as in other spheres of life. But this does not mean that technical knowledge is useless. Both are necessary and neither of them can do without the other. But Oakeshott is unfair to Hayek, Locke and the American Founding Fathers. In his condescending attitude towards Hayek one detects a bit of a British sense of superiority, however well hidden beneath his elegant style and seeming detachment. In Hayek’s *Road to Serfdom* there is the same awareness of the spontaneous, unplanned and even unselfconscious social forces as in Oakeshott’s writings. Hayek laments the ‘inability to leave anything to the simple power of natural growth’ which he sees as characteristic of modern thinking,⁽³¹⁾ and observes that economic liberals regard ‘competition as superior not only because it is in most circumstances the most efficient method known, but even more because it is the only method by which our activities can be adjusted to each other without coercive or arbitrary intervention of authority.’⁽³²⁾ Hayek is not offering a plan to resist all planning. Oakeshott ignores the crucial difference between removing impediments to the spontaneous

growth of institutions and traditions, which is what Hayek advocates in his book, and trying to remake society according to a premeditated plan, which is what Hayek opposes. This is the difference between supporting a firm, but flexible framework for the discovery of temporary solutions to political problems and espousing a final solution to all political problems, a shortcut to heaven.

When Oakeshott lumps together as rationalists the English and American revolutionaries on the one hand and the French and Russian revolutionaries on the other hand, he ignores another fundamental difference. The 1688 and 1776 revolutions were made in order to preserve liberties that the revolutionaries felt to be threatened, even though in both cases their defences of their initiatives were couched in terms of abstract principles. The idea that kings had to rule by consent and that they could be deposed if they violated ancient laws, customs and habits was present long before Locke, for example in Snorri Sturluson’s account of the struggles between Norwegian and Swedish kings and their subjects and in St. Thomas Aquinas’ theory of a just rebellion.⁽³³⁾ It is true that Locke’s political theory was an abstraction from a tradition, a crib, as Oakeshott calls it, but that is the point: from a tradition. Of course, he could not in his book capture the whole tradition in which he stands. Nobody could. The 1789 revolution in France was however made to remake society, and so was the Bolshevik Revolution in 1917. In both cases power was seized by small groups of ideologues and fantasists with no experience themselves of ruling and no political tradition on which to rely. On first sight, also, the German Constituent Assembly, in session from the autumn of 1948 to the spring of 1949, was a rationalist enterprise, an attempt to reconstruct society. But in fact the Assembly was trying to recapture a German liberal tradition which has been weakened and almost killed under Bismarck, the Weimar Social Democrats and Hitler. It succeeded: From the ashes rose the real Germany which had been suppressed when she had forcibly been transformed into Greater Prussia in 1866, as Wilhelm Röpke persuasively argued.⁽³⁴⁾

(30) Ibid., p. 41–42.

(31) Friedrich A. Hayek, *The Road to Serfdom* (London: Routledge & Kegan Paul, 1976 [1944]), p. 135.

(32) Ibid., p. 27.

(33) Cf. the chapters on Snorri and Aquinas in this book.

(34) Wilhelm Röpke, *The German Question*, tran. by E. W. Dicks (London: George Allen & Unwin, 1946). Cf. the chapter on Röpke in this book.



The strengths and weaknesses of Oakeshott's emphasis on traditional knowledge were brought out in correspondence between him and Popper in January 1948. Popper had criticised utopianism as pseudo-rationalism and contrasted it with 'true rationalism' which implies an awareness of human fallibility and a willingness to consider arguments and evidence.⁽³⁵⁾ Oakeshott told Popper that he agreed with him on utopianism, but that he had some comments to make on his concept of true rationalism. First, Oakeshott assured Popper that his critique of rationalism was not an argument against reason. He rejected rationalism precisely because he found it thoroughly unreasonable. Reason had a place in politics, but rationalism was the doctrine that *nothing else* had a place there. In the second place, it was not enough to reject utopianism. There was also modified utopianism which focused on just one problem at a time, for example the problem of unemployment, trying to resolve it once and for all:

Oakeshott emphasises that in a civilised society there are many activities in which individuals engage for their own sake, for sheer pleasure or enjoyment, such as poetry, conversation, gambling, fishing and horse racing. Painting by Rosa Bonheur, Horse Fair.

(35) Karl R. Popper, Utopia and Violence, *Hibbert Journal*, Vol. 16, No. 2 (1948), pp. 109–116.

“ I should say that no problem in politics is ever solved permanently, and that no problem in politics should be allowed to get out of proportion & to exclude the real business of politics—which is to keep the society as a whole, in all its arrangements, coherent and stable as well as progressive. And I think your true rationalism tends to get individual problems out of proportion.

Thirdly, and consequently, Popper's true rationalist made a misguided attempt to break up political life into a series of separate problems and solutions. 'The moral life of a man does not consist entirely in performing a number of reasonable actions, it consists in *living* according to certain habits of behaviour, which may be analysed into separate actions but which does not appear as separate actions except on a few occasions.' Fourthly, Popper's true rationalist might agree that he owed something to others, but he would make a judgement himself about how much of what he had appropriated from others would be reasonable: thus, he would begin and end in himself. Finally, Oakeshott told Popper that his contrast between reason and violence was not the proper one. Reason could not exclude violence, but this did not mean that nothing could:

“ I would say that the politics I have in mind is the *politics of conversation*, as against your *politics of argument*. You see, I don't believe that reason is the *only* bond which unites men, not because men are unreasonable sometimes, but because there is something else much stronger that unites them e.g. a common civilization (where it exists), common habits of behaviours (where they exist)—neither of which are rational, dependent upon argument or common to all men. There is nothing, I think, common to all men.

Oakeshott added that the problem with Popper's true rationalism was not that it was impossible, but that it was impossible by itself. Reason could not take the place of habits of behaviour. Instead,

it had to act as the critic of habits of behaviour. ‘But, perhaps, at bottom we are only disagreeing about how we use the words rational & rationalism.’

In his reply, Popper told Oakeshott that apart from minor terminological differences he could accept his view. ‘I fully agree with you that *no* problem is solved *permanently*; I should even put it this way: no problem in politics can be solved without creating a new one. And I am very ready to accept your delightful formula that a politics of conversation should replace my politics of argumentation.’ He also shared Oakeshott’s opinion that reason could not take the place of habits of behaviour and should instead act as the critic of habits of behaviour. Nevertheless, there was a difference between the two of them, Popper insisted. While he believed like Oakeshott in the ‘unconscious following of a tradition of moral behaviour’, he rejected the view that ‘the passage of time’ was ‘the only healer of social complaints worth considering’. Popper suggested that complacency about social ills might have created the very rationalism against which Oakeshott was arguing. The French and Russian revolutions might have been reactions to such complacency. Popper emphasised however that he did not propose reforms only to avoid revolutions. He supported them for their own sake. Reforms were not only inevitable, but sometimes also desirable. For example, Burke, the spokesman of traditionalism, was not exempt from a kind of utopianism. Neither was Oakeshott himself, Popper submitted: When he applauded the old ‘politically experienced classes’,⁽³⁶⁾ he was transforming ‘experience into an abstraction’, acting like a rationalist. Popper finally asked: ‘You have criticized “rationalism”. But have you tried to see the needs, desires, hopes, etc. to which it answers, in proper perspective?’⁽³⁷⁾

Oakeshott did not answer Popper directly, although he invited him to submit an article to the *Cambridge Journal*. This is not surprising, because Popper’s main point is well taken. The passage of time cannot

be the only healer of social complaints worth considering, as Oakeshott had suggested, although it is perhaps often the best—or least worst—healer. Problems cannot always take care of themselves. Oakeshott himself wrote a year later that the chief danger of the collectivism and syndicalism then rampant in Great Britain

“ lies, not in the possibility that either will establish itself exclusively, but in their joint success in hindering a genuinely libertarian attack upon the accumulated maladjustments in our society and upon our real problems. That attack is certainly long overdue, and the delay must not be attributed entirely to the popularity of these pseudo-remedies. Libertarian society has not been entirely idle in the past fifty years: liberty has been extended by the correction of many small abuses. But the general drift of reform in this country has too often been inspired by vaguely collectivist motives. Liberty has been lost inadvertently through the lack of a clearly formulated libertarian policy of reform.”⁽³⁸⁾

It seems to me that Oakeshott’s position here is very similar to that of Hayek and Popper. Respect for tradition and reluctance to make hasty and drastic reforms has to be complemented by the critical analysis of existing habits of behaviour. Oakeshott the critical rationalist is refuting Oakeshott the uncompromising traditionalist.

Arguably, however, Popper is wrong when he regards the French and the Russian Revolutions as reactions to complacency about social ills. They were initiatives of small bands of fanatics when they perceived weakening resolve in the ruling classes. The Jacobins and the Bolsheviks certainly were thoroughgoing rationalists in Oakeshott’s sense, turning their back on tradition and denying the existence of practical knowledge. If their policies were abridgements of any practices, as Oakeshott thinks

(36) Oakeshott had said that ‘the politics of Rationalism are the politics of the politically inexperienced’, *Rationalism in Politics, Rationalism*, p. 28.

(37) The letters are reprinted in full at the website of the Michael Oakeshott Foundation. Cf. also Struan Jacobs and Ian Tregenza, *Rationalism and tradition: The Popper–Oakeshott conversation*, *European Journal of Political Theory*, Vol. 13, No. 1 (2014), pp. 3–24.

(38) Oakeshott, *The Political Economy of Freedom* (1948), *Rationalism*, pp. 402–403.

all policies are, then they referred to the practices of the revolutionary millenarians and mystical anarchists of the Middle Ages, ably described by Norman Cohn.⁽³⁹⁾ On the other hand, Popper is right that in Western democracies complacency about social ills can lead to political unrest. The clearest example is the Great Depression in the 1930s where central banks did not provide the economy with sufficient liquidity, according to Milton Friedman,⁽⁴⁰⁾ and thus they contributed to mass unemployment, one of the ‘social complaints’ which Oakeshott thought would ‘heal with the passage of time’. In the main, though, Oakeshott tends to exaggerate the difference between himself on the one hand and Hayek and Popper on the other hand. Oakeshott certainly offers a sophisticated and attractive interpretation of the English political tradition. But perhaps Hayek and Popper have an even deeper understanding of this tradition than Oakeshott, precisely because they are Englishmen by choice rather than chance. Unlike Oakeshott, they have personal experience of the disintegration of a prosperous and civilised society.

On Being Conservative

In ‘Rationalism in Politics’ Oakeshott sets out the case against rationalism as the unjustified dismissal of traditional knowledge. In another important essay, ‘On Being Conservative,’ Oakeshott presents his positive message. To be conservative is, he says, to have a propensity to use and to enjoy what is available rather than to wish for or to look for something else; to delight in what is present rather than what was or what may be. It is a disposition appropriate to a man who is acutely aware of having something to lose. Oakeshott observes that this disposition will appear more naturally in the old than in the young, not because the old are more sensitive to loss but because they are apt to be more fully aware of the resources of their world:

(39) Norman Cohn, *The Pursuit of the Millennium: Revolutionary Millenarians and Mystical Anarchists of the Middle Ages* (New York: Oxford University Press, 1970); *Europe's Inner Demons* (London: Heinemann for Sussex University Press, 1975).

(40) Milton Friedman and Anna J. Schwartz, *The Great Contraction* (Princeton NJ: Princeton University Press, 1963).

“ To be conservative, then, is to prefer the familiar to the unknown, to prefer the tried to the untried, fact to mystery, the actual to the possible, the limited to the unbounded, the near to the distant, the sufficient to the superabundant, the convenient to the perfect, present laughter to utopian bliss. Familiar relationships and loyalties will be preferred to the allure of more profitable attachments; to acquire and to enlarge will be less important than to keep, to cultivate and to enjoy; the grief of loss will be more acute than the excitement of novelty or promise.⁽⁴¹⁾

A conservative individual is not hostile towards change and innovation, but he knows that each change involves a real loss as well as a possible gain and that likewise an innovation need not always be an improvement. The burden of proof is on the would-be innovator, while a conservative individual ‘believes that the more closely an innovation resembles growth (that is, the more clearly it is intimated in and not merely imposed upon the situation) the less likely it is to result in a preponderance of loss’.⁽⁴²⁾ The conservative individual therefore has a preference for those innovations which are responses to specific defects, and small and limited, and made at a slow pace. ‘The disposition to be conservative is, then, warm and positive in respect of enjoyment, and correspondingly cool and critical in respect of change and innovation.’⁽⁴³⁾

Oakeshott suggests that a conservative disposition is particularly appropriate for certain activities, in which people engage for what they are and not for what they provide. One example is friendship. You are attached to a friend, and you do not discard him even if he does not always behave. ‘One friend cannot replace another: there is all the difference in the world between the death of a friend and the retirement of one’s tailor

(41) Oakeshott, On Being Conservative, *Rationalism*, pp. 408–409.

(42) Ibid., pp. 411–412.

(43) Ibid., p. 412.

from business.’⁽⁴⁴⁾ Other examples are patriotism and conversation. There are also activities which do not involve human relationships directly. Individuals undertake them not for a prize but for the enjoyment they generate. One example is fishing: ‘Why worry about the best gear if you do not care whether or not you make a catch?’⁽⁴⁵⁾ Gambling is another example: it gives two supreme pleasures, the pleasure of winning and the pleasure of losing. Even in activities not undertaken for their own sake tools are used with which people are familiar. Such tools only gradually change. But what does a conservative disposition in politics imply? Oakeshott replies that it does not entail many of the beliefs commonly associated with conservatism, such as support for monarchy or the Anglican Church, or natural law or providential order. Instead, it implies the idea that ‘governing is a specific and limited activity, namely the provision and custody of general rules of conduct, which are understood, not as plans for imposing substantive activities, but as instruments enabling people to pursue the activities of their own choice.’⁽⁴⁶⁾ This conception of politics is derived from recognition of the fact that people engage in a great variety of activities, and pursue courses of their own. ‘This multiplicity of activity and variety of opinion is apt to produce collisions: we pursue courses which cut across those of others, and we do not all approve the same sort of conduct.’⁽⁴⁷⁾ Oakeshott holds that the acceptance of individuality as the historical circumstance in which we find ourselves is sufficient to make the conservative disposition intelligible. The state should act as an umpire and not participate in the game. It has to resolve some of the collisions which the variety of beliefs and activities generate. Independent individuals may need rulers, but they do not need leaders. ‘Thus, governing is recognized as a specific and limited activity: not the management of an enterprise, but the rule of those engaged in a great diversity of self-chosen enterprises.’⁽⁴⁸⁾

(44) Ibid., p. 417.

(45) Ibid., p. 417.

(46) Ibid., p. 424.

(47) Ibid., p. 425.

(48) Ibid., p. 429. Although Oakeshott eschews labels, this approach places him very much inside the liberal tradition in politics, as Paul Franco argues, *The Political Philosophy of Michael Oakeshott* (New



Bjarni Benediktsson, Leader of Iceland's Independence Party, swings the rod with his assistants in Nordura (North River), 5 June 2014. Salmon fishing in Iceland is a pastime individuals pursue for its own sake. It combines elements of gambling and hunting. Photo: Einar Falur Ingolfsson.

Oakeshott's account of what it means to be conservative is not only eloquent but also plausible and attractive. It is much more systematic than it appears to be, as his later works reaffirm.⁽⁴⁹⁾ It is a coherent whole. For Oakeshott, history is indeed the history of freedom: it is the fascinating story of emerging individuality, and the corresponding development of institutions which enable and encourage it. But has Oakeshott overcome the two social constraints from which another philosophical sceptic, David Hume, derived his theory, human selfishness and natural scarcity? Oakeshott convincingly demonstrates that in some important human relationships, such as friendship, patriotism and conversation, the pursuit of self-interest is hardly relevant. A friend is not a customer; our country is not an enterprise; conversation may not produce any material gain. But Oakeshott can

Haven CT: Yale University Press, 1990). Oakeshott was a liberal more than a conservative: liberal was the noun, conservative the adjective, to describe his political position.

(49) Especially the three essays in *On Human Conduct* and the essay on the Rule of Law in *On History*.

no more than any other human being escape natural scarcity. Consider fishing, according to Oakeshott one of the activities in which individuals engage for its own sake. He obviously means recreational, not commercial fishing. A comparison between the two is instructive. In Iceland, angling in salmon rivers is a popular pastime, whereas it is a large and profitable industry to harvest cod offshore, in the Icelandic territorial waters. Since stocks of salmon and cod both are scarce resources, access cannot be free: then they would be over-exploited. The different ways in which access is restricted in the two cases brings out Oakeshott's point. In Iceland, rights to catch salmon traditionally are attached to farms by rivers through which the salmon passes on its way from the sea. The riparian farmers typically rent out the rights to anglers as 'rods'. To catch salmon you rent a rod, or rather a right to use a rod (with a fly tied to the end to entice the fish) for a given number of hours a day, for a few days. It then depends on your individual skill how many salmon you can catch during your allotted time. On the other hand, rights to fish cod offshore belong to owners of fishing vessels who either themselves use them or sell them to other vessel owners. The offshore fishing rights are essentially catch quotas, rights to harvest a certain proportion of the total allowable catch in the fish stock in question, in our case cod. The fishermen use harvesting techniques which will produce the most cod at the least cost, mostly in large stern trawlers equipped with the most effective gear available.

The interesting question is: Why do anglers in salmon rivers not, like offshore fishermen harvesting cod, use fishing gear which would produce the most salmon at the least cost, for example gillnets in tributaries? A fly rod seems like an inefficient tool for catching fish. The answer is of course that the two groups are playing different games. Anglers are fishing for fishing's sake, engaging in an outdoors pastime, employing their skills against the salmon. The effort they put in is not waste, but a part of the pleasure: the more, the merrier. Sometimes the salmon caught is even released. In contrast to anglers, commercial fishermen are fishing for profit, to support themselves and their families, and they therefore want effort to be productive. The rods used to regulate access in salmon rivers are in fact effort quotas with gear prescriptions: your effort is limited to the given number of hours a day in which you may wield the fishing

rod. Effort quotas in the cod fishery (such as a limit on allowable fishing days) would however be inefficient because the fishermen would then engage in a 'Derby', try to harvest as much as possible of cod as quickly as possible, regardless of cost. In my class on political theory at the University of Iceland a standard examination question used to be: Why is it reasonable to regulate access by catch quotas in the cod fishery and by effort quotas in the salmon fishery? The short answer is that offshore fisheries are for profit, and salmon fishing for pleasure. Indeed, salmon fishing in Iceland is a typical conservative pastime in Oakeshott's sense, offering a lot of exercise outdoors, the soothing sounds of a rushing river, solitude in unspoiled nature, and camaraderie in fishing lodges after hours.

There is more to the story. Scarcity affects not only the way in which fishing rights for a salmon river are arranged, but also the very opportunities to engage in this pastime. Salmon fishing in Iceland is not a cheap hobby. The sport itself presupposes a fairly affluent society or at least a wealthy elite. So do some other conservative activities in Oakeshott's sense, such as poetry, music, gambling, and conversation (all of which require considerable leisure), not to mention expensive sports like polo, golf, cricket and rugby. Scarcity is not only relevant in activities undertaken for their own sake, but also in politics. Oakeshott plausibly holds that the state should try to resolve some of the collisions which the variety of human beliefs and activities generate. But collisions will be much more frequent and serious in poor than in affluent societies. Money corrupts, but the lack of money corrupts even more. Some prosperity may be a necessary precondition of the purposeless civil association which Oakeshott describes as the system under which the individual can make choices. Oakeshott and most other dons living a sheltered Oxbridge life, including his critic Berlin, look with disdain on the pursuit of material gain, although Oakeshott certainly is more sympathetic to entrepreneurial capitalism than Berlin. They should have recognised the immense contribution which Carl Menger, Ludwig von Mises and Hayek (and Adam Smith before them) made to economics as a science by explaining how mankind could deal with scarcity, an inescapable condition of human life. You may not be interested in scarcity, but scarcity is interested in you. There are always gaps to be filled, needs to

be taken into account, mouths to be fed, commodities to be produced, as Hayek observes: ‘The continuous flow of goods and services is maintained by constant deliberate adjustments, by new dispositions made every day in the light of circumstances not known the day before, by B stepping in at once when A fails to deliver.’⁽⁵⁰⁾ In a market economy, if you do not make adjustments, you stay behind. While you are free to do so, you have no claim then on the fruits others have earned by their entrepreneurial alertness. In the economy, in the struggle against scarcity, change is inevitable, and innovation should be encouraged, as Hayek argues. In politics, on the other hand, when it is not necessary to change, it is necessary not to change, as Oakeshott emphasises.

There are times when, paradoxically, it may be necessary to be radical in order to be conservative. Perhaps we are sailing on the boundless and bottomless sea, without harbour for shelter nor floor for anchorage, as Oakeshott puts it, but for this we may require not only a well-built ship and the proper equipment to repair it when needed, but also a lodestar, a compass and some nautical charts to avoid wrong turns, reefs, skerries and other such dangers. It is sometimes said that Thatcher’s reforms in the United Kingdom between 1979 and 1990 were not in the spirit of Oakeshott.⁽⁵¹⁾ I think this is wrong. Thatcher was inspired not only by Hayek and Friedman, but also by Oakeshott, as I could gather from the only serious conversation I had with her, at a dinner in London in 2002. She congratulated me on the fact that my country, Iceland, had not joined the European Union. She said that the problem with the bureaucrats in Brussels, and unfortunately with many continental politicians and intellectuals as well was that they had never understood the British tradition of liberty under the law, which she described very much in Oakeshottian terms, albeit without invoking his name.

In fact, two of Thatcher’s most decisive policy initiatives, to abandon attempts to maintain full employment by public spending and to force militant trade unions to obey the law, had been intimated much earlier by Oakeshott, however reluctant he usually was to pronounce

(50) Friedrich A. Hayek, *The Use of Knowledge in Society*, *Individualism and Economic Order*, p. 83.

(51) Annan, *Our Age*, p. 394.



The enjoyment of music is a conservative activity in Oakeshott’s sense. Painting by Caravaggio, *The Musicians*.

on policy issues. First, in Oakeshott’s 1948 exchange with Popper he had warned against concentrating on any one problem, taking unemployment as an example. No such

problem should be allowed to get out of proportion and to exclude the real business of politics which was to keep society as a whole coherent and stable as well as progressive. When Thatcher came to power, the pursuit of full employment in the preceding forty years had got out of proportion and was disrupting the economy. In the second place, Oakeshott had in 1949 pointed out that the British labour market stood in need of reform. ‘All monopolies are prejudicial to freedom, but there is good reason for supposing that labour monopolies are more dangerous than any others,’ he had observed. The appetite of trade unions ‘for power is insatiable and, producing nothing, they encounter none of the productional diseconomies of undue size.’⁽⁵²⁾ This is precisely the problem Thatcher tackled. With her policy changes, she was not imposing any centrally designed plan on society. Instead, she was, as Oakeshott had advised, trying to make the

(52) Oakeshott, *Political Economy*, *Rationalism*, p. 401.

society as a whole anew coherent and stable as well as progressive.

A conservative disposition certainly is not out of place in Great Britain with her strong liberal tradition. Thatcher was reinforcing this tradition. She was, in Oakeshott's terms, attacking accumulated maladjustments. Some would say however that Oakeshott's political theory is too English to be appropriate to other countries. 'Men deserve more than poignancy and old port.'⁽⁵³⁾ This is partly right: In many places, Hayek may offer better guidance. Oakeshott has little to say to people from failed societies, say Haiti or Liberia, where almost nothing works and there is very little in the past of which the citizens can be proud. He admits this himself in his discussion of the conservative inclination: 'If the present is arid, offering little or nothing to be used or enjoyed, then this inclination will be weak or absent.'⁽⁵⁴⁾ Whereas Oakeshott would then shrug his shoulders, go to the local pub and have a cheerful conversation with his friends, Hayek would insist that there is nothing inevitable about such failures. He would offer his customary advice about free trade, private property, and limited government.

Admittedly, some attempts to 'modernise' non-Western societies have failed, for example in Iran under the Shah and in Iraq after Saddam Hussein.⁽⁵⁵⁾ But the failures were not because the reformers wanted to introduce capitalism, but because they sought to impose Western habits of behaviour on societies mostly unprepared and unwilling to adopt them. It is easier to export capitalism than democracy. Self-interest can be harnessed, but virtue cannot be commanded. Capitalism has been successfully introduced in countries like Japan, South Korea, Taiwan, Hong Kong, Singapore, and Chile, not to mention Poland, the Czech Republic and the Baltic states. Consider Mauritius. This island in the Indian Ocean had been written off by two Nobel Laureates, the economist James Meade and the writer V. S. Naipaul. In the 1960s, Meade predicted a bleak future for what was then a British colony. In the 1970s, Naipaul contemptuously dismissed the newly independent

country as an 'overcrowded barracoon'.⁽⁵⁶⁾ But in Mauritius something of a consensus formed that the country should adopt economic freedom. Her economy became one of the freest in the world, and Mauritius has done quite well in comparison with other African countries.⁽⁵⁷⁾ I would not say that this is worthless.

Nevertheless, although Oakeshott refuses himself to provide what he contemptuously calls a crib, foreigners can in his works read about the freedom which

“ lies in a coherence of mutually supporting liberties, each of which amplifies the whole and none of which stands alone. It springs neither from the separation of church and state, nor from the rule of law, nor from private property, nor from parliamentary government, nor from the writ of habeas corpus, nor from the independence of the judiciary, nor from any one of the thousand other devices and arrangements characteristic of our society, but from what each signifies and represents, namely the absence from our society of overwhelming concentrations of power.”⁽⁵⁸⁾

This is a lesson thoughtful people in other countries have learned from the British example, most famously, but not solely, the American Founding Fathers. For example, the leader of Iceland's independence struggle, Jon Sigurdsson, pointed to England as the political model for his countrymen. Her rapid progress could, he wrote, without doubt be attributed to her great freedom of enterprise and association.⁽⁵⁹⁾ Jon Thorlaksson, the founder of Iceland's Independence Party and Prime

(53) Neal Wood, A Guide to the Classics: The Skepticism of Professor Oakeshott, *The Journal of Politics*, Vol. 21, No. 4 (1959), pp. 647–662.

(54) Oakeshott, On Being Conservative, *Rationalism*, p. 408.

(55) John Gray, *False Dawn: The Delusions of Global Capitalism* (New York: The New Press, 2006).

(56) James Meade, *The Economics and Social Structure of Mauritius. Report to the Government of Mauritius* (London: Methuen, 1961); V. S. Naipaul, *The Overcrowded Barracoon: And Other Articles* (London: André Deutsch, 1972), p. 256.

(57) James D. Gwartney, Robert Lawson, Joshua Hall & Ryan Murphy, *Economic Freedom of the World: Annual Report* (Vancouver BC: Fraser Institute, 2020).

(58) Oakeshott, Political Economy, *Rationalism*, p. 388.

(59) Jon Sigurdsson, Um felagsskap og samtök [On Associations and Corporations], *Nyfélagsrit*, Vol. 4 (1844), p. 10.

Minister, admired the British political tradition. In a 1927 speech to parliament, he said: ‘Experience here in Europe shows that those countries have fared the best where the written statutes are the fewest, and where the constitutional customs are the firmest. Here I am referring to Great Britain.’⁽⁶⁰⁾

Far from being a Little Englander, Oakeshott offers the striking argument for freedom that in our historical circumstances it is not necessary to offer an argument for freedom: It is a matter of our identity, or self-recognition.⁽⁶¹⁾ We are who we are, individuals who have acquired a will and an ability to make choices for ourselves. We can try to deny this identity of ours, but then we are refusing to acknowledge who we are; then, in other words, we are entertaining an illusion about ourselves. Oakeshott’s argument is not based on natural law, as in Aquinas, or on a social contract, as in Locke, or on prescription, as in Burke, or on evolution, as in Spencer, or on material wellbeing, as in Mises, or on spontaneous order, as in Hayek. As Oakeshott told Popper, he believes that there is no human nature, common to all men. There is only human history, and our history is that of individuals who have developed a kind of society in which they can pursue their own goals:

“ In place of a preconceived purpose, then, such a society will find its guide in a principle of *continuity* (which is a diffusion of power between past, present and future) and in a principle of *consensus* (which is a diffusion of power between the different legitimate interests of the present). We call ourselves free because our pursuit of current desires does not deprive us of a sympathy for what went before; like the wise man, we remain reconciled with our past.”⁽⁶²⁾

(60) Hannes H. Gissurarson, *Jon Thorlaksson forsætisradherra* [Prime Minister Jon Thorlaksson] (Reykjavik: Almenna bokafelagid, 1992), pp. 333–334.

(61) This is of course a Hegelian argument, but brilliantly adapted to the political circumstances and traditions of England. One of Oakeshott’s achievements, not discussed here, is that he has reinterpreted both Hegel and Hobbes as participants in the process of understanding the modern European state as a civil association.

(62) Oakeshott, *Political Economy, Rationalism*, p. 396.

I find this a cogent idea. Socialism is not only the delusion that we have sufficient knowledge and ability to reconstruct society; it is also an illusion about who we are or aspire to be. Its error is to try and transform a civil association into an enterprise association, turn citizens into comrades or, worse still, conscripts. Oakeshott’s contrast between civil and enterprise associations has some affinity with Constant’s comparison of modern and ancient liberty, and Spencer’s distinction between industrial and military societies, and Popper’s contrast between open and closed societies.⁽⁶³⁾ A similarity can also be discerned to the old German distinction between *Genossenschaft*, fellowship or ‘horizontal’ association, and *Herrschaft*, lordship or ‘vertical association’.⁽⁶⁴⁾ But the socialists may not be the only ones who are mistaken about their own identity. Even if Oakeshott himself may not have acknowledged it, he made a distinct contribution to the conversation of conservative liberals about the traditions and institutions of a free society.

(63) These concepts are discussed in the chapters on those thinkers in this book. It seems to me that Oakeshott was less influenced, if at all, by Spencer and Popper than he was by Constant.

(64) Otto von Gierke, *Natural Law and the Theory of Society 1500 to 1800*, Vols. I–II, tran. by Ernest Barker (Cambridge: Cambridge University Press, 1934); *Community in Historical Perspective*, tran. by Mary Fischer (Cambridge: Cambridge University Press, 1990). Oakeshott wrote a review of the former book.

Sir Karl R. Popper

(1902–1994)

On 12 March 1938, Adolf Hitler invaded Austria, met with no resistance and immediately annexed the country to Germany. The whole world was stunned. On the opposite side of the globe, in New Zealand, a young philosophy teacher from Austria by the name of Karl R. Popper decided, upon hearing the news, to write a book about the philosophical origins of totalitarianism which now had won yet another victory. In *The Open Society and Its Enemies* which was published in two volumes in 1945, Popper presents a lucid, comprehensive and closely argued critique of the two thinkers who according to him contributed most ideas to twentieth century totalitarianism, Plato of Ancient Greece and Karl Marx of nineteenth century Germany. The work is also an eloquent exposition and defence of liberal Western democracy. It prominently figures on many lists of the best non-fiction books in the twentieth century and remains Popper's most famous publication, although the author regarded himself as first and foremost a philosopher of science.⁽¹⁾ For him, political philosophy was a diversion, not his real vocation. But it was a diversion required by the times. Just as the failure of the French Revolution in the eighteenth century had prompted Edmund Burke, Benjamin Constant and Alexis de Tocqueville to analyse the conditions for a free society, the collapse of the Danubian Monarchy in 1918 and the tragic chain of events following it and culminating in a

Popper presents what he calls 'negative utilitarianism'. It seeks to reduce known ills rather than to produce unknown blessings.
Photo: Graziano Arici/age fotostock.

(1) It was no. 64 on a list of the best 100 non-fiction books of the 20th century, put together by the Board of Modern Library; and no. 35 on a list of non-fiction books of all times, put together by Robert McCrum for the *Guardian*. These two lists have a clear left-wing bias, but on the conservative *National Review*'s list of the best non-fiction books of the 20th century, published on 3 May 1999, Popper's *Open Society* is no. 6. There, Hayek's *Road to Serfdom* is no. 4, his *Constitution of Liberty* no. 9, Milton Friedman's *Capitalism and Freedom* no. 10, Michael Oakeshott's *Rationalism in Politics* no. 12, and Ludwig von Mises' *Bureaucracy* no. 74. Needless to say, no book by Hayek, Friedman, Oakeshott or Mises made it to the Modern Library or *Guardian* lists.

total war made an indelible impression on Ludwig von Mises, Friedrich A. von Hayek and Popper, however different they were from one another. In their country of birth, they had witnessed how fragile civilisation could be, and therefore their writings in their countries of choice, the United Kingdom and the United States, had more depth and a greater sense of urgency than many works by their Anglo-Saxon contemporaries.

Popper's Life and Works

Karl Raimund Popper was born in Vienna on 28 July 1902, the son of Simon Popper, a prominent lawyer, and his wife Jenny, born Schiff. He had two older sisters. Both parents were Jewish, but his family had converted to Lutheranism before he was born. The young Popper was brought up in a cultured and prosperous home, full of books and with a grand piano in the dining room. But he had a strong independent streak and left school at sixteen. He was a young idealist searching for meaning in a world which in 1918 lay in ruins, after the defeat of the Austrian-Hungarian Monarchy in the First World War. He became a socialist like many of his generation, but he soon was repelled by the casual attitude of Marxists towards violence and he also found their basic philosophical tenets implausible. For a while he was a construction worker and then a cabinet maker, also attending lectures on subjects that interested him at the University of Vienna. Popper graduated as a teacher in 1924 and as a psychologist in 1928 and earned his living by teaching in a secondary school. In 1930 he married his colleague Josefina Anna Henninger, called Hennie. They were devoted to each other, and their marriage was a true partnership, with Hennie giving her husband indispensable support.

Popper was fascinated by science, not least Albert Einstein's relativity theory, and he took some interest in the Vienna Circle of philosophers who tried to find a criterion with which to distinguish between science and non-science. He kept his distance, however. A leading member of the Circle, Rudolf Carnap, joked that the distance between them and Popper was much smaller than the distance between Popper and them. Moreover, Popper rejected as pseudo-science the two most fashionable creeds in Vienna at the time, Marxism and Freudism. They were irrefutable world views, explaining everything and therefore nothing.

Consequently, Popper decided to write a book about what could count as being scientific. He took up David Hume's old challenge: How can we be certain that the sun will rise tomorrow, even if it has risen every previous day of our life? Popper's solution is simple, but elegant. What should count as scientific is not what could be proved, because nothing can be proved with certainty; it is what eventually could be *disproved*, even if it is temporarily accepted because nothing better has yet been found. It is in other words falsifiability which made a theory scientific, not verifiability. We may assume that the sun will rise tomorrow because this hypothesis has not yet been falsified. The proposition that all swans are white is not verified, or proved, by the fact that all the swans we have hitherto seen are white. But it is falsified if we come across black swans, as Dutch explorers did to their surprise in Western Australia in 1697. Science works by deduction, by testing a theory against facts, rather than by induction, by inferring a theory from facts. Science is a process of imaginative invention and error elimination, for example when Newton's theory was replaced by that of Einstein. Progress in science depends, Popper holds, on new and original ideas being subject to relentless criticism. 'Our intellect does not draw its laws from nature but tries—with varying degrees of success—to impose upon nature laws which it freely invents.'⁽²⁾

Popper's book, *The Logic of Scientific Discovery*, was published in German in 1934. It caused quite a stir, impressing amongst others the celebrated Einstein.⁽³⁾ But Austria was now going through one political convulsion after another. The Great Depression, beginning in late 1929, hit the country hard. Conservatives defeated socialists in a brief civil war in February 1934, and in July the Nazis attempted a coup, and assassinated the Chancellor, Engelbert Dollfuss, before they were suppressed. Antisemitism was rampant. Popper and his wife decided not to have children in those turbulent times, and Popper began looking for a job outside Austria. He spent the winter of 1935–1936 in England,

(2) Karl R. Popper, *On the Status of Science and of Metaphysics* (1958), *Conjectures and Refutations* (London: Routledge & Kegan Paul, 1963), p. 191.

(3) Karl R. Popper, *Logik der Forschung* (Wien: Julius Springer, 1934); rewritten by Popper as *The Logic of Scientific Discovery* (London: Hutchinson, 1959). A letter Einstein wrote to Popper appears as an appendix to the English edition.

giving lectures in various places. In London he met his compatriot Hayek, by now Professor of Economics at the London School of Economics. Hayek had read his treatise on science with interest. They became friends, and Popper gave a paper at Hayek's seminar. It was a critique of historicism, the Marxist belief in inexorable laws of historical destiny. In the autumn of 1936, Popper accepted a lectureship at Canterbury University College in Christchurch, New Zealand, and arrived there with his wife in March 1937, a year before Hitler's annexation of Austria. Despite a heavy teaching load, he managed to finish his book on totalitarianism in 1943. Hayek was impressed by the manuscript and helped Popper search for a publisher in England. The book was rejected by Cambridge University Press, but accepted by Hayek's own publisher, Routledge, and came out in 1945.⁽⁴⁾ Popper kept revising the text to the end, although it was somewhat difficult to do so from New Zealand. At one point the title of the book was to be 'The Open Society and Its Antagonists'. Popper sent his publisher a cable: 'Consider Enemies Better'. The postmistress informed the police, but Popper persuaded them that he had no preference for Hitler over Churchill.⁽⁵⁾ The book was well-received. Perhaps the most famous philosopher in the world at the time, Bertrand Russell, whom Popper admired, said that Popper's attack on Plato, while unorthodox, was thoroughly justified. He added that in the book Marx was 'dissected with equal acumen, and given his due share of responsibility for modern misfortunes'.⁽⁶⁾ Hayek arranged in 1945 for Popper to get a readership in logic and scientific method at the London School of Economics. When the Poppers arrived in London in January 1946, they were met at the docks by a friend, art historian Ernst Gombrich, who brought them a copy of the *Open Society*. Popper perused it with great excitement on the way to Gombrich's house.⁽⁷⁾

(4) Karl R. Popper, *The Open Society and Its Enemies*, Vols. I–II (London: George Routledge, 1945).

(5) John W. N. Watkins, Karl Raimund Popper, 1902–1994, *Proceedings of the British Academy*, Vol. 94 (1997), p. 659.

(6) Letter from Bertrand Russell on behalf of Karl R. Popper to Simon & Schuster, Penrhynendudraeth, North Wales, 30 August 1946. Repr. in Igor Grattan-Guinness, Russell and Karl Popper: Their Personal Contacts, *Russell: the Journal of the Bertrand Russell Archives*, N. S. Vol. 12 (1992), p. 10.

(7) Ernst Gombrich, Personal Recollections of the Publication of The Open Society, *Popper's Open*

In the autumn of 1946 Popper was invited to talk to the Cambridge Moral Science Club. This turned out to be quite an event. Before the meeting, which took place on 25 October, Popper had tea with Russell in his rooms (which had once been occupied by Isaac Newton). They shared a disdain for linguistic philosophy which was then fashionable. It was, Popper said, like endlessly polishing one's glasses without putting them on one's nose to watch the real world. The meeting itself was held in the rooms of philosopher Richard B. Braithwaite in King's College. Popper's compatriot Ludwig Wittgenstein who chaired the meeting sat on one side of an open fire and Popper on the other side, both facing the audience, while Russell sat between them in a high-backed rocking-chair, smoking his pipe. Popper criticised Wittgenstein's thesis that there were no genuine philosophical problems, only puzzles. First, he mentioned induction. Wittgenstein brusquely dismissed this as a logical problem. Popper's next example was the question of actual, as distinct from merely potential, infinities. Wittgenstein angrily dismissed this as a mathematical problem. Popper's last example was about the validity of moral rules. Wittgenstein, who held the poker of the fireplace in his hands and was waving it about, demanded an example of a moral rule. Popper replied: 'Not to threaten visiting lecturers with pokers!' Amidst laughter, Wittgenstein threw the poker down and stormed out, angrily declaring as he went that Popper was confusing the issues, whereupon Russell called out: 'Wittgenstein, you're the one who's causing the confusion!' Afterwards, Braithwaite complimented Popper for being 'the only man who had managed to interrupt Wittgenstein in the way in which Wittgenstein interrupted everyone else', while Russell later wrote to Popper that he had been shocked by Wittgenstein's failure of good manners.⁽⁸⁾ A few months later, in April 1947, Popper got a

Society After Fifty Years: The Continuing Relevance of Karl Popper, ed. by Ian Jarvie and Sandra Pralong (London: Routledge, 1999), p. 27.

(8) Karl R. Popper, *Unended Quest* (London: Routledge, 2002 [1974]), pp. 141–142; Watkins, Popper, *Proceedings*, pp. 662 and 665. Cf. an exchange of letters between Popper and Russell after the incident, repr. in Grattan-Guinness, Russell and Karl Popper (1992), pp. 13–15. Wittgenstein's acolytes, such as the couple Elizabeth Anscombe and Peter Geach, vehemently denied this account, although it was confirmed by others present. These acolytes had a history of denying inconvenient facts about their idol, for example revelations about Wittgenstein's private life, even if they knew they were true (as they had access to Wittgenstein's coded notebooks). An entertaining book has been written about the incident by two British journalists, David Edmonds and Jon Eidinow, *Wittgenstein's Poker: The Story of a Ten-Minute Argument Between Two Great Philosophers* (New York: Harper-Collins, 2001).

friendlier reception at a conference of liberal scholars and men of affairs that Hayek organised at Mont Pèlerin in Switzerland. After lively debates, it was decided to establish an informal international academy of liberals, named after the meeting place. Popper became one of the founding members of the Mont Pelerin Society, with other distinguished philosophers, historians and economists besides Hayek such as Mises, Bertrand de Jouvenel, and Milton Friedman.⁽⁹⁾

In 1949, Popper was promoted to a Professorship in Logic and Scientific Method at the London School of Economics. A year later, he and his wife moved out of London, to a secluded house in Penn, Buckinghamshire, where Popper found the peace and quiet necessary for his studies. He took no interest in administrative affairs and avoided faculty meetings as much as he could. He neither drank nor smoke and was an incredibly hard worker, utterly devoted to his research. At the LSE, Popper became a popular and influential teacher. One of his early students, John Watkins, wrote: 'I was riveted. He had no notes or other paraphernalia. Ideas seemed to flow from him. They were put forward, not as propositions for the audience to consider, but as hard-won truths; his combination of seriousness, lucidity, and conviction had an almost hypnotic persuasiveness. The seriousness was lightened by touches of humour and happy improvisations.'⁽¹⁰⁾ Popper did not mind that Watkins asked a lot of questions in class, and he occasionally asked him along for supper after the lectures. While Watkins then wanted to talk about philosophical issues, Popper 'usually preferred to talk instead about such things as the errors of the Attlee government or the evils of the USSR [the Soviet Union]'.⁽¹¹⁾

At the LSE, Popper also held a seminar on Tuesday afternoons which became legendary, both because of its high standards and because of the intensity and force with which Popper directed it. He told his students to pick problems, not topics, and to express themselves as clearly as they could. He did not allow speakers to dodge his probing questions. They



At the first meeting of the Mont Pelerin Society in April 1947. From left: Swiss economist William Rappard, French philosopher Bertrand de Jouvenel (partly hidden), Popper and Austro-American economist Ludwig von Mises. Photo: MPS Archive, Hoover Institution.

had to come up with good answers to them or else to admit their failure in doing so. Once a speaker, a Wittgenstein acolyte, repeatedly tried to avoid all criticism, appealing to the audience and giving long speeches, becoming incoherent and even belligerent. Popper asked him to leave.⁽¹²⁾ But those who could handle the tension found the seminar

stimulating. 'To me it was like jumping on to an express train in motion. At that time there prevailed in these seminars a captive atmosphere of real learning, a quest for knowledge and a kind of teaching that reflected many great moments in the history of science and philosophy,' a student recalled.⁽¹³⁾ A Popperian critical tradition in the philosophy of science slowly began to emerge, although some would rather call it a Popperian

(9) He read a paper to the Society at a meeting in Venice, September 1954. *Public Opinion and Liberal Principles, Conjectures*, pp. 347–354.

(10) Watkins, Popper, *Proceedings*, p. 663.

(11) John W. N. Watkins, Karl Popper: A Memoir, *The American Scholar*, Vol. 66, No. 2 (1997), p. 207.

(12) William Bartley, A Popperian Harvest, *In Pursuit of Truth: Essays on the Philosophy of Karl Popper on the Occasion of His 80th Birthday* (Atlantic Highlands, NJ: Humanities Press, 1982), p. 251. Although Bartley does not mention the name of the hapless speaker, it seems this was Brian O'Shaughnessy, cf. Joseph Agassi, *A Philosopher's Apprentice: In Karl Popper's Workshop*, rev. ed. (Amsterdam: Rodopi, 2008), p. 87n.

(13) Arne Petersen, Editor's Preface, Karl R. Popper, *The World of Parmenides: Essays on the Presocratic Enlightenment* (London: Routledge, 2012), p. xiii.

School. Eminent thinkers belonged to or at least learned from this tradition, such as Popper's colleagues at the LSE, Ernest Gellner and Imre Lakatos, German sociologist Hans Albert,⁽¹⁴⁾ and many of Popper's students, including Watkins, Joseph Agassi, William W. Bartley, Paul Feyerabend, Ian Jarvie, Alan Musgrave, David Miller, and Jeremy Shearmur,⁽¹⁵⁾ although later Feyerabend rejected Popper's account of science and became a 'methodological anarchist'.⁽¹⁶⁾ With time, Popper became somewhat of a recluse, breaking with former friends if he felt that they had turned their backs on him. Perhaps the most dramatic rift was with Lakatos.⁽¹⁷⁾ Like many other powerful thinkers who had endured heavy resistance to their ideas, Popper found it easier to preach tolerance than to practise it. His reluctance to countenance criticism may also be yet another demonstration of what he himself made the chief premise of his political thought, the fallibility of human beings.

As Professor of Logic and Scientific Method at the LSE, Popper quickly gained an international reputation. At Princeton in 1950 he read a paper on indeterminism with both Albert Einstein and Niels Bohr in the audience. The voluble Bohr took over the discussion and went on and on: six hours after the meeting started the room contained just him at the blackboard with Einstein and Popper listening. 'He's mad,' Einstein whispered.⁽¹⁸⁾ Popper was incensed in 1953 when Isaiah Berlin (later

Sir Isaiah) gave a public lecture on historical inevitability at the LSE, repeating many of Popper's arguments without mentioning him once. After the lecture, Berlin ran into 'an arctic blast' from Popper.⁽¹⁹⁾ In 1957, Popper published *The Poverty of Historicism*, a much-expanded version of the paper he had presented in Hayek's seminar twenty-one years earlier. The Anglo-Hungarian writer Arthur Koestler commented that this was probably the only book published that year which would outlive the century.⁽²⁰⁾ Two years later, in 1959, Popper published the English version of his big treatise from 1934 on scientific method, also much revised. He wrote a *Postscript* to it which grew into three volumes and was published much later.⁽²¹⁾ In Germany in the early 1960s, Popper and Albert had a notable debate on the methodology of the social sciences with German Neo-Marxists Theodor W. Adorno and Jürgen Habermas. Popper used the occasion to restate his critique of historicism and to denounce attempts by Neo-Marxists to dress their personal prejudices in incomprehensible jargon.⁽²²⁾

In his lectures and papers Popper presented many striking new ideas and images, like his contrast between two conceptions of science, the bucket and the searchlight: on the one hand the often mindless accumulation of data into a bucket, and on the other hand his own ideal of bold and illuminating hypotheses acting as searchlights, yet to be falsified. He collected some of his papers in *Conjectures and Refutations: the Growth of Scientific Knowledge*, which was dedicated to Hayek. In the 1960s, Popper's main rival in the philosophy of science was widely regarded to be American philosopher Thomas Kuhn who taught that science was subject to 'paradigm shifts', brought about by

(14) For example, Ernest Gellner, *Words and Things: A Critical Account of Linguistic Philosophy and a Study in Ideology* (London: Gollancz, 1959); Imre Lakatos, *The Methodology of Scientific Research Programmes*, Vol. I (Cambridge: Cambridge University Press, 1980); Hans Albert — Karl Popper: *Briefwechsel 1858–1994*, ed. by Martin Morgenstern and Robert Zimmer (Frankfurt am Main: Fischer, 2005); Hans Albert, *In Kontroversen verstrickt. Vom Kulturpessimismus zum kritischen Rationalismus* (Münster: LIT Verlag 2007).

(15) To name a few works, John W. N. Watkins, *Science and Scepticism* (Princeton NJ: Princeton University Press, 1984); David Miller, *Critical Rationalism: A Restatement and Defence* (Chicago: Open Court, 1994); Jeremy Shearmur, *The Political Thought of Karl Popper* (London: Routledge, 1996); Joseph Agassi, *Popper and His Popular Critics: Thomas Kuhn, Paul Feyerabend and Imre Lakatos* (Cham: Springer International, 2014).

(16) Paul Feyerabend, *Against Method: Outline of an Anarchistic Theory of Knowledge* (Minneapolis: University of Minnesota Press, 1970).

(17) It later became known that Lakatos, a refugee from Communist Hungary whose real name was Avrum Lipsitz, had as a young communist vigorously persecuted non-Marxist intellectuals in Hungary. Alex Bandy, *Chess and Chocolate: Unlocking Lakatos* (Budapest: Akadémiai Kiadó, 2010). On the advice of the intelligence services, Lakatos was repeatedly denied British citizenship despite recommendations by Popper and others.

(18) Watkins, Popper, *Proceedings*, p. 666.

(19) Agassi, *Apprentice*, p. 152. In the published version, however, Berlin put in a reference to Popper. Historical Inevitability, *Four Essays on Liberty* (Oxford: Oxford University Press, 1969), pp. 41–117.

(20) Karl R. Popper, *The Poverty of Historicism* (London: Routledge & Kegan Paul, 1957). G. E. Moore, Editor of *Mind*, had rejected the manuscript as not being philosophical in nature, but Hayek arranged for its publication in *Economica*, in three parts, 1944–1945. Koestler's comment here after Bryan Magee, *Popper* (London: Fontana, 1973), p. 13.

(21) Karl R. Popper, *Postscript to The Logic of Scientific Discovery*, Vols. I–III, ed. by William W. Bartley (London: Hutchinson, 1982–1983). Vol. I, *Realism and the Aim of Science*; Vol. II, *The Open Universe*; Vol. III, *Quantum Theory and the Schism in Science*.

(22) *The Positivist Dispute in German Sociology*, tran. by Glyn Adey and David Frisby (London: Heinemann, 1976). It was a strange name for the dispute, because none of the participants identified as a positivist, neither Popper nor his Marxist opponents.

a new consensus forming among scientists rather than in a process of conjectures and refutations.⁽²³⁾ Popper and Kuhn met at an international conference at Bedford College in London in 1965, but talked at cross purposes, as Popper was mainly interested in the logic of scientific discovery whereas Kuhn was preoccupied with the sociology of the scientific community. Nevertheless, Kuhn conceded that, ‘Even in the developed sciences, there is an essential role for Sir Karl’s methodology. It is the strategy appropriate to those occasions when something goes wrong with normal science, when the discipline encounters crisis.’⁽²⁴⁾ Popper had many honours bestowed on him. In 1958, he was elected a Fellow of the British Academy. In 1965, under Harold Wilson’s Labour government, he received a knighthood and became Sir Karl. In 1976, he was the only philosopher in modern times to be elected Fellow of the Royal Society. When he found out that he had been elected under a special rule, and not as a practising scientist, he was upset, but he calmed down when he was told that Winston Churchill whom he admired had been elected to the Society under the same rule.⁽²⁵⁾

After his retirement in 1969, Popper kept working hard, seven days a week, from dawn till dusk. In 1973, his friend and disciple, journalist Bryan Magee, wrote a readable summary of his thought for the series ‘Fontana Modern Masters’. It is still the best popular exposition of Popper’s ideas. It was however telling that Popper was almost the only non-socialist to be considered a ‘modern master’ by the Fontana staff.⁽²⁶⁾ Popper himself wrote a lively intellectual autobiography for *The Library of Living Philosophers* in 1974, where he also replied to his critics. His autobiography was later republished separately as *Unended Quest*. There he discussed his conversion from socialism in the 1920s. ‘I remained a socialist for many years, even after my rejection of Marxism,’ he wrote,

“and if there could be such a thing as socialism combined with liberty then I would be a socialist still. For nothing could be better than living a modest, simple and free life in an egalitarian society. It took some time before I recognized this as no more than a beautiful dream; that freedom is more important than equality, that the attempt to realize equality endangers freedom; and that, if freedom is lost, there will not even be equality among the unfree.”⁽²⁷⁾

In retirement, Popper published several works.⁽²⁸⁾ He could count many prominent scientists and politicians as admirers, even disciples, for example Nobel Prize winners Sir Peter Medawar, Sir John Eccles and Jacques Monod, British Prime Minister Margaret Thatcher and two German Chancellors, social democrat Helmut Schmidt and conservative Helmut Kohl.⁽²⁹⁾ On Thatcher’s recommendation, Popper was made Companion of Honour in 1982. The venture capitalist George Soros who had studied under Popper was also much influenced by him and claimed that it had helped him in his investments. In philosophy courses at universities, however, Popper’s theories were rarely discussed, and if mentioned, peremptorily dismissed. One of his students once asked him why American philosophers were so hostile to his work, and he answered with a mischievous smile, but without a moment’s hesitation: ‘It is because I am on the right.’⁽³⁰⁾ It was a severe blow to Popper when his wife died in 1985 after a long illness. He sold his house in Penn, stayed for a while in Austria, but returned to England and bought another house in Kenley, where he spent the

(23) Thomas S. Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1962). Kuhn borrowed some of his ideas from philosopher and chemist Michael Polanyi, *Personal Knowledge: Towards a Post-Critical Philosophy* (Chicago: University of Chicago Press, 1958).

(24) Thomas S. Kuhn, *Reflections on My Critics, Criticism and the Growth of Knowledge*, ed. by Imre Lakatos and Alan Musgrave (Cambridge: Cambridge University Press, 1970), p. 247.

(25) David Miller, Sir Karl Raimund Popper, *Biographical Memoirs of Fellows of the Royal Society*, Vol. 43 (1997), p. 398.

(26) Needless to say, provocative, original and influential thinkers like Mises, Hayek, Friedman, Jouvanel, Röpke, Michael Oakeshott, and Ayn Rand, all then already well-known, were excluded.

(27) Karl R. Popper, *Unended Quest: An Intellectual Autobiography* (London: Routledge, 1992 [1976]), p. 36.

(28) They include *Objective Knowledge: An Evolutionary Approach* (Oxford, Clarendon Press, 1972); *The Self and Its Brain*, with Sir John Eccles (Berlin: Springer International, 1977); *In Search of a Better World* (London: Routledge, 1994). Cf. also Karl R. Popper, *After the Open Society: Selected Social and Political Writings*, ed. by Jeremy Shearmur and Piers Norris Turner (London: Routledge, 2008).

(29) Helmut Schmidt visited Popper a few times and contributed a Foreword to the aforementioned book *In Pursuit of Truth*.

(30) Mark Amadeo Notturmo, *Science and the Open Society: The Future of Karl Popper’s Philosophy* (Budapest: Central European University Press, 2000), p. 166.

remainder of his life, mainly working on scientific problems, but finding some time to comment on current affairs. He became in 1986 a Senior Research Fellow at the Hoover Institution, Stanford University, where he deposited his papers. He welcomed the collapse of communism in 1989–1991 but was worried by the hostility to science displayed by the Green movement. If environmental problems were to be solved, then it had to be by the application of science. He was sceptical about the dream of a European superstate: ‘I think we should learn from our mistakes and start again, very simply, with sovereign democratic states bound by treaties of close cooperation and mutual assistance, and a programme for the defence of peace.’⁽³¹⁾ Popper died in London on 17 September 1994.

‘Endless Search for Solutions’

I had already in grammar school discovered Popper’s works, and I had been greatly impressed by his forceful arguments against Plato and Marx and by his proposals for solving the problems of induction and demarcation of science. I found particularly illuminating Popper’s contrast between two approaches to social science: on the one hand the ‘conspiracy theory of society’ by which social phenomena are explained as direct results of conscious human agency; and on the other hand the theory of unintended consequences by which such phenomena are explained as the results of human action, but not the execution of any human design.⁽³²⁾ When I was working on my doctoral dissertation on Hayek in England, I decided it would be useful to interview Popper, although with some trepidation as I had heard that he was not much amenable to criticism. Indeed, it was joked that his best-known book should be called ‘The Open Society by One of Its Enemies’.⁽³³⁾ But when I called Popper by phone in January

(31) Karl R. Popper, Tribute to the Life and Work of Friedrich Hayek, *Hayek: Economist and Social Philosopher. A Critical Retrospect*, ed. by Stephen F. Frowen (London: Palgrave Macmillan, 1997), p. 312.

(32) Popper, *Open Society*, Vol. II, pp. 94–95; Towards a Rational Theory of Tradition, *Conjectures*, pp. 123–124. The theory of unintended consequences was of course cogently presented by the Scottish Enlightenment thinkers, David Hume, Adam Smith, and Adam Ferguson, but Popper may have been more influenced directly by Carl Menger.

(33) Apparently, Popper’s colleague at the LSE, Ernest Gellner, was the author of this witticism.



Popper and Friedrich von Hayek were personal friends. Popper told me that Hayek had practically saved his life by arranging for him to get a position at the London School of Economics. Photo: Ullstein Bild/Getty Images.

1985, he was very friendly. He said, in a strong but intelligible German accent, that I was welcome to visit him at three o’clock on 31 January, at his home in Penn, Buckinghamshire.⁽³⁴⁾ I took a train to High Wycombe, and then a taxi to Penn, a sleepy little village northwest of London, quintessentially English. The children’s writer Enid Blyton had lived in a village close by, and Penn looked just as if it were out of one of her novels: quaint old houses covered in ivy, with the tranquillity of the place occasionally interrupted by chirping birds. I found Popper’s house, Fallowfield, a medium-size house in a large garden, and knocked on the door. After a while, an old man opened the door. Stooped, short, and slim, he was white-haired, with a hooked nose and large ears. He gave me a tender smile and ushered me into his living room, telling me that unfortunately his wife was sick and could not meet me. We sat down and had tea. The room was large

(34) I published the interview in Icelandic, ‘Frjálslyggjan verdur aldrei fullskopud’ [There Are No Final Words in Liberalism], *Frélsid*, Vol. 6, No. 2 (1985), pp. 78–93. This account is largely based on the Icelandic version.

and full of books and in a corner there was a grand piano. Popper had lively, expressive eyes and looked directly at me when he was talking, or listening. His students said that they could be alternatively blazing with anger or glowing with excitement, but to me they appeared first and foremost fearless and probing.

I began by asking Popper what he thought about recent works in political philosophy, by John Rawls and Robert Nozick. He replied that he was not really following such works closely. His interest had moved to other subjects. He was under the impression, he added, that some young authors only had scant knowledge of the history and literature of the West. For example, he had just received an article about his critique of Marxism which showed that the author knew very little about the four first decades of the twentieth century when Marxist political parties were strong in Europe. ‘In those years, Marx attracted many people because he was a prophet,’ Popper said. ‘He thought he could make predictions about revolutions with the certainty with which astronomers could calculate the movements of celestial objects. People who do not know this will not understand why the Marxist movement attracted so many people at the time. The crux of the matter is that Marx did not think of himself as a moral reformer or as a politician, but rather as an objective scientist who was analysing social phenomena. Many came to believe him and they joined Marxist parties. I speak from experience. It was not least because of this belief, or rather this delusion, that the First World War broke out, one of the most tragic events of the century. The socialists who could have stopped it did not do so because they thought history should run its course. A similar thing happened afterwards when they failed to stop fascism.’ Popper fell silent for a moment, and then he added: ‘Young scholars do not read enough, and they do not read carefully. They should read a lot and do it slowly and carefully. Around 1960 speed-reading was in fashion at the LSE where I was teaching. There were even courses given in speed-reading. I wrote a letter to the Director suggesting that we should rather organise courses in slow-reading. I am afraid that the Director did not appreciate my proposal!’

Popper told me that probably his critique of Marxism had contributed to the fact that Marxists no longer presented their creed as a scientific theory. Nowadays they regarded it more like an interpretation of social

reality. In the past, Marxists, even the competent scientists among them, had been inspired by what they considered to be the Big Truth. They had been convinced they were embracing the future, the scientifically proven History. One well-known British scientist, Professor John D. Bernal, had exclaimed that Stalin was the ‘greatest scientist of our age’.⁽³⁵⁾ I asked Popper whether he had not treated Marx too gently in the second volume of *The Open Society*. He had suggested that Marx was a humanitarian, whereas the evidence showed that both Marx and Engels were bigots, accepting violence without any qualms and rejecting the right of small nations to exist. Popper replied: ‘I wrote *The Open Society and Its Enemies* to try and convert Marxists like those I knew personally. Therefore I treated Marx with some sympathy. But you are right that he was probably not a humanitarian, as I actually point out in an addendum to a revised edition where I refer to a biography of Marx by Leopold Schwarzschild.’⁽³⁶⁾ It contains documentary evidence which shows that he was much less of a humanitarian than I had thought.’ I asked Popper whether he had succeeded in converting any Marxists. ‘Well, I am very happy if I have done so, as I have been told,’ he said and paused for a while. Then he said: ‘I once said to a well-known British scientist that it was inexcusable of him to remain a member of the Communist Party while Stalin allowed his lackey, Trofim Lysenko, to persecute geneticists in the Soviet Union for holding theories which were not necessarily fully in accordance with Marxism-Leninism. A week later the press reported that he had left the Communist Party.’ This scientist was, I believe, Professor John B. S. Haldane, although Popper did not mention his name.⁽³⁷⁾

But surely modern historical research has shown, I commented, that the evils of the Industrial Revolution were greatly exaggerated by Marx, and also by Engels. Popper stood up, picked out two books from a shelf

(35) John D. Bernal, Stalin as Scientist, *Modern Quarterly*, Vol. 8, No. 3 (1953), pp. 133–142.

(36) Leopold Schwarzschild, *Karl Marx: The Red Prussian* (New York: Charles Scribner's Sons, 1947). I have found out, though, that some of the pieces attributed there to Marx were in fact written by Engels.

(37) Haldane left the Communist Party in 1950. Apparently, he spied for the Soviet Union, and this was known to Western intelligence services. Gavan Tredoux, *Comrade Haldane is Too Busy to Go on Holiday: The Genius who Spied for Stalin* (New York: Encounter Books, 2018). His code name was ‘Intelligentsia’.

and showed them to me. They were *North and South* and *Mary Barton*, novels from the nineteenth century by a British author, Elizabeth Gaskell.⁽³⁸⁾ ‘I read these books when I was young, and they had a great impact on me. She described the destitution and squalor in the wake of industrialisation. There is no doubt in my mind that she was trying to tell the truth, as she saw it.’ But perhaps people became more aware of poverty as it was being reduced, I suggested. It began to stand out instead of being the natural condition of most people. It became the exception rather than the rule. ‘This may be true,’ Popper replied. ‘But it does not change the fact that poverty is a social evil and we must continue to fight against it, even if I think that excessive government intervention is now the most urgent problem.’ I mentioned Popper’s treatment of Plato and Hegel in *The Open Society*, expressing the opinion that he had been fair towards Plato who richly deserved the opprobrium heaped on him, but that perhaps he had been too harsh towards Hegel. ‘I think, as I emphasise in my book, that Plato was one of the greatest philosophers of all times. Nobody can therefore accuse me of not giving him his due. But I would still stand by my critique of his political theory. It has many things in common with modern totalitarianism,’ Popper said. ‘I do not agree that I was too harsh on Hegel. He was not, any more than his predecessor Fichte, a serious thinker. He was not searching in earnest for the truth. He had no sense of responsibility. He posed as a prophet. He was basically an impostor. I am not saying that he is 100 per cent to blame for modern totalitarianism, but certainly he is partly to blame for it, perhaps 15 per cent.’

I told Popper that I had been invited by Hayek to my first meeting of the Mont Pelerin Society at Stanford in 1980 and that I had become a member in 1984. Popper smiled warmly, stood up again and fetched a photo album from the first meeting of the Mont Pelerin Society in 1947. We looked at the photos for a while and discussed some participants at the meeting. ‘Not only is Hayek a great thinker, but also a good person,’ Popper said. ‘I owe him a lot. He practically saved my life. He arranged for the publication of *The Open Society* in England, after it had been

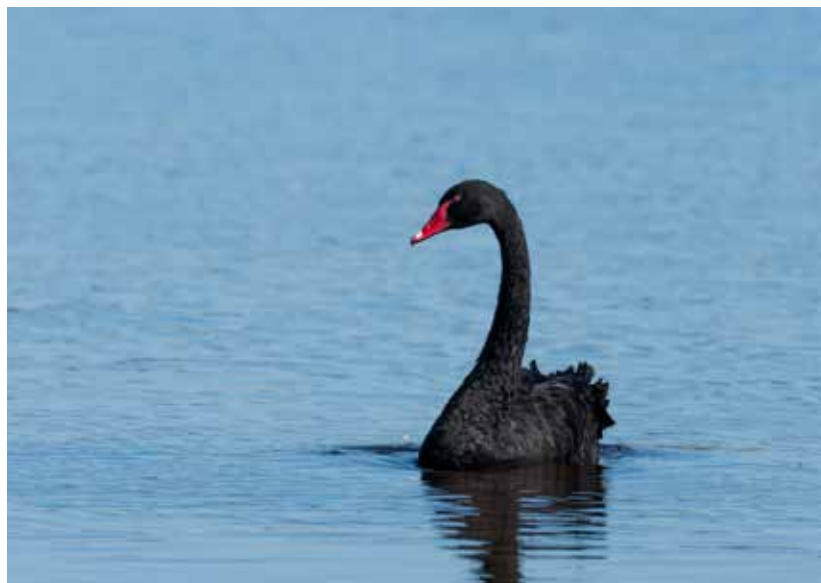
rejected by some publishers, and then he got me a Readership at the LSE when I was languishing in New Zealand and overburdened with teaching. I was really at my wits’ end when he reached out to me.’ Yet again, Popper stood up and took out from a bookshelf two works by Hayek, *The Constitution of Liberty* and the first volume of *Law, Legislation and Liberty*, laid them out on the table, hit them lightly with his flat hand and said emphatically: ‘I think I could endorse everything that Hayek writes here.’⁽³⁹⁾ I asked him about Milton Friedman. He replied ‘I really like him. He is a very lively, intelligent and entertaining person.’ But Popper said that he had reservations about Ludwig von Mises. ‘He was a very competent economist, but I was less impressed with him as a philosopher of science. He thought that the principles of economics could be deduced from human nature, whereas I hold that scientific theories have to be subjected to relentless tests. I also found him a bit dogmatic in politics and therefore unconvincing. We must seek to convince people who may not in the beginning agree with us.’ Popper said that he had not got on well with another founding member of the Mont Pelerin Society, Michael Polanyi. He added that he had not recently been active in the Society, as he was now preoccupied with the philosophy of science. He was at present doing research in quantum physics in collaboration with a Greek friend, Thomas Angelidis. ‘I have returned to my childhood love, physics,’ he said smiling, with a sparkle in his eye.

I brought up the evolutionary argument for liberty: that economic competition acted like a survival test of different traditions and habits, as Hayek had recently argued.⁽⁴⁰⁾ Popper frowned and said that he was sceptical about it. ‘We should not confuse the ability to survive on the one hand and truth or moral value on the other hand. Unfortunately, the old liberal belief that truth will always prevail is not plausible,’ he said. ‘We do not find truth in power. Neither do we find it in history. It does not prove anything about a tradition that it has had a long history. Indians have had their caste system for millennia, and it is no better or no worse

(38) Elizabeth Gaskell, *Mary Barton* (London: Chapman & Hall, 1848); *North and South* (London: Chapman & Hall, 1854).

(39) Friedrich A. Hayek, *The Constitution of Liberty* (London: Routledge & Kegan Paul, 1960); *Law, Legislation, and Liberty*, Vol. I (London: Routledge & Kegan Paul, 1973).

(40) Friedrich A. Hayek, *Law, Legislation, and Liberty*, Vol. III (London: Routledge & Kegan Paul, 1979).



for that. None of our traditions, however old, is above criticism. We reject a tradition if we can replace it with a superior one. It is a different issue that of course we have to have some plausible arguments for rejecting a tradition. The burden of proof is on those who want to turn their back on old habits.' Popper had by now become quite animated. He continued: 'We liberals must never forget that liberalism is a relentless fight against man-made evil. We must make a distinction between facts and values. We prove nothing about values by referring to facts. We prove nothing about the desirability of the Indian caste system by pointing out that it is old and resilient. I would say that the Indian caste system is undesirable, irrespective of whether it has survived for ten years, hundred years or thousand years and also irrespective of whether it will survive for thousand more years or not.' But was there not a paradox in Popper's own account of science? I asked. Perhaps people might accept with him that theories are not scientific unless they are falsifiable rather than verifiable. This would

Popper rejects induction, the derivation of theories from facts, as the method of science. Even if all the swans observed have been white, it does not establish that all swans are white. Some may be black, as Europeans saw to their surprise when they arrived in Australia. Instead, science means that new and bold theories are tested by facts. Whereas one fact may falsify a theory, thousands of facts will not verify it. Photo: Rich Merry.

mean that theories were not derived from facts, although they had to be supported by facts. While facts were not the sources of theories, they were their criteria. Or, as Anthony O'Hear once remarked, that there can 'be no falsification without a background of accepted truth'.⁽⁴¹⁾ Popper shrugged his shoulders and said that he could not see any inconsistency. Theories were tested by attempts at refuting them. They were never proved, only disproved. Scientific theories were always provisional, never final. They were never completely true, although some came closer to being true than others. Einstein's theory of gravity, for example, came closer to explaining the external world than Newton's theory. But one day Einstein's theory might be refuted. For the time being, it was the accepted truth.

Popper said that not only was science his own childhood love, but also in his opinion the only possible saviour of mankind. He spoke with firm conviction: 'Our hope lies in science, in the relentless elimination of errors, in a systematic reduction of human sufferings, in a determined fight against evil. Science has to be the free competition of ideas if it is to make any progress, and therefore freedom is as indispensable for scientists as oxygen is for human beings. But it is questionable if we can transfer evolutionary ideas to politics because in politics we will always encounter power, and therefore erroneous ideas may prevail there with more ease than in science.' He added in a serious tone: 'In my opinion many liberals or libertarians of our time are too utopian. They believe in a perfect society where politics would have disappeared. I agree with my fellow liberals that the most urgent task at hand is to reduce government intervention. It has become excessive in our Western democracies. Nothing is as dangerous to freedom as an enormous, unaccountable and inflexible bureaucracy. But some government intervention will always be necessary. There is a tension within liberalism that we must not ignore. On the one hand we liberals are suspicious of power. On the other hand we need power to protect freedom. Therefore we have to adopt the protective approach as I call it, by which I mean that the task of government should be to protect freedom. We do not maintain freedom

(41) Anthony O'Hear, Introduction, *Karl Popper: Philosophy and Problems* (Cambridge: Cambridge University Press, 1995), p. 4.

except by tireless vigilance, criticism, struggle. Liberalism has to resolve this tension in practice, differently in different places and different times. Therefore liberalism will always be incomplete, unfinished. It is an endless search for solutions; it is an attempt to limit power and to direct it toward goals which will benefit mankind.'

Popper asked me where I was from. He smiled again and his eyes brightened when I informed him that I came from Iceland. He asked me whether I knew that he had in one of his writings mentioned Iceland. Yes, I said. It was in a paper on the history of our time where he discussed nationalism. He commented there that the only 'pure' nation state of which he could think was Iceland: there, nation and state coincided, and the nation had more than a millennia of shared history, spoke the same language and belonged to the same church. If language was supposed to be the criteria for nationhood, then most states had more than one linguistic groups within their borders, for example Switzerland, while a linguistic group might also extend over many states, as was the case with speakers of English, or German. It was therefore difficult, if not impossible to define what was a nation. But in his paper, Popper added that it was the North Atlantic Ocean which had defined the Icelandic nation, while the Icelandic state lacked one precondition to be a complete state, as it had no army and had to rely on the North Atlantic Treaty Organisation to defend it. Therefore Iceland was not much of an exception to the rule.⁽⁴²⁾ 'In Vienna, when I and my wife were young, we took great interest in Iceland,' Popper said. 'We found it impressive how the Vikings discovered Greenland and Wineland, or America. My wife even gave a paper about Erik the Red, the first settler of Greenland, at a seminar on geography around 1930. We also wondered why the settlement in Greenland disappeared in the fifteenth century, but as you know this remains a mystery.' Popper recalled the doctrine of national self-determination which was supposed to be implemented after the First World War. It was unrealistic because different ethnic and linguistic groups lived together, and it was undesirable because the task was not to erect barriers between different groups but rather to enable them to

live together peacefully, as had been done in Switzerland. I mentioned however that the Icelanders had a strong sense of collective identity; that they were unusually homogeneous and that they therefore were not compelled to deal with some of the same issues as more heterogeneous societies. Popper concurred. He said that he had observed this in New Zealand which was, he said, a peaceful and pleasant country.

Finally, we briefly discussed British politics. I asked Popper about Margaret Thatcher, who had been British Prime Minister since 1979. Popper replied that he thought highly of her. She was without doubt the most competent and best politician that Britain had to offer. What he particularly liked about her was how courageous she was. He told me that he was her firm supporter. His favourite politician however was Winston Churchill. He had been a wise man.⁽⁴³⁾ 'You should read a book that Martin Gilbert wrote, Churchill's Political Philosophy. It is very interesting. It is really amazing how philosophically sophisticated and acute this autodidact had been.'⁽⁴⁴⁾ Dusk was falling, and I said that I did not want to take up more of his time. Popper replied with a smile that I should not worry. He was not in a hurry and prepared to answer any questions I had. Nevertheless, I stood up, and he followed me to the front door. Before I left, he fetched the album with photos from the 1947 meeting of the Mont Pelerin Society and told me that I could make copies of the photos there, if I would then just send the album back to him. I did so promptly. But eleven months later, in November 1985, Popper's wife died in Austria, while in the same month I defended my thesis at Oxford and returned to Iceland. Although in 1986 Popper came back to England, this was the first and last time I saw him.

(42) Popper, *The History of Our Time: An Optimist's View* (1956), *Conjectures*, p. 368.

(43) Cf. fascinating conversations between Popper and a Portuguese political philosopher about Churchill and the British political tradition, João Carlos Espada, *The Anglo-American Tradition of Liberty: A View from Europe* (London: Routledge, 2016).

(44) Martin Gilbert, *Churchill's Political Philosophy* (Oxford: Oxford University Press, 1981).

Platonic Guardians

Popper is a giantslayer. In the *Open Society and Its Enemies* he offers what I (and many others) would regard as the most powerful critique ever made of two intellectual giants, Plato and Marx. Plato was held in such high esteem in the academy that once the Western philosophical tradition was said to consist of a series of footnotes to him.⁽⁴⁵⁾ Marx inspired revolutionaries who for a while controlled one third of the world, and he remains influential among Western intellectuals. Popper considers both of them enemies of the open society, as he calls the free, democratic society of the West which solves problems through science, trade and debate, not by force and oppression. Popper believes that Plato was much affected by the defeat of his hometown Athens, somewhat of an open society, in the Peloponnesian War against Sparta, a typical closed society. Then Plato saw his fellow Athenians drag his beloved teacher Socrates before a court, accusing him of not believing in the city gods and of corrupting the youth, sentencing him to death and having him executed. Consequently, Plato turned against the rule of the many, democracy, as it had been practised in Athens, wanting to replace it with the rule of the wise, the philosophers. It was an abomination, he thought, that in elections the sage and the fool were regarded as equals. Superiors should not be ruled by inferiors. You did not discover what was good or true in elections, only by the philosophical analysis in which Socrates and his disciples, including Plato himself, engaged:

“Until philosophers are kings, or the kings and princes of this world have the spirit and power of philosophy, and political greatness and wisdom meet in one, and those commoner natures who pursue either to the exclusion of the other are compelled to stand aside, cities will never have rest from their evils — no, nor the human race, as I believe — and then only will this our State have a possibility of life and behold the light of day.”⁽⁴⁶⁾

(45) Alfred N. Whitehead, *Process and Reality* (New York: The Free Press, 1978 [1929]), p. 39.

(46) Plato, *The Republic*, Bk. V, 473c (tran. by Benjamin Jowett). The whole passage is in italics.

Popper argues however that Plato misconceived the real task in politics. It is not to find out who should hold power, but how power, a necessary evil in a world of fallible human beings, could be constrained in such a way that it could do least harm. Democracy for Popper is not the rule of the many. Neither is it a way to resolve disagreements about what is true, or good. It is, Popper says, the solution of the problem how the state should to be constituted so that bad rulers could be replaced without violence.⁽⁴⁷⁾ Thus, Plato's rejection of democracy, as the unrestrained Athenian democracy of his day, was hardly relevant to Popper's conception of representative, constitutional democracy.

Plato's claim that the wise should rule was based on his theory of justice. Briefly, this theory was that people should do what they were fit for. The shoemaker should make shoes, not be a weaver or a builder. As Plato expressed it, 'to him and to every other worker was assigned one work for which he was by nature fitted, and at that he was to continue working all his life long and at no other'.⁽⁴⁸⁾ To establish his contention that the philosophers are as fit to rule as the shoemakers to make shoes, Plato used a series of clever analogies and comparisons. It was the captain who commanded the ship, neither the crew nor the passengers. Unlike him, they did not know sailing. It was the doctor who prescribed the treatment necessary for the patient, not the patient himself. The doctor knew, the patient did not.⁽⁴⁹⁾ Again, the difference between a trained doctor and an accomplished cook was that the doctor knew which food was good for you, whereas the cook made food that you found tasty. Therefore the doctor should overrule not only the patient, but also the cook. Indeed, an accomplished cook was somewhat similar to an adept demagogue in a democracy, Plato held: One offered what tasted good to you, but was not necessarily good for you, and the other offered what sounded good to you, but what was not necessarily true, and indeed often false.⁽⁵⁰⁾ While the seductive demagogue was similar to the enticing

(47) Popper, *Open Society*, Vol. I, p. 124.

(48) Plato, *Republic*, Bk. II, 374b.

(49) Ibid., Bk. I, 332c–e.

(50) Plato, *Gorgias*, 463a.

cook, he was totally different from the serious philosopher who did not offer what might please you, but what was really good and true. The philosopher had escaped the dark cave in which men are imprisoned by their imperfect senses; he had gone out and seen the light; he had moved from appearance to reality.⁽⁵¹⁾ He was therefore in the same position to the public as the captain to his crew or the doctor to his patients. It was his to rule, and for the public to obey. Plato envisaged an ideal city state ruled by wise philosophers, defended by strong warriors and supplied by industrious workers. These would be the three main classes in the city, and Plato tried to remove worldly temptations from the philosopher kings by not allowing them to own private property or to form families, although they would participate in breeding children and in the subsequent selection of those children worthy of entering their class.

Popper tears apart Plato's analogies and comparisons. There is no identifiable group of people who possess similar expertise in ruling as a captain does in sailing or a doctor does in treating his patients. The relevant point is what citizens can do if their rulers turn out to be bad, and the only way to replace them without bloodshed is by regular elections. When Plato uses the analogy of society as the sick patient who has to be treated by the doctor, he assumes that it is like a human body where each organ has its own predetermined function with all the organs forming a coherent whole.⁽⁵²⁾ But individuals in a society are not like organs in the human body. They have different and often incompatible aims, and they change roles, whereas the stomach cannot suddenly decide to perform the functions of the brain, or the other way around, for example.⁽⁵³⁾ When Plato uses the analogy of society as a ship in which the captain is in command of the crew, he assumes that everybody is going in the same direction whereas in real life individuals are pursuing their own aims, each going in his or her direction. Popper is however not a relativist. He believes with Plato that truth exists but he rejects the idea that only one group in society, Plato's philosophers, has access to it. Although truth

(51) Plato, *Republic*, Bk. VII, 514a–517c.

(52) Popper, *Open Society*, Vol. I, pp. 79–81.

(53) *Ibid.*, pp. 173–174.



When the Labour Party was defeated in the 1979 general election in the United Kingdom, Conservative Leader Margaret Thatcher formed a government. The main argument for democracy, Popper says, is that rulers can be replaced peacefully, if intolerable. Popper told me that he admired Thatcher. Photo: PA Images/Alamy.

exists, we can never be certain of having reached it. Therefore theories have to be tested, not simply assumed. Popper also points out how artificial Plato's conception of justice is. It is totally at variance with the traditional conception which is equal distribution of burdens and benefits of citizenship, equality before the law and impartiality of courts.⁽⁵⁴⁾ In Popper's opinion,

Plato's political position is motivated by his identification of change as degeneration and by his contempt for the common man.

Of course Popper is not claiming that Lenin, Mussolini, and Hitler were avid readers of Plato's dialogues (although some of their acolytes were). There are some obvious differences between Plato's political theory and modern totalitarianism. Plato was a strong believer in reason, whereas Italian fascists and German national socialists were irrationalists, eschewing reason for a mystical will. Plato was an

(54) *Ibid.*, p. 89.

inegalitarian, whereas Russian communists preached egalitarianism, although they may not have practised it. Nonetheless, Popper is right that some modern totalitarian practices were anticipated in Plato's writings. One such practice is what Popper calls 'utopian engineering'. This implies that first reformers have to smash existing society to pieces and then they can rebuild it according to a design made 'by artists who imitate the heavenly pattern,' as Plato put it. The philosopher kings had to 'begin by taking the State and the manners of men, from which, as from a tablet, they will rub out the picture, and leave a clean surface'.⁽⁵⁵⁾ Marx expressed a similar idea. For him, the proletarian revolution was necessary 'not only because the *ruling* class cannot be overthrown in any other way, but also because the class *overthrowing* it can only in a revolution succeed in ridding itself of all the muck of ages and become fitted to found society anew'.⁽⁵⁶⁾

Popper offers several arguments against utopian engineering: human beings cannot be sacrificed for an aesthetic ideal; the total reconstruction of society requires dictatorship; suppression of criticism eliminates an important force of self-correction; the dictatorship must last for a long time if society is to be totally reconstructed, while it leaves the problem of succession unresolved. It was certainly the case that twentieth century totalitarian rulers tried hard to eradicate past habits and customs from the minds of their subjects. Ethnic 'cleansing' by the Nazis (and others), regular party 'purges' under Stalin and Mao and 're-education' camps in Vietnam all were attempts, in Plato's words, to 'rub out the picture' from the tablet and to 'leave a clean surface'. Nowhere was this done more drastically than in Cambodia in 1975 when the communists began their rule by driving everybody out of the cities,⁽⁵⁷⁾ as Plato had prescribed: 'They will begin by sending out into the country all the inhabitants of the city who are more than ten years old, and will take possession of their

children, who will be unaffected by the habits of their parents; these they will train in their own habits and laws, I mean in the laws which we have given them.'⁽⁵⁸⁾

Some further parallels can be drawn between Plato's prescriptions and modern totalitarian practices. Plato not only demanded strict censorship, but he also wanted to expel all poets from his city-state and only admit into it hymns to the gods and tributes to famous men, perhaps in the spirit of Russian social realism.⁽⁵⁹⁾ Again, Plato was a eugenicist, to use a modern term. He pointed out that people bred their dogs, birds and horses from the best only. The same principle should hold for the Guardians, or philosopher kings, 'that the best of either sex should be united with the best as often, and the inferior with the inferior, as seldom as possible; and that they should rear the offspring of the one sort of union, but not of the other, if the flock is to be maintained in first-rate condition.'⁽⁶⁰⁾ Deformed children of superior Guardians should be disposed of in the same way as the children of inferior Guardians, but all this should be done secretly to avoid trouble, Plato thoughtfully added. In Nazi Germany cripples were quietly killed, while 'inferior' women were sterilised. In East Germany, premature babies were drowned in water buckets.⁽⁶¹⁾ Plato said that a warrior who allowed himself to be taken prisoner should be given to the enemies, 'and let them do what they like with him'.⁽⁶²⁾ This is how both Hitler and Stalin behaved in the Second World War: It became a crime for a soldier to be caught alive. In Plato's city state, the population, men as well as women, should be at the disposal of warriors who distinguished themselves on the battlefield.⁽⁶³⁾ During the Second World War, the Japanese Army sent its soldiers to 'comfort women' from Korea. After the war, Stalin allowed mass rape

(55) Plato, *Republic*, 500e–501a.

(56) Karl Marx, *Deutsche Ideologie* (1845), I: Feuerbach, B. 3. Karl Marx and Friedrich Engels, *Werke*, Vol. 3 (Berlin: Dietz, 1958), p. 70. Italics in original. The *Werke* in German are online, <https://marx-wirklich-studieren.net/marx-engels-werke-als-pdf-zum-download/> I use English translations from <https://www.marxists.org/> when available

(57) Cf. chapters on Russia, China, and Indo-China in *The Black Book of Communism*, ed. by Stéphane Courtois (Cambridge MA: Harvard University Press, 1999).

(58) Plato, *Republic*, Bk. VII, 541a.

(59) Ibid., Bk. X, 607b.

(60) Ibid., Bk. V, 459d.

(61) Thorsten Noack and Heiner Fangerau, Eugenics, Euthanasia, and Aftermath, *International Journal of Mental Health*, Vol. 36, No. 1 (2007), pp. 112–124; Kleine Idioten, *Spiegel* 17 August 1998; Helmut Karcher, Premature babies drowned in east Germany, *British Medical Journal*, Vol. 304, No. 6828 (14 March 1992), pp. 657–658.

(62) Plato, *Republic*, Bk. V, 468a.

(63) Ibid., 468b–c. Plato used the verb to kiss, but it seems to be a euphemism.

by his soldiers in the cities in Central and Eastern Europe that the Red Army occupied.⁽⁶⁴⁾

Popper establishes a strong connection between Plato's prescriptions and modern totalitarianism. However, because Popper presents his own ideas mostly as criticisms of other thinkers, and also because he strives to write as clearly as possible, the originality and depth of his political thought is rarely appreciated. His conception of democracy leads to a wholly new approach to politics. For example, if democracy is a way to make the rulers responsible to the electorate at regular intervals, rather than being an attempt to reflect the varieties of public opinion, then a two-party system as in the United Kingdom and the United States seems more desirable than the multi-party system that is almost an inevitable consequence of proportional representation. This is because responsibility is clearer in a two-party system. The question becomes: Is the ruling party tolerable, or should we replace it with the opposition? In a multi-party system with coalition governments, not only is responsibility for the past ill-defined, but also alternatives for the future. The voters cannot even guess what will come out of negotiations between the parliamentary parties after elections, whereas in a two-party system before elections they are presented with two outcomes of negotiations within the parties.⁽⁶⁵⁾

Popper's thesis that it is much less important who the rulers are than that they can be dismissed without bloodshed if intolerable is highly relevant in modern times, although rarely accepted, alas. Consider South Africa. Of course, South African Blacks should not have been excluded from the electorate, as they were under Apartheid. But it is of much less importance whether the rulers are black, white or of mixed origin than that they respect the liberties and traditions of the citizenry. What really matters is not to relocate power according to colour (or sex, or religion, or some other similar criterion), but to put sufficient constraints on power that if bad rulers try to abuse it, they will be removed. Again,

(64) George L. Hicks, *The Comfort Women: Japan's Brutal Regime of Enforced Prostitution in the Second World War* (New York: W. W. Norton, 1997); Antony Beevor, *Berlin: The Downfall 1945* (London: Penguin Books, 2002).

(65) Cf. Karl R. Popper, *On Democracy* (1988), *After the Open Society*, pp. 360–369.

consider Lebanon. She was a stable and prosperous country after she gained independence in 1943, with an arrangement by which the various religious groups shared power. But this balance was upset in 1975 when Palestinian militants, expelled from Jordan, entered the country, established military bases and started to attack Israel from those bases. The country came under the spell of Plato: Who should rule, Christians or Muslims? A civil war broke out, with neighbouring states occasionally intervening. It lasted until 2005, but the wounds have still not healed. With many collective identities in conflict within a state, it is crucial to maintain a system of checks and balances.

The 'Inevitable' Revolution

What Marx has in common with Plato, as different as they are in many respects, is a total lack of humility. 'Communism is the riddle of history solved, and it knows itself to be this solution,' Marx wrote already in 1845.⁽⁶⁶⁾ As Popper emphasises, Marx believed that his socialism was scientific, not only a jumble of dreams, desires, fantasies and wishful thinking like the socialism of his predecessors. He thought that he had identified the real mover of history, class interests, and the laws according to which history moved. 'The history of all hitherto existing society is the history of class struggles.'⁽⁶⁷⁾ Marx also thought that the ruling ideas of each historical epoch were the ideas of its ruling class: 'Does it require deep intuition to comprehend that man's ideas, views and conceptions, in one word, man's consciousness, changes with every change in the conditions of his material existence, in his social relations and in his social life?'⁽⁶⁸⁾ Popper concedes that materialism in a wide sense can be a useful hypothesis. Of course this is nothing new. *Cui bono?* Who gains? the Romans asked. 'Follow the money' is a modern catchphrase.⁽⁶⁹⁾ But

(66) Karl Marx, *Privateigentum und Kommunismus*, Ökonomisch-philosophische Manuskripte aus dem Jahre 1844, III, 2. *Werke*, Vol. 40 (Berlin: Dietz, 1968), p. 536.

(67) Karl Marx and Friedrich Engels, *Manifest der Kommunistischen Partei*, I (1848). *Werke*, Vol. 4 (Berlin: Dietz, 1959), p. 462.

(68) *Ibid.*, p. 480.

(69) It is from the 1976 film *All the President's Men*, about the Watergate scandal in the United States.



in a narrow sense the claim that ideas are largely determined by class interests is implausible, for three main reasons. First, individuals are probably guided more by their *individual* interests than by their *class* interests when they are in conflict. It may be in the individual interest of Mexican billionaire Carlos Slim to own a big share in the *New York Times*, as he does, but it is not necessarily in the interest of the class to which he belongs. The same can be said about billionaire Jeff Bezos, the sole owner of the *Washington Post*. Both newspapers actively support left-wing causes. In the second place, it is easy to think of counter-examples to the theory that historical development depends upon the development of economic conditions, especially upon the development of the physical means of production. A society which sees its economy completely destroyed, but which retains well-trained and knowledgeable citizens, may quickly recover, as did West Germany after the Second World War, several years after Popper wrote the *Open Society and Its Enemies*. On the other hand, if most skilled individuals suddenly leave a country

For Popper, science is the free competition of ideas, a never-ending process of conjectures and refutations. We can only approach truth, never attain it. With every new step taken, new vistas open up. Painting by Adam Bernaert, Vanitas.

which is then taken over by people mostly lacking those skills, whereas the physical means of production remain intact, it is likely that the country will go into decline.⁽⁷⁰⁾ Examples might be Algeria and Zimbabwe, also long after Popper wrote his book. Thirdly, sometimes ideas can be crucial in bringing about historical changes. The best example, as Popper says, is the 1917 Bolshevik Revolution. Vladimir Lenin and the other Russian revolutionaries were fanatical believers in Marxism, bent on reconstructing society. They were driven by ideas and at least not initially trying to advance their own class interests.

Why did Marx believe that a proletarian revolution was inevitable? Popper breaks down into three steps Marx' argument. *The first* is that capitalism is unsustainable in the long run because the gap between capital and labour will widen: the rich will become richer and the poor will become poorer. Increases in productivity will be appropriated by owners of capital. 'The modern labourer, on the contrary, instead of rising with the process of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth.'⁽⁷¹⁾ *The second* step is that capitalism will develop in such a way that eventually only two classes will be left, the small bourgeoisie and the large proletariat. Capitalist firms will grow ever bigger:

“ The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.⁽⁷²⁾

(70) Popper, *Open Society*, Vol. II, pp. 107–108.

(71) Marx and Engels, *Manifest*, i. *Werke*, Vol. 4 (1959), p. 473.

(72) Karl Marx, *Das Kapital: Kritik der politischen Ökonomie*, Vol. I (1867). *Werke*, Vol. 23 (Berlin: Dietz, 1962), p. 791.

The proletariat, having realised its exploitation, will seize power from the bourgeoisie and bring about a social revolution. ‘The development of Big Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.’⁽⁷³⁾ *The third* step is that after the victory of the proletariat and the abolition of private ownership of the means of production a classless society, without exploitation, will emerge. ‘In place of the bourgeois society, with its classes and class antagonisms, shall we have an association, in which the free development of each is the condition for the free development of all.’⁽⁷⁴⁾

Popper demonstrates in detail that none of these steps is inevitable. Consider the first step, what happens under capitalism. Marx’ labour theory of value and his theory of capitalist exploitation have both been conclusively refuted.⁽⁷⁵⁾ Popper correctly observes however that Marx does not really need them in order to derive the unsustainability of capitalism. What he does need, and indeed uses, is the notion of increasing misery: the widening gap between rich and poor, and the powerlessness of the poor in dealings with the rich, mainly because they, unlike the rich, do not have any reserve funds, while their numbers steadily grow, further weakening their bargaining power. The only things the poor own are themselves, and hence the only things they can sell are their labour hours. It should be noted that liberal thinkers of the nineteenth century, in particular Tocqueville and Lord Acton, were also worried about the disparity of bargaining power between labour and capital.⁽⁷⁶⁾ But as Popper points out, the idea that the supply of labour

always exceeds the demand for it, serving to bring down wages, seems to contradict Marx’ exploitation theory: if capitalists make their profit by exploiting labour, then they would presumably want to employ as many workers as possible.⁽⁷⁷⁾

The disparity of bargaining power between labour and capital may have been a fact in the nineteenth century, but if it was, then it was a corrigible fact, not an iron law. Popper notes that the increasing misery of the working class is only one of many possible outcomes under competitive capitalism. Workers may unite; government may intervene to protect workers against exploitation; capitalists may find it to their advantage to offer higher wages to attract skilled workers; lower prices of necessities may enable workers to accumulate reserve funds and thus strengthen their bargaining power. These are indeed some of the developments observed in the last one hundred and fifty years. The rich have become richer and the poor have become richer. Marx exclaimed that the workers had nothing to lose but their chains. But what modern workers in the West have to lose is their houses, cars, household appliances, annual (or biannual) holiday trips to sunny places, bank accounts, stocks in companies and pension rights. Popper may exaggerate the extent to which trade unions and government have brought this about, rather than market mechanisms, but he is certainly right that Marx underestimated the self-corrective forces both of capitalism and democracy. The most developed capitalist societies, such as the United States and Great Britain, did not collapse, quite contrary to what Marx had envisaged: ‘The country that is more developed industrially only shows, to the less developed, the image of its own future.’⁽⁷⁸⁾ Marxists seized power in underdeveloped countries such as Russia and China, whereas Marx had asserted that even if a society had discovered ‘the natural laws of its movement’, it could ‘neither clear by bold leaps, nor remove by legal enactments, the obstacles offered by the successive phases of its normal development’.⁽⁷⁹⁾

(73) Marx and Engels, *Manifest*, i. *Werke*, Vol. 4 (1959), p. 474. Here I correct an error in the English translation. In the German original it says ‘Entwicklung der großen Industrie’, not ‘Entwicklung der modernen Industrie’. This mistranslation distorts the meaning. Marx is speaking about economic concentration, big industry.

(74) *Ibid.*, p. 482.

(75) Eugen von Böhm-Bawerk, Zum Abschluss des Marxschen System, *Staatwissenschaftliche Arbeiten: Festgaben für Karl Kries* (1896); *Karl Marx and the Close of his System* (New York: Augustus M. Kelley, 1949).

(76) Alexis de Tocqueville, *Democracy in America* (1835 and 1840), tran. by James T. Schleifer, Vol. 4 (Indianapolis IN: Liberty Fund, 2010), p. 1029; Letter from Lord Acton to Mary Gladstone, Cannes

24 April 1881, *Letters from Lord Acton to Mary, Daughter of the Right Hon. W. E. Gladstone* (London: Macmillan, 1913, 2nd ed.), p. 72.

(77) This was of course also the gist of Böhm-Bawerk’s identification of a basic contradiction in Marxist economics: If it was labour that created capitalist profits, why were labour-intensive firms then not more profitable than capital-intensive firms?

(78) Karl Marx, Vorwort zur ersten Auflage, *Kapital* (1867). *Werke*, Vol. 23, p. 12.

(79) *Ibid.*, pp. 15–16.

Then look at the second step in Marx' argument, the social revolution. Popper notes that Marx ignores other possibilities than the splitting up of society into two classes only, the bourgeoisie and the proletariat. Some professions might become obsolete as a result of economic innovation, such as certain handicrafts. But others would be created instead. The middle class need not disappear. Moreover, if land were to remain private, a class of independent farmers might emerge, belonging neither to the bourgeoisie nor the proletariat. Marx not only assumed, implausibly, that two classes would eventually be left as a result of the competitive process, but also that the industrial workers on whom he focused would develop a 'class consciousness'. They would realise their strength and overthrow the bourgeoisie. But working class solidarity is by no means a given fact, Popper observes, and neither is its victory in a struggle for power, although it may outnumber its adversaries. Even if most workers were to turn against capitalism, for example in desperation during depressions, many of them might become nationalists rather than socialists. If socialist parties were to reject democracy and use violence to further their political aims, they might also provoke a reaction, either from the ruling parties or from their competitors for the vote of the working class. They would, Popper warns, play into the hands of reactionaries. Under the delusion that the proletarian revolution was imminent and inevitable, socialists would allow fascists to seize power, which is actually what happened in Europe between the wars.

Having convincingly demonstrated that neither the first step, the collapse of capitalism, nor the second step, the social revolution, are inevitable, Popper moves to the third step in Marx' argument, the situation after the socialist takeover. Popper notes that it is by no means certain that only one class would remain after the nationalisation of the means of production. The leaders of the revolution might form a new class, although they would try to hide this. Moreover, it should not be assumed that the working class would maintain its solidarity and sense of identity after the revolution, especially if its expectations would not be fulfilled. Some groups might begin to pursue their own interest, and even exploit others. Popper makes these persuasive points without using the powerful additional and complementary argument put forward by Mises and Hayek that if socialism means the abolition of private

property rights to the means of production, then the socialists will never achieve their stated aims because they will never be able to utilise all the dispersed knowledge of individuals harnessed under capitalism by the price mechanism: they will either have to abandon their ambitious plans or to extend total control from the economy to the rest of society.⁽⁸⁰⁾ But Popper was certainly prescient about the emergence of 'the new class'. This was precisely what the Yugoslav communist leader Milovan Djilas observed in his celebrated book in 1957, *The New Class*, with the foreseeable result that he was thrown into prison for four years.⁽⁸¹⁾

To the extent that Marx was a scientist, his theories have been resoundingly refuted. His disciples however seem to be pseudo-scientists in Popper's sense: they present non-falsifiable theories which contain within themselves explanations of any deviations from them. Everything bad can be blamed on the 'bourgeoisie'. On a less charitable interpretation of Marx than Popper offers, he may also have been a pseudo-scientist, consciously making his theories non-falsifiable. Once he wrote to Engels after having made predictions about the course of events in India: 'It's possible that I shall make an ass of myself. But in that case one can always get out of it with a little dialectic. I have, of course, so worded my proposition as to be right either way.'⁽⁸²⁾ This is the voice of an astrologer, not an astronomer. It should be mentioned, too, that in *Capital* Marx quoted various reports about the British economy up to 1866, the year before publication, but not any data about the movement of wages after 1850. In the second edition in 1873, published when Marx was still alive, the data about wage movements still stopped at 1850, whereas all other data were brought up to date. Of course the statistics he

(80) Ludwig von Mises, *Die Wirtschaftsrechnung im Sozialistischen Gemeinwesen*, *Archiv für Sozialwissenschaften und Sozialpolitik*, Vol. 47, No. 1 (1920), pp. 81–121; *Economic Calculation in the Socialist Commonwealth*, tran. by S. Adler, *Collectivist Economic Planning*, ed. by F. A. Hayek (London: George Routledge, 1935), pp. 87–130; *Die Gemeinwirtschaft: Untersuchungen über den Sozialismus* (Jena: Gustav Fischer, 1922); *Socialism: An Economic and Sociological Analysis*, tran. by J. Kahane (London: Jonathan Cape, 1932).

(81) Milovan Djilas, *The New Class: An Analysis of the Communist System* (New York: Frederick A. Praeger, 1957).

(82) Letter from Karl Marx to Friedrich Engels, London 15 August 1857. *Werke*, Vol. 29 (Berlin: Dietz, 1978), p. 161. 'Es ist möglich, daß ich mich blamiere. Indes ist dann immer mit einiger Dialektik wieder zu helfen. Ich habe natürlich meine Aufstellungen so gehalten, daß ich im umgekehrten Fall auch recht habe.'

left out would have been in contradiction to the pauperisation theory.⁽⁸³⁾

Perhaps Marx, unlike his disciples, was a scientist, albeit a mediocre one. 'From the viewpoint of pure economic theory, Karl Marx can be regarded as a minor post-Ricardian,' American economist Paul Samuelson remarked.⁽⁸⁴⁾ But was Marx a revolutionary? Did he accept violence as a means in politics? Popper states that Marx was ambivalent about the use of violence in politics, because occasionally he suggested that the proletarian revolution might take place peacefully.⁽⁸⁵⁾ I am not sure Popper is right on this. Of course, all revolutionaries are ambivalent in this sense. It goes without saying that if they can reach their goal without violence, then they will hardly use violence. The test is what revolutionaries do if and when they realise that they cannot reach their goal unless they use violence. There is nothing ambivalent about Marx' position in this respect. In *The Communist Manifesto* he said that communists 'openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions'.⁽⁸⁶⁾ In a discussion a little later about the 1848 rebellions, Marx commented that the 'very cannibalism of the counterrevolution will convince the nations that there is only one way in which the murderous death agonies of the old society and the bloody birth throes of the new society can be *shortened*, simplified and concentrated, and *that way is revolutionary terror*'.⁽⁸⁷⁾ In his final editorial in the *Neue Rheinische Zeitung*, before it was closed down by the police in the spring of 1849, the real message was that revolutionary terror was justified unlike reactionary terror: '*We have no compassion and we ask no compassion from you. When our turn comes, we*



Popper abhors violence, whereas Marx at least accepted it as inevitable, and sometimes even seemed to revel in it. Marx strongly defended the violence of the Paris Commune in 1871, including the execution of hostages. Painting by Maximilien Luce, *A Street in Paris in May 1871*.

shall not make excuses for the terror. But the *royal terrorists*, the terrorists by the grace of God and the law, are in practice brutal, disdainful, and mean, in theory cowardly, secretive, and deceitful, and in both respects *disreputable*.⁽⁸⁸⁾ In an 1852 letter, Marx wrote that one of his contributions to the theory of class struggle was to show 'that the class

struggle necessarily leads to the dictatorship of the proletariat'.⁽⁸⁹⁾ In *Capital* Marx wrote: 'Force is the midwife of every old society pregnant with a new one.'⁽⁹⁰⁾ Marx welcomed the temporary socialist takeover of Paris, the 'Commune', in 1871, at the time when the French government had retreated to Versailles. It was the first example of the 'dictatorship of

(83) Bertram D. Wolfe, *Marxism: 100 Years in the Life of a Doctrine* (New York: Delta Publishing, 1967), p. 323.

(84) Paul Samuelson, Economists and the History of Ideas, *American Economic Review*, Vol. 51, No. 1 (1962), p. 12.

(85) Popper, *Open Society*, Vol. II, pp. 156–157. Even Marxist apologist Adam Schaff who emphasised the possibility of a peaceful transition to socialism wrote: 'Marx from his youth to the end of his life approved of the possibility of a violent, armed revolution as the culminating point point of class-struggle.' Adam Schaff, Marxist Theory on Revolution and Violence, *Journal of the History of Ideas*, Vol. 34, No. 2 (1973), p. 266.

(86) Marx and Engels, *Manifest*. *Werke*, Vol. 4, p. 493.

(87) Karl Marx, Sieg der Kontrerevolution zu Wien [The Victory of the Counter-Revolution in Vienna], *Neue Rheinische Zeitung* 7 November 1848. *Werke*, Vol. 5 (Berlin: Dietz, 1959), p. 457. Italics in original.

(88) Karl Marx, Leading Article (without a title), *Neue Rheinische Zeitung* 19 May 1849. *Werke*, Vol. 6 (Berlin: Dietz, 1961), p. 505. Italics in original.

(89) Letter from Karl Marx to Joseph Weydemeyer, London 5 March 1852. *Werke*, Vol. 28 (Berlin: Dietz, 1963), p. 508.

(90) Marx, *Capital* (1867), Ch. 24. *Werke*, Vol. 23, p. 779.

the proletariat’.⁽⁹¹⁾ He defended the Commune’s execution of hostages. ‘The lives of the hostages have been forfeited over and over again by the continued shooting of prisoners on the part of the Versaillese.’⁽⁹²⁾ In his critique of the programme of the German Socialist Party in 1875, Marx commented: ‘Between capitalist and communist society there lies the period of the revolutionary transformation of the one into the other. Corresponding to this is also a political transition period in which the state can be nothing but *the revolutionary dictatorship of the proletariat*.’⁽⁹³⁾

Marx not only endorsed terror, but he also uttered some racist remarks (whether or not that would make him a fully-fledged racist in the modern sense). Although he was himself Jewish, he wrote in 1844: ‘What is the worldly religion of the Jew? Huckstering. What is his worldly God? Money.’⁽⁹⁴⁾ Marx’ antisemitism was revealed in 1862, after an encounter with Ferdinand Lassalle, the charismatic German socialist, whom he considered a rival. He wrote to Engels: ‘The Jewish nigger Lassalle who, I’m glad to say, is leaving at the end of this week, has happily lost another 5,000 talers in an ill-judged speculation. The chap would sooner throw money down the drain than lend it to a “friend”, even though his interest and capital were guaranteed’. He added: ‘It is now quite plain to me—as the shape of his head and the way his hair grows also testify—that he is descended from the negroes who accompanied Moses’ flight from Egypt (unless his mother or paternal grandmother interbred with a nigger).

(91) Karl Marx, Speech at the seventh anniversary of the International Workingmen’s Association, 25 September 1871. *Werke*, Vol. 17 (Berlin: Dietz, 1962), p. 433. From a newspaper report of Marx’ speech, originally in English.

(92) Karl Marx, Der Bürgerkrieg in Frankreich: Adresse des Generalrats der Internationalen Arbeiterassoziation [The Civil War in France] (1871). *Werke*, Vol. 17 (1962), p. 359.

(93) Karl Marx, Randglossen zum Programm der deutschen Arbeiterpartei [Critique of the Gotha Programme] (1875), IV. *Werke*, Vol. 19 (Berlin: Dietz, 1962), p. 28. Italics in original.

(94) Karl Marx, Zur Judenfrage [On the Jewish Question] (1843), II. *Werke*, Vol. 1 (Berlin: Dietz, 1956), p. 372. This can of course be explained away as a critique of Jewish alienation brought about by capitalism rather than as a critique of Jewish identity, although I find that interpretation implausible. Some emphatically antisemitic remarks are also to be found in an anonymous article in *New York Daily Tribune* 4 January 1856, ‘The Russian Loan’. While the article is attributed to Marx, left-wing scholars have questioned his authorship of it. It was nonetheless included in a book co-edited by Marx’ daughter, Eleanor Marx Aveling, *The Eastern Question. A Reprint of Letters written 1853-1856 dealing with the events of the Crimean War* (London: Swan Sonnenschein, 1897). The evidence for Marx’ racist tendencies is so strong however that it is unnecessary to add to it articles whose authorship is contested.

Now, this blend of Jewishness and Germanness, on the one hand, and basic negroid stock, on the other, must inevitably give rise to a peculiar product. The fellow’s importunity is also nigger-like.’⁽⁹⁵⁾ When Lassalle was killed in a duel two years later, Marx had no kind words to spare, only acknowledging that their relationship went a long way back and that they had had common enemies: ‘And then the thing came so unexpectedly that it’s hard to believe so noisy, stirring, pushing a person is now dead as a door-nail and compelled to hold his tongue altogether.’⁽⁹⁶⁾

As Popper agreed in our discussion in 1985, Marx can hardly be called a humanitarian. Being a historicist, he believed that some groups were fitter for the future than others. History was merciless. ‘Society is undergoing a silent revolution, which must be submitted to, and which takes no more notice of the human existences it breaks down than an earthquake regards the houses it subverts. The classes and the races, too weak to master the new conditions of life, must give way.’⁽⁹⁷⁾ India was one example of a doomed society, according to Marx: ‘Indian society has no history at all, at least no known history. What we shall call its history is but the history of the successive invaders who founded their empires on the passive basis of that unresisting and unchanging society.’⁽⁹⁸⁾ Another example was the Balkans: ‘This splendid territory has the misfortune to be inhabited by a conglomerate of different races and nationalities, of which it is hard to say which is the least fit for progress and civilization. Slavonians, Greeks, Wallachians, Arnauts [Albanians], twelve millions of men, are all held in submission by one million of Turks, and up to a recent period, it appeared doubtful whether, of all these different races, the Turks were not the most competent to hold the supremacy which, in such a mixed population, could not but accrue to

(95) Letter from Karl Marx to Friedrich Engels, London 30 July 1862. *Werke*, Vol. 30 (Berlin: Dietz, 1974), pp. 257 and 259.

(96) Letter from Karl Marx to Friedrich Engels, London 7 September 1864. *Werke*, Vol. 30 (1974), p. 432.

(97) Karl Marx, Erzwangene Emigration [Forced Emigration], *New York Daily Tribune* 22 March 1853. *Werke*, Vol. 8 (Berlin: Dietz, 1960), p. 544. Originally in English.

(98) Karl Marx, Die künftigen Ergebnisse der britischen Herrschaft in Indien [The Future Results of British Rule in India], *New York Daily Tribune* 8 August 1853. *Werke*, Vol. 9 (Berlin: Dietz, 1960), p. 220. Originally in English.

one of these nationalities.’⁽⁹⁹⁾ He nevertheless came to the conclusion that the Turks were also unfit to govern this territory. Discussing English participation in the Crimean War, Marx commented: ‘Such is the redeeming feature of war; it puts a nation to the test. As exposure to the atmosphere reduces all mummies to instant dissolution, so war passes supreme judgment upon social organizations that have outlived their vitality.’⁽¹⁰⁰⁾ Marx was also somewhat of a German chauvinist, usually siding with Prussia in her conflicts with other states, for example in two wars over Schleswig against Denmark, in 1848–1850 and 1864 respectively, and in the war against France in 1870–1871. ‘The French need a thrashing. If the Prussians win, the centralisation of the state power will be useful for the centralisation of the German working class,’ Marx wrote at the beginning of the Franco-Prussian War. ‘German predominance would also transfer the centre of gravity of the workers’ movement in Western Europe from France to Germany, and one has only to compare the movement in the two countries from 1866 till now to see that the German working class is superior to the French both theoretically and organisationally. Their predominance over the French on the world stage would also mean the predominance of our theory over Proudhon’s, etc.’⁽¹⁰¹⁾ For Marx, war was an opportunity, not a tragedy.

Popper’s arguments against Marx have been largely accepted by serious scholars. Nevertheless, the pseudo-science inspired by Marxism is still practised in many Western universities, especially in what is sometimes called ‘academic grievance studies’, such as gender and race studies. This is even the case in Icelandic society which is unusually homogeneous, with relatively equal income distribution and no ethnic, linguistic or religious minorities to speak of, as Popper observed in our discussion in 1985. The only plausible candidate for academic grievance studies in Iceland would be women. Indeed, this is what has happened.

(99) Karl Marx, Britische Politik - Disraeli - Die Flüchtlinge - Mazzini in London - Türkei [British Politics - Disraeli - The Refugees - Mazzini in London - Turkey], *New York Daily Tribune* 7 April 1853. *Werke*, Vol. 9 (Berlin: Dietz, 1960), pp. 7–8. Originally in English.

(100) Karl Marx, Eine neue Enthüllung [Another British Revelation], *New York Daily Tribune* 24 September 1855. *Werke*, Vol. 11 (Berlin: Dietz, 1961), p. 522. Originally in English.

(101) Letter from Karl Marx to Friedrich Engels, London 20 July 1870. *Werke*, Vol. 33 (Berlin: Dietz, 1966), p. 5.

Six years after meeting Popper I attended the inaugural lecture of a feminist at the University of Iceland. She discussed some poems in the older Edda, convincingly arguing that her male predecessors had overlooked the violence perpetrated against women portrayed in the poems. For example, what had in one case been non-consensual sex, even rape, had often been described as a love affair. The speaker moved on to analyse some episodes in the Icelandic sagas when men fought against giantesses or when they oppressed women directly. She concluded: ‘Old Norse literature is a unique source in that it shows a connection between the oppression of women and Norse patriarchy during the phase of its establishment. The methods the men used to control women are first and foremost weapons and alliances, but also violence and deceit.’⁽¹⁰²⁾

After the lecture the new professor (who had not been required to complete a doctorate in order to obtain her professorship, unlike her male colleagues) took questions. I stood up and said: ‘I agree with you that often the role and perspectives of women have been neglected in the interpretation of ancient literature, and not in Iceland alone. But literature is not only about men controlling women by violence and deceit. It can also be about women controlling men by deceit, derision, or exhortations.’ I then mentioned a few instances from the sagas and added: ‘Recall also the many cases in which women egg on their husbands to continue conflicts instead of seeking their peaceful settlements.’⁽¹⁰³⁾ The answer was instructive: ‘The examples you mention are really examples where the text itself is oppressive. Such stories are intended to belittle women. The text was typically put together by monks in monasteries, and they often were misogynists.’ This seems to me to be an example of a non-falsifiable, or therefore pseudo-scientific, theory in Popper’s sense. Either the text is about the subordination of women by men, and then it should be taken literally as evidence of the subordination of women, or

(102) Helga Kress, Inaugural Lecture at the University of Iceland 10 October 1991, repr. in Taming the shrew: the rise of patriarchy and the subordination of the feminine in Old Norse literature, *Cold Counsel: A Collection of Essays*, ed. by Sara M. Anderson (London: Routledge, 2002), p. 91. Also: Skassid tamid: Um stofnun karlveldis og kugun hins kvenlaega í íslenskum fornbokmenntum, *Flekkur* (Reykjavík: Research Institute for Feminist Studies, 1994), pp. 35–64.

(103) The instances I mentioned, about Gunnhild, Mother of Kings, and a maid laughing at Grettir, are well-known from the sagas. *The Complete Sagas of Icelanders*, Vols. I–V (Reykjavík: Leifur Eiríksson Publishing, 1997).

the text is about the subordination of men by women, and then it should not be taken literally, but rather as further evidence of the subordination of women by the men who now are employing the text itself against them. The theory always ends up being right. Despite all Popper's efforts, in academic grievance studies pseudo-science is still alive, and kicking.

Popper as a Conservative Liberal

Popper was a socialist as a young man, and some would argue he wrote the *Open Society* as a social democrat rather than as a liberal in the tradition of Adam Smith and Edmund Burke, but that with age he gradually moved towards their kind of conservative liberalism.⁽¹⁰⁴⁾ I think that another account of his position is more plausible. Popper had become a liberal when he wrote the *Open Society*, but his liberalism at the time was more open-ended than that of many of his contemporaries. It was about practical problems, not lofty ideals. It could accommodate some social democrats because it recognised many problems which preoccupied them. But many of these problems have since then either disappeared or been solved. Moreover, government intervention supported by social democrats has often turned out to be counter-productive. Poverty should be left behind, not made easier; minimum wage laws price the young and the unskilled out of the labour market; rent control reduces the supply of housing; redistribution of income favours the politically powerful; monopoly could be more efficiently dealt with by opening up markets than by setting up regulatory agencies. Because Popper focuses on particular problems rather than common goals, his moral position has been called 'negative utilitarianism'. It is not about maximising happiness, but about minimising unhappiness, and then only in the limited sense of reducing identifiable social evils, such as war, armed conflicts, poverty, unemployment, and discrimination, and also abuse of power and helplessness of ordinary people against unaccountable bureaucrats. In dealing with such evils the long-term invisible

consequences have to be taken into account as well as the short-term visible ones. The solution must not be worse than the problem.

Popper's negative utilitarianism is much more plausible than the 'positive utilitarianism' of Jeremy Bentham and John Stuart Mill. It is based on the fallibility of man and the uncertainty of knowledge, while recognising the possibilities of social reforms. We cannot produce happiness, and perhaps we ought not even to try. But we certainly can identify social evils. It is then a matter of judgement and experience which of these evils should be left largely to heal themselves, as Popper's colleague at the London School of Economics, Michael Oakeshott, would do in some cases (for example in those of poverty and unemployment),⁽¹⁰⁵⁾ and which of them should be tackled by a combination of private initiatives and government support (for example education and the prevention of armed conflicts). Popper's negative utilitarianism leads directly to liberalism because we are only able to identify and solve social and political problems if we are free to express our ideas and to test different solutions. Liberty is, as Popper emphasised to me in 1985, the precondition for a problem-solving society, which builds upon existing knowledge, but seeks to extend it. Therefore Popper belongs to the same conservative-liberal tradition as Hayek and Oakeshott, despite all their differences. Life is a process of learning, not an end state with final truths.

(104) Malachi H. Hacohen, *Karl Popper: The Formative Years, 1902–1945* (Cambridge: Cambridge University Press, 2000); Magee, *Popper*; Shearmur, *Popper's Political Thought*. Cf. Bruce Caldwell, 'Recovering Popper: For the Left', *Critical Review*, Vol. 17, No. 1–2 (2005), pp. 49–68.

(105) Struan Jacobs and Ian Tregenza, 'Rationalism and tradition: The Popper–Oakeshott conversation', *European Journal of Political Theory*, Vol 13, No. 1 (2014), pp. 3–24.

Bertrand de Jouvenel

(1903–1987)

Liberty is a fragile flower, not destined to survive in all soils and under every circumstance. One example was the collapse of the two Central European Empires, governed from Berlin and Vienna, after defeat in the First World War, the ensuing chaos and then the rise of fascism. Another example was France despite her strong liberal tradition, eloquently articulated by Benjamin Constant, Frédéric Bastiat, and Alexis de Tocqueville. She had lapsed into murderous Jacobinism during the French Revolution, and then into Caesarism, and after the 1848 revolution she lapsed yet again, into a second Caesarism which ended in an ignominious defeat against the Germans in 1870. With the indispensable help of Britain and the United States, she had her revenge in 1918, only to be humiliated again in 1940 when Nazi Germany occupied Northern France with ease, allowing a reactionary government to govern Southern France and most of the French colonial empire from Vichy. How should a young and idealistic Frenchman respond to the political instability of the Third Republic, in place between 1870 and 1940? And to the mass unemployment of the Great Depression? And to the apparent invincibility of the ebullient Nazis? In the 1930s and early 1940s, the prominent French journalist Bertrand de Jouvenel grappled with these questions. Erudite and aristocratic, in French politics he had leaned first to the radicals and then to the reactionaries. During the German occupation he rejected both positions, becoming a conservative liberal. Fearing arrest by the Nazis, in 1943 he fled to Switzerland. In the next two years he wrote a book, *On Power*, about the origins of twentieth century totalitarianism, very much in the tradition of Constant and Tocqueville.⁽¹⁾ He published several more works in political philosophy

According to Jouvenel, the idea of popular sovereignty facilitates the growth of Power and can lead to totalitarian democracy. Previously Power had been restrained by natural law, local customs, associations and hierarchies.
Photo: adoc-photos/Corbis/Getty Images.

(1) Bertrand de Jouvenel, *Du Pouvoir: Histoire naturelle de sa croissance* (Genève: Éditions du Cheval ailé, 1945); *Power: The Natural History of Its Growth*, tran. by J. F. Huntington (London: Hutchinson, 1948), repr. by Liberty Fund (Indianapolis IN) in 1993.

before he turned to other interests, mainly futurology. A fascinating and acute thinker, Jouvenel is less well known internationally than he should be, probably because he was not an inhabitant of the Anglosphere.

Jouvenel's Life and Works

Bertrand de Jouvenel did not live the life of a quiet scholar. He was an explorer of ideas and lifestyles, a traveller in time and space, a serious *bon vivant*, inquisitive and adventurous.⁽²⁾ He was born on 31 October 1903 in Paris, the son of Baron Henry de Jouvenel, a prominent journalist, politician and diplomat, and his wife Sarah Claire Boas, the daughter of a wealthy Jewish industrialist. His parents had met when they both were campaigning for Alfred Dreyfus, a French officer of Jewish descent who in 1894 had been wrongly convicted of treason. The Dreyfus affair divided France into two hostile camps and was only resolved in 1906 when Dreyfus was released. Evidence proving his innocence had been suppressed by antisemitic officers. Henry and Sarah de Jouvenel lived in an elegant mansion in the capital, Hôtel de Luzy, and owned a castle in Corrèze in Southwest France. When Bertrand was quite young, Henri left his wife to live with a mistress who in 1907 gave birth to their son, Bertrand's half-brother. Some years later Henry fell in love with another woman, the famous writer Sidonie-Gabrielle Colette who wrote novels under her maiden name. He divorced his wife and married Colette. She was no less of a libertine than her husband and had numerous affairs with both men and women. She and Henry had one daughter together. Bertrand lived with his mother and only met Colette for the first time eight years after his father married her. She was then writing *Chéri*, a novel about an affair between a young man and an older woman. Now life imitated art: Colette seduced her handsome stepson, who was thirty years younger than she. Their affair lasted for five years. When Henry de Jouvenel discovered the relationship, he divorced Colette, but came to terms with his son. Colette described the affair with Bertrand in a novel, *Green Wheat*, which has

been made into a film.⁽³⁾ Bertrand's mother presided over a prestigious salon in Paris and was a friend of Eduard Beneš, Foreign Minister and later President of Czechoslovakia. For a few months in 1924, Bertrand worked for Beneš in Prague. Under pressure from his family, a year later he married the writer Marcelle Prat. They had one son who died young, and the marriage was not happy.

Jouvenel became an acclaimed journalist who interviewed European political leaders such as Winston Churchill, Adolf Hitler and Benito Mussolini, travelling widely and witnessing personally many of the historic events of the turbulent 1930s.⁽⁴⁾ Jouvenel was a man of the left and like his father a member of the Radical Party. Revolted by mass poverty, he supported economic interventionism, Keynesianism before Keynes.⁽⁵⁾ He also argued for European integration which he saw as the only way of reconciling France and Germany. In 1930, by chance he met American journalist Martha Gellhorn in Paris. They soon became engrossed in a serious conversation. What was his life ambition, she asked him. 'To fill a bookshelf,' he replied.⁽⁶⁾ 'When Martha first met him,' Gellhorn's biographer wrote, 'she was in fact somewhat put off by his reputation as one of Paris's most desirable lovers, but he was a good-looking man, slender, with the body of a runner, high cheekbones, and eyes that looked either gray or green depending on the light.'⁽⁷⁾ Jouvenel and Gellhorn began a passionate affair and wanted to marry, but Jouvenel's wife refused to grant him a divorce. Gellhorn later married the writer Ernest Hemingway and became in her own right a famous war correspondent.

(3) Colette, *Le blé en herbe* (Paris: Ernest Flammarion, 1923); *Green Wheat*, tran. by Zack Rogoff (Louisville KY: Sarabande Books, 2004). The film, by Claude Atant-Lara, bore the same name as the novel in French, *Le blé en herbe*, and was called *The Game of Love* in English. The novel has also been twice adapted for television, in the BBC series *The Ripening Seed* (1973) and in a French television film with the same name as the novel (1990).

(4) Jouvenel's interview with Hitler was a sensation in France because Hitler proposed increased cooperation between Germany and France. Cf. French Sceptical of Hitler's Offer, *New York Times* 29 February 1936; Joachim C. Fest, *Hitler* (New York: Harcourt, 1974), p. 496.

(5) Bertrand de Jouvenel, *La Crise du capitalisme américain* (Paris, Gallimard, 1933). Five years earlier he had argued for interventionism, *L'économie dirigée: Le programme de la nouvelle génération* (Paris: Valois, 1928).

(6) Carl Rollyson, *Beautiful Exile: The Life of Martha Gellhorn* (London: Aurum Press, 2001), p. 33.

(7) Caroline Moorhouse, *Gellhorn: A Twentieth Century Life* (New York: Henry Holt, 2003), p. 36.

(2) He called his autobiography *Un voyageur dans le siècle* (Paris: Laffont, 1979), a traveller in the century.

Jouvenel was sensitive, perhaps overly so, to political currents of the 1930s. Disillusioned by the apparent paralysis of parliamentary democracy, he left the Radical Party in 1934 and for the next few years mainly moved in royalist and nationalist circles. Upon his father's death in 1935, he became Baron de Jouvenel. A year later, he joined a semi-fascist party founded by the ex-communist Jacques Doriot and became editor of the party journal. In 1937 he met a young girl at a political rally, Hélène Duseigneur, and fell in love with her. They lived together and had three children but could not marry because Jouvenel's wife persisted in refusing him a divorce. When Jouvenel visited Germany in September 1938, he was impressed with what he saw as the force and vitality of the Nazi regime. 'Nothing similar has been seen since Mahomet,' he exclaimed.⁽⁸⁾ He broke however with Doriot's party shortly afterwards in protest against the Munich agreement between France, Britain and Germany that allowed Hitler to occupy the German-speaking territories of Czechoslovakia. These were trying times. Hitler's Nazis strode from one triumph to another and seemed destined to dominate the European continent. The small countries were unable to resist him and Britain and France seemed unwilling to do so. On 23 August 1939, Hitler signed a Non-Aggression Pact with Stalin in which they divided up Central and Eastern Europe. Only a week later, Hitler invaded Poland from the west upon which Britain and France declared war on Germany. For a while nothing much happened, but in June 1940 the German army occupied the northern half of France, including Paris, after a successful *Blitzkrieg*. The Third Republic collapsed, and Marshal Philippe Pétain formed a government in Vichy which retained control of the southern half of France and most French territories overseas.

Jouvenel remained in occupied Paris and immersed himself in research at the National Archives. In a 1941 tract, he seemed resigned to German domination of Europe, seeking ways for France to adjust to a new reality. Nevertheless, he recognised the role of civil society. 'In our recent admiration for the totalitarian state, we still have not understood that the absolutism of the state is corrected by the constitution of small



The Jouvenel family estate, Chateau de Castel Novel in Corrèze. Jouvenel was financially independent and did not have to endure the stifling atmosphere of modern universities where conformity and uniformity are softly enforced. Photo: Hervé Lenain/Alamy.

collectivities that satisfy the human instinct of loyalism, creating feelings that profit the state but that the state itself is unable to generate.'⁽⁹⁾ Secretly working for French intelligence and in contact as well with the resistance movement, Jouvenel was asked to cultivate his friendship with the German

Ambassador to Vichy France, Otto Abetz, whom he had known before the war when they were both promoting reconciliation between France and Germany. In the summer of 1942, however, Jouvenel gave up all hope of peaceful accommodation with the Germans and moved to the family estate in Corrèze where he joined the resistance. France was a house divided. While his half-sister was also living in Corrèze and working for the resistance, his former stepmother Colette was publishing in pro-German journals. In November 1942 Germany occupied Vichy France, and the German secret service, the Gestapo, tried to tighten its grip

(8) Bertrand de Jouvenel, Nuremberg, *Gringoire*, 9 September 1938.

(9) Bertrand de Jouvenel, *Après la défaite* [After the Defeat] (Paris: Plon, 1941), p. 195. Here after Daniel Knegt, *Fascism, Liberalism and Europeanism in the Political Thought of Bertrand de Jouvenel and Alfred Fabre-Luce* (Amsterdam: Amsterdam University Press, 2017), p. 121.

against increasing resistance. When Jouvenel briefly visited Paris in the spring of 1943, he was arrested by the Gestapo and questioned about past activities but released after two days. Convinced that the Gestapo had only released him in order to watch him so that he would inadvertently lead it to other members of the resistance, Jouvenel went into hiding, and in September 1943 he crossed the Swiss border illegally with his companion Hélène and their children.

Jouvenel spent the next two years reflecting on European totalitarianism and writing a book which he published in 1945, *On Power: The Natural History of Its Growth*. It was well-received, more so though in Anglo-Saxon countries than in France which was preoccupied with settling scores after the German occupation. Friedrich von Hayek who had presented a somewhat similar analysis in *The Road to Serfdom* invited Jouvenel to the founding meeting in April 1947 of the Mont Pelerin Society, an international academy of liberal intellectuals. When an English translation of Jouvenel's work came out in 1948, Hayek wrote a favourable review, calling it a 'great book'.⁽¹⁰⁾ During his exile in Switzerland, Jouvenel became a close friend of another founding member of the Mont Pelerin Society, the influential economist Wilhelm Röpke, who lived and taught in Geneva. They were both convinced that the market order needed a moral basis. In 1949, Jouvenel was invited to give a series of lectures in Cambridge subsequently published as the *Ethics of Redistribution*.⁽¹¹⁾ He read a paper at the 1951 meeting of the Mont Pelerin Society in the French resort town of Beauvallon in Rhône where he sought to explain the opposition to capitalism by intellectuals. A sequel to *Power*, called *Sovereignty*, came out in French in 1955 and English in 1957.⁽¹²⁾ The third work in what was to become his trilogy on political philosophy was *The Pure Theory of Politics* which, unlike his

other works, was originally written in English and came out in 1963.⁽¹³⁾ By then, however, Jouvenel was no longer active in the Mont Pelerin Society. He was turning away from political philosophy and focusing instead on futurology.

After Jouvenel's wife Hélène passed away in 1974, he published a moving memoir of her.⁽¹⁴⁾ He also wrote four novels and his autobiography.⁽¹⁵⁾ Two collections of his essays have appeared in English.⁽¹⁶⁾ In early 1983, a few months before Jouvenel was to celebrate his eightieth birthday, his life took a dramatic turn. In a book about French fascism he was accused of having been a collaborator during the War. His 1936 interview with Hitler and his friendship with Ambassador Abetz in the first years of the War were held against him.⁽¹⁷⁾ Jouvenel took the author, Zeev Sternhell, to court for defamation. In October 1983, a Court in Paris heard the case. The trial was quite dramatic. Henry Kissinger and Milton Friedman (both of them Jewish) spoke on Jouvenel's behalf. The distinguished French political theorist Raymond Aron (also a Jew) rose up from his sickbed, against the advice of his doctors, to testify, arguing that Sternhell showed little understanding of the circumstances in the 1930s when Frenchmen of good will, dismayed by the apparent impotence of the Third Republic, were searching for ways out of the Great Depression. It added to the drama that Aron suffered a fatal heart attack when he was leaving the court building.⁽¹⁸⁾ The Court found Sternhell's accusation that Jouvenel had been a collaborator during the

(10) Friedrich A. Hayek, The Tragedy of Organised Humanity, *Time and Tide*, 6 November 1948, p. 119. Repr. in *Collected Works of F. A. Hayek*, Vol. 4, *The Fortunes of Liberalism* (Chicago: Chicago University Press, 1992), pp. 249–252.

(11) Bertrand de Jouvenel, *The Ethics of Redistribution* (Cambridge: Cambridge University Press, 1951). Repr. by Liberty Fund (Indianapolis IN: 1990).

(12) Bertrand de Jouvenel, *De la souveraineté: A la recherche du bien politique* (Paris: M. T. Génin, 1955); *Sovereignty. An Inquiry into the Political Good*, tran. by J. F. Huntington (Chicago: University of Chicago Press, 1957). Repr. by Liberty Fund (Indianapolis IN: 1997).

(13) Bertrand de Jouvenel, *The Pure Theory of Politics* (New Haven: Yale University Press, 1963); *De la politique pure* (Paris: Calmann-Lévy, 1963). Repr. by Liberty Fund (Indianapolis IN: 1999).

(14) Bertrand de Jouvenel, *Revoir Hélène* [Meeting Hélène Again] (Paris: Robert Laffont, 1986).

(15) His four novels were *La Fidélité difficile* [Difficult Loyalty] (Paris: Ernest Flammarion, 1929); *L'Homme rêvé* [The Man of Dreams], co-written with Marcelle Prat (Paris: Ernest Flammarion, 1930); *La Prochaine* [The Next One], co-written with Marcelle Prat (Paris: Ernest Flammarion, 1934); *Les Français* [The Frenchmen] (Genève: Constant Bourquin, 1945), under the pseudonym Guillaume Champlitte, repr. under his own name (Paris: Julliard, 1979).

(16) Bertrand de Jouvenel, *The Nature of Politics*, ed. by Dennis Hale and Mark Landy (New Brunswick NJ: Transaction Publishers, 1992); *Economics and the Good Life: Essays on Political Economy*, ed. by Dennis Hale and Mark Landy (New Brunswick NJ: Transaction Publishers, 1999).

(17) Zeev Sternhell, *Ni droite ni gauche: L'idéologie fasciste en France* (Paris: Le Seuil, 1983); *Neither Right Nor Left: Fascist Ideology in France*, tran. by David Maisel (Princeton: Princeton University Press, 1986).

(18) Aron had been a member of the Mont Pelerin Society, in 1949–1955, but left it for the same reason as Jouvenel, that there was too much emphasis on economic liberalism.

war unfounded and libellous, awarding the plaintiff the one franc he had requested, although it upheld Sternhell's right to express his opinion that the groups in which Jouvenel participated before the war were fascist in nature and that after the war he had played down these activities. Less than four years later, Jouvenel passed away, on 1 March 1987.

The Growth of Power

Jouvenel's book, *On Power*, is about the growth of Power, which is what he calls the state with all its appendages and accessories. 'From one regime to another, always more soldiers, more taxes, more laws, more officials.'⁽¹⁹⁾ Power tends to grow, Jouvenel teaches, because those in command seek their own gain which is for them to extend their sphere of control. This may not necessarily apply to all rulers, but it is a possibility which certainly became reality in the first half of the twentieth century. Thus, in his analysis Jouvenel is a forerunner of the 'public choice' school in economics led by James M. Buchanan which tries to model politicians in the same way as other human beings, as first and foremost concerned with their own interests, even if Buchanan and his colleagues fully recognise, as does Jouvenel, that not all politicians are like that.⁽²⁰⁾ By itself, it does not explain much that those in command seek to extend their sphere of control. They have done so in all ages. Crucially, however, some modern trends have removed obstacles to the growth of Power, according to Jouvenel. One obstacle is natural law, based on religious belief and serving to restrain rulers. It has been replaced by moral relativism which Jouvenel calls Protagorism, after the Greek sophist. 'For, once man is declared "the measure of all things", there is no longer a true, or a good, or a just, but only opinions of equal validity whose clash can be settled only by political or military force; and each force in turn enthrones in its hour of triumph a true, a good, and a just which will endure just

as long as itself.'⁽²¹⁾ Another obstacle in the past to the growth of Power is what broadly can be called civil society, including family, religion, local self-government, fraternities, civil associations, aristocracy and monarchy. These intermediate institutions and traditions have been suppressed or swept away in many countries, leaving rootless individuals to confront Power. 'The interests and memories which spring from local customs contain a germ of resistance which is so distasteful to authority that it hastens to uproot it. Authority finds private individuals easier game; its enormous weight can flatten them out effortlessly as if they were so much sand.'⁽²²⁾ One institution of civil society is particularly important, private property. Even the French revolutionaries had more or less left alone private property, both that which people had in themselves, self-ownership, and that which they had in physical resources, world-ownership. But in the twentieth century Power did away with private property: the Bolsheviks nationalised the means of productions, while the Nazis nationalised people.

Power feeds on revolution. 'The Cromwells and Stalins are no fortuitous consequence, no accidental happening, of the revolutionary tempest. Rather they are its predestined goal, towards which the entire upheaval was moving inevitably; the cycle began with the downfall of an inadequate Power only to close with the consolidation of a more absolute Power.'⁽²³⁾ Power also feeds on war. When Jouvenel was writing his book, European states were waging total war on one another. In the process they had become to some extent totalitarian, even the democracies, directing all their resources to one goal. 'The war through which we have lived has surpassed in savagery and destructive force any yet seen by the Western World,' Jouvenel writes. 'The most surprising feature of the spectacle which we now present to ourselves is that we feel so little surprise at it.'⁽²⁴⁾ Modern states have at their disposal many more means of control than ancient states, not least increased ability to collect

(19) Jouvenel, *Power*, p. 128.

(20) James M. Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor MI: University of Michigan Press, 1962); Eamonn Butler, *Public Choice: A Primer* (London: Institute of Economic Affairs, 2012).

(21) Jouvenel, *Power*, p. 212.

(22) Ibid., p. 229.

(23) Ibid., p. 216.

(24) Ibid., p. 2.



taxes and conscription. Military leaders of the past, such as Charles XII of Sweden, Frederick II of Prussia, or Bonaparte, could not mobilise the whole of society as is now possible. It is the growth of Power which makes total war possible, and in turn total war leads to the growth of Power. 'We are ending where the savages began. We have

found again the lost arts of starving non-combatants, burning hovels, and leading away the vanquished into slavery. Barbarian invasions would be superfluous: we are our own Huns.'⁽²⁵⁾ Modern government not only has greater means at its disposal: The natural resistance of individuals to government coercion, in particular to taxation and conscription, is also weakened when it is assumed that it is no longer the King, but the People that are Power. Jouvenel, like Constant and Tocqueville before

Revolutions feed Power. The French Revolution swept away intermediary institutions. Conscription was introduced, and taxation was increased. Bellicose politics was introduced. Painting by Léon Cogniet, *The Paris National Guard on its way to the Army, September 1792*.

him, traces unlimited Power to the idea of popular sovereignty. Constant had correctly pointed out that popular sovereignty loses its original meaning in the move from the small community to a large society, from Sparta to France. But a new meaning was created in the process: the masses were mobilised. 'The theory of a divine sovereignty led to absolute monarchy; the theory of a popular sovereignty led at first to parliamentary supremacy, and finally to plebiscitary absolutism.'⁽²⁶⁾ The People, citizens for one day and subjects for four years, are focused on a share in directing Power, not on the protection of their traditional liberties. 'It is, alas, no longer possible for us to believe that by smashing Hitler and his regime we are striking at the root of the evil. Even while we do it, we are already making plans for after the war, which will make the state the arbiter of every individual destiny and will place, inevitably, in Power's hands means adequate for the vastness of its task.'⁽²⁷⁾

In the Middle Ages, unlike both the Greek city state and the modern state, there was no single and omnipotent Power, Jouvenel points out. Sovereignty was limited; in each territory authority was divided between the Monarchy and the Church, and between law and custom in local communities. The king was bound by the law, divine and human, and by custom. He was first among equals and had little source of income except from his own estates. But when sovereignty becomes popular, it is natural to assume that it is unlimited. As Jouvenel observes, 'when the Power was held by others, we favoured limiting it: now that we hold it ourselves, it cannot be too big.'⁽²⁸⁾ In practice, the idea of sovereignty always becomes the demand by a minority to direct the majority: the demand by communists to rule in the name of the proletariat, and by fascists to rule on behalf of the nation, and, less dramatically, the demand by a parliamentary majority to represent the populace. 'But there are no institutions on earth which enable each separate person to have a hand in the exercise of Power, for Power is command, and everyone cannot command. Sovereignty of the people is, therefore, nothing but a fiction,

(25) Ibid., p. 8.

(26) Ibid., p. 27.

(27) Ibid., p. 12.

(28) Ibid., p. 226.

and one which must in the long run prove destructive of individual liberties.’⁽²⁹⁾ German Chancellor Otto von Bismarck and US President Franklin D. Roosevelt both came close to establishing Caesarism in their respective countries, similar to that of the two Napoleons, the Great and the Small, in France. Even in peacetime, the masses can be mobilised. But then the proudest achievements of Western civilisation will be destroyed. ‘It is as futile and dangerous to aim at making of society one large family, as sentimental socialism seeks to do, as to aim at making of it one large team, as positivist socialism seeks to do,’ Jouvenel observes.⁽³⁰⁾ ‘Of all the simplifications to which the human spirit naturally inclines, unable to reconcile itself to the complexity of the real, there is none more dangerous than the attempt to integrate the whole of society in one vast, permanent action group.’⁽³¹⁾

Jouvenel realises that the old aristocracy in the literal sense of the word will never regain power. What he teaches is that liberty as a general condition developed out of liberties originally enjoyed only by the aristocracy; paradoxically, it is a generalisation of privileges. Moreover, if liberty is not to perish, civil society, with its intermediate institutions and traditions, including open and flexible hierarchies, has to be preserved and protected. Thus, Jouvenel presents a revised version of the conservative liberalism of Constant and Tocqueville. According to Constant, the French revolutionaries, under the baleful influence of Jean-Jacques Rousseau, had tried to reconstruct modern society in the image of a small community, where people could enjoy ancient liberty—defined as direct political participation—whereas what was now appropriate was modern liberty, the right of individuals to make choices about their life. Ancient society was about conquest, the modern one about commerce. Jouvenel, on the other hand, sees historical evolution not as being inevitably from a military to a commercial society, with an ever-widening scope for the individual, but rather, in the case of France at least, as being from decentralisation to centralisation, with the People

(or those who wield power on their behalf) replacing the King. In this he adopts Tocqueville’s analysis. According to Jouvenel, the historical significance of the French Revolution was that it sanctified violence: it introduced bellicose politics.⁽³²⁾ Champions replaced gentlemen. But writing one hundred years after Tocqueville, Jouvenel is able to integrate the totalitarianism of the Bolsheviks and the Nazis into his own analysis. Tocqueville had envisaged ‘soft’ totalitarianism where individual wills were not broken, but bent, where people were manipulated rather than compelled to do things. Jouvenel, on the other hand, is a witness to ‘hard’ totalitarianism, almost unimaginable to nineteenth century liberals, where designated outcasts, such as ‘former people’ in the Soviet Union or Jews in Nazi Germany, are deprived of civil rights, imprisoned, tortured, sent to slave camps or executed, while the recognised members of society are subjected to strict censorship, constant surveillance and relentless propaganda in order to mould their minds. Modern fraternity is that of one Big Brother and many little brothers.

Jouvenel provides little guidance as to how the growth of Power could be reversed. His is a ‘melancholy liberalism’.⁽³³⁾ In 1945, he sees little hope of taming the beast: ‘After the firework display, the darkness of a formless mass, destined to despotism and anarchy.’⁽³⁴⁾ How could it be tamed? Many other political thinkers have tried to purge Power of its egoistic element, or somehow to eliminate the pursuit by the rulers of special interests. Plato wanted his philosopher kings to forgo private property and family ties in order to be impartial; Rousseau insisted that the General Will was not identical to a will composed of individual wills; Adam Smith spoke of the ‘Impartial Spectator’; in modern times, long after Jouvenel published his works, John Rawls suggested that the members of his constituent assembly should make decisions under a ‘veil of ignorance’ where they would not know of their own abilities and advantages. By contrast, Jouvenel believes that this is never possible. Politics is a process in which the egoism of the agents cannot be assumed

(29) Ibid., p. 256.

(30) Jouvenel, *Sovereignty*, p. 64.

(31) Ibid., p. 68.

(32) Jouvenel, *Pure Theory*, p. 195–198.

(33) Brian C. Anderson, Bertrand de Jouvenel’s Melancholy Liberalism, *The Public Interest*, No. 143 (Spring 2001), pp. 87–104.

(34) Jouvenel, *Power*, p. 378.

away. Therefore man should abandon dreams of a perfect order: ‘There is a tyranny in the womb of every Utopia.’⁽³⁵⁾ Political problems cannot be solved, only settled.⁽³⁶⁾ Nevertheless, Jouvenel teaches that there is an identifiable common good, and that the state should promote it and not only try to prevent injustice. Government can have a positive function, primarily in providing security and solidarity. It has to strike a balance between innovation and stability, between construction and order:

“ Command is a mountain top. The air breathed there is different, and the perspectives seen there are different, from those of the valley of obedience. The passion for order and the genius for construction, which are part of man’s natural endowment, get full play there. The man who has grown great sees from the top of his tower what he can make, if he so wills, of the swarming masses below him.⁽³⁷⁾

Accordingly, Jouvenel makes a distinction between two kinds of political leaders, the innovator, *dux*, possessing personal authority and stirring others into action, and the stabiliser, *rex*, invested with institutional authority, moderating and adjusting conflicts. Jouvenel uses two vivid images to explain the distinction: the *dux* is General Napoleon Bonaparte riding on a horse at the bridge of Arcola, egging on his soldiers, whereas the *rex* is King Louis IX (Saint Louis) sitting under an oak in Vincennes, dispensing justice to his subjects.⁽³⁸⁾

What has been shown in the three quarters of a century since Jouvenel wrote his account of the growth of Power is that it can be halted, and perhaps stopped, by a combination of ideas, institutions, and political leadership. Perhaps Theseus cannot kill the Minotaur, but he can fence it in and put it on an appropriate diet. The recent history of

(35) Jouvenel, *Sovereignty*, p. 10.

(36) Jouvenel, *Pure Theory*, p. 207.

(37) Jouvenel, *Power*, p. 116.

(38) Jouvenel, *Sovereignty*, pp. 40–41.



French soldiers execute Spanish rebels in 1808. War feeds Power. Painting by Francisco Goya, The Third of May 1808.

the United Kingdom is instructive. Winston Churchill was a typical *dux*, the right leader during the Second World War. The British populace thought that in peacetime they needed an unassuming figurehead, a *rex*, and they therefore in 1945 voted in Clement Attlee. But the radical reforms implemented by Attlee’s Labour Party created more conflicts than they resolved, and ultimately Margaret Thatcher became British Prime Minister. She was both a *dux* and a *rex*: she fought for reforms which were bitterly contested at the time, but which had the purpose of stabilising society and liberating the economy, as they ultimately did. George Washington in the United States and Charles de Gaulle in France combined the two roles, while German Chancellor Konrad Adenauer was a typical *rex*. Another German Chancellor, Helmut Kohl, started as a *rex*, but he certainly became a *dux* when he resolutely oversaw the reunification of Germany. While the illusion of popular sovereignty is still prevalent, the ideas (and institutions) of private property, free trade, and limited government regained strength in the latter half of the twentieth century, leading in the West to the emergence of entrepreneurs of great wealth and in the East to the migration of hundreds of millions of poor people

into the middle class. Civil society proved to be far more resilient in the West than Jouvenel had feared: one of its new and unforeseen elements, for example, was the activity of free-market think tanks demonstrating in countless studies that government can be the problem rather than the solution.

The Ethics of Redistribution

Jouvenel's three major works in political philosophy are full of profound observations and would merit a longer commentary. Many of his shorter pieces are also original and incisive. In his 1949 lectures in Cambridge, *Ethics of Redistribution*, Jouvenel makes a distinction between redistributionism and socialism proper which is, he says, an illusion about society as brotherhood, a dream about eliminating conflicts. He also makes a distinction between redistribution of land, which is about resources, and redistribution of income, which is about the product of resources. Jouvenel points out that poverty relief has always been seen as a social duty, by the local community, the lord of the manor or the church, and nowadays by the state. But redistribution is not poverty relief. It is supposed to be the transfer of resources from the rich to the poor, the transformation of caviar into bread, inspired by outrage over the squalor of the poor and the waste of the rich. Redistribution presupposes a floor and a ceiling: those with income below the floor should receive transfers from those with income above the ceiling. But it does not take much reflection to understand that there is much less surplus to be redistributed than commonly assumed, unless either the floor or the ceiling is set at a relatively low level. If the floor is set at a low level, then there is little point in the redistribution because it would not make much difference to the poor. If the ceiling is set at a low level, which is likely to happen, then redistribution would not be from the very rich alone, but also from the middle class. It is not a matter of Rockefeller forgoing his yacht, but of carpenters, bakers, engineers and physicians seeing a part of their income removed. Any significant redistribution would have to target many more people than the rich and the poor, even if the direct cost of transfers and the indirect long-term effect on the willingness to generate and reveal

income would both be ignored.⁽³⁹⁾

Jouvenel points out that if income above a relatively low ceiling is expropriated by the state, then the investment necessary to maintain a sound economy will not be financed by personal savings. Private investors would disappear implying that the state would have to provide the investment required. Jouvenel also discusses the argument for redistribution that the money transferred is worth much more to the poor than the rich so that the transfer would increase total satisfaction in society.⁽⁴⁰⁾ But it is impossible to compare individual utilities, he argues. The logical income distribution in this case would be equality. Radical levelling would however be socially disruptive. While people of some means might accept temporary material sacrifices in war, they would resist them in peace. They have acquired tastes and they are accustomed to a certain lifestyle of which they would be suddenly deprived. Moreover, even if this consideration might be disregarded in the long run, the fact remains that people have different wants, preferences and tastes. Those with wants shared by many would presumably be able to satisfy them more cheaply than those with uncommon preferences or tastes. But where minorities would not be able to compensate for their relatively expensive tastes by earning more (often by working harder), they would in effect be victims of discrimination. This would have several consequences.

First, individuals with uncommon tastes would suffer hardship. In the second place, society would be deprived of the special effort those individuals are prepared to make in order to fulfil their special needs. Thirdly, society would be denied the variety of ways of life resulting from successful efforts to satisfy special needs. Fourthly, certain activities supported by minority demand would be abandoned. The problem is not only about caviar. It is about the disappearance of all kinds of quality goods and services presently enjoyed by the affluent.

(39) In the mid-2010s, the ratio between disposable incomes of the top 20 per cent and the bottom 20 per cent is around 5 in the EU, and lower in the Nordic countries, around 3. The ratio between incomes of the top 10 per cent and the bottom 10 per cent is around 12 in the OECD, and around 5 in the Nordic countries. *How's Life: Measuring Well-being* (Paris: OECD, 2015), Ch. 2, Fig. 2.5.

(40) I discuss this argument also in my comments on Friedrich von Wieser's theory in the chapter in this book on Carl Menger.

‘Who could buy paintings? Who even could buy books other than pulp?’⁽⁴¹⁾ Conceivably, aggregate satisfaction would increase if the money which a few now spend on art will instead be used by the many on shilling books. But this would nevertheless be a loss to society.

Redistributionists might answer that the state could run libraries and museums and subsidise the arts and sciences, just as it could provide the investment necessary for continued material wellbeing. But if the state makes decisions not only about investments, but also about cultural activities, replacing millions of individual investors, sponsors and donors, it has assumed enormous responsibilities and with them vast powers, Jouvenel observes. Moreover, he identifies a contradiction inherent in such a response. If the aim is to increase aggregate satisfaction by transferring money from the rich to the poor, then it seems strange to use some of this money afterwards to try and fulfil minority needs (for concerts, paintings and poems, to mention a few examples) which would have been fulfilled without the redistribution. This would only serve to reduce again the increased aggregate satisfaction (presumably) brought about by redistribution. ‘The recognition that maximising satisfactions may destroy values which we are all willing to restore at the cost of moving away from the position of maximal satisfaction destroys the criterion of maximising satisfactions.’⁽⁴²⁾ Society is not the fictional equilibrium described by some economists where all marginal utilities are equal and no increase in consumer satisfaction can therefore be made. It should rather be thought of as a framework within which individuals and groups have the opportunity to explore life projects and to try and achieve their goals.

Undeniably, redistribution has economic consequences. If taxes are steeply progressive, then people will become reluctant to work longer hours because most of the income from their additional effort will be seized by government.⁽⁴³⁾ Moreover, steeply progressive taxes make it difficult to accumulate capital and to challenge existing businesses in the

market: venture capitalists will almost disappear and there will be fewer entrepreneurs. Hence, the market will become less competitive. Jouvenel also draws attention to some little-noted social effects of redistribution. The middle-class family is adversely affected by increased taxes because both partners in a marriage will have to earn incomes instead of one of them remaining at home, bringing up children. Likewise, the work ethic is weakened by transfers. When a larger share of the income received by low-income groups becomes independent of their productive efforts, they behave less responsibly. Jouvenel asks why corporations are usually taxed less than families. ‘It is incomprehensible to the point of scandal that public authority should facilitate the upkeep of a tawdry picture or variety theatre, but not the upkeep of a great house, a thing of aesthetic and ethical value, out of which have come generations of the men who have made England what it is.’⁽⁴⁴⁾ Heavy taxes cause yet another social corrosion. Citizens lose the means to contribute in their private capacity to the advancement of their dependents and their surroundings. Instead they become maintenance men. Jouvenel treasures ‘what is left of society: warm hospitality, leisured and far-ranging conversation, friendly advice, voluntary and unrewarded services. Culture and civilisation, indeed the very existence of society, depend upon such voluntary, unrewarded activities.’⁽⁴⁵⁾

Jouvenel notes that redistribution in the modern state is usually not implemented as a simple cash transfer from rich to poor. Instead, the state becomes a trustee for low-income groups, moving on to extend benefits to all members of society. ‘The more one considers the matter, the clearer it becomes that redistribution is in effect far less a redistribution of free income from the richer to the poorer, as we imagined, than a redistribution of power from the individual to the State.’⁽⁴⁶⁾ Redistribution thus leads to centralisation, the transfer of power from men of independent means to officials who will form a new

(41) Jouvenel, *Ethics*, p. 42.

(42) *Ibid.*, p. 45.

(43) Edward C. Prescott, Why Do Americans Work So Much More than Europeans? *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 28, No. 1 (2004), pp. 2–13.

(44) Jouvenel, *Ethics*, p. 62.

(45) *Ibid.*, p. 68.

(46) *Ibid.*, p. 72.



ruling class.⁽⁴⁷⁾ Jouvenel wonders whether this consequence might also be a motivation: that redistribution might be a move to change elites rather than an attempt to lift up the poor.

In his 1951 lecture in Beauvallon, Jouvenel seeks to explain the opposition by intellectuals to capitalism. They see the capitalists as ‘self-seeking men in quest of personal aggrandisement’ and observe workers being treated as ‘mere instruments’. They think of themselves as natural allies of workers, manning the barricades together. This was not always so, Jouvenel remarks. The hostility of intellectuals to money makers is relatively recent, paradoxically increasing as they became useful, entrepreneurs

According to Jouvenel, the *dux*, exemplified by General Bonaparte leading his troops to storm the bridge at Arcole, is an innovator, mover, whereas the *rex*, such as King Louis IX (St. Louis) dispensing justice to his subjects, is a stabiliser, adjuster. Paintings by Antoine-Jean Gros and El Greco, respectively.

(47) It is somewhat ironic to observe staff members of the OECD in Paris and of the World Bank in Washington DC advocate more income equality through taxation: these international elites pay no taxes themselves.

replacing rentiers. But this is precisely the point, according to Jouvenel. In the marketplace people do not make money unless they are useful to others, accepting the maxim that the customer is always right. But intellectuals believe that they are right and not the customer. They refuse to become servants of the public. They want to seek the Good, not to sell goods. If they are among the heathens, they offer them the Gospel, whereas businessmen would try to sell spirits to them. Intellectuals might rest content if they could claim a place in society as their own where they could apply their own criteria of what is praiseworthy. But modern commercial society does not grant them any such refuge. Material success becomes the only accepted criterion of esteem and respect. The intellectuals know however that in the contest for public favours, they will never be as successful as entrepreneurs. ‘Not only has the intelligentsia as a whole fallen to a less exalted status, but, moreover, individual recognition tends to be determined by criteria of subjective appreciation by the public, which the intelligentsia rejects on principle; hence the countervailing tendency to exalt those intellectuals who are for intellectuals alone.’⁽⁴⁸⁾

Futurology, Ecology, and Economics

When Jouvenel turned in his sixties to futurology, with special emphasis on ecology, he recognised the great difference between the past and the future. The past is known, however open it may be to reinterpretations. The future is unknown, and even if people confine themselves to outlining many possible futures, they can hardly take everything into account. It is difficult to make predictions, especially about the future, as a Danish wit once exclaimed.⁽⁴⁹⁾ Jouvenel himself recalls that Marquess Nicolas de Condorcet said at the Institut de France in 1784 that Europe seemed to be characterised by a ‘spirit of peace and moderation’. Condorcet deduced from this ‘the great probability that we have to expect fewer

(48) Jouvenel, *Intellectuals*, *Capitalism*, p. 121.

(49) Karl K. Steincke, *Farvel og Tak* [Goodbye and Thanks] (København: Fremad, 1948), p. 227.

great changes, fewer great revolutions in the future than in the past’.⁽⁵⁰⁾ Five years later, the French Revolution erupted, and soon after that the major European countries were engaged in war. Norwegian Prime Minister Gunnar Knudsen exclaimed in parliament on 17 February 1914: ‘From an international point of view, the political sky now has fewer clouds on the horizon than has been the case for many years.’⁽⁵¹⁾ Five months later the First World War broke out. Before Lenin returned to Russia in April 1917, he wrote in a farewell letter to Swiss workers: ‘Russia is a peasant country, one of the most backward of European countries. Socialism *cannot* triumph there *directly* and *immediately*.’⁽⁵²⁾ Seven months later Lenin’s Bolsheviks seized power in Russia. Even in cases where the usually complex historical process can be reduced to a game with only a few participants, people miscalculate. Hitler expected the United Kingdom to seek peace after the fall of France in the summer of 1940, not realising the dogged determination of Winston Churchill, supported by his people and the Commonwealth countries. Again, Hitler observed the disastrous performance of the Red Army in the first months of the Winter War between the Soviet Union and Finland, and therefore he attacked Russia in the summer of 1941, but he underestimated Soviet military capabilities and the ferocity of Russia’s two most effective generals, January and February. I can speak for myself. Despite claims to the contrary, almost nobody, and certainly not I, foresaw the cataclysmic events of my lifetime, the collapse of communism in 1989–1991, the financial crisis of 2007–2009 and the Coronavirus epidemic of 2020.

Economic commentators have fared no better than others in playing Nostradamus. English philosopher John Stuart Mill wrote in 1848: ‘Happily, there is nothing in the laws of Value which remains for the present or any future writer to clear up; the theory of the subject is complete.’⁽⁵³⁾ Two decades later the marginal revolution in economics

took place, when the subjective theory of value was presented.⁽⁵⁴⁾ Notoriously, none of the predictions by Karl Marx on the evolution and eventual collapse of capitalism came true. English economist William Stanley Jevons devoted a whole book in 1865 to a warning that England would soon run out of coal.⁽⁵⁵⁾ Coal is still being mined in England. In 1926, English economist John Maynard Keynes assured a Swiss banker: ‘We will not have any more crashes in our time.’⁽⁵⁶⁾ In mid-October 1929, American economist Irving Fisher claimed that stock prices had reached ‘what looks like a permanently high plateau’.⁽⁵⁷⁾ Two weeks after Fisher made his claim, the New York stock market crashed and thousands of investors—including Fisher—lost most of their money. Swedish economist Gunnar Myrdal was an unusually hapless forecaster. In the 1930s he predicted a crisis of under-population.⁽⁵⁸⁾ The opposite happened. In the 1940s he predicted a post-war depression.⁽⁵⁹⁾ It did not take place. Even tiny Iceland had the benefit of Myrdal’s advice. In the 1960s he predicted an impending crisis in food production, and under his influence the Icelandic government decided to increase subsidies to agriculture.⁽⁶⁰⁾ This created a persistent problem in a country ill-suited for farming. Perhaps the most spectacular forecast was by American biologist Paul R. Ehrlich who stated in 1968 that ‘in the 1970s hundreds of millions of people will starve to death in spite of any crash programs embarked upon now’.⁽⁶¹⁾ Quite the contrary: food production greatly increased, while famines almost disappeared. Yet another example of

(54) I describe the marginal revolution in the chapter on Carl Menger in this book.

(55) William Stanley Jevons, *The Coal Question: An Inquiry Concerning the Progress of the Nation, and the Probable Exhaustion of Our Coal Mines* (London: Macmillan, 1865).

(56) *The Raven of Zurich: The Memoirs of Felix Somary* (London: C. Hurst, 1986), p. 147. Born in Austria, Somary had written his dissertation in economics under Carl Menger.

(57) Fisher Sees Stocks Permanently High, *New York Times*, 16 October 1929.

(58) Gunnar and Alva Myrdal, *Kris i befolkningsfrågan* [Crisis in the Population Question] (Stockholm: Bonniers, 1934).

(59) Gunnar Myrdal, Is American Business Deluding Itself? *Atlantic Monthly*, No. 174 (November 1944), p. 51.

(60) Icelandic newspapers gave an account of a lecture Myrdal gave at a meeting of the Nordic Farmers’ Association in Malmö on 20 July 1965, e.g. Larus Jonsson, Uppsalabref, *Timinn* 7 August 1965.

(61) Paul R. Ehrlich, *The Population Bomb* (San Francisco: Sierra Club Books, 1968).

(50) Bertrand de Jouvenel, *The Art of Conjecture*, p. 62.

(51) *Stortingstidende* (1914), p. 76.

(52) Vladimir I. Lenin, Farewell Letter to the Swiss Workers, *Jugend-Internationale*, No. 8, May 1 (1917), repr. in *Collected Works*, Vol. 23 (Moscow: Progress Publishers, 1964), p. 371. Italics in the original.

(53) John Stuart Mill, *The Principles of Political Economy*, Bk. III, Ch. 1, §1, *Collected Works*, Vol. III, ed. by John M. Robson (Toronto: University of Toronto Press, 1965), p. 456.

failed predictions is in *The Limits to Growth* from 1972, according to which the world would probably run out of gold by 1981, mercury and silver by 1985, tin by 1987, zinc by 1990, petroleum by 1992, and copper, lead and natural gas by 1993.⁽⁶²⁾ None of this happened. In these cases, the confident forecasters did not sufficiently take into account unexpected events (such as Black Tuesday, on 29 October 1929), innovations (such as the Green Revolution), and marginal pricing (which means that supply is never a final, fixed number: it changes with demand). The future always takes us by surprise.⁽⁶³⁾

The shortcomings of futurology may be observed in one of Jouvenel's late papers, on marine problems. The author makes some acute observations, as is his wont: Our distant ancestors only knew how to feed themselves by hunting and gathering, usually in a race between food production and famine. Man then developed agriculture and stock-breeding, which meant enormous improvement. It is strange, Jouvenel remarks, that this improvement has not been extended to the sea, which covers 71 per cent of the globe's surface. There, man remains a hunter-gatherer. The sea only provides a mere 2 per cent of man's total food supply.⁽⁶⁴⁾ The sea has also been utilised for transport and fishing and, in modern times, for waste disposal. Jouvenel recalls that in the legends of all countries, the fisherman is represented as poor and the commercial navigator as rich. He correctly observes that the point of departure for the

systematic utilisation of the sea was the declaration by President Harry Truman in 1945 that natural resources on and under the continental shelf around the United States was under US control and jurisdiction. Later, an exclusive economic zone of 200 nautical miles from a country's coastline gained international recognition, while man has realised that with modern technology fish stocks are exhaustible. Jouvenel envisages an international authority to regulate utilisation of marine resources: 'The very idea of an international authority responds to a vague but powerful feeling abroad today: *let us take care of this planet, for we will find no other one: let us use its resources with wisdom and equity*. Is not the best response to this sort of feeling the creation of an institution which would seek all the needed improvements in the uses of this the largest part of the globe?'⁽⁶⁵⁾

On this topic, Jouvenel overlooks the potential of private property rights and therefore he resorts to platitudes about 'wisdom and equity'. The reason why fishermen are poor is that they are utilising an open-access resource. Fisheries economics (to which Jouvenel makes no reference) demonstrates that utilisation of such a resource will increase up to the point at which total costs are equal to total revenues, in other words at the point where possible profit would have been squandered in excessive costs.⁽⁶⁶⁾ (This can be put differently. Open access makes marginal pricing impossible.) The solution lies in limiting access, and the easiest way of doing this is to introduce exclusive fishing rights to those already harvesting the fish stock in question, the stakeholders. If these fishing rights are made divisible and transferable, over time they will end up in the hands of the most efficient fishing firms because they will buy out other holders of the rights. Thus, the profit hitherto squandered in excessive harvesting costs will materialise. Indeed, the problem of open access in offshore fisheries has been largely solved in Iceland, New Zealand and several other countries with the development of a system of individual transferable catch quotas, ITQs, which are

(62) Donella Meadows et al., *The Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind* (New York: New American Library, 1972).

(63) There are exceptions to this rule, of course. On 16 May 2007, I listened to a talk by Scottish historian Niall Ferguson at a luncheon hosted in Reykjavik by the Icelandic bank Kaupthing where he said that he saw many signs of an impending depression similar to that of the Great Depression starting in 1929. Four months later the credit crunch began. On 31 July 2008, William R. White, Deputy Director of the Bank of International Settlements, dined in Reykjavik with David Oddsson, Governor of the Central Bank of Iceland. White told David that the outlook in the international financial markets was bleak, but that authorities were wary of rescuing financial companies. Such bail-outs with taxpayers' money had been severely criticised. He concluded, according to his interlocutor (who told me): 'I think that in the next few months one investment bank will be allowed to go under, and I predict it will be Lehman Brothers. I also think that in the next few months one small European country will be allowed to go under, and I predict it will be Iceland.' One and a half months later Lehman Brothers went under, and a week later the whole Icelandic banking sector collapsed. This may have been informed guesswork in both cases, but what is amazing is that the thousands of well-educated experts paid by private companies and public institutions to spot trends completely missed the impending depression. As with second marriages, it was the triumph of hope over experience.

(64) It is the same ratio in 2018. Jerry R. Schubel and Kimberly Thompson, Farming the Sea: The Only Way to Meet Humanity's Future Food Needs, *GeoHealth*, No. 3 (2019).

(65) Bertrand de Jouvenel, An Economic View of Marine Problems, *The Tides of Change: Peace, Pollution, and Potential of the Oceans*, ed. by E. M. Borgese and D. Krieger (New York: Mason/Charter, 1975), pp. 4–32. Italics in the original.

(66) H. Scott Gordon, The Economic Theory of a Common-Property Resource: The Fishery, *The Journal of Political Economy*, Vol. 62, No. 2 (1954), pp. 124–142.

essentially privately owned extraction rights in a commons—where the commons is the country's territorial waters.⁽⁶⁷⁾ ITQs are suitable for groundfish as well as for 'transient' fishes, such as herring, anchovies and mackerel which move over large areas of the sea. ITQs could also apply to straddling fish stocks which migrate in and out of the territorial waters of countries. Experience in the North Atlantic shows that this problem can be overcome in negotiations between the countries affected: They agree on a total allowable catch, TAC, of the fish stock in question and divide it up between themselves, usually on the basis of catch history. Then each country issues ITQs in her territorial waters to her own fishing firms.

Agreements between countries about total allowable catches, TACs, in straddling fish stocks or in stocks found outside any territorial waters should however be distinguished from the international authority Jouvenel proposes. As he should have known better than most, such an authority can be captured by enthusiasts, often in alliance with special interests. A glaring example is the International Whaling Commission, IWC. There definitely was over-exploitation of some whale stocks in early twentieth century, especially the majestic blue whale, the largest animal on earth. But many other whale stocks are robust, such as the two stocks harvested in Icelandic waters, the minke whale and the fin whale. Ecofundamentalists have however taken over the IWC and in 1982 they imposed a worldwide moratorium on all commercial whaling. In 1993, the Chairman of the Scientific Committee resigned in protest against the contempt shown by the IWC for scientists.⁽⁶⁸⁾ Moreover, whales have to eat. In Icelandic waters, the two whale stocks harvested are estimated to eat around six million tonnes of various food a year, whereas the Icelandic fishing fleet harvests in total around one million tonnes of fish. By trying to impose a ban on whaling in the Icelandic waters, ecofundamentalists are in effect demanding that the Icelanders feed the whales for the

benefit of ecofundamentalists. It is as if a truculent farmer would drive his livestock into his neighbour's pastures and try to feed them there.

Moving onshore, another example is CITES, the Convention on International Trade in Endangered Species. It has also been taken over by enthusiasts who impose an international ban on all ivory trade, even if some elephant stocks in Africa are robust. Indeed, the best way to turn poachers into gamekeepers would be to define private property rights to these elephant stocks and allow the new owners to sell not only ivory but also licences to hunt a certain number of elephants a year.⁽⁶⁹⁾ When the Secretary of CITES opposed the trade ban on various grounds, he was promptly fired at the behest of ecofundamentalists.⁽⁷⁰⁾ A third example is WHO, the World Health Organisation, which, under pressure from ecofundamentalists, has conducted a campaign against the use of the insecticide DDT in combatting malaria. It is true that DDT was used excessively in agriculture in the 1950s and 1960s, with some adverse side effects, as biologist Rachel Carson argued.⁽⁷¹⁾ But when used in moderation, it is a cheap and effective tool against the mosquito transmitting malaria, and without significant side effects. In the time passed since most countries stopped using DDT, millions of people have died from malaria, mostly in poor countries.⁽⁷²⁾

An economic analysis of ecological problems is indispensable. Jouvenel the committed ecologist should have supported private property as firmly as earlier French liberals, such as Bastiat. Is the task not to extend private property rights to resources which today are overexploited? Such resources have to be taken into stewardship. Individuals, not only anonymous bureaucrats inside the dark citadel of Power, have to be responsible for their utilisation. Protection requires protectors.

(67) I discuss the problem from another point of view in the chapter on Locke in this book, but there I was concerned with a different question: How could a commons be enclosed without violating individual rights?

(68) His name is Philip Hammond. Joji Morishita and Dan Goodman, Role and Problems of the Scientific Committee of the International Whaling Commission in terms of Conservation and Sustainable Utilization of Whale Stocks, *Global Environmental Research*, Vol. 9, No. 2 (2005), pp. 157–166. On ecofundamentalism in general, Rognvaldur Hannesson, *Ecofundamentalism: A Critique of Extreme Environmentalism* (Plymouth: Lexington Books, 2014).

(69) Ike Sugg and Urs Kreuter, *Elephants and Ivory* (London: Institute of Economic Affairs, 1994).

(70) His name is Eugène Lapointe. He subsequently wrote a book, *Embracing the Earth's Wild Resources* (IWMC World Conservation Trust, Lausanne 2003).

(71) Rachel Carson, *Silent Spring* (Boston: Houghton Mifflin, 1962).

(72) Richard Tren and Robert Bate, *Malaria and the DDT Story* (London: Institute of Economic Affairs, 2001).

Ayn Rand

(1905–1982)

What would happen if the most creative individuals of a society would tire of being forced to support others and decide to leave? This is the question Russian-American writer Ayn Rand posed in her best-selling novel *Atlas Shrugged*. The answer is: moral corruption, irresponsibility, stagnation and chaos. Rand also took up the challenge of Adam Smith, Edmund Burke and Alexis de Tocqueville that in commercial societies there would be fewer outstanding individuals than in aristocratic societies of the past: calculators would replace heroes. For Rand, the heroes of commercial societies were the entrepreneurs, venture capitalists, inventors, innovators and independent artists and scientists who struggled, often against heavy odds, to achieve their own ends, without violating the rights of others. She told the story of one such individual in her other major novel, *The Fountainhead*. Rand, who managed to escape from the Soviet Union in the 1920s, was also a staunch anti-communist and described in her third and lesser-known novel *We the Living* how collectivistic control from above stifled individual flourishing. She was an uncompromising supporter of capitalism, not reluctantly accepting the pursuit of self-interest as socially beneficial, under competitive conditions, like Smith and Tocqueville, instead applauding it as the expression of individuality. People should love themselves and refuse to become sacrificial lambs, working for the benefit of others. If they wanted to be loved by others, they should try to deserve it, become lovable. With her teachings, Rand went against deeply ingrained ideals such as sacrifice and altruism. She has therefore often been unfairly dismissed. Even if she may have failed in her attempt to turn her profound insights into a plausible philosophical system, she deserves to be heard, understood and of course criticised.

Rand holds the real heroes of modern times to be successful businessmen, venture capitalists, entrepreneurs, inventors and innovators. Photo: Library of Congress.

Rand's Life and Works

Ayn Rand was born Alisa Zinovyevna Rosenbaum on 2 February 1905, in St. Petersburg, then capital of Russia, the eldest of three daughters of an affluent pharmacist, Zinovy Zakharovich Rosenbaum, and his wife Anna Borisovna, born Kaplan. Both her parents were Jewish. A precocious, serious, intense child with big, black, probing eyes, she was twelve when the Tsarist regime collapsed in February 1917, whereas the Bolsheviks seized power eight months later, under the leadership of Vladimir Lenin. The Bolsheviks confiscated her father's business, and the family fled to the Crimean Peninsula, still not under communist control, where Alisa completed high school. In June 1921, when a civil war had ended in a victory for the Bolsheviks, her family returned to Petrograd, as the city had been renamed during the war. The family eked out a living under the harsh new regime. Alisa enrolled in Petrograd State University, majoring in history, while she also studied philosophy and literature. She formed strong opinions on the authors she read. She disliked Plato but was inspired by Aristotle and Friedrich Nietzsche. She also enjoyed the works of her compatriot Fyodor Dostoevsky, French novelist Victor Hugo and German poet Friedrich von Schiller. By now, she was an atheist, believing that man had to be guided by reason alone, not by divine commands. She also strongly opposed the Bolsheviks who ruled Russia with an iron fist. After graduation in October 1924, Alisa studied for a year at the State Institute of Cinematography in Leningrad, as her native city was now called.⁽¹⁾ The Rosenbaums had relatives in Chicago, and even if Soviet Russia was rapidly becoming a closed country, Alisa was able to obtain a visa to visit them. Her mother sold her jewels for Alisa's ticket. She left Leningrad in January 1926, and when she arrived in New York on 19 February 1926, she was so impressed by the Manhattan skyline appearing before her that she shed 'tears of splendour'.⁽²⁾ She stayed with her relatives in Chicago for a few months before heading out

for Hollywood, the centre of American film production. She wanted to become a scriptwriter and by now she had adopted the pen name Ayn Rand.

By chance, in Hollywood Rand soon met film director Cecil B. DeMille who gave her work as an extra in his films and hired her as a junior scriptwriter. She met an aspiring young actor, Frank O'Connor, and they were married in the spring of 1929. She became a citizen of the United States in 1931. These were difficult years, and Rand had to take on odd jobs to support herself, such as waiting tables, stuffing envelopes and filing documents. Her attempts to bring her family over from Russia failed. Gradually, however, her own prospects brightened. Her play, *Night of January 16th*, was produced in Hollywood in 1934 and then met with some success on Broadway in New York a year later which led Rand and her husband to move from Hollywood to New York. A film, loosely derived from the play, was made in 1941. Rand's first published novel, *We the Living*, came out in 1936. It takes place in Russia and 'is as near to an autobiography as I will ever write', she said.⁽³⁾ Of Rand's novels it is perhaps the most realistic one. The characters are drawn in colour, not in black and white. The distinguished American journalist H. L. Mencken commented that it was really an excellent piece of work.⁽⁴⁾ The chief protagonist, Kira Argounova, and her family suffer under the oppressive Bolshevik regime and she is caught between two lovers, the serious and sincere communist Andrei and the reckless and cynical adventurer Leo. Early on in the novel Kira makes a prescient comment when listening to the Internationale at a meeting: 'When all this is over, when the traces of their republic are disinfected from history—what a glorious funeral march this will make!'⁽⁵⁾ *We the Living* sold moderately well, and unbeknownst to Rand, in 1942 a film in two parts, based on the novel, was produced in Italy. When discovered, it was re-edited by Rand and released in 1986.

After the publication of *We the Living*, Rand started work on a major

(1) Chris Matthew Sciabarra, *Ayn Rand: The Russian Radical*, 2nd ed. (University Park PA: Pennsylvania State University Press, 2013). Two useful introductions to Rand are Eamonn Butler, *Ayn Rand: An Introduction* (London: Institute of Economic Affairs, 2018); Mimi Gladstein, *Ayn Rand* (London: Bloomsbury, 2010).

(2) Anne C. Heller, *Ayn Rand and the World She Made* (New York: Doubleday, 2009), p. 53.

(3) Ayn Rand, Foreword, *We the Living*, 2nd edition (New York: Random House, 1959 [1936]).

(4) *Letters of Ayn Rand*, ed. by Michael S. Berliner (New York: Dutton, 1995), p. 10.

(5) Rand, *We the Living*, p. 74.

novel about individuality, but in a break from it she wrote *Anthem*, a short dystopia. In the city where it takes place, individuality is suppressed. Nobody has a name or a recognised separate identity, but Equality 7-2521 stumbles upon the way in which electricity is generated. The rulers demand his punishment for disrupting the plans of the Department of Candles. He manages to escape with his girlfriend from the city into the forest where they settle in a house from the ‘unmentionable times’ and have a child. They slowly rediscover their individuality and move from ‘we’ to ‘I’.⁽⁶⁾

In America, Rand admired the spirit of enterprise which in Russia had never been strong and had been almost extinguished there by the Bolsheviks. But she also detected worrying trends, not least increased government intervention under Democratic President Franklin D. Roosevelt. When she came out publicly in support of the Republican presidential candidate in 1940, a heckler shouted to her at a meeting: ‘Who the hell are you to talk about America? You’re a foreigner!’ She replied with fire in her voice: ‘That’s right. I *chose* to be American. But what did *you* do, besides being born?’⁽⁷⁾ *The Fountainhead* was finally published in 1943, after seven years of hard work. It is about the architect Howard Roark defying both the elite and the masses, an individual going his own way.⁽⁸⁾ Twelve publishers had rejected the manuscript, and the novel received mixed reviews, but by word of mouth it began to sell quite well. When Rand received an offer from Warner Brothers to turn the novel into a film she and her husband returned to California. A fiery anti-communist, Rand testified before the United States House Committee on Un-American Activities in 1947, criticising the 1944 film *Song of Russia* as Soviet propaganda, being at odds with her own experience of the Bolshevik regime.⁽⁹⁾ A

(6) Rand’s dystopia is, like George Orwell’s *Nineteen Eighty-Four*, somewhat reminiscent of a remarkable novel by her compatriot Yevgeny Zamyatin, *We*, tran. by Gregory Zilboorg (New York: E. P. Dutton, 1924).

(7) Barbara Branden, *The Passion of Ayn Rand* (New York Doubleday, 1986), p. 161.

(8) Ayn Rand, *The Fountainhead* (Indianapolis IN: Bobbs Merrill, 1943). An editor at the publishing company, Archibald G. Ogden, strongly supported Rand against his more sceptical colleagues: ‘If this is not the book for you, then I am not the editor for you.’ Branden, *Passion*, p. 171.

(9) Later revelations, based on newly discovered documents in Soviet archives and elsewhere and on decrypted messages to and from Moscow in the 1940s, show that worries about communist infiltration

film based on her novel, *The Fountainhead*, was released in 1949, with Gary Cooper and Patricia Neal playing the main roles.

In 1951, Rand and her husband moved again from California to New York where Rand devoted her time to writing another big novel, also on the theme of individuality. She soon was surrounded by young admirers such as the couple Nathaniel and Barbara Branden, the economists Alan Greenspan and Murray Rothbard and historian Robert Hessen. Committed individualists, they jokingly called their group ‘The Collective’. She also came to know some of the leading economic liberals in New York, such as journalist Henry Hazlitt. Once Hazlitt invited Rand to dinner in order to introduce her to Austrian economist Ludwig von Mises who had fled Europe in 1940. He was like Rand an uncompromising economic liberal. After dinner Hazlitt went out of the living room to get some drinks. When he returned, Rand and Mises were having an argument. Rand said to Mises: ‘You treat me like an ignorant little Jewish girl!’ Hazlitt tried to patch things up by saying: ‘Oh. I’m sure, Ayn, that Lu didn’t mean it that way.’ Mises promptly jumped up and said, in a loud voice: ‘I did mean it that way!’ Later, Hazlitt explained this outburst as a misunderstanding. Mises could not hear very well, and he may have misunderstood one of Rand’s remarks. After about ten minutes all was quiet again, and Rand and Mises remained on friendly terms.⁽¹⁰⁾

In 1957, *Atlas Shrugged* came out and became a best-seller. In Greek mythology, Atlas was a titan who was condemned to hold up the celestial heavens. The theme of the book was: What would happen if the titan shrugged? What would happen if the producers went on strike? Mises read the book with pleasure and wrote to Rand:

“ ‘Atlas Shrugged’ is not merely a novel. It is also—or may I say: first of all—a cogent analysis of the evils that plague our society, a substantiated rejection of the

of the US government and American society were well-founded. Cf. Nigel West, *Venona: The Greatest Secret of the Cold War* (New York: Harper Collins, 1999); John E. Haynes and Harvey Klehr, *Venona: Decoding Soviet Espionage in America* (New Haven CT: Yale University Press, 2000). Some persistent myths of the left have also been conclusively refuted: Ronald Radosh and Joyce Milton, *The Rosenberg File* (New Haven CT: Yale University Press, 1997 [1983]); Allen Weinstein, *Perjury: The Hiss-Chambers Case* (Stanford CA: Hoover Institution Press, 2013 [1978]).

(10) Letter from Henry Hazlitt to William F. Buckley, Jr., 13 March 1982. Available on fee.org

ideology of our self-styled ‘intellectuals’ and a pitiless unmasking of the insincerity of the policies adopted by governments and political parties. It is a devastating exposure of the ‘moral cannibals’, the ‘gigolos of science’ and of the ‘academic prattle’ of the makers of the ‘anti-industrial revolution’. You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you.⁽¹¹⁾

On Mises’ invitation, Rand came to one of his seminars on economics at New York University in the winter of 1957–1958.⁽¹²⁾ She recommended Mises’ books to her numerous admirers and was very pleased when she was told of Mises’ comment that she was the most courageous man in America.⁽¹³⁾ There was however no sympathy lost between Rand and Mises’ friend and former student, Friedrich von Hayek, who was willing to contemplate a wider role for government than just to uphold law and order. A few years after the publication of *Atlas Shrugged*, an admirer of both of them brought them together at a party. They had a brief exchange. She swelled in anger and spun away, exclaiming: ‘You are a compromiser.’ Some time later, Hayek was giving a lecture at Cornell University. The students asked him about *Atlas Shrugged*. ‘Although I tried seriously to read the book, I failed, because there was no romance in it,’ he replied. ‘I tried even more diligently to read that fellow John Galt’s hundred-page declaration of independence, and I knew I’d be questioned on all that, but I just couldn’t get through it.’⁽¹⁴⁾

Some people on the American right treated Rand more harshly than the ever-polite Hayek. In 1955, two years before *Atlas Shrugged* came out, the prolific writer William F. Buckley had started the *National Review* to

try and counter the influence of the left in the world of ideas. He believed that conservatives and classical liberals, or ‘libertarians’, should unite against socialism, soft and hard. For Buckley, a practising Catholic, the militant atheist Rand was however beyond the pale. He commissioned the ex-communist Whittaker Chambers who had become deeply religious to review *Atlas Shrugged*. Unsurprisingly, the review was very hostile. ‘Out of a lifetime of reading, I can recall no other book in which a tone of overriding arrogance was so implacably sustained. Its shrillness is without reprieve. Its dogmatism is without appeal,’ Chambers said. ‘From almost any page of *Atlas Shrugged*, a voice can be heard, from painful necessity, commanding: “To a gas chamber—go!”’⁽¹⁵⁾ In no way did Chambers seriously deal with Rand’s message in *Atlas Shrugged* that it was morally wrong to use force against others except in self-defence and that productive and innovative individuals, always a small minority, were irreplaceable. Rand was deeply hurt by this and other negative responses to the novel and sought solace in her circle of admirers, the Collective. ‘She was a wholly original thinker, sharply analytical, strong-willed, highly principled, and very insistent on rationality as the highest value,’ Greenspan, later to become the most famous member of the Collective, observed.⁽¹⁶⁾ Since then, Rand has inspired many academics, activists, artists, entrepreneurs and politicians, mostly in the United States. Indeed, a book about the American libertarian movement was called *It usually begins with Ayn Rand*.⁽¹⁷⁾ In a 1991 survey done by the Book-of-the-Month Club and the Library of Congress about which book had made the most difference in the lives of the respondents, *Atlas Shrugged* came out second, after the Bible.⁽¹⁸⁾ The novel has sold in approximately eight million copies. It has, like Rand’s other two novels, been translated into many languages, first into Danish in 1959.⁽¹⁹⁾ Once, Rand was present

(11) Letter from Ludwig von Mises to Ayn Rand, 23 January 1958. Available on mises.org

(12) Margit von Mises, *My Years with Ludwig von Mises* (Cedar Falls IA: Center for Futures Education, 1984), p. 137.

(13) Letter from Henry Hazlitt to William F. Buckley, Jr., 13 March 1982.

(14) Theodore J. Lowi, Letter to the Editor, *New York Times* 12 November 2009.

(15) Whittaker Chambers, Big Sister is Watching You, *National Review* 28 December 1957.

(16) Alan Greenspan, *The Age of Turbulence* (New York: The Penguin Press, 2007), p. 51.

(17) Jerome Tuccille, *It Usually Begins with Ayn Rand* (New York: Stein & Day, 1971).

(18) The ten most influential books included *To Kill a Mockingbird* (1960) by Harper Lee, *The Lord of the Rings* (1954–1955) by J. R. R. Tolkien, *Gone with the Wind* (1936) by Margaret Mitchell, *How to Win Friends and Influence People* (1936) by Dale Carnegie, and *The Feminine Mystique* (1963) by Betty Friedan.

(19) In the Nordic languages, in many cases the titles of Rand’s novels have been changed. Her works in

where a commentator denounced her heroes as implausible. She was incensed. ‘Am *I* unreal?’ she exclaimed. ‘Am *I* a character who can’t possibly exist?’⁽²⁰⁾

Rand certainly sometimes seemed like an unreal character. In 1968, her Collective came to an abrupt end. Rand had had an affair for some years with one of its members, Branden, 25 years her junior, with the consent of her husband and his wife. But when Rand discovered that Branden was also in a romantic relationship with a young woman and that he was divorcing his wife, she issued a public condemnation of him without stating the real reason for it. Branden’s wife Barbara later wrote a biography of Rand, *The Passion of Ayn Rand*, which was made into a television film with Helen Mirren playing Rand. ‘Everything about her life and her person was of an epic scale,’ Barbara said about her former mentor.⁽²¹⁾ The Brandens had been Rand’s chief promoters, and after the break with them she was on her own. She still gave lectures and interviews, appeared on popular television shows and wrote articles in newsletters to her admirers. Although she endorsed the Republican Barry Goldwater in the 1964 presidential election, she belonged to neither of the traditional camps in American politics. Unlike most American conservatives, she was a militant atheist, for abortion and against American intervention in the Vietnam Civil War. At the same time, she supported Israel against the Arab states in the 1973 Yom Kippur War as ‘civilised men fighting savages’ and held that European immigrants to America had the right to appropriate and develop land, even if the native Indians had been there before them. She wanted to repeal all laws against

Danish are: *Vi, der lever* (Copenhagen: Berlingske Forlag, 1943); *Kun den stærke er fri* [Only the Strong Is Free] (Copenhagen: Grafisk Forlag, 1958); *Og verden skælvede* [And the World Shook] (Copenhagen: Grafisk Forlag 1959). In 2003, Danish businessman Lars Seier Christensen had 10,000 copies printed of the Danish edition of *Atlas Shrugged* and gave it to his clients and customers. In Icelandic: *Kira Argunova* (Reykjavik: Almenna bokafelagid, 2013); *Uppsprettan* [The Source] (Reykjavik: Almenna bokafelagid, 2011); *Undirstadan* [The Basis] (Reykjavik: Almenna bokafelagid, 2012). In Norwegian: *Kildens utspring* [The Source] (Oslo: Lille måne, 2005); *De som beveger verden* [The Movers of the World] (Oslo: Kagge, 2000). In Swedish: *Urkällan* [The Source] (Stockholm: Lindfors, 1987); *Och världen skälvede* [And the World Shook] (Stockholm: Timbro, 1986).

(20) Nathaniel Branden, *Judgement Day: My Years with Ayn Rand* (Boston MA: Houghton Mifflin, 1989), p. 370.

(21) Branden, *Passion*, p. ix.



Bolsheviks loot Wawelberg Bank in Petrograd after their 1917 coup. They destroyed the nascent capitalism of Russia. Disgusted, Rand left for the United States. Watercolour by Ivan Vladimirov.

homosexuality, although she personally found it ‘immoral’.⁽²²⁾ She however regarded racism as ‘the lowest, most crudely primitive form of collectivism’.⁽²³⁾

In the 1970s, Rand’s health started to fail. She had been a heavy smoker, and in 1974 she had to undergo surgery for lung cancer. Her left-wing critics accused her of hypocrisy because she started to claim social benefits after she became eligible for them. But she had herself written many years before: ‘The victims do not have to add self-inflicted martyrdom to the injury done to them by others; they do not have to let the looters profit doubly, by letting them distribute the money exclusively to the parasites who clamored for it. Whenever the welfare-state laws offer them some small restitution, the victims should take it.’⁽²⁴⁾ Of course, a scholar is not violating his own

(22) John David Lewis and Gregory Salmieri, A Philosopher on Her Times: Ayn Rand’s Political and Cultural Commentary, *A Companion to Ayn Rand*, ed. by Allan Gotthelf and Gregory Salmieri (Southern Gate, Chichester: Wiley-Blackwell, 2016), p. 396.

(23) Racism, *The Virtue of Selfishness* (New York: New American Library, 1964), p. 126.

(24) Ayn Rand, The Question of Scholarships, *The Objectivist*, No. 5 (June 1966), p. 6.

moral principles if he finds private production of higher education to be desirable, while accepting a position at a state university; nor could an economic liberal be expected, when going to the opera, to insist on paying the full price for his ticket, and not the nominal price charged, brought down by government subsidies. In 1979, Rand's supportive and deferential husband Frank O'Connor died. Ayn Rand passed away in her New York flat on 6 March 1982.

The Fountainhead

The Fountainhead begins with tall, handsome but taciturn Howard Roark being expelled from a school of architecture because he refuses to engage in traditional design, sanctioned by history and popular with clients. 'I don't intend to build in order to have clients; I intend to have clients in order to build,' he tells the dean.⁽²⁵⁾ Roark goes to New York and gets a job with an old architect who has fallen out of fashion. His fellow student and housemate, the charming mediocrity Peter Keating, also moves to New York upon graduating and accepts a position at a prestigious architectural firm where he becomes partner after some intrigues. The difference between Roark and Keating is that Roark decides for himself, whereas Keating lets others decide for him. When Roark's employer retires, he is briefly hired by Keating but he is fired after he refuses to design a building in the classical style. He opens his own office, but has little success and temporarily finds a job in a quarry. There, by chance he meets a beautiful girl, Dominique Francon, a journalist who happens to be the daughter of Keating's partner, Guy Francon. They are attracted to each other and have rough sex, which Dominique later intimates to be non-consensual, although she is ambivalent about it. Roark finds a client and returns to New York where he slowly builds up a practice. 'Integrity is the ability to stand by an idea. That presupposes the ability to think. Thinking is something one doesn't borrow or pawn,' says one of Roark's admiring clients.⁽²⁶⁾ Dominique and Roark form a tortured relationship.

(25) *The Fountainhead*, Pt. I, Ch. 1, (Norwalk CT: Easton Press, 1968), p. 13.

(26) *Ibid.*, Pt. II, Ch. 10, p. 326.

She attacks his work in her newspaper, the *Banner*, but meets him occasionally in secret for sex. At the *Banner*, the well-read and clever Ellsworth Toohey writes a column on architecture. He is a socialist: 'We are all brothers under the skin, and I, for one, would be willing to skin humanity to prove it.'⁽²⁷⁾ Toohey identifies the individualist Roark as a natural enemy. He conducts a smear campaign against Roark and also sets a trap for him. When Toohey's wealthy and dull acquaintance wants to build a 'Temple of the Human Spirit', Toohey persuades him to hire Roark. An unusual and original design is produced by Roark, upon which Toohey convinces the bewildered client to sue for malpractice.

In the trial which follows, Dominique testifies. She both praises and attacks Roark: 'When you see a man casting pearls without getting even a pork chop in return—it is not against the swine that you feel indignation. It is against the man who valued his pearls so little that he was willing to fling them into the muck and let them become the occasion for a whole concert of grunting, transcribed by the court stenographer.'⁽²⁸⁾ Roark loses the case. Disgusted, Dominique thinks she cannot have the world she wants in which men like Roark are justly appreciated. Therefore she has to accept the world she has, which rejects outstanding individuals and elevates pleasant mediocrities like Keating. She therefore decides to marry Keating. Roark tells her that he loves her but that she has to make her own decisions: 'To say "I love you" one must first know how to say the "I". The kind of surrender I could have from you now would give me nothing but an empty hulk. If I demanded it, I'd destroy you. That's why I won't stop you. I'll let you go to your husband.'⁽²⁹⁾ Dominique does everything she can to promote her husband and to do Roark down. One day Roark runs into Toohey who asks him what he thinks of him: 'But I don't think of you,' Roark politely replies.⁽³⁰⁾ Keating seeks a commission from the owner of the *Banner*, the self-made, intelligent but unscrupulous Gail Wynand. In order to secure the commission, Dominique sets out to

(27) *Ibid.*, Pt. II, Ch. 9, p. 317.

(28) *Ibid.*, Pt. II, Ch. 12, p. 373.

(29) *Ibid.*, Pt. II, Ch. 14, p. 395.

(30) *Ibid.*, Pt. II, Ch. 15, p. 408.

seduce Wynand. The two of them spend an evening on Wynand's yacht where they have a conversation about what it is that impresses them in life. It is not man's smallness against nature; it is man's greatness as a thinking being. Wynand says:

“ I would give the greatest sunset in the world for one sight of New York's skyline. Particularly when one can't see the details. Just the shapes. The shapes and the thought that made them. The sky over New York and the will of man made visible. What other religion do we need? And then people tell me about pilgrimages to some dank pesthole in a jungle where they go to do homage to a crumbling temple, to a leering stone monster with a pot belly, created by some leprous savage.⁽³¹⁾

Wynand falls in love with Dominique and pays Keating to agree to a divorce from her, upon which he marries her.

Wynand likes Roark's designs and they become friends. Once they find themselves on a building site, bemused over people who keep looking for a higher purpose in life. Roark gets up, reaches out, tears a thick branch off a tree, holds it in both hands, one fist closed at each end; then, his wrists and knuckles tense against the resistance, he bends the branch slowly into an arc: 'Now I can make what I want of it: a bow, a spear, a cane, a railing. That's the meaning of life.' Wynand asks: 'Your strength?' Roark replies: 'Your work.' He tosses the branch aside. 'The material the earth offers you and what you make of it.'⁽³²⁾ Keating gets the much sought-after commission for the Cortlandt housing project, but he knows that he cannot do it on his own so he asks his old schoolmate to help him. Roark agrees to do so on two conditions, that his contribution will be anonymous and that there will be no changes made to his design. While Keating is overseeing the project, Roark goes away, on a cruise

with Wynand. They have many conversations about collectivism and individualism. Wynand observes that paradoxically he, the press baron, could be seen as an embodiment of the selflessness the socialist Toohey promotes, because he is just concerned with keeping his customers happy, not with asserting his own self. Roark comments that people who live second-hand have no self. They live within others:

“ I don't see anything evil in a desire to make money. But money is only a means to some end. If a man wants it for a personal purpose—to invest in his industry, to create, to study, to travel, to enjoy luxury—he's completely moral. But the men who place money first go much beyond that. Personal luxury is a limited endeavour. What they want is ostentation: to show, to stun, to entertain, to impress others. They're second-handers.⁽³³⁾

Roark tells Wynand: 'I could die for you. But I couldn't, and wouldn't, live for you.'⁽³⁴⁾ When Roark returns from the trip, he discovers that Keating has not kept his promise. The Cortlandt housing project has been much changed from what Roark had designed. Consequently, Roark blows up the project with dynamite. A public uproar against him follows.

Initially Wynand stands by his friend, but he has to yield to Toohey who has come to exert decisive influence over his staff. Toohey explains his strategy to Keating: 'If you learn how to rule one single man's soul, you can get the rest of mankind. It's the soul, Peter, the soul. Not whips or swords or fire or guns. That's why the Caesars, the Attilas, the Napoleons were fools and did not last. We will. The soul, Peter, is that which can't be ruled. It must be broken. Drive a wedge in, get your fingers on it—and the man is yours.'⁽³⁵⁾ Toohey tells Keating that man has to be made to feel small. He has to regard himself as sinful and unworthy. His integrity has

(31) Ibid., Pt. III, Ch. 4, p. 472.

(32) Ibid., Pt. III, Ch. 5, p. 587.

(33) Ibid., Pt. IV, Ch. 11, pp. 645–646.

(34) Ibid., Pt. IV, Ch. 11, p. 648.

(35) Ibid., Pt. IV, Ch. 14, p. 677.

to be undermined. He has to be brought to the state where saying ‘I want’ will no longer be a natural right, but a shameful admission. ‘The man who speaks to you of sacrifice, speaks of slaves and masters. And intends to be the master.’⁽³⁶⁾ Roark is taken to court where it is revealed that it was he who originally had designed the Cortlandt housing project. He admits his act of destroying it but does not plead guilty. The design was his work and delivered on conditions which were then not fulfilled:

“ Throughout the centuries there were men who took first steps down new roads armed with nothing but their own vision. Their goals differed, but they all had this in common: that the step was first, the road new, the vision unborrowed, and the response they received—hatred. The great creators—the thinkers, the artists, the scientists, the inventors—stood alone against the men of their time. Every great new thought was opposed. Every great new invention was denounced. The first motor was considered foolish. The first airplane was considered impossible. The power loom was considered vicious. Anaesthesia was considered sinful. But the men of unborrowed vision went ahead. They fought, they suffered and they paid. But they won.⁽³⁷⁾

Roark points out that man comes unarmed into this world. He can survive in only one of two ways, by the independent work of his own mind or as a parasite fed by the minds of others. ‘The creator’s concern is the conquest of nature. The parasite’s concern is the conquest of men.’⁽³⁸⁾ Roark says that the creator disagrees, goes against the current, stands alone. ‘The savage’s whole existence is public, ruled by the laws of his

(36) Ibid., Pt. IV, Ch. 14, p. 679.

(37) Ibid., Pt. IV, Ch. 18, p. 724.

(38) Ibid., Pt. IV, Ch. 18, p. 726.



Plato, in the red tunic, points to the sky, while Aristotle, in the blue tunic, objects and calls for moderation. Rand rejects Plato's dichotomy of soul and body, but acknowledges a debt to Aristotle. Her heroes, such as Howard Roark and John Galt, bear some similarity to Aristotle's magnanimous men. Part of a Fresco by Raphael, The School of Athens.

tribe. Civilization is the process of setting man free from men.’⁽³⁹⁾ Roark is acquitted, and the story ends when Dominique has left Wynand and married Roark who has been put in charge of erecting a skyscraper in New York.

Rand was self-consciously of the romantic rather than the natural school in literature. She wanted to deal with, not the random

trivia of the day, but the timeless, fundamental, universal problems and values of human existence. She did not seek to record or photograph, rather to create and project. She was concerned not with things as they are, but with things as they might be and ought to be.⁽⁴⁰⁾ Therefore the heroes and villains in her two major novels are often scarcely believable. They are not supposed to be. In Howard Roark she portrays an ideal man. Roark is partly inspired by, but not really modelled on, the famous

(39) Ibid., Pt. IV, Ch. 18, p. 729–730.

(40) Ayn Rand, Author's Introduction to the 1968 Edition, pp. ix–x.

architect Frank Lloyd Wright, an independent, strong-willed individual who was passionate about his profession. Likewise, Ellsworth Toohey shares some traits with the leading Labour ideologue Harold Laski. He is clever, learned, but devious. Gail Wynand plays a similar role in the story as the real press baron William Randolph Hearst did in American society except that Wynand is self-made. Peter Keating is not based on any particular person, because everywhere, not least in America, mediocrities are found who seek applause rather than accomplishments. Dominique is a somewhat enigmatic character, unpredictable in her behaviour, recognising Keating's mediocrity and Toohey's malice, but going along with it.

Rand chooses an architect as her example of an ideal man because architecture presents a singular combination of art, technology and entrepreneurship. The novel is however not really about architecture. It is about the conflict between individualism and collectivism. It is, as American philosopher Douglas Den Uyl has commented, the 'Great American Novel', because it describes what Rand sees as the virtues which have made her adopted country great: independence of mind, integrity, creativity, innovation, and originality.⁽⁴¹⁾ Rand supports capitalism as the only economic system compatible with individual freedom, but her heroes are not really out to maximise profit, although they welcome money as the by-product of their endeavours. Roark is not trying to acquire wealth or prestige: his aim is just to create works of art, although he charges his clients the full price for them. His creations are his, they are an expression or an extension of his self, but freely sold on certain conditions, not to be stolen or deformed. While Wynand is an impressive individual with many accomplishments of which he can be proud, his flaw is that he does not have courage if it costs him too much. He jumps ship, instead of taking the risk of going down with it as the captain.

Rand shares with Aristotle the conviction that the good society is that which enables human flourishing.⁽⁴²⁾ Her account of the independent

individual who is in thrall neither to money nor the masses is similar to Aristotle's description of the magnanimous man who deserves respect and who does not shy from accepting it. Instead the magnanimous man takes for granted honours bestowed on him. He is neither vain nor meek. He is conscious of being superior without suffering from a superiority complex. Perhaps the best word to describe him is 'outstanding'. For Aristotle, magnanimity, *megalopsychia* in Greek, is a virtue, indeed the adornment of the virtues. The magnanimous man does not concern himself with trifles but is willing to take great risks if needed. He gladly does favours but is reluctant to receive them. He is frank and honest and leads a life of his own. He does not bear grudges and avoids gossip and complaints. While Aristotle thought magnanimity was a higher-order virtue, egalitarian interpreters of Aristotle have tended to ignore or dismiss it as a non-virtue. When it is said that someone knows his place, the reference is usually not to the top. Aristotle said that the magnanimous man has 'the right concern with honours and dishonours'.⁽⁴³⁾ What he meant was that he calmly accepts those honours which he deserves. 'And when he receives great honours from excellent people, he will be moderately pleased, thinking that he is getting what is proper to him.'⁽⁴⁴⁾ For example, in the 1980s Sir Karl Popper and Friedrich von Hayek gladly accepted to be appointed Companions of Honour by the Queen, on Margaret Thatcher's recommendation.

Some might criticise magnanimous men for lacking the Christian virtue of humility, but this would be a misunderstanding, I think. Humility is not directed towards other individuals, but rather to the world as a cosmos. It does not imply that you accept being inferior to other people. It is not pusillanimity. What proper humility implies, rather, is that you recognise the inevitable ignorance and fallibility of any individual in the world, including yourself, while you reserve your right to form independent judgements. Thus, Aristotelian magnanimity

(41) Douglas J. Den Uyl, *The Fountainhead: An American Novel* (New York: Twayne Publishers, 1999).

(42) *The Philosophical Thought of Ayn Rand*, ed. by Douglas Rasmussen and Douglas Den Uyl (Chicago: University of Illinois Press, 1984).

(43) Aristotle, *Nicomachean Ethics*, Bk. IV, Ch. 3, 1123b (tran. by T. Irwin). The word is sometimes translated as 'pride' (W. D. Ross) or 'greatness of soul' (H. Rackham), but in Aristotle it does not have the negative connotation that pride has.

(44) *Ibid.*, 1124a.

and Christian humility need not be in conflict.⁽⁴⁵⁾

In politics I would consider French leader Charles de Gaulle, insisting in the Second World War that his country, ignominiously defeated by the Nazis, should be shown the same respect as the other Allies, a truly magnanimous man. Another such man was Finnish Marshal Carl Gustaf von Mannerheim who courageously fought for Western values in the Finnish Civil War as well as in the Winter War against Stalin, and who always bore himself with dignity. In literature, there is a striking similarity between Aristotle's and Rand's magnanimous man and the typical hero in the Icelandic Sagas,⁽⁴⁶⁾ and even more so between him and the ideal man in the Viking poem 'Words of the High One' which offers advice on the proper conduct in life:

“ Liberal and brave men live best,
they seldom cherish sorrow;
but a base-minded man
dreads everything;
the niggardly is uneasy even at gifts.⁽⁴⁷⁾

In the Icelandic sagas, women could be magnanimous no less than men, as the example of two female ninth-century settlers shows. When Aud the Deep-Minded, the widow of a Viking king, arrived in Iceland with twenty people, she became angry at her brother Helgi who would only accommodate her and half her company during the coming winter. She went instead to their brother Bjorn who invited all of them to stay with him because he knew how 'noble-minded' his sister was. Steinunn the Old insisted on paying for the land she received from her kinsman Ingolf Arnarson, the very first settler, instead of accepting it as a gift.⁽⁴⁸⁾

(45) Howard J. Curzer, Aristotle's Much Maligned Megalopsychos, *Australasian Journal of Philosophy*, Vol. 69, No. 2 (1991), pp. 131–151.

(46) Kristjan Kristjansson, Liberating Moral Traditions: Saga Morality and Aristotle's Megalopsychia, *Ethical Theory and Moral Practice*, Vol. 1 (1998), pp. 397–422.

(47) *Havamal* [The Words of the High One], 48. Tran. by Benjamin Thorpe.

(48) *The Book of Settlements*, tran. by Hermann Palsson and Paul Edwards (Winnipeg MT: University of Manitoba Press, 1972), Ch. 97, p. 52, and Ch. 394, p. 146.

Where does the magnanimous man belong? In the *Fountainhead*, Rand presents the same narrow conception of the state as did Herbert Spencer: It should confine itself to protecting people against violence and injustice, from foreign invaders as well as local criminals, and otherwise leave them to resolve their affairs themselves. If the state does more than this, then it begins to violate individual rights. But how do people come to have their rights? Rand's answer is not too different from that given by Spencer: Life is a survival game, and certain rules, or recognised virtues, are necessary for human survival, including respect for individual rights. Nonetheless, Rand's defence of capitalism is not in terms of its economic superiority, although she certainly acknowledges it, but as being the only system that recognises individuals as sole owners of their own ideas and abilities, and thus as moral beings whose rights to choose are only circumscribed by the same rights of others. The main point about capitalism is not the private ownership of the material means of production. It is rather the complete rejection of any full or partial ownership by the community over individual ideas or abilities. Capitalism is the only system fit for Rand's heroes, entrepreneurs, venture capitalists, inventors, innovators and creators.

It is true, however, that Rand has little to say about the less fortunate in life, such as people born with severe disabilities. They sometimes can overcome their disabilities, like Helen Keller who became deaf-blind at nineteen months old, but who was able to communicate, get an education and write books. Keller had a good mind. But for people of average intellect or less who are also born with severe physical handicaps, self-made men like Howard Roark and Gail Wynand (or for that matter Helen Keller) are hardly relevant as role models. Rand may however be right that handicapped people do not automatically gain a right to the product of others by just being born into the same society, and that in the prosperous, civilised countries of the West private charity would suffice to provide for them to the extent that their families cannot do so. Nevertheless, the fact remains that in the *Fountainhead* voluntary sacrifices that people routinely make within families, sometimes out of love and sometimes out of a sense of duty, are largely ignored. Should you give up your career (or at least significantly reduce your worldly prospects) to look after your frail old parents? Or after your sick partner? Or after a partner who is quite healthy, but deeply committed to a cause, or perhaps much more productive than



you? Or to bring up your children? Rand teaches that love has to be deserved: you have to make yourself lovable in order to be loved. But how can a strong maternal instinct be genuine love in Rand's terms? Or patriotism?

Rand would actually accept this, not only in words, but also in deeds. Much as she herself despised self-sacrifice, she often expressed her gratitude to her husband Frank for his support: he had practically sacrificed himself for her. She was certainly also an American patriot. I cannot see anything wrong with voluntary sacrifice in such circumstances, although Rand presents a plausible case that nowadays only under capitalism exceptional individuals will realise their potential.

Atlas Shrugged

In her other major novel, *Atlas Shrugged*, Rand turns Marxism on its head. Marx had described a world where the few exploited the masses. Rand describes a world where the masses try to exploit the few who are creative and productive, but where these creative producers, in particular entrepreneurs, scientists and artists, tired of being

Manhattan seen from New Jersey. Rand considers the skyscraper to be one of the proudest achievements of the human spirit. Photo: Tony Jin.

exploited and vilified, choose to rebel, not in a violent revolution, but by leaving, ceasing to contribute to the needs of the masses, instead keeping their hard-earned income for themselves. Their weapon is not the stick, but the strike. The story begins with Dagny Taggart and her brother James owning a large railroad company in the United States. The American economy is declining as a result of heavy taxes and burdensome regulations, and in other countries 'people's republics' have been established. Dagny wants to keep the family company running on its own merit, but James is a crony capitalist who seeks to get government subsidies and eliminate competition. The industrialist Hank Rearden is developing a special new metal which could save the railroad. Dagny and Rearden become friends and then lovers. Travelling together, they come upon an abandoned remnant of a motor which would have been able to convert static electricity from the atmosphere into usable energy. They want to find the inventor. Meanwhile, crony capitalists and bureaucrats in Washington try to appropriate Rearden's product. They keep increasing the burden on profitable companies. One successful capitalist after another mysteriously disappears.

At the wedding reception of Dagny's brother, her former lover Francisco d'Anconia takes issue with the statement by a journalist that money was the root of all evil:

“ Have you ever asked what is the root of money? Money is a tool of exchange, which can't exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers, who claim your product by tears, or of the looters, who take it from you by force. Money is made possible only by the men who produce.

He stresses the difference between offering money and using force:

“ Money permits no deals except those to mutual benefit by the unforced judgment of the traders. Money demands of you the recognition that men must work for their own benefit, not for their own injury, for their gain, not their loss—the recognition that they are not beasts of burden, born to carry the weight of your misery—that you must offer them values, not wounds—that the common bond among men is not the exchange of suffering, but the exchange of *goods*. Money demands that you sell, not your weakness to men’s stupidity, but your talent to their reason; it demands that you buy, not the shoddiest they offer, but the best that your money can find.

He comments on the uniqueness of America:

“ To the glory of mankind, there was, for the first and only time in history, a *country of money*—and I have no higher, more reverent tribute to pay to America, for this means: a country of reason, justice, freedom, production, achievement. For the first time, man’s mind and money were set free, and there were no fortunes-by-conquest, but only fortunes-by-work, and instead of swordsmen and slaves, there appeared the real maker of wealth, the greatest worker, the highest type of human being—the self-made man—the American industrialist.

He concludes: ‘When money ceases to be the tool by which men deal with one another, then men become the tools of men. Blood, whips and guns—or dollars. Take your choice—there is no other—and your time is running out.’⁽⁴⁹⁾

(49) Ibid., Pt. II, Ch. 2, pp. 410, 411, 414 and 415.

Rearden is taken to court for breaking a legal restriction on selling his metal. The media portray him as a greedy capitalist, but when he is told that the law he violated is based on the public good, he responds:

“ Who is the public? What does it hold as its good? There was a time when men believed that ‘the good’ was a concept to be defined by a code of moral values and that no man had the right to seek his good through the violation of the rights of another. If it is now believed that my fellow men may sacrifice me in any manner they please for the sake of whatever they believe to be their own good, if they believe that they may seize my property simply because they need it—well, so does any burglar. There is only this difference: the burglar does not ask me to sanction his act.

Rearden tells the judges that he is working for himself and not for others and that he has earned his profit from his product. ‘Let there be no misunderstanding about me. If it is now the belief of my fellow men, who call themselves the public, that their good requires victims, then I say: “The public be damned, I will have no part of it!”’⁽⁵⁰⁾ The crowd bursts into applause, and Rearden receives only a suspended fine. But the economy continues to suffer from shortages and labour unrest. The authorities respond by trying to stop all economic change. Whereas other capitalists and entrepreneurs retire in disgust or disappear mysteriously, Dagny and Rearden want to continue their work.

Dagny goes in pursuit of the inventor of the machine she and Rearden came across earlier. On the trip, she is told the sorry saga of Twentieth Century Motor Company. The old owner had died and his heirs tried to implement the slogan, ‘From each according to his ability, to each according to his need.’ This implied that the ablest workers were basically enslaved by the least able. People started to try and hide their abilities and to exaggerate their needs. Slowly the Company declined.

(50) Ibid., Pt. II, Ch. 4, pp. 477 and 481.

The first man to quit was a young engineer by the name of John Galt who declared at his departure that he would stop the motor of the world. This was exactly what seemed to be happening, not only to the Twentieth Century Motor Company, but to the whole American economy. Was he the inventor for whom Dagny was looking? In her attempt to find him, she crashes her plane and finds herself in a remote Colorado valley to which a lot of creative people have retired. The mystery is revealed. The inhabitants of the hidden valley, including John Galt, are on a silent strike. They refuse to support involuntary obligations and enforced servitude. Galt's motor provides the energy for the valley. Dagny's old lover Francisco d'Anconia had posed as an irresponsible playboy but is in fact one of the strikers. Dagny falls in love with Galt, but she is still not prepared to join the strikers. She leaves the valley, and Galt follows her.

Rearden's company is forcibly taken over, which precipitates an economic crisis. The Head of State, Thompson, is about to address the nation, when the technical wizard Galt suddenly takes over the airwaves. He gives a long speech on the radio where he justifies the strike. 'In any compromise between food and poison, it is only death that can win. In any compromise between good and evil, it is only evil that can profit.'⁽⁵¹⁾ Galt forcefully rejects the idea that an individual's product of his effort belongs to his neighbours or fellow citizens:

“ Only a ghost can exist without material property; only a slave can work with no right to the product of his effort. The doctrine that 'human rights' are superior to 'property rights' simply means that some human beings have the right to make property out of others; since the competent have nothing to gain from the incompetent, it means the right of the incompetent to own their betters and to use them as productive cattle.⁽⁵²⁾

(51) Ibid., Pt. III, Ch. 7, p. 1054.

(52) Ibid., Pt. III, Ch. 7, p. 1062.

He sums up his message at the end of his speech: 'I swear—by my life and my love of it—that I will never live for the sake of another man, nor ask another man to live for mine.'⁽⁵³⁾ Galt is caught and imprisoned, but he is rescued, and he and Dagny return to the hidden valley. Meanwhile the economy collapses. The looters finally give up, and Galt announces that he and the other strikers will return and start rebuilding the world.

In *Atlas Shrugged* Rand skilfully wove three literary strands into a novel: a mystery, a romance and science fiction. In accordance with her romantic conception of literature, the heroes are meant to be ideal rather than real. They are Aristotelian magnanimous men and women, although it takes some of them time to discover this and to insist upon what is rightfully theirs. The novel makes many unexpected allusions to political legends. For example, the decline and fall of the Twentieth Century Motor Company refers directly to Marx' dictum: 'From each according to his ability, to each according to his need.'⁽⁵⁴⁾ Rand's story convincingly illustrates what will happen if people try to implement this rule. When Rearden exclaims in court that the public be damned, he is echoing a remark uttered in 1882 by railroad tycoon William Vanderbilt. A journalist had asked the tycoon if an express service he provided paid, or if he ran it for the accommodation of the public. 'Accommodation of the public? The public be damned!' replied Vanderbilt. 'We run them because we have to.'⁽⁵⁵⁾ In *Atlas Shrugged*, Rand gives the exclamation a positive slant: capitalists are not slaves of the public. Another example of how Rand ingeniously turns on its head a famous legend is her character Ragnar Danneskjold, one of the strikers. Whereas Robin Hood was supposed to rob the rich and give to the poor, Danneskjold robs the state and returns to the rich what had been wrongfully taken from them. 'What I actually am,' Danneskjold explains, 'is a policeman. It is a policeman's duty to protect men from criminals—criminals being those who seize wealth by force. It is a policeman's duty to retrieve stolen

(53) Ibid., Pt. III, Ch. 7, p. 1069.

(54) Karl Marx, Kritik des Gothaer Programms, I [Critique of the Gotha Programme]. Karl Marx and Friedrich Engels, *Werke*, Vol. 19 (Berlin: Dietz, 1962), p. 21. In German: 'Jeder nach seinen Fähigkeiten, jedem nach seinen Bedürfnissen!'

(55) Elmo Scott Watson, The Truth About that 'Public Be Damned' Interview, *Lake Benton Valley News* 6 November 1936.



property and return it to its owners. But when robbery becomes the purpose of the law, and the policeman's duty becomes, not the protection, but the plunder of property—then it is an outlaw who has to become a policeman.⁽⁵⁶⁾

Rand is not only the author of powerful novels, but also an original thinker who could approach old issues from new angles. But her originality may also hinder a proper assessment of her contributions because she fits uneasily in the traditional history of thought. She is herself reluctant to acknowledge any debts to past thinkers, except to Aristotle, even if the influence on her of both Spencer and Nietzsche are obvious. It was Spencer's minimal state which allowed Nietzsche's outstanding individuals to flourish, whereas it was the state which can cripple them. The state 'is the coldest

When President Gerald Ford in 1974 appointed Alan Greenspan as Chairman of the Council of Economic Advisers, Greenspan took with him to the White House for his swearing-in on 4 September his mother Rose Goldsmith (first from left) and Ayn Rand and her husband Frank O'Connor (first from right). Photo: David Hume Kennerly/The Gerald R. Ford Library.

of all cold monsters', as Nietzsche said; it bites with stolen teeth.⁽⁵⁷⁾

Hostility to Rand's moral theory is to be expected from those who seek to benefit from the products of others—from potential parasites, not least intellectuals and bureaucrats. But sometimes the hostility seems unnecessary. It is for example not as obvious as she and some of her followers believe themselves that her moral principles are incompatible with the message of Christ. 'Love your neighbour as yourself,'⁽⁵⁸⁾ does not mean that you have to love your neighbour *as much as* yourself, although it certainly means that you should at least love yourself as much as your neighbour. A mother usually loves her child more than other children; it becomes an extension of her self. I would rather interpret Christ's commandment as an exhortation to us to recognise all other human beings as members of the same moral community. It is a restatement of the reciprocity principle: 'Do unto others as you would have them do unto you.' It is not a demand that we should be forced to sacrifice ourselves for others, against our will.

This becomes clear when Christ is asked who our neighbour is. In response he tells the well-known parable of the Good Samaritan.⁽⁵⁹⁾ It seems to me that there are at least six practical lessons to be learned from the parable. First, the traveller from Jerusalem to Jericho fell among robbers. This means that it is necessary to maintain law and order, to protect honest citizens against robbers.⁽⁶⁰⁾ In the second place, both the priest and the Levite passed by the victim, as he lay helpless at the side of the road. Charity is not necessarily to be expected from the

(57) Herbert Spencer, *The Man Versus the State* (Indianapolis IN: Liberty Fund, 1981 [1884]); Friedrich Nietzsche, *Thus Spoke Zarathustra*, Pt. I, Ch. 11, tran. by Walter Kaufmann (New York: Random House, 1995 [1883]), pp. 48–49.

(58) Matthew 22, 39; Mark 13, 31, Luke 10, 27.

(59) Luke 10, 30–39.

(60) Therefore, a reference by eminent economist James M. Buchanan to the Biblical parable is misplaced: The Samaritan's Dilemma, *Altruism, Morality and Economic Theory*, ed. by Edmund S. Phelps (New York: Russel Sage Foundation, 1975), pp. 71–85. Buchanan's valid point is that charity on a regular basis may create incentives for its recipients to take advantage of it, or even to become dependent on it. If you run a soup kitchen for the poor they may make less effort to acquire the ability to pay for their soup themselves. But the parable of the Good Samaritan is not about the poor who will always be with us. It is about the victim of an assault. It could also have been about a victim of an accident. You are not supposed to pass by a pond into which a small child has fallen, shrug your shoulders and watch it drown. A captain is expected to rescue shipwrecks on the open sea if possible and not just sail past them. These are abnormal situations requiring rescue operations, not necessarily cases of self-sacrifice or altruism.

(56) Rand, *Atlas*, Pt. II, Ch. 7, pp. 577–578.

intellectuals. Thirdly, the very presence of the priest and the Levite on the road showed that it was a common thoroughfare. The original victim was therefore not guilty of recklessness by taking it to Jericho. This was not a dark alley in a bad neighbourhood where you might blame yourself if you were assaulted. Fourthly, the Samaritan who helped the traveller had the means to do so. It is a propitious fact that some people can afford to help others, without necessarily sacrificing themselves for them. Fifthly, the Samaritan helped the traveller of his own free will, whereas modern socialists only seem ready to do good at the expense of others. Sixthly, if you were robbed and left helpless and wounded at the side of a road, on the reciprocity principle you would like somebody to help you: the Samaritan might have been in the situation of the traveller, not the other way around. Charity is in his and your self-interest.

The Randian character in the parable is the Good Samaritan, not the priest nor the Levite. It is a tale about private charity in an emergency, not about redistribution from the more productive individuals in society to the less productive. Again, the Bible does not say that money is the root of evil: it says that unchecked greed, or the love of money for its own sake, is the root of evil.⁽⁶¹⁾ It was not greed that motivated Howard Roark, or Hank Rearden, or Dagny Taggart, or John Galt. It was their urge to innovate, invent, create and cultivate—be it works of art, a new alloy, or a thriving railroad company. They followed their calling.

One of the strongest arguments for capitalism is that it checks greed, directs it into relatively harmless channels, whereas under socialism unchecked greed found among the rulers can become very harmful to their subjects. The problem with Rand's message in her two major novels is not its content, that society should offer outstanding individuals the possibility to realise their potential, of course without damaging others, and that otherwise society will sink into decay and apathy. The problem is rather, I think, her choice of words in some of her proclamations to her followers. If she had extolled *self-esteem* instead of selfishness, and the *magnanimous man*, not the egoist, and if she had called her philosophy simply *individualism* instead of the artificially sounding 'objectivism',

and if she had emphasised that selflessness may mean self-immolation, she would have avoided many unfair strictures. In Christ's parable of the Good Samaritan there are five characters, and today they have changed roles. The robbers are in control of the government bureaucracy, and with the support or acquiescence of the priest and the Levite they are robbing both the traveller and the Good Samaritan by imposing exorbitant taxes on them and interrupting trade between Jerusalem and Jericho.

Atlas Shrugged may seem like a fantasy. But it is more like a thought experiment. Consider the distribution of benefits and burdens in a modern welfare state. For the sake of argument, assume that government benefits are equally distributed, because the rich receive protection of their property, while the poor receive all kinds of subsidies. But the burdens are not equally distributed. Irrespective of whether the income tax is flat or progressive above a certain tax-free level, the small group with the highest income, whether it is defined as the richest 1 per cent or the richest 10 per cent, or even a larger group, contributes much more than the rest to the tax revenue available to government. The group with the lowest income contributes little or nothing. In 2017, for example, the top 50 per cent of all taxpayers in the United States paid 97 per cent of all personal income tax. The bottom 50 per cent paid the remaining 3 per cent. The top 1 per cent paid a greater share of personal income taxes, 38.5 per cent, than the 'bottom' 90 per cent combined, who paid 29.9 per cent.⁽⁶²⁾ The Randian challenge is: What would happen if the top 1 per cent would get tired of its vilification and leave? Could the state make up its loss of tax revenue from this group by raising taxes on the remaining 99 per cent? Perhaps, but it would be difficult. This is a task which would be much more difficult if the top 10 per cent would leave.

Sometimes people would not emigrate physically in protest against the expropriation of their earnings. Instead they would 'emigrate inwards'. They would cease to contribute as much as they would do if taxes on them were lower. This is precisely what has happened in Europe. In the 1950s Americans and Europeans worked similar hours. Half a century later, in the 2000s, Europeans worked fewer hours than

(61) 1 Timothy 6, 10.

(62) Erica York, Summary of the Latest Federal Income Tax Data, 2020 Update. Tax Foundation (25 February 2020), <https://taxfoundation.org>

Americans, and had a correspondingly lower income. This is because income taxes in Europe had become much higher than in America.⁽⁶³⁾ If the income from your extra hours is taxed at a much higher rate than the income from your normal hours, then you cease to work extra hours. You go on a Randian strike in your extra hours.

If any Swedish Social Democrats read *Atlas Shrugged* upon its publication in 1957, then it would have been as a manual rather than as a warning. It was indeed in Sweden that Atlas really shrugged nineteen years later. Taxes had become so steeply progressive that many entrepreneurs, such as Ingvar Kamprad of IKEA and Hans Rausing of Tetra Pak, had emigrated. The only new jobs created in the Swedish economy were in the public sector. Sweden's most successful artists were affected. In January 1976, as Ingmar Bergman was rehearsing August Strindberg's *Dance of Death* at the Royal Dramatic Theatre, he was suddenly arrested on the spot and accused of tax evasion. He had set up a company in Switzerland to produce and distribute his films abroad, and when he dissolved the company and moved its assets to Sweden, he had paid a capital gains tax, but not the much higher personal income tax. As a result of his arrest, Bergman had a nervous breakdown and left Sweden. He was later found to have done everything properly and charges were dropped. Two months after Bergman's arrest, Astrid Lindgren, the celebrated author of children's books, announced that she was now paying a 102 per cent tax on her income, because she was required as a self-employed individual to pay both regular personal income tax and employers' deductions. Lindgren published a satirical allegory in Sweden's largest newspaper, 'The Pomperipossa Affairs,' on a country where commercial success could spell disaster.⁽⁶⁴⁾ It was in this very year, 1976, that the Social Democrats were voted out after 44 years in power, although it was only in the early 1990s that Sweden abandoned



"Has he been reading Ayn Rand again?"

her high-tax policies.⁽⁶⁵⁾ It is however true that the relative reluctance of European workers to work the same long hours as American workers and the tendency of European entrepreneurs to move from high-tax countries like Sweden to low-tax countries like Switzerland have a softer impact than the strike of the producers in Rand's novel. But there are examples of countries which have suffered greatly because productive minorities have left. They include not only in the past the Jews of Spain and the Huguenots of France, but also in the twentieth century the French-speaking minority in Algeria and the English-speaking minority in Zimbabwe, formerly Rhodesia. Both Algeria and Zimbabwe are shadows of their former selves. One way of putting Rand's message is that under capitalism there certainly are geese that lay golden eggs, but it should never be forgotten that geese have wings.

(63) Edward C. Prescott, 'Why Do Americans Work So Much More than Europeans?' *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 28, No. 1 (2004), pp. 2–13.

(64) Astrid Lindgren, 'Pomperipossa i Monismanien [Pomperipossa in Monismania]', *Expressen* 10 March 1976. The leader of Sweden's conservative-liberal party Moderaterna, Gösta Bohman, read out the story in the Swedish Parliament. Incredibly, Lindgren remained a supporter of the Social Democrats: 'Please, you can rob me, but just don't take everything. Just rob me a little less.' Rand would have called this the victim's sanction.

(65) Hannes H. Gissurarson, *The Nordic Models* (Brussels: New Direction, 2016).

Milton Friedman

(1912–2006)

In the twentieth century, Milton Friedman was without doubt the most effective and influential defender of economic freedom. He was a distinguished scholar who had demonstrated that the Great Depression of the 1930s was not caused by any inherent instability of the market order but by monetary mismanagement, a series of blunders made by officials. Friedman was also a public intellectual, like Voltaire in the eighteenth century and Frédéric Bastiat in the nineteenth century, having at his disposal not only the written word as they did, but also television. Unlike them, he could both be seen and heard which served him well, as he was a persuasive speaker and a skilled debater. The documentary series 'Free to Choose' which he produced in 1980 with his wife Rose, also an economist, reached millions, in the United States and elsewhere. Ideas conspired with circumstances, because at the time the ten episodes of the documentary was broadcast it had become increasingly clear that neither socialism in the East nor interventionism in the West was working. What could replace it? Friedman had an answer, clear and loud: stabilisation through fiscal and monetary restraint; liberalisation of the economy by lowering tariffs and removing other restrictions on trade; privatisation of public companies, turning loss into profit; tax cuts whereby hard-earned money was returned to their owners who usually knew better than bureaucrats how to spend and invest. He was radical, but also practical, pointing out how the goals that he might share with socialists and interventionists, such as poverty relief or education for all, could be better achieved in the free market than in large, inflexible, impenetrable bureaucracies. He, no less than Friedrich von Hayek, was an inspiration to those who implemented comprehensive liberal reforms both in the West and the East from the mid-1970s to the late 1990s and beyond.

Friedman receives the Nobel Prize in Economics from Sweden's King Carl XVI Gustaf in 1976. An accomplished scientist, Friedman is also an eloquent and influential advocate of economic freedom. Photo: Friedman Archive, Hoover Institution.

Friedman's Life and Works

Milton Friedman was born in Brooklyn, New York, on 31 July 1912. His parents, Jenő Saul Friedman, and his wife, Sára Ethel, born Landau, were Jewish immigrants from Carpathian Ruthenia, then in the Habsburg Empire. When Milton was an infant, the family moved to Rahway, New Jersey where he grew up with his three elder sisters. His parents had a small shop there, a 'dry goods store'. His parents were orthodox Jews, but Friedman early became an agnostic. His father died when he was fifteen and his mother continued to run the shop. The young Friedman was an exceptionally bright student and gained a scholarship to Rutgers University where he was taught by economist Arthur F. Burns who became a lifelong friend. In 1932, in the midst of the Great Depression, Friedman graduated and went to the University of Chicago where he came under the influence of two distinguished economists, Frank H. Knight and Jacob Viner, who despite many differences agreed on the indispensability of price theory for understanding economic activities. In Viner's postgraduate class on economic theory the students were arranged alphabetically, so that Friedman came to sit next to a girl with the family name Director. Her first name was Rose, and the two became good friends. He spent the 1933–1934 academic year at Columbia University and then returned to Chicago, working as a research assistant to a professor at the University. In 1935 he took a job at the National Resources Planning Board in Washington DC, where he did research on income distribution. His friendship with Rose Director blossomed into a romance, and they married in 1938. They brought up two children, Janet and David. Although Rose was a devoted mother and housewife, she was also Friedman's partner, reading over, criticising and revising everything he published. Friedman became assistant professor of economics at the University of Wisconsin in Madison in 1940, but returned to Washington DC in 1941 and worked for two years at the US Treasury upon which he joined a group which did statistical analysis as part of the war effort. In the early war years, Friedman wrote his doctoral thesis, on income from independent professional practice, but its publication was delayed because it was vigorously opposed by a reader with ties to the medical profession: he took exception to Friedman's hypothesis that the

relatively high income of physicians could partly be explained by their ability to limit entry into their profession. This was not to be Friedman's last clash with special interests. Nevertheless, eventually he received his doctorate from Columbia University.

In 1945, Friedman became assistant professor of economics at the University of Minnesota where his friend from the Chicago years, George J. Stigler, also taught. A year later, Viner's professorship in Chicago became vacant. Friedman and Stigler were both interviewed for the position, and Friedman got it. The family moved to Chicago which was to be their home base for the next thirty years. In the summer they usually stayed in cottages in New England, first in New Hampshire and then in Vermont, and there Friedman did most of his writing. In 1947, Friedman went on his first trip abroad when he was invited by Hayek to the founding meeting of the Mont Pelerin Society in Switzerland, an international academy of classical liberal and conservative scholars. He was accompanied by Stigler and two colleagues from Chicago, his former teacher Knight and his brother-in-law Aaron Director. In the 1930s, Friedman had been apolitical but mildly sympathetic to President Franklin D. Roosevelt's attempts to get out of the Great Depression by public spending. Gradually however he had been brought to the view that government intervention was more often the problem than the solution. Hayek's *Road to Serfdom* which came out in 1944 also had a great impact on him. At Mont Pelerin Friedman became a friend of the only German attending, Walter Eucken. 'I shall never forget his pleasure at eating the first orange he had seen in seven or eight years,' Friedman later recalled.⁽¹⁾ His participation in founding the Mont Pelerin Society was his first foray into politics. After he returned to Chicago, he ran into a colleague at the University, a political scientist. When he heard where Friedman had been, he exclaimed: 'Oh, a meeting of the veterans of nineteenth-century wars!' In retrospect, Friedman thought this was an apt description of the Mont Pelerin Society.⁽²⁾ Its members sought to

(1) Milton and Rose Friedman, *Two Lucky People* (Chicago: University of Chicago Press, 1998), p. 160.

(2) Interview with Milton Friedman, C-Span, 28 October 1994. <https://www.c-span.org/video/?c4188812/user-clip-milton-friedman-interview> The colleague was Hans Morgenthau. I modified the comment slightly.

uphold and develop the liberal heritage which could best be summed up in three terms, private property, free trade, and limited government. At the time, this was very much a minority position in the academy, even in economics.

In the next few decades, Friedman simultaneously pursued two different careers, as a respected academic and as a public intellectual. He was a popular, influential but demanding teacher of economics at the University of Chicago while publishing seminal theoretical works. In *Essays in Positive Economics*, Friedman describes what for him counts as a powerful economic theory: it should be as simple as possible, however unrealistic its assumptions might seem, and it should lead to significant and testable predictions.⁽³⁾ In *A Theory of the Consumption Function*, Friedman rejects John Maynard Keynes' hypothesis that individual choices between consumption and saving are mainly affected by changes in current income. Instead, Friedman argues, they are mainly affected by changes in permanent income, the expected long-term income. This means that it is more difficult than Keynes had envisaged to stimulate consumption by government spending (or by tax cuts), in other words by increasing disposable current income.⁽⁴⁾ In this book whose conclusions have been widely accepted by economists, Friedman follows Bastiat's admonition that an accomplished economist has to look not only at the short term.⁽⁵⁾ Friedman's major work, co-written with Anna J. Schwartz, is *A Monetary History of the United States* where the authors radically revise the explanation of the Great Depression then prevalent:

“ The fact is that the Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than any inherent instability of the private economy. A governmentally

established agency—the Federal Reserve System—had been assigned responsibility for monetary policy. In 1930 and 1931, it exercised this responsibility so ineptly as to convert what otherwise would have been a moderate contraction into a major catastrophe.⁽⁶⁾

According to Friedman, the stock market crash in October 1929, while dramatic, was not the cataclysmic event it was often said to be although it deepened a recession which was already under way. What was more consequential was that the Bank of the United States was in December 1930 allowed to go under. It was probably a solid bank which had suffered a temporary run, and in a system of fractional reserve banking no bank can on its own survive a run. Its failure caused a major panic, a series of bank failures and a persistent liquidity crisis, not only because the bank was large but also because it was, because of its name, home and abroad mistakenly regarded as somehow an official institution. One reason why the Federal Reserve Board in this case did not perform its prescribed function as lender of last resort was antisemitism: Most of the owners and customers of the Bank of the United States were Jews. Another reason for the Board's general passivity in the early 1930s was that it has recently lost a dominant leader, Benjamin Strong, which illustrates the problem with relying on heroes: they may not be around when you need them. From July 1929 to March 1933, the money stock in the United States fell by one third, mostly in the period after September 1931. As a result, a recession turned into the Great Depression.

In the late 1950s, Friedman came into his own as a public intellectual. Each summer, at various universities, he gave a series of lectures where he explored the connection between capitalism and freedom and applied his liberal principles to current issues. His wife helped him turning the lectures into a book, *Capitalism and Freedom*. Friedman teaches that if people are dependent for their livelihood on government they can

(3) Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953). Friedman's requirement of simplicity may be regarded as a modern expression of 'Occam's Razor', named after the fourteenth century English philosopher William of Occam. It is that usually the best explanation for an occurrence is the one which requires the smallest number of assumptions.

(4) Milton Friedman, *A Theory of the Consumption Function* (Princeton NJ: Princeton University Press, 1957).

(5) Frédéric Bastiat, What is Seen and What is Not Seen (1850), *Collected Works*, Vol. III (Indianapolis IN: Liberty Fund, 2016), pp. 401–452.

(6) This is how Friedman sums up the message of the work in *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 38. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton NJ: Princeton University Press, 1963). The part of the work describing the Great Depression has been published separately, *The Great Contraction, 1929–1933* (Princeton NJ: Princeton University Press, 1965).

hardly afford to criticise those in power. Freedom can only thrive under capitalism. The example of Dalton Trumbo is instructive. He was a skilled Hollywood scriptwriter who for a while had been blacklisted for his communist sympathies. Under pseudonyms, during this period he could however continue to sell scripts to the studios because they were of good quality and therefore in demand.⁽⁷⁾ The market is interested in the services you offer, not in your personal opinions. Incidentally, this was seen by economic interventionist Paul Samuelson, at the time much more of an acknowledged authority in economics than Friedman: ‘What I learned from the McCarthy incident was the perils of a one-employer society. When you are blackballed from government employment, there is great safety from the existence of thousands of anonymous employers out there in the market.’⁽⁸⁾

In *Capitalism and Freedom*, Friedman demonstrates that some goals can be reached through the market, not necessarily by government intervention. One example is education for all. The state can pay for education without itself having to provide it. It can hand out vouchers to parents who then use them to pay fees for their children in private (or public) schools. Then the parents are given a choice which will encourage competition between schools to provide good education. Another example is poverty alleviation. A costly and cumbersome system of transfers and subsidies which does not always benefit the poor can be replaced by a ‘negative income tax’. By this Friedman means that a minimum level of income would be defined. Those who could not on their own reach this level of income would receive direct cash payments from government to bring them up to that level, whereas those above that level would pay income tax. Friedman also frequently participated in debates on economic policy in universities all over the United States. ‘He was a natural-born debater: single-minded, earnestly persuasive, ingenious,

and relentless,’ one of his opponents said.⁽⁹⁾ Another exasperated critic exclaimed: ‘I wish I could be as sure of anything as he is of everything.’⁽¹⁰⁾

In 1962–1963 Milton and Rose Friedman took some time off to go on a trip around the world. One of the countries they visited was India which was languishing under an economy tightly controlled by Fabian socialists, mostly educated in England. In India, Friedman once came across thousands of workers building a canal with shovels. He asked the lead engineer: ‘Why don’t you have tractors to help build this canal?’ The engineer replied: ‘You don’t understand, Mr. Friedman, this canal is a jobs programme to provide work for as many men as possible.’ Milton retorted: ‘Oh, I see. I thought you were trying to build a canal. If you really want to create jobs, then by all means give these men spoons, not shovels!’⁽¹¹⁾ Friedman was as effective as Bastiat in exposing the fallacy that one could solve problems by throwing money at them. From 1966, Friedman began to reach a much larger audience with a regular column on economic affairs in *Newsweek* magazine, alternating with Paul Samuelson and others. Friedman and Samuelson maintained a respectful relationship while both were alive, probably because each was convinced that the other one was the second-best economist in America. In *Newsweek*, Friedman showed in plain, accessible prose that many problems could be solved by pricing rather than taxing. His columns were later collected in two books.⁽¹²⁾

Friedman was elected President of the American Economic Association in 1967. His presidential address, delivered in December that year, is widely regarded as seminal. He analysed the so-called Phillips curve, named after William Phillips, an economist from New Zealand

(7) Friedman, *Capitalism*, pp. 19–20. It should be mentioned, though, that Dalton Trumbo was a communist and that he composed his own private blacklist. He publicly boasted that Hollywood had not turned into films works by anti-communists such as Arthur Koestler, Jan Valtin (Richard Krebs) and Victor Kravchenko. Kenneth Billingsley, *Hollywood Party: How Communism Seduced the American Film Industry in the 1930s and 1940s* (New York: Prima, 2000), p. 92; John Fleming, *The Anti-Communist Manifestos: Four Books that Shaped the Cold War* (New York: W. W. Norton, 2009), p. 159.

(8) Paul Samuelson, *My Life Philosophy*, *The American Economist*, Vol. 61, No. 1 (2016), p. 63.

(9) Robert Solow, *The Serfdom Scare*, *New Republic* 6 December 2012.

(10) Anna J. Schwartz, Portrait: Milton Friedman, *Challenge*, Vol. 22, No. 2 (1979), p. 69. Apparently, British politician Lord Melbourne first made such a comment about the historian Lord Macaulay.

(11) Arthur B. Laffer, Stephen Moore, and Peter J. Tanous, *The End of Prosperity* (New York: Simon & Schuster, 2008), p. 204. Cf. also Stephen Moore, De Gustibus: Missing Milton: Who Will Speak For Free Markets? *Wall Street Journal* 29 May 2009.

(12) Columns in 1966–1972 are in Milton Friedman, *An Economist’s Protest: Columns in Political Economy* (Glen Ridge NJ: Thomas Horton & Daughters, 1972); expanded edition 1975; also published as *There’s No Such Thing as a Free Lunch* (LaSalle IL: Open Court, 1975). Columns up to 1982 are in Milton Friedman, *Bright Promises, Dismal Performance: An Economist’s Protest* (San Diego CA: Harcourt Brace Jovanovich, 1983).

who taught at the London School of Economics. The Phillips curve purported to show an inverse relationship between unemployment and inflation which implied that there might be a trade-off between the two.⁽¹³⁾ Friedman argued that in the long run any such relationship would break down because individuals would adjust their decisions to their expectations. Therefore, policy makers could not for long reduce unemployment by accepting inflation as the cost of monetary expansion. There was, Friedman added, a ‘natural rate of unemployment’, below which an economy in equilibrium would not go, for example because people were entering the labour market or moving between jobs, but also if government created unnecessary adjustment costs.⁽¹⁴⁾ It greatly enhanced Friedman’s reputation that his predictions soon came true. In the following decade monetary expansion failed to reduce unemployment. The combination of inflation and stagnation was given the unlovely name ‘stagflation’.

Friedman was elected President of the Mont Pelerin Society in 1970, two years before the Society was to celebrate its twenty-fifth anniversary. To the surprise and perhaps consternation of some members, he suggested that now it should dissolve itself, as times had changed and it had fulfilled its original purpose. His advice was not taken, and in his presidential address at the 1972 general meeting in Montreaux in Switzerland Friedman tried to explain a paradox. Why had so many prominent Jews opposed capitalism which for them as a group had been such a liberating force? He pointed out that competitive capitalism tends to be colour-blind. It is more interested in your economic performance than in your colour of skin, religion, or national origin. Jews have typically flourished in relatively free countries such as the Netherlands in the seventeenth century and the United States in early twentieth century, and in professions where entry has not been too restricted, whereas under a strong central government they have sometimes been persecuted, as in Nazi Germany and the Soviet Union. Friedman

(13) A. William Phillips, The Relationship between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1861-1957, *Economica*, Vol. 25, No. 100 (1958), pp. 283–299.

(14) Milton Friedman, The Role of Monetary Policy, *American Economic Review*, Vol. 58, No. 1 (1968), pp. 1–17.



The statue of Liberty in New York Harbour met poor immigrants from Europe such as Friedman's parents. America was a beacon of hope for them and millions of other Europeans. Photo: Matthis Volquardsen.

stressed that the common opposition of Jews to capitalism was a recent phenomenon, not derived from the Jewish traditions of more than two millennia. He suggested two explanations. First, European right-wing parties of the nineteenth century had often been antisemitic, whereas left-wing parties had been anti-nationalistic and had welcomed Jews. In the second place, Jewish intellectuals had wanted to escape from the stereotype of the selfish, greedy Jewish merchant who insisted on his pound of flesh.⁽¹⁵⁾

One of the proposals Friedman had made in *Capitalism and Freedom* was to end conscription and instead establish an all-volunteer military. For him conscription was involuntary service and thus a form of slavery. Friedman was in 1969 appointed by President Richard M. Nixon to a commission on the issue. In his testimony before the commission General William Westmoreland denounced the proposal, saying that he did not want to command an army of mercenaries. Friedman interrupted him:

(15) Milton Friedman, Capitalism and the Jews: Confronting a Paradox, *Encounter*, Vol. 63, No. 1 (1984), pp. 74–79.

‘General, would you rather command an army of slaves?’ Westmoreland replied angrily: ‘I don’t like to hear our patriotic draftees referred to as slaves.’ Undaunted, Friedman retorted: ‘I don’t like to hear our patriotic *volunteers* referred to as mercenaries. If they are mercenaries, then I, sir, am a mercenary professor, and you, sir, are a mercenary general.’ He continued: ‘We are served by mercenary physicians, we use a mercenary lawyer, and we get our meat from a mercenary butcher.’⁽¹⁶⁾ In the beginning, some other members of the commission were undecided but Friedman managed to convince them, and in the end the commission unanimously recommended an all-voluntary military. Their advice was taken, perhaps partly because America’s participation in the Vietnam War was becoming unpopular. Conscription was abolished in 1973. ‘No public-policy activity that I have ever engaged in has given me as much satisfaction as the All-Volunteer Commission,’ Friedman says. ‘I regarded the draft as a major stain on our free society.’⁽¹⁷⁾

In 1976, Friedman received the Nobel Prize in Economics. In his Nobel Prize Lecture he stressed the futility in the long run of trying to reduce unemployment by monetary expansion, in other words by printing money.⁽¹⁸⁾ A year later, Friedman retired from the University of Chicago and moved with his wife to San Francisco. They both took up positions as research fellows at the Hoover Institution at Stanford University. In 1980, a television series in ten episodes made by Friedman was broadcast all around the world. After each episode the author had a debate with various experts. He and his wife wrote a book under the same title, *Free to Choose*, which became a bestseller.⁽¹⁹⁾ In the beginning of 1981, Friedman’s admirer Ronald Reagan became President of the United States. Advised by Friedman, he cut taxes, deregulated domestic industries and encouraged free trade. Consequently Reagan was derided by left-wing intellectuals. One of them was Indian economist Amartya Sen whose lectures I attended as a student. When he once attacked

Reagan for wilfully increasing inequality, I raised my hand and made an interjection: ‘But the main value is freedom, isn’t it? Increased inequality is only a temporary side effect of liberalisation. Is there really any problem with inequality if nobody is becoming worse off?’ Sen frowned, shrug his shoulders, and simply said: ‘Ah, so you’re one of those who believe in the land of the free and the home of the brave!’ Then he went on with his lecture. But Friedman’s televised message about the power of freedom had by now made him the most famous economist in the world. In 1983, Reagan hosted a dinner in San Francisco for the British Monarch, Queen Elizabeth II, and her husband Prince Philip. The Friedmans were invited. When it was Friedman’s turn to be introduced to the Queen, she remarked: ‘I know you. Philip is always watching you on the telly.’⁽²⁰⁾ In 1984, Friedman made another television series in three episodes about constitutional reform, and wrote with his wife a corresponding book, *The Tyranny of the Status Quo*.⁽²¹⁾ Reagan awarded the Medal of Freedom to Friedman in 1988.

In his retirement, Friedman was very active, travelling, lecturing, and writing, always with Rose at his side. The Hoover Institution was an ideal base from which to operate. One issue in which Friedman took great interest was how to measure economic freedom. In cooperation with Dr. Michael Walker of the Fraser Institute in Vancouver, Professor James D. Gwartney, author of a widely used textbook in economics, and other economists he constructed an Index of Economic Freedom which has demonstrated a strong correlation between economic freedom and prosperity.⁽²²⁾ Of course a correlation does not establish a causal connection. It may be that countries are free because they are prosperous, not that they are prosperous because they are free. However, even if the Index of Economic Freedom may not ‘prove’ Friedman’s economic philosophy, it certainly discredits the socialist promise of plenty. There is no example of a prosperous country under socialism. Another issue which

(16) Friedman and Friedman, *Two Lucky People*, p. 380. Emphasis added.

(17) *Ibid.*, p. 381.

(18) Milton Friedman, *Inflation and Unemployment: The New Dimension of Politics* (London: Institute of Economic Affairs, 1976).

(19) Milton and Rose Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980).

(20) Friedman and Friedman, *Two Lucky People*, p. 569.

(21) Milton and Rose Friedman, *The Tyranny of the Status Quo* (New York: Harcourt Brace Jovanovich, 1984).

(22) The first report was published in 1996. The latest report is James D. Gwartney, Robert Lawson, Joshua Hall & Ryan Murphy, *Economic Freedom of the World: Annual Report* (Vancouver BC: Fraser Institute, 2020).

the Friedmans felt was of paramount importance was education. They established a foundation, now called the Foundation for Educational Choice, to promote the voucher scheme. As the twentieth century drew to a close, Friedman had gained not only public fame but also the respect of his peers. According to a survey of American economists, Friedman was their second most-admired economic thinker of the twentieth century, after Keynes. Samuelson came third and Hayek fourth.⁽²³⁾ His influence was felt all around the world, not least in the newly liberated countries of Central and Eastern Europe. Friedman passed away on 16 November 2006. Rose outlived him by three years.

There is No Such Thing as a Free Lecture!

I had long been an avid reader of Friedman's works but I first met him personally in the autumn of 1980 at the Mont Pelerin Society general meeting in Stanford, California. In a session about the monetary order he spoke in favour of flexible exchange rates and firmly rejected the gold standard: 'It does not make sense to dig up gold in South Africa just to bury it in Fort Knox. What is so special about gold?' At the reception preceding the closing dinner, I spoke briefly with him and his wife Rose. They were both pleasant and friendly, but surprisingly small of stature. I told Friedman that I had been defending him in Iceland against attacks from the far left. 'You should not be defending me. You should be defending our shared ideals,' Friedman said with a big smile. He added that the little he knew about Iceland he had learned from his son David who was a fan of the Icelandic sagas. David had even published a paper on the Icelandic Commonwealth of the Middle Ages.⁽²⁴⁾ I invited the Friedmans to visit Iceland for a lecture. 'Well, at my age and after many trips abroad, the marginal utility of travel has gone down quite a bit. I am nowadays a reluctant traveller,' Friedman said. But he told me that he

and Rose would be going to China soon after the meeting. Incredibly, he said, he had been invited to give lectures there. I persuaded the National Broadcasting Service, NBS, to show Friedman's television series 'Free to Choose', and this was done in the spring of 1981, but strangely only five of the ten parts were screened, whereas the NBS three years earlier had shown all thirteen parts of John Kenneth Galbraith's earlier television series, 'The Age of Uncertainty'. In 1982, I translated Friedman's book *Capitalism and Freedom* into Icelandic and arranged for the US Information Agency to show all ten parts of his television series at meetings open to the public.

When I next met Friedman, at the Mont Pelerin Society general meeting in Berlin in the autumn of 1982, I gave him a copy of my Icelandic translation of *Capitalism and Freedom*. He leaved through it and promised to visit Iceland as soon as he could. I asked him about his trip to China in 1980. 'It was quite something,' he said. 'But I'm afraid the Chinese communists are only interested in adopting some kind of capitalism because it would deliver the goods, not because it would enable individual choice. They don't understand that the state and the market are based on opposite principles. The state is organised from the top down, the market from the bottom up. I'll tell you a story from the trip to illustrate this. Rose and I had lunch with a deputy minister in the government. He told us that he would soon be travelling to the United States. He asked us: "Who in the United States is in charge of materials distribution? I would like to meet that person on my trip." I replied: "Go to the floor of the Chicago Mercantile Exchange where commodities such as cotton and wheat are traded and take a look." He was baffled when I tried to explain that in a free market no single person, or even a committee of persons, was "in charge of materials distribution". Of course, as you and I know, in a free society materials get distributed in free exchanges between individuals and companies. It is distribution without a distributor.'⁽²⁵⁾ In Berlin, we had little opportunity to talk: The couple were as always surrounded by admirers who hung on every word Friedman said. In a session about the European Economic Community,

(23) William L. Davis, Bob Figgins, David Hedengren, and Daniel B. Klein, Economics Professors' Favorite Economic Thinkers, Journals, and Blogs (along with Party and Policy Views), *Econ Journal Watch*, Vol. 8, No. 2 (2011), pp. 126–146. 56 per cent of respondents were Democrats and 21 per cent Republicans. While Friedman came a close second after Keynes in the group of modern thinkers, Adam Smith came first by far in the group of pre-twentieth century economic thinkers.

(24) David Friedman, Private Creation and Enforcement of Law: A Historical Case, *Journal of Legal Studies*, Vol. 8, No. 2 (1979), pp. 399–415.

(25) The Friedmans told the story about the Chinese minister in *Two Lucky People*, p. 524.



EEC, as it was then called, Friedman said that he was against custom unions, as the EEC was in essence. Customs harmed mostly those who imposed them and should be abandoned unilaterally, not in trade negotiations. The EEC was becoming a bureaucratic monster for protecting special interests. 'In Brussels, the voice of consumers is heard like a whisper, and that of producers like a roar,' he said.

There was quite a saga behind our next encounter. In late 1983 the left-wing British newspaper *Guardian* carried reports about Friedman being exposed as a fraud in a new study by Oxford statistician David Hendry and a co-author, commissioned by the Bank of England. In a recent book by Friedman and Schwartz, *Monetary Trends in the United States and the United Kingdom*, the authors had distorted the evidence by statistical tricks, Hendry was supposed to have demonstrated.⁽²⁶⁾ The

Milton Friedman (left) with fellow Chicago economists George Stigler and Aaron Director (his brother-in-law) at the first meeting of the Mont Pelerin Society in April 1947. Both Friedman and Stigler served as Presidents of the Society. Photo: Friedman Archive, Hoover Institution.

(26) Milton Friedman and Anna J. Schwartz, *Monetary Trends in the United States and the United Kingdom* (New York: Columbia University Press, 1982). Christopher Huhne, 'Monetarism's Guru "Distorts his Evidence"', *The Guardian* 15 December 1983. Huhne in 2010–2012 served as government minister for the Liberal Democrats, but in 2012 he was sentenced to eight months in prison for

left-wing press in Iceland seized with relish on this piece of news. Now the prophet of the Icelandic libertarian movement had been found out: like the Emperor in the old adventure he had no clothes. Olafur R. Grimsson, Professor of Politics at the University of Iceland and a columnist for the socialist daily *Thjodviljinn*, said in an editorial that my silence about these 'revelations' was deafening.⁽²⁷⁾ I wanted to find out what was going on, so I went to the University Library at Oxford and read the study by Hendry quoted by the *Guardian*. It was quite technical, but it seemed to me that Hendry and his co-author had nowhere alleged that Friedman and Schwartz had been in any way dishonest, or guilty of statistical tricks. The conclusion of Hendry's report for the Bank of England was that Friedman and Schwartz had not proved their case statistically to his satisfaction, but not necessarily that they had been wrong.

I wrote to Hendry and asked him whether my interpretation of his study was correct. With my letter, I enclosed a translation of Grimsson's editorial in *Thjodviljinn*. After a while, I received a reply where Hendry confirmed that my interpretation was correct. 'As you will have seen from our paper, we nowhere make any suggestion or innuendo that Friedman and Schwartz have in any way practised trickery, deception, cheating or anything of that nature,' he wrote. 'I deplore the suggestion that they were other than fully honest and open concerning their treatment and analysis of the data.'⁽²⁸⁾ After I published Hendry's letter in the Icelandic press, his study was not mentioned any more. The silence was deafening, to repeat Grimsson's words. I sent a copy of Hendry's letter to Friedman. Subsequently, he wrote a sharply worded letter to Hendry asking him why he had not publicly protested against the misrepresentation of his report by the *Guardian*. Friedman also contacted me, thanked me for my initiative and said that he and Rose could visit Iceland in the autumn of 1984, on their way to the general meeting of the Mont Pelerin Society which was to be held in Cambridge, and that he would be happy to give a lecture. I duly arranged for the Faculty of Economics and Business

pervverting the course of justice in a 2003 speeding offence.

(27) or [Olafur R. Grimsson], Hneykslid i hagfraediheiminum: Friedman er svindlari! [The Scandal in the World of Economics: Friedman is a Fraud!], *Thjodviljinn* 10 January 1984.

(28) Letter from David Hendry to Hannes H. Gissurarson, Oxford 19 January 1984. Author's archive.

Administration at the University of Iceland to hold a luncheon meeting with Friedman on 1 September 1984.

I collected the Friedmans at the airport early in the morning on 30 August and drove them to the nice seaside house owned by the Central Bank of Iceland where they stayed as Hayek had done four years earlier. They rested for a while, and then I took them to Thingvellir, the site of the Icelandic Parliament in the Commonwealth period. We also went to one of Iceland's hydroelectric power plants. The manager showed us around and said to Friedman: 'I do agree with you about economic freedom and competition, but I don't think these ideas apply to the energy sector.' Friedman and I looked at each other. 'Typical,' I whispered and winked. He nodded and smiled. In the afternoon, Friedman met the press. He was in good form. A reporter for the National Broadcasting Service asked him how his theories could be relevant in a small economy as in Iceland. Friedman replied that if his theories were not relevant in Iceland, they were not sound at all. For theories to be sound, they had to be applicable everywhere. The reporter asked: 'So, Sir, do you have a solution for Iceland in one word?' Friedman replied with a conspiratorial smile: 'Yes, I do.' His curiosity roused, the reporter asked: 'Can we hear, Sir, what is this word?' Friedman replied: 'Freedom!' He gave an example. Even if Iceland had a small economy, there should be an opportunity for more radio and television stations than those two which the government was operating. The government monopoly on broadcasting should be abolished. A journalist asked Friedman how he responded to the accusation that he was defending the rich. Friedman replied that capitalism was the most efficient mechanism ever discovered to bring people out of poverty. Another question was whether Friedman really believed that people were solely motivated by greed. 'Of course not,' he replied. 'People make all kinds of choices. They don't only seek material gain. But they respond to prices. You are journalists because you chose that profession. But I would predict that if the income of journalists would double, then more people would want to become journalists. If the income would however fall dramatically, then fewer people would make that same choice. That's basically the point I want to make.' Later in the afternoon I took the Friedmans to the residence of Iceland's President, Vigdis Finnbogadóttir, where we chatted briefly with our host and had

some champagne. In the evening, a leading Icelandic businessman, Ingimundur Sigfusson, and his wife invited the Friedmans to dinner at their home. They served delicious seafood.

On 31 August, I took the Friedmans on a sightseeing tour of Reykjavik. I noticed that they were always debating with each other, in a friendly way, thinking aloud rather than bickering. Rose asked me for example why we were still speaking Icelandic. 'Would it not be much more sensible, and less costly, for you to speak English, an international language?' Milton interjected: 'No, I don't think so, Rose. Of course, the Icelanders want to speak their own language. It is quite natural.' I expressed my agreement with Milton. Our language was an integral part of our identity, not to be shed like clothes. Rose was not convinced, but smiled and dropped the subject. Paradoxically, I felt that in their partnership she was more the resolute economist and her husband more the reflective philosopher. She had an edge to her, and he provided the balance. While we were driving around Reykjavik, I discussed monetary policy with Friedman. Inflation had been chronic in Iceland for decades, even reaching 100 per cent for a few months in 1983. The Icelandic currency had been debased so much over the years that the only way to establish monetary stability, I suggested, was to abandon it and adopt the US dollar. Friedman said that this was certainly a possibility in such a small currency area as Iceland.⁽²⁹⁾ At noon, the Minister of Business Affairs, Matthias A. Mathiesen, held a lunch in honour of Friedman at the Prime Minister's official residence, used as a venue for receptions. I stood alongside our distinguished visitor and introduced the guests to him as they arrived. When a governor of the Central Bank of Iceland entered, I remarked to Friedman: 'Here is somebody who would lose his job if your theories were implemented here: a central bank governor!' Friedman chuckled and said: 'No, no, he would just have to move to a

(29) Later I changed my view. I realised that if my country, largely ruled by consensus like other Nordic countries, was prepared to accept the monetary discipline brought about by a foreign currency, then she could also be expected to manage her own currency with the same restraint, which meant that the adoption of a foreign currency was hardly necessary. It was Dr. Johannes Nordal, Governor of the Central Bank of Iceland, who first made this point to me and who convinced me of its relevance. Moreover, business cycles in the Icelandic economy did not necessarily coincide with such cycles in the US economy. I believe that the course of events in 1991–2004 when inflation was brought under control in Iceland without abandoning the currency reinforced these arguments.

more productive job!’ Everybody laughed, also the governor.

In the afternoon we went to the National Broadcasting Service headquarters to record a debate between Friedman and three left-wing intellectuals. One of them was the very Grimsson who eight months earlier had denounced Friedman as a fraud. In the debate, he tried to discredit Friedman by bringing up his position on illegal drugs. Unflappable, Friedman said that he believed in the right of people to do what they wanted with their lives, even if he personally disapproved of some of their choices. That included their right slowly to commit suicide by drug abuse. Moreover, although that was not the conclusive argument in his opinion, if the consequences of prohibiting drugs were worse than the consequences of permitting them, then he certainly would support permitting them. Grimsson and his comrades were quick to change the subject. When the debate was drawing to a close, Professor Stefan Olafsson somewhat smugly made what was obviously supposed to be a devastating move. He said that this discussion had been very interesting, but that an admission fee was being charged for Friedman’s lecture at the University the next day, and that he could not afford attending. This was the first time a fee was charged for a lecture at the University, he added. Such events had hitherto been free. Friedman was quick to reply. He said that Olafsson was not using the word ‘free’ properly. Lectures by visiting scholars were never free. The airfare and accommodation of the visitors had to be paid, a venue had to be rented, the event had to be advertised. What Olafsson meant to say, Friedman submitted, was that those who attended should not pay for the lecture, and instead the people who did not attend. This was not his idea of freedom or fairness.⁽³⁰⁾

Friedman’s point was a variation on a familiar theme: There is no such thing as a free lecture.⁽³¹⁾ Somebody has to pay for it, and it seemed fair to Friedman that it should be those who attended and enjoyed it, not others. The debate was broadcast in the evening, watched by the whole nation, with most people grasping his point. After taping the debate, I took the Friedmans to the home of an Icelandic businessman, Petur

Bjornsson, for a reception with some prominent Icelandic economists. Friedman was in a good mood and chatted amicably with them. In the evening, the Icelandic Chamber of Commerce held a lavish dinner for Friedman, with forty people, at a hotel in Reykjavik. The Leader of the rural-based Progressive Party, Steingrímur Hermannsson, had recently become Prime Minister. His Party supported government funds for regional development. He asked Friedman whether such funds would be possible under his system. ‘No,’ said Friedman. Hermannsson fell silent. A businessman asked Friedman what he considered to be the greatest threat to capitalism. ‘I would say to you,’ Friedman replied, ‘Look into a mirror! The capitalists are often the worst enemies of capitalism. As Adam Smith observed, they are often engaged in a conspiracy against the consumers to raise prices. They only want free competition for others, not for themselves. They do not understand that in the long run competition doesn’t only benefit consumers, but also producers.’ Late into the party, I stood up, tapped a spoon against my glass and gave a short speech. I said that it was difficult to be the better half of our guest of honour, but that one person present had accomplished that, Rose Friedman. I asked the guests to raise their glasses to her. Friedman beamed, jumped up from his seat and said: ‘I will be the first to do that!’ They looked tenderly at each other like a young couple in love.

The Tyranny of the Status Quo

The television debate between Friedman and the three leftwingers turned out to be an excellent advertisement for the luncheon meeting the next day, 1 September 1984. Every seat was taken despite Olafsson’s grumblings about the admission fee.⁽³²⁾ Friedman’s chosen topic was ‘the tyranny of the status quo’, the theme of his recent book. He described an ‘iron triangle’ resisting all attempts to reduce government intervention in the economy. It consisted of professional politicians, bureaucrats and beneficiaries of intervention. This resistance had to be overcome.

(30) The debate is available online on Youtube.

(31) Friedman did not invent the saying, There is no such thing as a free lunch, although he used it many times and made it famous.

(32) Friedman had not charged any fee for his lecture, but I had from the beginning decided to pay him for it nonetheless, using the expected surplus from the well-attended lecture. He was pleasantly surprised when I gave him a cheque for 5,000 dollars upon departure.

Reforms could only be brought about by changing the rules, not by changing the people in power. Usually, the right people did the wrong things once in power. In the eighteenth and nineteenth centuries, liberals had tried by constitutional guarantees to remove threats to private property and to freedom of expression and assembly. Now it was necessary to limit the ability of government to abuse its fiscal and monetary powers. After the lecture, Friedman took questions from the floor. When a scientist at the University asserted that government funding of scientific research was indispensable, Friedman responded that he thought such support would certainly increase the quantity, but not necessarily the quality of research. A fisherman from the Western Fjords brought up an issue highly relevant in Iceland: What should be done if the only fishing firm in a small village would go bankrupt and its big trawler would go away? Friedman replied that the trawler would not go up in smoke after the bankruptcy. If conditions for harvesting fish from the village were favourable, then others could and would establish a new fishing firm there and buy the trawler. In a free market, mistakes had to be corrected, not subsidised.⁽³³⁾

In the afternoon of 1 September 1984 I accompanied the Friedmans to Reykjavik airport whence we went to London and on to Cambridge, to attend the general meeting of the Mont Pelerin Society. One evening when there was no event scheduled Milton invited me to join him and Rose and some of their friends for dinner at an Italian restaurant. It was a lively event. We sat at a large round table. John Greenwood, a British financial analyst working in Hong Kong was there with his wife Carmel. Greenwood had contributed to the monetary system of Hong Kong. It was a variation of a currency board, with a fixed exchange rate between the Hong Kong dollar and the US dollar where two private banks issued the notes and coins in circulation. Lord Peter Bauer was also at the dinner. He was known for his trenchant critique of so-called development aid which he considered a misnomer, because the choice was between development without aid as in Hong Kong or aid without



Unemployed people wait outside the State Labor Bureau in New York City to register for federal relief jobs in 1933. Friedman's study of the Depression shows that it was largely brought about by monetary mismanagement, not by market forces. It was then aggravated by protectionism. Photo: AP.

development as in Tanzania. Over dinner Friedman recalled when he and Rose spent the winter of 1953–1954 in Cambridge. The famous economist Arthur C. Pigou was retired, but lived in King's College. Friedman wrote him a note suggesting a meeting. Pigou sent back a handwritten note saying that he was 196 years old and allergic to economic

conversation. Nonetheless, if Friedman wanted to visit and look at the cadaver, he would be welcome.⁽³⁴⁾ Slightly taken aback at this response, Friedman decided to leave him alone. 'Perhaps I should have visited him, after all,' he now said and chuckled. Rose shook her head. Bauer had been Pigou's student in Cambridge and he and Friedman wondered whether the allegation was true that Pigou was in some way involved with the so-called Cambridge Five, a group of Soviet spies educated at Cambridge in the 1930s.⁽³⁵⁾ Bauer found it highly unlikely that the other-worldly Pigou

(33) I translated the lecture and the questions and answers, *I sjálfheldu sérhagsmunanna* [The Tyranny of the Status Quo] (Reykjavik: Jon Thorlaksson Institute, 1985), repr. with lectures by other visitors in *Lausnarordid er frelsi* [The Solution is Freedom] (Reykjavik: Jon Thorlaksson Institute, 1994).

(34) Cf. Friedman and Friedman, *Two Lucky People*, p. 53. My recollection is slightly different from that of the Friedmans.

(35) They were Donald Maclean, Guy Burgess, Kim Philby, Anthony Blunt and John Cairncross.

had wittingly assisted the spies, although he knew them well personally. As usual, Friedman dominated the discussion, but when I walked besides Bauer out of the restaurant, he said to me: ‘Milton thinks economic development is a simple thing. Just liberalise the economy, and then you get prosperity. But it is much more complicated. Conventions and traditions play a role, for example in India under British rule.’

In the late 1980s and early 1990s, when I could take off time from my duties at the University of Iceland, I was a Visiting Scholar at the Hoover Institution in Stanford, where Friedman had been a Fellow since 1977. The Friedmans occasionally invited me to lunch at the Faculty Club and invariably Rose’s brother and Milton’s former colleague in Chicago, Aaron Director, accompanied us. He had formulated what has been called ‘Director’s Law of Public Income Redistribution’. Public expenditures are made for the primary benefit of the middle classes and financed with taxes which are borne in considerable part by the poor and the rich.⁽³⁶⁾ Director was somewhat taciturn, speaking tersely and to the point. I was under the impression that he had had some influence on his brother-in-law’s change into a free market liberal. During my stays in California, I sometimes visited the Friedmans in their fine flat on the 19th floor of a skyscraper on 1750 Taylor Street, in the Russian Hill neighbourhood of San Francisco. It had floor-to-ceiling windows and a magnificent view of the city and the bay, including the Golden Gate Bridge, the Bay Bridge and the Alcatraz island. One evening, when I was having a drink with the Friedmans in their flat, standing by the windows, Milton pointed at the Golden Gate Bridge in the distance and said: ‘Look, how wonderful this is. I really have had a good life. Just imagine all the opportunities that one gets in America. Rose and I have been very lucky.’ He recalled his humble origins. The small town in Ruthenia in which his parents had lived passed after the First World War from the Hungarian half of the Habsburg Empire to Czechoslovakia, and after the Second World War it became a part of the Soviet Union. The town now belongs

to Ukraine. Very likely the family would have perished if his parents had not emigrated to America.

The Friedmans told me that they were writing their joint autobiography. They faced the dilemma what to say about Arthur Burns, who was Chairman of the Federal Reserve Board under Presidents Nixon, Ford and Carter. On the one hand he had been Milton’s teacher and had become a good friend of the couple, always being helpful and kind. On the other hand he had publicly supported Nixon’s wage and price controls, although he must have known that such controls would hardly ever work. Friedman said that he had mixed feelings about Nixon who was intelligent but devious. On the other hand he thought highly of Ronald Reagan who was a man of principle. He was critical of Reagan’s successor, George Bush. ‘He is a Country Club Republican without any opinions,’ he said. ‘He never said a word when I met with Reagan and him.’ We discussed the media. Friedman told me that his favourite magazine was *Reason*. It was both interesting and informative, he said. He also said that he had learned a lot about deception by producing his ‘Free to Choose’ series. ‘Television is very deceptive. It is about appearance, not reality. What you see has been carefully cut and edited. It has to a large degree been stage-managed.’ Once we mentioned his dispute with Hendry in which I had been slightly involved. ‘Of course I don’t blame him for trying to find faults with my work. That’s the way young and upcoming scholars gain their reputation. But I am not going to spend all my time defending my academic writings. They have to speak for themselves. Your books are a bit like your children. You bring them up and then they go away and have to live on their own.’

Once I told Friedman that perhaps it was a handicap for me in debates in Iceland about economic affairs that my university degrees were in history, philosophy and politics, not in economics. ‘No, not at all,’ he said. ‘If you had studied economics, you would have learned the bad economics which was taught in almost all universities of the world when you were a student.’ He described the reaction to him as an economist: ‘First, they pretend that you do not exist. Then, they try to make fun of you. Finally, they say that of course money matters but that they had

Christopher Andrew, *The Defence of the Realm: The Authorized History of MI5* (London: Penguin, 2012).

(36) George J. Stigler, Director’s Law of Public Income Redistribution, *Journal of Law and Economics*, Vol. 13, No. 1 (1970), pp. 1–10.



known that all along, whereas this Friedman guy was going too far.’⁽³⁷⁾ When we discussed Keynes, Friedman commented: ‘Of course, economists and politicians welcomed his theories. He made life easy. If there was a contraction you just had to press a button, and then production would increase. If there was expansion you just had to press another button, and then production would decrease.’

Friedman recalled when he had been a Visiting Professor at Columbia University in New York. There had been much more uniformity there than at Chicago. ‘Almost everybody at Columbia was of the same opinion, or was expected to be, whereas in Chicago we wanted to debate, earnestly and in good faith. There we had socialists, centrists, libertarians. We had Keynesians and monetarists. I have nowhere encountered as much uniformity as in other universities.’ Friedman chuckled when he told

In Reykjavik, Iceland, on 1 September 1984, Friedman speaks about the ‘iron triangle’ opposing liberal economic reforms: politicians, bureaucrats and recipients of government handouts. Together, they try to maintain the ‘tyranny of the status quo’. Photo: Bjorgvin Palsson.

(37) German philosopher Arthur Schopenhauer is supposed to have observed, in a similar vein: ‘All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident.’ He said something similar, but not quite the same, in the Preface to *Die Welt als Wille und Vorstellung* [The World as Will and Representation] (Leipzig: F. A. Brockhaus, 1819).

me of a law he claimed to have discovered: ‘The better educated the governors of a central bank, the worse the monetary policies pursued by his or her country.’ The causal connection was of course the other way around, as was his point: In countries with weak monetary systems, governments typically appointed as central bank governors the most competent economists they could find. They did not realise that the problem was about institutions, not individuals. We often discussed money. Once Friedman observed: ‘We are really travelling in uncharted territory. This is the first time the whole world is on fiat money which has no base, such as silver or gold. It has to be taken on trust. Nobody knows how it will eventually work out.’ He told me that he was sceptical about the euro. ‘It is a very interesting experiment, and I certainly want it to be successful. But there are two fundamental differences between the fifty states of the United States that use the same currency and the less than twenty European states that have decided to use the euro. First, social mobility is much greater between the American states where all speak the same language and grow up in similar circumstances. Second, there is much more flexibility in the American labour market than in Europe where the trade unions make wages rigid.’

In the summer of 1986, I was for a while doing research at the Hoover Institution, as was my wont. The Friedmans invited me to visit them and stay overnight in their summer house at Sea Ranch, a small seaside town about two hours’ drive north of San Francisco. I drove up there and spent two pleasant days with them. Their house was made of wood and designed to fit into the surroundings, the beach in front and a forest in the back. It had high ceilings and large windows with a view out to the Pacific Ocean. In the evening we had drinks after dinner and looked out on the dark ocean where we could see faint lights on ships passing by in the distance. In the spacious living room, the firewood burned brightly in the chimney. We discussed style. Friedman told me that he had made a strenuous effort to write lucid prose. Writing had however come naturally to his son David, probably because of his wide reading and literary bent. Friedman said that one of the most eloquent speeches he had ever read was the one which William Jennings Bryan gave in 1896 against the gold standard. He stood up and got a book where it was printed and read a famous passage from it aloud for me. ‘Having behind

us the producing masses of this nation and the world, supported by the commercial interests, the laboring interests, and the toilers everywhere, we will answer their demand for a gold standard by saying to them: “You shall not press down upon the brow of labor this crown of thorns; you shall not crucify mankind upon a cross of gold.”” Friedman laughed and commented: ‘That was quite something.’ He said that Thorstein Veblen had however written convoluted and pretentious prose. Again he stood up and now he fetched Veblen’s *Theory of the Leisure Class* and read aloud pieces from it: ‘There is probably no cult in which ideals of pecuniary merit have not been called in to supplement the ideals of ceremonial adequacy that guide men’s conception of what is right in the matter of sacred apparatus.’ Friedman remarked: ‘It’s difficult to make sense of this.’

I told the Friedmans that I had been asked to talk about the philosophy of freedom at the next Mont Pelerin Society general meeting in the Aosta Valley in Italy. Could Milton sum up the philosophy of freedom in a few words? Friedman said: ‘If there is any one word that describes it, then it is tolerance. It is the recognition that you are fallible and might be wrong. It was Oliver Cromwell, of all people, who said this well in his letter to the Kirk of Scotland: “I beseech you, in the bowels of Christ, think it possible you may be mistaken.”’ We discussed tolerance and toleration for a while. I made the point which Hayek had impressed on me that tolerance did not necessarily mean acceptance. Friedman agreed. ‘There are many things of which I personally disapprove, but with which government should not interfere,’ he said. Rose concurred. I had the impression, though, that she was more socially conservative than her husband. Friedman told me that he had recently read a new biography of Ayn Rand by Barbara Branden.⁽³⁸⁾ Rand had published powerful novels against socialism and for unbridled capitalism, describing entrepreneurs and innovators as the real heroes of modern society. ‘Probably Ayn Rand made more people libertarians than anyone else, including Hayek and me,’ Friedman remarked. ‘But she was herself very intolerant. Her admirers behaved like a religious sect.’ Friedman also mentioned Ludwig von Mises. ‘He was quite intolerant.

He would not allow people to disagree with him, as I saw at the meetings of the Mont Pelerin Society. Although he was a good economist, I could never accept his ideas about the nature and methods of economics. But I had to respect his courage and persistence. He was much better than the Misesians.’ We briefly discussed Austrian economics. ‘There is no such thing as Austrian economics,’ Friedman said. ‘There is just good and bad economics.’⁽³⁹⁾ I brought up the name of Karl Popper with whom I had had lengthy discussions the year before. ‘I got to know Popper in the Mont Pelerin Society. We had intensive discussions at the first meeting, in 1947. Since then, I have considered myself to be his follower about scientific methods,’ Friedman said. ‘My paper on the methods of positive economics was my attempt to apply Popper’s philosophy of science to economics.’

In the early 1990s I started to spend my winters in Rio de Janeiro rather than at Stanford, and after that I only occasionally ran into the Friedmans at meetings of the Mont Pelerin Society, the most memorable one being a special meeting in Switzerland in 1997, on the fiftieth anniversary of the society. We chatted pleasantly each time, but only briefly. When Friedman heard of my South American connection, he mentioned Chile where his disciples had transformed the economy. He commented on the hypocrisy of those who loudly objected to him giving economic advice to a Chilean despot but were silent about his giving economic advice to despots in Yugoslavia and China. One of Friedman’s Chilean students at Chicago, Rolf Lüders, had for a while been imprisoned for alleged irregularities in his career as a banker. ‘I cannot imagine that these charges are true,’ Friedman remarked. ‘I knew him to be a good and honest person.’ Friedman turned out to be right. Lüders was acquitted of all charges by an Appeals Court and then by Chile’s Supreme Court. Another target of prosecutors whom Friedman defended to me was the American financier Michael Milken who had received a prison sentence and a hefty fine for insider trading. ‘I am not sure that insider trading is always a crime,’ Friedman said to me. ‘In particular, I do not think

(38) Barbara Branden, *The Passion of Ayn Rand* (New York: Doubleday, 1986).

(39) Cf. the lively account in Mark Skousen, *Vienna & Chicago, Friends or Foes?: A Tale of Two Schools of Free-Market Economics* (Washington DC: Regnery Capital, 2005).

Milken committed any crime.’⁽⁴⁰⁾ The last time I saw the Friedmans was at a barbecue at the Washington home of Ed Crane, then Director of Cato Institute, on 11 May 2002. Milton had been honoured by President George W. Bush two days before for a lifetime achievement, followed by a lunch with the President and a few of his friends.⁽⁴¹⁾ The weather was pleasant, and we sat down in the garden and had a long talk. ‘The younger Bush is much better than his father,’ he said. ‘At least he has opinions. I do not agree with him on everything, but he really seems committed to lower taxes and the reduction of government intervention.’ I described to the Friedmans the liberal reforms which had been implemented in Iceland since 1991 when my friend David Oddsson had formed his first government. I told them that their visit to Iceland in 1984 had made quite an impact. Friedman had inspired young politicians, especially in the Independence Party, and, perhaps more importantly, influenced public opinion. He was gratified to hear this, but warned me: ‘We must not be over-confident. We still have a lot to do. Socialism has lost, but capitalism has not won.’ He added, with a chuckle: ‘People keep violating what I would like to call the Eleventh Commandment: Thou shalt not do good at other people’s expense.’ Friedman was then about to reach 90 years, and the truth was that I had accepted the invitation to go to Washington because I suspected that this might be our last meeting. He was still mentally alert, but his age was beginning to show. His movements were markedly slower than before. He died four years later.⁽⁴²⁾

The Chicago School

Friedman is known as one of the most distinguished members of the Chicago School in Economics which stands for emphasis on the quantity of money as a key factor in producing inflation, and more generally for

belief in the efficacy of the free market as a means of utilising resources, and for scepticism about government intervention in the economy. The Chicago School, as Friedman himself puts it, takes seriously the application of economic theory to analyse a wide range of concrete problems, rather than to construct an abstract mathematical structure of great beauty but little power. It insists on the empirical testing of theoretical generalisations and rejects alike facts without theory and theory without facts.⁽⁴³⁾ Chicago economists stress the difference between positive and normative economics—between what is found to be and what they believe ought to be. They insist that their preference for decentralisation and competition over economic intervention, for pricing over taxing, is not primarily based on ideology, or any political religion, as some of their opponents assert. Markets are simply seen to work much better in most cases than governments. It is empirical evidence, Friedman remarks, and not a conservative bias that keeps even committed Keynesians from proposing a banana-growing industry in Vermont.

Nevertheless, Friedman agrees with his friend Stigler who moved to Chicago in 1957 that an understanding of price theory tends to make people sceptical of government intervention.⁽⁴⁴⁾ Such scepticism goes a long way back in Chicago and is not solely based on empirical research. Friedman’s teacher Knight memorably said in his Presidential Address to the American Economic Association in 1950: ‘I mistrust reformers. When a man or group asks for power to do good, my impulse is to say, “Oh, yeah, who ever wanted power for any other reason? and what have they done when they got it?” So, I instinctively want to cancel the last three words, leaving simply “I want power”; that is easy to believe.’⁽⁴⁵⁾ Knight was one of the three founding fathers of the Chicago School, with Viner and a third teacher at Chicago, Henry Simons. It is fair to say, however, that it was Friedman, with Director and Stigler, who in the 1950s defined

(40) Cf. Daniel R. Fischel, *Payback: the conspiracy to destroy Michael Milken and his financial revolution* (New York: HarperBusiness, 1995).

(41) The President’s remarks on this occasion are online, <https://georgewbush-whitehouse.archives.gov/news/releases/2002/05/20020509-1.html>

(42) In addition to the books on Friedman quoted in this chapter, there is an excellent introduction by Eamonn Butler, *Milton Friedman: A Concise Guide to the Ideas and Influence of the Free-Market Economist* (Petersfield, Hampshire: Harriman House, 2011).

(43) Milton Friedman, Schools at Chicago, Remarks at the 54th annual Board of Trustees dinner for faculty, University of Chicago, 9 January 1974, *University of Chicago Magazine*, Vol. 67, no. 1 (1974), pp. 11–16.

(44) George J. Stigler, The Politics of Political Economists, *The Quarterly Journal of Economics*, Vol. 73, No. 4 (1959), pp. 522–532.

(45) Frank H. Knight, The Role of Principles in Economics and Politics, *American Economic Review*, Vol. 41, No. 1 (1951), p. 29.



or even constituted the Chicago School in opposition to the reigning Keynesian orthodoxy. Stigler was to receive the Nobel Prize like Friedman, and three other Nobel Laureates who taught at Chicago, Hayek, Ronald Coase, and Theodore Schultz, were close to the School, if not members. A younger generation of economists in the Chicago tradition include several Nobel Laureates, Gary S. Becker, Robert E. Lucas, Eugene Fama, Robert Fogel, James Heckman, and Lars Peter Hansen. James M. Buchanan, yet another Nobel Laureate and Knight's student at Chicago, was close to the school, and so are two prolific writers and public intellectuals, judge Richard Posner and economist Thomas Sowell.

The first tenet of the Chicago School, as described by Friedman, the quantity theory of money, was already presented by the Salamanca School in the sixteenth century, after its members had observed the rise in prices following the inflow of gold and silver to Spain from the

Friedman with his wife Rose in Tiananmen Square, Beijing, in 1988. Friedman is wearing an Adam Smith tie. Nobody protested when Friedman offered the same economic advice to China's authoritarian rulers as he had given previously to Chile's military dictator: open up the economy, sell off state companies, cut public spending and stop monetary expansion. Photo: Free to Choose Network.

New World. It was accepted by David Hume and almost all economists, including Keynes, until the Keynesians became dominant in economics in the late 1940s, with their emphasis on fiscal rather than monetary factors.⁽⁴⁶⁾ It was not least Friedman who rehabilitated the quantity theory. Now hardly any economist doubts that inflation is always and everywhere a monetary phenomenon. In a sense, it is a truism. Money is like any other commodity in that if you increase its supply, other things being equal, its price will go down, and a persistent fall in the value of money is what constitutes inflation. It is a different question what it is that induces policy makers to increase the supply of money. One plausible answer is that inflation usually occurs when government is too weak to tax but strong enough to print money. In the past, this was often because generals had no other way of financing their wars, but in the latter half of the twentieth century it was because politicians were trying to ensure full employment instead of holding employers and employees responsible themselves for their transactions in the labour market.

It is yet a third question whether or not the money supply can be controlled in such a way that the price level is relatively stable. Hayek is right in my opinion to stress that both the money supply and the price level are statistical aggregates which it is difficult to control. They are intellectual constructs, not individual agents or forces acting upon each other. Friedman's original suggestion was that central banks should be either abolished or turned into small, insignificant institutions, and that the money supply should be increased at the rate of 3–5 per cent a year to match the increase in GDP, the gross national product, and thus to maintain a stable price level. This has proven to be more difficult to implement than Friedman and other monetarists envisaged. Under a regime of flexible exchange rates, the central bank has basically only two ways of trying to maintain stability, through interest rates or open-market operations. But in this case, how could monetary stability be achieved? Mises and his disciples wanted to reintroduce the gold

(46) Cf. Ch. 2 in this book, on St. Thomas Aquinas and the Salamanca School; also, David Hume, *Of Money, Essays: Moral, Political, and Literary*, ed. by Eugene F. Miller (Indianapolis IN: Liberty Fund, 1987), pp. 281–294.

standard.⁽⁴⁷⁾ Hayek proposed competition in currencies, some of which could be privately produced.⁽⁴⁸⁾ After much reflection, Friedman finally came to the conclusion that probably the only way to produce sound money in the long term would be to freeze the money supply which would mean a slow appreciation of the currency over time, as the GDP would grow.⁽⁴⁹⁾

The staunchest critics of Friedman's monetarism were two Keynesians, Samuelson and Robert Solow, colleagues at the Massachusetts Institute of Technology, both Nobel Laureates in Economics. In an oft-repeated witticism, Solow once said: 'Everything reminds Milton of the money supply. Well, everything reminds me of sex, but I keep it out of the papers.'⁽⁵⁰⁾ It is a silly remark. Friedman specialised in monetary economics, so one would expect to read about money in his theoretical works. Solow was also an economist and by no means an expert on sex, and therefore it would have been somewhat surprising if sex had been frequently mentioned, or at all, in his papers. When Friedman was alive, Samuelson kept up appearances. 'I stayed on good terms with Milton for more than 60 years. But I didn't do it by telling him exactly everything I thought about him,' Samuelson once remarked.⁽⁵¹⁾ But three years after Friedman's death, in 2009, in the midst of the international financial crisis, Samuelson exclaimed: 'And today we see how utterly mistaken was the Milton Friedman notion that a market system can regulate itself.' He struck a mean note: 'I wish Friedman were still alive so he could witness how his extremism led to the defeat of his own ideas.'⁽⁵²⁾ It seems to have escaped Samuelson that in the 2007–2009 crisis

the American monetary authorities did precisely what Friedman had said they should have done in 1929 onwards which was to act as a lender of last resort, providing the financial system with liquidity, mainly through open-market operations. It was their failure to do so in the early 1930s which had turned a local recession into a global depression. This tragic outcome was averted in 2007–2009, even if arguably the monetary authorities then went too far in accepting the hazardous principle that in bad times banks should be rescued and in good times they should be left alone. But what they did was much to be preferred to another great depression, with all its political repercussions. The response to the crisis was Friedmanite, not Keynesian, because policy makers had read Friedman's works on the Great Depression.⁽⁵³⁾ It also seems to have escaped Samuelson that it was not lack of regulations that caused the financial crisis. It was a combination of two factors, both making it difficult properly to price risk, the introduction of new financial instruments of whose workings people (including regulators) had little understanding and the provision of cheap credit, both by the Federal Reserve Board and by mortgage lenders.⁽⁵⁴⁾

The other two main tenets of the Chicago School in Economics, according to Friedman, belief in the efficacy of markets and scepticism about government intervention, are both based on the resolute application of price theory to social problems, testing its ability not necessarily to reflect reality but to yield meaningful explanations and predictions. The Chicago economists are not collecting diverse facts into a bucket. Instead, they are illuminating issues with a searchlight, pointing out what is unseen and not only what is seen. Two familiar examples are that both rent control and minimum wage laws are counter-productive.⁽⁵⁵⁾ One conclusion of Chicago economists, surprising to many, is that consumer protection through legislation is sometimes illusory.

(47) George Selgin, Ludwig von Mises and the Case for Gold, *Cato Journal*, Vol. 19, No. 2 (1999), pp. 259–272.

(48) Friedrich A. Hayek, *Denationalisation of Money* (London: Institute of Economic Affairs, 1976). Cf. Larry H. White, *Free Banking in Britain: Theory, Experience, and Debate* (Cambridge: Cambridge University Press, 1984).

(49) Milton Friedman and Anna J. Schwartz, Has Government Any Role in Money? *Journal of Monetary Economics*, Vol. 17, No. 1 (1986), pp. 37–62.

(50) Robert Solow, Comments, *Guidelines, Informal Controls, and the Market Place: Policy Choices in a Full Employment Economy*, ed. by George Shultz and Robert Aliber (Chicago: University of Chicago Press, 1966), p. 63. Quoted for example by Paul Krugman, Who Was Milton Friedman? *New York Review of Books* 15 February 2007.

(51) Conor Clarke, An Interview with Paul Samuelson: Part One, *The Atlantic* 17 June 2009 (available online).

(52) Nathan Gardels, The Resurrection of Keynes, An Interview with Paul Samuelson, *New Perspec-*

tives Quarterly, Vol. 26, No. 2 (2009), p. 42.

(53) Cf. Ben Bernanke, *The Courage to Act: A Memoir of a Crisis and Its Aftermath* (New York: W. W. Norton & Co., 2015).

(54) Anna J. Schwartz, Origins of the Financial Market Crisis of 2008, *Cato Journal*, Vol. 29, No. 1 (2009), pp. 19–23.

(55) Milton Friedman and George J. Stigler, *Roofs or Ceilings? The Current House Problem* (Irvington-on-Hudson NY: Foundation for Economic Education, 1946); Yale Brozen, The Effect of Statutory Minimum Wage Increases on Teen-Age Employment, *The Journal of Law and Economics*, Vol. 12, No. 1 (1969), pp. 109–122.

Compulsory seat belts and other safety devices on motor cars reduce the likelihood of fatal traffic accidents, but this is offset by their negative impact on the demand for voluntary safety devices and on the behaviour of drivers who take greater risks. The benefit consisting in lives saved of drivers and their passengers is matched by the cost consisting in lives lost of pedestrians and increased damage from nonfatal accidents.⁽⁵⁶⁾ ‘We have heard much these past few years of how the government protects the consumer. A far more urgent problem is to protect the consumer from the government,’ Friedman comments.⁽⁵⁷⁾

Another even more important conclusion of Chicago economists is that government regulation of monopolies may be unnecessary and even counter-productive. Allegedly, some monopolies were established by ‘predatory pricing’, as financially strong companies drove out the weak by lowering prices below cost. But in fact companies often became dominant in their markets because they operated at low costs and therefore could buy up their competitors.⁽⁵⁸⁾ The argument for regulation seems strongest in the case of utilities such as the producers of electricity. But research shows that in the American electricity industry, for example, monopolies are more relative than real because of competition from alternative sources of energy.⁽⁵⁹⁾ Moreover, regulated industries tend to take over regulatory agencies in what has been called ‘regulatory capture’.⁽⁶⁰⁾

Chicago economists have even brought their searchlight to areas traditionally regarded as non-economic. One example of such ‘economic imperialism’ is discrimination. Chicago economists have shown that it implies costs not only for the victim but also for the perpetrator.⁽⁶¹⁾ If

(56) Sam Peltzman, The Effects of Automobile Safety Regulation, *Journal of Political Economy*, Vol. 83, No. 4 (1975), pp. 677–726.

(57) Friedman, *Economist's Protest*, p. 168.

(58) John S. McGee, Predatory Price Cutting: The Standard Oil (N.J.) Case, *Journal of Law and Economics*, Vol. 1 (1958), pp. 137–169.

(59) George J. Stigler and Claire Friedland, What Can Regulators Regulate? The Case of Electricity, *Journal of Law and Economics*, Vol. 5, No. 1 (1962), pp. 1–16.

(60) George J. Stigler, The Theory of Economic Regulation, *Bell Journal of Economics and Management Science*, Vol. 2, No. 1 (1971), pp. 3–21.

(61) Gary S. Becker, *The Economics of Discrimination* (Chicago: University of Chicago Press, 1957). This approach was thought to be so radical and unorthodox that it took intervention from Friedman to get

you do not hire the most competent applicant because he is black, or Catholic, or a member of a sexual minority, then you are forgoing the benefit for you from his additional competence. This is a non-trivial result because it yields the prediction that the less competitive a sector of the economy is, the easier discrimination will be there, because the cost is not shared by the decision maker himself, or his company. It is no coincidence, Friedman says, that in the United States, during the time of prevalent racial prejudice, African-Americans found it easier to build a career in highly competitive industries such as sport and entertainment than in economic sectors protected from competition. Another example is crime. It cannot simply be dismissed as irrational behaviour. Criminals react to costs like everyone else, even if unconsciously.⁽⁶²⁾ Again, the result of studies on the subject by Chicago economists is non-trivial: that the propensity to commit crime is affected both by the likelihood of capture and the severity of the sentence. This explains, for example, why sentences can be lighter in small, transparent societies where the likelihood of capture is high, as in Iceland, than in large societies where it is not too difficult to disappear into the crowd, as in the United States. It should be stressed once again that the model of the rational maximiser applied by Chicago economists is not supposed to reflect reality, but rather to yield useful explanations and predictions about human behaviour. Preaching is replaced by analysis. Indeed, this is what made Chicago economics influential: Instead of just expressing their opposition to certain proposals, Chicago economists would show that the proposals could not achieve their aims. They had to be judged by their results, not by intentions. For millennia, prophets have raged against sin. What matters however, Chicago economists would say, is to make ‘sin’ (such as racial discrimination or crime) costly for the perpetrators. In general, you are more likely to do good if you also do well.⁽⁶³⁾

the book published.

(62) Gary S. Becker, Crime and Punishment: An Economic Approach, *Journal of Political Economy*, Vol. 76, No. 2 (1968), pp. 169–217.

(63) A readable introduction to Chicago economics is Henri Lepage, *Tomorrow, Capitalism: The Economics of Economic Freedom* (LaSalle IL: Open Court, 1982). A prominent Chicago economist in cooperation with a journalist has written bestsellers on the application of economics to various social issues, Steven D. Levitt and Stephen J. Dubner, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* (New York: William Morrow, 2009); *SuperFreakonomics: Global Cooling, Patriotism*

Taxing or Pricing?

I have already noted that the difference between economic interventionism and Chicago economics may be described as a difference between two means of tackling problems of scarcity: taxing and pricing. This was brought out by a celebrated exchange in the 1920s between Pigou in Cambridge and Knight in Chicago. Pigou had given many examples of market failures—where the activities of free individuals seem to lead to inefficient outcomes. One of his examples was about two roads between the same two places. One road was short but narrow, the other one longer but also broader. On these premises the allocation of traffic between the two roads would not be optimal, Pigou argued. Too many drivers would be choosing the shorter road, creating congestion on it and thus dissipating its superior quality. (The reason was that the drivers would make their decisions on the basis of the average utility of driving on the roads, not the marginal utility.) Pigou used this example to propose government intervention in the form of a road toll on the shorter road, reflecting its superiority. Then the allocation of traffic between the two roads would be optimal.⁽⁶⁴⁾ Knight did not fault the analysis. But he pointed out that Pigou had overlooked an important possibility. It was that the two roads were privately owned. If so, their respective owners would charge for their use, and the different prices would reflect the difference in quality.⁽⁶⁵⁾ Pigou did not comment on Knight's point, but quietly removed the example from the next edition of his book.

Knight's point suggested however a new research programme in economics to which another Chicago economist, Ronald Coase, was to make the most important contribution. When we encounter cases in which economic activities impose costs on others (called 'spillover effects' or 'neighbourhood effects' or sometimes by the rather ungainly word 'externalities') we should search for ways in which the individuals concerned can resolve the issues by efficiently pricing the utilisation of

Prostitutes, and Why Suicide Bombers Should Buy Life Insurance (New York: William Morrow, 2011).

(64) Arthur C. Pigou, *The Economics of Welfare* (London: Macmillan, 1920), p. 194.

(65) Frank H. Knight, Some Fallacies in the Interpretation of Social Cost, *Quarterly Journal of Economics*, Vol. 38, No. 4 (1924), pp. 582–606.



Friedman is congratulated by President Ronald Reagan upon receiving the Presidential Medal of Freedom in the White House 17 October 1988. Nancy Reagan stands behind them. Photo: White House/Ronald Reagan Presidential Library.

resources. This can best be achieved, Chicago economists tend to say, by establishing ownership to the resources, such as the two roads in Pigou's example, or at least by assigning liability for their use to particular individuals.

Coase taught that it is a matter of circumstances who is imposing costs on whom. Consider a rancher whose cattle destroy crops on the land of an adjacent farmer. If he is held liable for the cost then he will offer the farmer damages in cash, or pay him for taking his land out of cultivation, or he will fence in his own cattle. If the rancher is not held liable then the farmer will pay the rancher to reduce herd size, or he will fence in his own land (and thus fence off the cattle). Coase came to the startling conclusion that if negotiations were relatively easy, in other words if transaction costs were zero or close to it, then the outcome would invariably be efficient. The only difference between the two possibilities mentioned here would be who would be paying whom. In both cases the cost would be taken into account. It would be properly priced (in economic jargon, 'externalities' would be 'internalised'). Of course a third possibility might be that a third party would buy both the

cultivated land of the farmer and the uncultivated land of the rancher and merge the two properties, because afterwards he would allocate effort in such a way as to minimise cost (or maximise profit).⁽⁶⁶⁾ At the time, Coase was not yet teaching at Chicago, but when he visited to give a lecture, Director hosted a dinner party where Coase presented his conclusion, the now famous ‘Coase Theorem’: If transaction costs are zero, then the outcome will always be efficient, irrespective of the initial assignments of rights and liabilities. At the beginning of the party a vote was taken. Coase was alone in supporting the theorem. The discussion lasted long into the night, with Friedman as Coase’s most vocal gainsayer, but finally he and the other guests were convinced. At the end another vote was taken: Now, all voted for Coase. Stigler said that this was ‘one of the most exciting intellectual events’ of his life.⁽⁶⁷⁾

Of course, in the real world transaction costs are hardly ever zero. But government can significantly bring them down by clearly defining rights and liabilities. Consider an example given by Samuelson in an attempt to show that land enclosures increase efficiency, but that landowners are nonetheless not worthy of their full hire. Instead of Pigou’s two roads, Samuelson envisaged two plots of different fertility, utilised jointly by six workers. He showed that the allocation of effort (labour) between the two plots would be inefficient. The superior plot of land would be over-utilised. (The reason was, yet again, that the six workers would allocate their labour in such a way that the average income from the two plots would be equal, not the marginal income.) If rent was however collected from the more fertile plot, reflecting its superiority, the utilisation of both plots would be optimal and the total product would grow. But the emergence of a landowner or rent collector would bring the income of the six workers down to the marginal income from the inferior plot of land. This showed, Samuelson asserted, that there was a truth in the old Marxist contention that the enclosure of commons worsened the conditions of the working class. There was a case, he submitted, for

taxing the rent collected by landowners and then redistributing it to workers. But here Samuelson was led astray just like Pigou by a failure to recognise the crucial role of private property rights under capitalism. There was a much simpler solution to the problem: to divide up the two plots between the workers in such a way that each plot would initially be of equal worth. Then the workers would allocate their labour so that their marginal income from the land would be the same for all plots. Thus, they would collect full rent from the superior plot. The land would be properly priced, and therefore efficiently utilised, without the introduction of any external factors such as absentee landlords (or for that matter the state).⁽⁶⁸⁾

While pricing usually works better than taxing as a means to tackle scarcity, it does not imply that the free market is perfect. It is just more often than not better than the alternative, government intervention. Although Nobel Laureate Paul Krugman admits that Friedman was a great economist, ‘the best spokesman for the virtues of free markets since Adam Smith,’ he is therefore unfair when he adds that Friedman ‘slipped all too easily into claiming both that markets always work and that only markets work. It’s extremely hard to find cases in which Friedman acknowledged the possibility that markets could go wrong, or that government intervention could serve a useful purpose.’⁽⁶⁹⁾ What Krugman does not seem fully to comprehend is the emphasis that Friedman and other Chicago economists put on comparing *real* alternatives, not the imperfect market and an ideal situation which only exists on the blackboard of an economist.⁽⁷⁰⁾ The best is usually the enemy of the better. The Chicago economists were aiming for the better, not for the illusionary best. The real alternatives, according to them,

(68) This is just mentioned in passing by Paul A. Samuelson, Is the Rent-Collector Worthy of His Full Hire? *Eastern Economic Journal*, Vol. 1, No. 1 (1974), pp. 7–10. The analysis is identical to that of two fishing grounds of different fertility, H. Scott Gordon, The Economic Theory of a Common Property Resource: The Fishery, *Journal of Political Economy*, Vol. 62, No. 2 (1954), pp. 124–142.

(69) Paul Krugman, Who Was Milton Friedman? *New York Review of Books* 15 February 2007. Friedman’s friends and colleagues have pointed out several errors in Krugman’s essay.

(70) This is called ‘blackboard economics’ by Ronald H. Coase, and the ‘Nirvana Fallacy’ by Harold Demsetz. Ronald H. Coase, Preface, *The Firm, the Market, and the Law* (Chicago: University of Chicago Press, 1988), p. 28; Harold Demsetz, Information and Efficiency: Another Viewpoint, *Journal of Law and Economics*, Vol. 12, No. 1 (1969), p. 1.

(66) Ronald H. Coase, The Problem of Social Cost, *Journal of Law and Economics*, Vol. 3, No. 1 (1960), pp. 1–44.

(67) Edmund W. Kitch, The Fire of Truth: A Remembrance of Law and Economics at Chicago, 1932–1970, *Journal of Law and Economics*, Vol. 26, No. 1 (1983), p. 221.

were on the one hand the imperfect market where individual agents were pursuing their own goals, with limited information, and on the other hand the imperfect political arena where individual agents, voters, politicians and bureaucrats, were also pursuing their own goals, with limited information. We have to compare the two methods of making choices, as an individual on the free market at your own cost, and as a member of a group where you know neither the outcome of individual choices nor the cost. This is the comparison Friedman made, and the outcome was usually, and not surprisingly, in favour of the market.

Sometimes and in some places the state has provided a decent framework for individual choices, most importantly the rule of law. (It is only recently that the state began to provide a safety net in society; this was done for a millennium by the Church.) But it was the state, not the market, that drove Jews into gas chambers and sent Kulaks to Siberia. It was the state, not the market, that in the twentieth century forced millions of young men to fight, not in self-defence, but in futile wars of aggression, with great loss of life.⁽⁷¹⁾ Even the American federation, with all its constitutional constraints, enforced slavery of African-Americans in some of its member states for almost a century, put citizens of Japanese origin into concentration camps in the Second World War and handed refugees from Stalin's totalitarian state over to their oppressors after the War. Less dramatically, it is the state, not the market, that erects barriers of entry into many professions and thus deprives young people of opportunities to better their condition. It is the state, not the market, that encourages waste and corruption. Of course in the short term waste and corruption are also to be found on the market, but the corrective forces working against them there are much stronger than in politics. Under competitive capitalism, a fool and his money are soon parted, whereas public subsidies to businesses are like champagne: if the companies do well, they deserve the subsidies, and if they do badly, they need them. Interventionists object that greed should not guide our behaviour. But what is dangerous is *unconstrained* greed, and under

(71) Hegel notoriously says: 'The state consists in the march of God in the world.' *Elements of the Philosophy of Right* (1821), tran. by H. B. Nisbet (Cambridge: Cambridge University Press, 1991), §258, Addendum. Some would probably rather speak about the march of the Devil in the world.

competitive capitalism greed is usually much more constrained than in politics. A greedy politician can do much more harm than a greedy capitalist. As Krugman's mentor, Keynes, remarked: 'It is better that a man should tyrannise over his bank balance than over his fellow-citizens.'⁽⁷²⁾

Liberal Reforms in Chile

The proof of the pudding is in the eating. In the 1970s and 1980s, comprehensive liberal reforms, inspired by Friedman, were initiated in three countries under radically different regimes: a military junta in Chile, conservatives in the United Kingdom and social democrats in New Zealand. Chile was different from the other two in being less developed and much poorer.⁽⁷³⁾ It was also different in being less stable politically. As early as 1835, Alexis de Tocqueville had commented on the political instability of Latin American countries: 'When I consider them in this alternating state of miseries and crimes, I am tempted to believe that for them despotism would be a benefit. — But these two words will never be found united in my thought.'⁽⁷⁴⁾ Chile was hit hard by the Great Depression, and from the 1930s to the 1950s social democrats were in power. The economy was heavily regulated. Under the baleful influence of Argentinian economist Raúl Prebisch,⁽⁷⁵⁾ various Chilean governments pursued import substitution, protecting local industries from foreign competition. Meanwhile, the far left was gaining strength. In the 1964 presidential elections its candidate, Salvador Allende, an orthodox Marxist, came second with 38.9 per cent of the votes, and in

(72) John Maynard Keynes, *The General Theory of Employment, Interest and Money*, with an Introduction by Paul Krugman (London: Palgrave Macmillan, 2018 [1936]), Ch. 24, p. 333.

(73) In 1970, for example, the GDP per capita of Chile was \$6,702, in the UK \$15,715 and in New Zealand \$15,424 (in 2011 US dollars). Maddison Project Database 2018, online.

(74) Alexis de Tocqueville, *Democracy in America* (1835), tran. by James T. Schleifer, Vol. 2 (Indianapolis IN: Liberty Fund, 2010), p. 366.

(75) Raúl Prebisch, *Economic Development of Latin America and Its Principal Problems* (Lake Success NY: United Nations Department of Social Affairs, 1949). Already in a series of lectures in Brazil in 1950, Viner had cogently criticised Prebisch's doctrine which was essentially a denial of Adam Smith's theory of the division of labour, the core idea of economics. Jacob Viner, *International Trade and Economic Development* (Oxford: Oxford University Press, 1953), pp. 41–45.



the 1970 elections he came first with 36.6 per cent, the remainder of the votes being split between a conservative (35.2 per cent) and a Christian Democrat (28.1 per cent). Under the Chilean Constitution, when no candidate received a majority of the votes, the Congress chose the president. Traditionally, it would elect the candidate with the most votes, and so it did in 1970, against assurances that Allende would respect the Constitution. It soon became clear that he was not going to keep his word. As a Marxist, he craved public ownership of the means of production.

What followed was in some ways similar to the 1948 communist coup in Czechoslovakia, but taking place over a longer period of time and without the Soviet Red Army hovering in the background. At the same time as Allende's government expropriated many companies directly, mostly without compensation, radical workers occupied factories and farms illegally and drove out their owners. The government seized control of most media, by a combination of force and threats, two of the four television channels, 68 radio stations, 10 important newspapers and 27 magazines. In the economy, after a while stagnation set in, investment

How can money become sound? How can government be prevented from overproducing it? Mises wanted to reintroduce the gold standard, and Hayek proposed competitive currencies. Friedman's last suggestion was to freeze the money supply. Photo: Karolina Grabowska.

fell, the budget deficit increased, and inflation soared, peaking at a rate of almost 1,000 per cent. Price controls were imposed, producing shortages and a black market. Special commissions were created to distribute food and other basic consumer goods. In late 1972, the government controlled 85 per cent of banks, 60 per cent of large-scale trade, 52 per cent of manufacturing and 75 of agricultural land.⁽⁷⁶⁾

Allende and his militant followers were trying to impose socialism on Chile with only one-third of the population behind them. Unsurprisingly, this caused social unrest. Strikes and protest marches, by left and right, became common. Chile was on the verge of a civil war. In August 1973, the Chilean Chamber of Deputies called on the Armed Forces and the Police to participate in the government 'in order to reestablish the rule of constitution and law'. On 11 September 1973 the commanders of the Army, Navy and Air Force as well as the Chief of Police jointly asked Allende to resign. He was promised safe passage, should he choose exile over confrontation. He refused and went on radio, urging his followers to resist the armed forces, upon which he committed suicide, using a machine gun given to him by Fidel Castro.⁽⁷⁷⁾ The incoming junta, led by Army General Augusto Pinochet, initially was supported by the right and by parts of the centre. A prominent Christian Democrat, Patricio Aylwin, said that 'the organized militias of Unidad Popular, a parallel army that was heavily armed, had also planned a coup to get total power. We believe that the armed forces simply anticipated that risk, saving the country from falling into a civil war or a communist tyranny.'⁽⁷⁸⁾ The junta certainly behaved as if it was facing a civil war. It arrested thousands of people, some without formal charges, exiled thousands, restricted freedom of speech and prohibited political parties and trade unions. It is estimated that 3,000 opponents

(76) Arturo T. Fontaine, Harold Beyer and Eduardo Novoa, *Democracy and Dictatorship in Chile, Fighting the War of Ideas in Latin America*, ed. by John C. Goodman and Ramona Marotz-Baden (Dallas TX: National Center for Policy Analysis, 1990), p. 102.

(77) In many accounts of the 1973 coup, it is emphasised that the US government and in particular the CIA supported it. But this is largely irrelevant, as such support did not make any difference to the course of events.

(78) The interview with Aylwin is available online (in Spanish) <https://www.youtube.com/watch?v=owtCH6XP6Qk> Here after Leonidas Montes, *Friedman's Two Visits to Chile in Context* (Richmond VA: Summer Institute for the Study of the History of Economics, 2015), p. 7.

of the new regime lost their lives in and after the coup. The Christian Democrats soon turned against the junta. In the beginning, the junta seemed inclined to continue the corporatist and protectionist policies of the past. But slowly, in response to the economic chaos left by Allende, it concluded that radical changes were inevitable. A Christian Democrat (and a graduate of Columbia University), Jorge Cauas, who had been Vice President of the Central Bank of Chile, was appointed Minister of Finance. He abolished price controls, unified the exchange rate (previously multiple exchange rates had been in effect, for various goods), lowered import tariffs and made them more uniform. The corporate tax rate was lowered from 35–40 per cent in stages to 10 per cent. Inflation, while still high, was cut drastically in half in a year, and the budget deficit was greatly reduced. In 1974, 202 companies expropriated under Allende were returned to their owners.

Thus, when Friedman and a colleague at the University of Chicago, Arnold Harberger, visited Chile in a private capacity in March 1975, liberalisation of the economy was under way, although inflation remained a serious problem. Harberger whose wife was Chilean had played an important role in an exchange programme between the University of Chicago and the Catholic University of Chile. His old students from Chicago, sometimes called the ‘Chicago Boys’, had already before the 1973 military coup put together a manual for liberal reforms. A hefty tome, it was called ‘The Brick’, *El ladrillo*.⁽⁷⁹⁾ Indeed, Chilean dictator Pinochet who met briefly with Harberger and Friedman during their visit pointed out that some of the advice they gave him was already being implemented.⁽⁸⁰⁾ In April 1975 one of the Chicago Boys, Sergio de Castro, became Minister of the Economy and a year later Minister of Finance. Under his leadership and with the assistance of like-minded economists liberalisation gained momentum. Tariffs were in 1979 lowered to a uniform 10 per cent. Between 1975 and 1976 the government sold most of its shares in the banks. The number of government-owned companies

was reduced from 620 in 1973 to 76 in 1981. The systematic liberalisation of the economy came to a temporary halt during a recession in 1982–1983, and Castro resigned. The recession was severe: Chile suffered in 1983 a 14 per cent decline in GDP, while unemployment increased to nearly 30 per cent. Recently privatised and deregulated, the banks had recklessly over-expanded, with government temporarily having to take over some of them. Both the banks and the Chilean Treasury were badly hit by a considerable raise of interest rates in international markets. Tariffs were raised, and the peso which had been pegged to the US dollar was devalued. A flexible exchange rate was subsequently adopted, as Friedman had originally advised. The four liberal finance ministers serving in 1982–1985 managed to convince politicians and business leaders, against all odds, not to abandon the Chilean model. They also led successful negotiations to restructure foreign debt.⁽⁸¹⁾ The crisis was mostly over in 1985 when Hernán Büchi became Minister of Finance, and liberalisation was resumed. The uniform tariff on imports was lowered to 15 per cent, and the banks were reprivatised. Many other government companies were privatised, including public utilities. In an ingenious scheme, the public debt was greatly reduced by offering parcels of it to private investors in exchange for shares in companies about to be privatised. The main copper mining company remained in the hands of government, but private companies were allowed to exploit large ore deposits. Most private mining at the end of the 1980s was done by foreign companies that produced more and did it cheaper than the government mining company. Büchi also reformed the tax system in order to encourage investment.⁽⁸²⁾

One of the most remarkable reforms in Chile was that of social security. When José Piñera served as Minister of Labour and Social Security in 1978–1980, he had a law passed that limited the coercive power of trade unions. He also gave workers the right to choose between

(79) ‘*El ladrillo*’ (Santiago: Centro de Estudios Públicos, 1992). In the Introduction, Sergio de Castro says that the first version of the manual had been drafted for the conservative candidate in the 1970 presidential elections.

(80) Letter from Augusto Pinochet to Milton Friedman, Santiago 16 May 1975. Friedman and Friedman, *Two Lucky People*, p. 594.

(81) Two of them were Chicago Boys, Sergio de la Cuadra and Rolf Lüders. One, Carlos Cáceres, of whom more later, was educated at the universities of Cornell and Harvard and was a member of the Mont Pelerin Society.

(82) Hernan Büchi, *The Economic Transformation of Chile: A Personal Account* (Washington DC: Hispanic American Center for Economic Research, 2010). Büchi was educated at Columbia University but he shared most ideas with the Chicago Boys.

pension schemes. Before this reform, Chile, like most other countries, had a pay-as-you-go pension system where benefits were largely unrelated to individual contributions and different from one profession to another. The whole system was complicated, and in the long run unsustainable. Now, workers could continue in this system or move to individual pension accounts where future benefits would be directly related to individual contributions. Pension funds were privately administered and competed for customers. In 1980, 2.2 million people belonged to the social security system. Seven years later, the private system had 2.7 million contributors.⁽⁸³⁾ The remaining problem in the Chilean pension system is not its design, but rather that the obligatory contribution of workers was set rather low, to 10 per cent of their wages, which means that they cannot expect ample pensions upon retirement unless the pension funds yield high returns, which they are unlikely to do if they are cautious in their investments, as they are expected to be. Piñera also reformed disability and health insurance, enabling private companies to offer these services to people, while they could also remain within the public system.

The liberalisation of the economy was difficult for many Chileans who saw their jobs disappear, while prices of necessities increased. But what liberalisation did was to *reveal* problems rather than to *cause* them: inefficient companies and artificial prices, both of which contributed to make the economy unsustainable in the long run. As Bastiat had argued the difference between bad and good economists is that the bad ones rely on visible short-term effects, whereas the good ones take account both of the effects one can see and the long-term effects one must try to foresee. Moreover, as Friedman pointed out, for a while the political choice in Chile was between a greater and a lesser evil, Allende's embryonic totalitarianism and Pinochet's authoritarianism. But Friedman emphasised that the lesser evil in Chile, unlike Allende's Marxism, meant the possibility of political freedom in the future. Marxists do not relinquish power, but dictators

occasionally do, especially if capitalism develops under their rule. For example, dictatorship was replaced by democracy both in South Korea and Taiwan. Friedman was proven right in Chile. In 1980, a new constitution was adopted under which voters would have the chance in eight years to decide whether or not the junta's candidate would be in office for eight more years. In the 1988 referendum 56 per cent voted no to Pinochet, whereas a surprisingly large minority of 44 per cent wanted him to carry on. A respected liberal economist who previously had briefly been Minister of Finance, Professor Carlos Caceres, was Minister of the Interior in 1988–1990 and oversaw the peaceful and orderly transition to civil rule.

The 1989 presidential election was won by the candidate of an alliance of left and centre, Patricio Aylwin, the same Christian Democrat who had initially supported the military coup. He received 55.2 per cent of the votes, the candidate of the right, Finance Minister Büchi, 29.4 per cent and a maverick rightwinger 15.1 per cent. As Aylwin had promised in his campaign, he continued with the liberal reforms initiated after the 1973 military coup. For example, the import tariff was lowered further, first to 11 and then to 6 per cent. After Aylwin, another Christian Democrat was President in 1994–2000, two socialists, one after another, in 2000–2010, a moderate rightwinger in 2010–2014, a socialist in 2014–2018 and a moderate rightwinger since 2018. The structure of the economy has remained largely intact, although spending on social issues has greatly increased and the model of the Chicago Boys has been severely criticised. Nonetheless, the Chilean economy is without doubt the most successful one in Latin America. From 1985 to 1997 it grew at an average annual rate of 7.1 per cent.⁽⁸⁴⁾ In the same period the number of people below the poverty line dropped from 40 per cent to 20 per cent. Another number is no less significant: The GDP per capita has risen from 22 per cent of that of the United States in 1975 to 40 per cent in 2016.⁽⁸⁵⁾

(83) José Piñera, Empowering Workers: The Privatization of Social Security in Chile, *Cato Journal*, Vol. 15, Nos. 2–3 (1995–1996), pp. 155–166; Kristian Niemietz, From Bismarck to Friedman, *Economic Affairs*, Vol. 27, No. 2 (2007), pp. 83–87.

(84) José de Gregorio, Economic Growth in Chile, *Central Bank of Chile Working Papers*, No. 298 (December 2004).

(85) Real GDP per capita in \$2011 dollars. Maddison Project Database 2018, online. It is interesting that in the 1890s to the 1910s the GDP per capita of Chile was about half of the GDP per capita of the US.

The contrast with Fidel Castro's socialist Cuba could hardly be greater. It is estimated that over 15,000 people were executed in the first thirty years after Castro's successful 1959 communist insurgency,⁽⁸⁶⁾ five times the number of Pinochet's victims. Tens of thousands of suspected or actual dissidents languished for years in Castro's prisons. Approximately 1.2 million fled from 1959 to 1993, about 10 per cent of the population. Cuba lost practically all her middle class in this mass exodus. She went from being the richest country in the Caribbean to being one of the poorest. In the figure on the opposite page, living standards in Chile and Cuba, measured by GDP per capita, are compared: The liberal reforms of 1973–1990 in Chile bore fruit in the following decades, whereas the Cuban economy stagnated. I have spent some time in both countries. Chile is modern, dynamic, efficient. In Cuba one gets an eerie feeling of being on a trip to the past because most buildings and cars are old; communism encourages neither renovation nor innovation. The ultimate irony of the Cuban Revolution is that it was made to depose the Almighty Dollar; but nowhere is the dollar mightier than in Cuba, because of the ubiquitous poverty. In Havana, everything can be bought with dollars.

Liberal Reforms in the United Kingdom

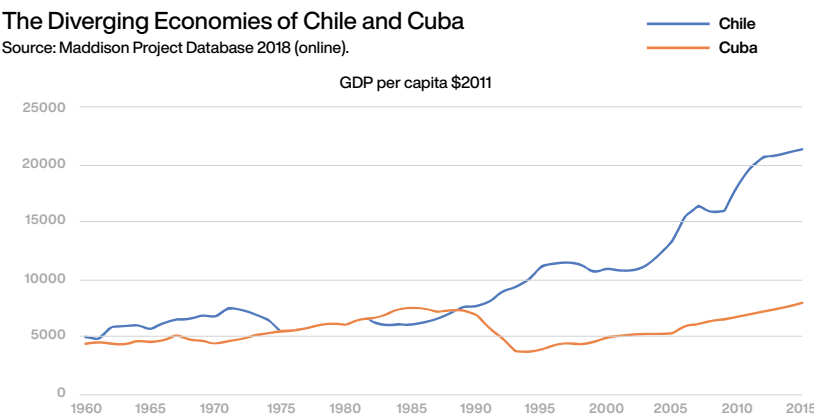
The examples of the United Kingdom and New Zealand, two well-functioning democracies, show the implausibility of the assertion that the comprehensive liberal reforms Friedman endorsed would only be possible in a dictatorship like Chile.⁽⁸⁷⁾ In 1979, Great Britain, in the nineteenth century the world's wealthiest and most powerful country,

(86) Pascal Fontaine, Communism in Latin America, *Black Book of Communism*, ed. by Stéphane Courtois, tran. by Jonathan Murphy and Mark Kramer (Cambridge MA: Harvard University Press, 1999), p. 664.

(87) The real course of events in Chile flatly contradicts journalist Naomi Klein in *The Shock Doctrine: The Rise of Disaster Capitalism* (New York: Metropolitan Books and Henry Holt, 2007), where she constructs a conspiracy theory about Friedman and the Chicago Boys: that they had welcomed, or even helped plotting, the 1973 military coup in order to get a laboratory in which to test their ideas (which were in fact basically the classical ideas of Adam Smith and Frédéric Bastiat on the international division of labour). Klein's theory is almost as far fetched as the conspiracy theory about Jews made up in Russia in early twentieth century, *The Protocols of the Meetings of the Learned Elders of Zion*, tran. by Victor E. Marsden (Chicago: The Patriotic Publishing Co., 1934).

The Diverging Economies of Chile and Cuba

Source: Maddison Project Database 2018 (online).



was not only frequently dismissed as Little Britain but also regarded as 'the sick man of Europe'. The trade unions had become a state within the state: in 1974 the Miners' Union had even brought down a conservative government. The trade unions fought fiercely against the introduction of labour-saving technologies, for example in printing, and against all attempts at rationalising the many large and inefficient government enterprises. For a while, a three-day week had been introduced to save energy. The policy of full employment at the cost of inflation had failed miserably. The economy suffered from both unemployment and inflation, stagflation. In a humiliating move, the United Kingdom had in 1976 been forced to request a large emergency loan from the International Monetary Fund. In the winter of 1978–1979 there were widespread strikes by workers in the public sector, not only by garbage collectors and the like, but also more ominously by ambulance drivers and gravediggers. While rats were feasting on piles of rubbish, cancer patients could not be treated in hospitals. It was in Shakespeare's words 'the winter of our discontent'. The ruling Labour Party was forced to call an election in May 1979 which was won by the Conservatives, led by Margaret Thatcher.

As leader of the opposition since 1975, Thatcher had prepared well for the government she formed upon her victory in 1979. She was not only familiar with the works of Hayek and Friedman but also many reports

published by the Institute of Economic Affairs in London on solutions of practical problems by voluntary cooperation in the marketplace. Friedman's 'Free to Choose' television series, broadcast soon after Thatcher took power, also made quite an impact in the United Kingdom, not least on local conservative leaders. As Prime Minister, Thatcher immediately abolished exchange and price controls and various requirements for permits and certificates. She introduced enterprise zones, including one in London's docklands, east of the City, now Canary Wharf. She targeted inflation by monetary restraint and not by 'incomes policy', to the dismay of the Keynesian economic establishment. 364 British economists in 1981 signed a letter sharply rejecting her approach to monetary and fiscal affairs and predicting disaster.⁽⁸⁸⁾ In the House of Commons, she was challenged by the Labour leader to name just two British economists who agreed with her. 'Alan Walters and Patrick Minford,' she shot back. In the car on the way back to her residence she remarked that fortunately he had not asked for three names.⁽⁸⁹⁾ But the disaster predicted by the pundits did not happen. Unemployment started to go down, and Thatcher continued briskly with her reforms. In 1979, the marginal income tax was lowered from 83 to 60 per cent, and in 1987 it was lowered to 40 per cent, whereas VAT was raised from 8 to 15 per cent. The idea was to tax spending rather than production. Thatcher also started a programme of 'contracting out' of public services such as trash removal, street cleaning and road maintenance to private firms. Government would do the steering and private companies the rowing. It is estimated that contracting out tends to save between 20 and 40 per cent of the cost of providing public services.⁽⁹⁰⁾

Thatcher won the 1983 elections. Britain's victory in the Falklands War the year before certainly helped her, but it was probably not crucial: she was already before the War making gains in polls. Voters realised that they could not return to the road travelled before 1979. There had

been some denationalisation both in Britain and elsewhere before Thatcher came to power, but she turned it into a major programme which was then copied all over the world. The main strategy was to involve employees of the companies being sold off by giving discounts to them, and to encourage mass ownership, not least in order to make the changes less reversible. Steel had for example been nationalised in the 1940s, denationalised in the 1950s and renationalised in the 1960s. Instead of selling such companies to a small group of people, they were sold to hundreds of thousands of small owners. Nine of the big companies privatised under Thatcher had names starting with 'British' or 'Brit': British Petroleum, British Aerospace, Britoil, Associated British Port Holding, British Telecommunications, British Shipbuilders and Naval Docklands, British Gas, British Airways and British Steel. Eleven electricity and eleven water companies were privatised, and seven other important companies: Cable and Wireless, Amersham International, National Freight Corporation, Enterprise Oil, Jaguar, Rolls Royce and National Power.⁽⁹¹⁾ Politically, the most important privatisation was probably the introduction of a 'right to buy' scheme which gave tenants in public housing a statutory right to purchase at a discount linked to the number of years spent paying rent. In effect it was a scheme for converting rent into mortgage. It proved very popular, with three million housing units eventually being taken into private ownership. Thatcher consciously wanted to create a property-owning democracy.

Thatcher had in 1984–1985 to deal with a violent miners' strike, organised by militant socialists partly funded by the Soviet Union and Libya. The government had quietly prepared for the confrontation by hoarding coal, not in the pits, but in the power stations. It strongly backed the police that frequently had to fight 'flying pickets' moving in groups from one place to another, intimidating working miners. The year-long strike ended with the victory of working miners over the strikers. Another fierce year-long battle was fought in 1986–1987 when pickets from the printers' union tried to shut down modern printing plants and intimidate those working there, but again without success. Thatcher

(88) *Were 364 Economists All Wrong?* Ed. by Philip Booth (London: Institute of Economic Affairs, 2006).

(89) John Blundell, *Margaret Thatcher: A Portrait of the Iron Lady* (New York: Algora Publishing, 2008), p. 96. Sir Alan and Professor Minford were both members of the Mont Pelerin Society.

(90) Blundell, *Thatcher*, p. 101. This has been called 'Savas' Law' after economist Steve Savas.

(91) Cf. Madsen Pirie, *Privatization: Theory, Practice and Choice* (Aldershot: Wildwood House, 1988).

initiated labour legislation which allowed individual workers more say in wage negotiations. During her tenure, trade unions ceased to be a state within the state. The labour market became more of a real market. So did the financial market. In 1986, Thatcher's removal of various restrictive practices there had such an impact that it was called the 'Big Bang'. Bowler hats disappeared; long Martini lunches became rare; London grew into an international financial centre. Great Britain had ceased to be the sick man of Europe. In international affairs, Thatcher was a friend and ally of US President Ronald Reagan, and together they stood firm against communism. In 1987, Thatcher won her third elections, and in the following years she saw communism crumble, first in Central and Eastern Europe and then in the Soviet Union. It is fair to say that she, President Reagan and the strongly anti-communist Pope John Paul II jointly won the Cold War.⁽⁹²⁾ Despite all her accomplishments, home and abroad, Thatcher was however in 1990 forced out of office by the parliamentary group of the Conservative Party, not least because of her uncompromising opposition to the political integration of Europe as distinct from economic integration. She wanted Europe to be an open market rather than a closed state. Thatcher was the longest-serving Prime Minister of the United Kingdom since the Earl of Liverpool, who was in office between 1812 and 1827.

Thatcher did not hide the fact that she was inspired by Friedman as well as Hayek. When Friedman passed away in 2006, she wrote that he had 'revived the economics of liberty when it had been all but forgotten. He was an intellectual freedom fighter. Never was there a less dismal practitioner of a dismal science. I shall greatly miss my old friend's lucid wisdom and mordant humour.'⁽⁹³⁾ During her tenure, her political programme, often called Thatcherism, met with fierce resistance, and there are still those who denounce her legacy. When they argue on her terms, they say that under her economic growth was relatively slow. According to one group of critics, 'annualised' increase in real GDP per capita was 2.8 per cent under the conservative governments of 1951–

(92) John O'Sullivan, *The President, the Pope, and the Prime Minister: Three who Changed the World* (Washington DC: Regnery, 2006).

(93) Blundell, *Thatcher*, p. 170.



Chicago economists point out that traffic congestion is the result of not properly pricing access to roads. They also argue that compulsory safety belts in cars may have unforeseen side effects so that their cost may match their benefits. Photo: Luigi Alvarez.

1964, 2.3 per cent under Labour in 1974–1979, and 2.1 per cent under the conservative governments of 1979–1997.⁽⁹⁴⁾ But there are several reasons why such a comparison is misleading. First, of course, economic growth was fast after the Second World War in most Western countries when they were rebuilding and also returning to international free trade. This explains the rate of growth in 1951–1964. In the second place, a developed country like the United Kingdom cannot in general expect the same rate of growth as less developed countries initiating reforms, like Chile or South Korea. A developed country is somewhat akin to Lewis Carroll's Red Queen who had to run in order to stay in the same place. Thirdly, figures on economic growth have to be analysed critically. Short-term economic growth can be produced by government investment in projects of little or no use, often called 'white elephants', such as the supersonic jetliner Concorde in the 1960s, or more prosaically, an unprofitable coal mine

(94) Kevin Albertson and Paul Stepney, 1979 and all that: a 40-year reassessment of Margaret Thatcher's legacy on her own terms, *Cambridge Journal of Economics*, Vol. 44, No. 2 (2020), pp. 319–342.

or steel plant. This was often the case in Great Britain before 1979 when government was actively investing in the economy, trying to pick winners that turned out to be losers because the ability to convince officials and politicians does not necessarily coincide with the ability to run a business.⁽⁹⁵⁾ Fourthly, the results of liberal reforms such as monetary and fiscal restraint and transfer of assets from the public to the private sector do not appear immediately. If one tries to solve problems by throwing money at them, the immediate results may be pleasant, while the long-term consequences will be bad, whereas thrift and hard work require initial sacrifices and produce long-term benefits. What is relevant is that Great Britain saw a long period of sustained economic growth from 1982 to 2008 (with the exception of two years), and that in this period the economy grew faster and performed better than in comparable economies, those of the United States, Germany, and France.

Of course, Thatcher's critics also argue on other terms. They say that her policies were divisive and that poverty increased during her tenure. Those who make the first accusation seem to forget the 'winter of discontent' when left-wing militants practically paralysed Great Britain. During the miners' strike, the government did not initiate confrontations. The police simply protected working miners from pickets. The same can be said about the conflict over the introduction of modern technology in printing plants. The pickets tried by force to hinder the operation of these plants. The policies of the trade unions were divisive, not those of Thatcher. 'This animal is wicked; it will fight back, when attacked.' Those who make the second accusation, about the increase in poverty, are talking about *relative*, not *absolute* poverty. Usually, relative poverty is defined as the situation when people earn less than 50 (sometimes 60) per cent of median income. (Median income is different from average income: it is that income which would divide society into two equally large groups, one with income below and the other above it.) Thus, it is really a reflection of income distribution. If one group in society becomes richer, then the relative poverty of other groups increases. What is really relevant is absolute poverty, the real

lack of goods and services necessary for living a tolerably decent life. During Thatcher's tenure, relative poverty certainly increased, simply because income distribution became less equal, but absolute poverty did not increase. Income distribution did not become less equal because the poorer became poorer, but because the rich became richer, which is normally not seen by economic liberals as a problem.

Perhaps Thatcher's most lasting contribution in her own country was to the mindset of her compatriots. I lived in England in 1981–1985 and I could observe how perceptions shifted. Slowly, people came to realise that they could not just set the level of wages in negotiations. Income had to be earned; wealth had to be created. If wages were set too high forcibly, then unemployment would be the result. In Thatcher's Britain it was no longer considered shameful to make a profit or to be a patriot. Hard work, thrift, self-reliance and self-improvement were applauded. The use of violence to defend privileges such as trade unions had enjoyed was no longer accepted. Thatcher put the Great back into Britain. Sir Geoffrey Howe who was her finance minister, Chancellor of the Exchequer, during the difficult period of 1979 to 1983 commented that her 'real triumph was to have transformed not just one party but two, so that when Labour did eventually return, the great bulk of Thatcherism was accepted as irreversible.'⁽⁹⁶⁾ But Thatcher's example was not only significant in her own country. She had a strong impact abroad. She set out to change her country, but she ended up changing the world.

Liberal Reforms in New Zealand

Whereas liberal reforms in Chile and the United Kingdom can be attributed to people who were directly influenced by Friedman and who consciously sought to implement the ideas they shared with him, the reforms in New Zealand were perhaps to a greater extent brought about by a worldwide change in economic thinking. In 1984, New Zealand was in trouble. In the first half of the twentieth century she had been one of the freest and most prosperous countries in the world, but then

(95) John Burton, *Picking Losers...? The Political Economy of Industrial Policy* (London: Institute of Economic Affairs, 1983).

(96) Blundell, *Thatcher*, pp. 169–170.

she began to live beyond her means by developing an extensive, and expensive, welfare state, protected by high tariffs and committed to full employment at almost any cost. Inflation was growing despite price controls, unemployment was rising, the currency was over-valued, taxes were heavy, the public deficit was massive, the foreign reserves had been squandered, and foreign creditors were becoming worried. Were the New Zealanders living in a fools' paradise? Had they tried everything that did *not* work? After defeating the National Party in the 1984 elections, the Labour Party formed a government with the energetic reformer Roger Douglas as Minister of Finance. An accountant with strong labour roots, he had become convinced that New Zealand could not travel further down the same road. The working class was better served by free trade than import substitution. Douglas, supported by a Treasury team sympathetic to the free market, wasted no time. The New Zealand dollar was devalued and then floated, price controls were abolished, tariffs were significantly lowered, and concessions and subsidies for agriculture, New Zealand's most important export sector, were removed. After a while, all sales taxes were replaced by a uniform broad-based VAT of 10 per cent. The income tax was simplified, first from five to three tax brackets and then to two. The marginal personal income tax was lowered, first from 66 to 48 per cent, and then to 33 per cent. Indeed, Douglas wanted to go further and introduce a flat income tax, but could not get it through his party. The corporate income tax was lowered from 48 to 33 per cent. A law was passed which gave the central bank, the Reserve Bank of New Zealand, operational independence, but imposing on it a strict contractual obligation to keep the price level stable. Pioneering reforms transformed the management of public sector personnel and finances. Generally accepted accounting standards were applied to the public accounts ensuring the management of not just cash, but also assets and liabilities. Budgeting was aligned so that money was allocated to outputs, not inputs.

As economic policy changed, so did the structure of the economy. Banking, domestic airlines and telecommunications were deregulated. State-owned companies became market-based corporations, and were expected to be run profitably. Subsequently, several big companies were privatised, including the Bank of New Zealand, Post Office Savings

Bank (Postbank), Petrocorp, New Zealand Steel, New Zealand Shipping Corporation, State Insurance, Telecom New Zealand (Spark), Air New Zealand and gas and other energy holdings. In 1984, New Zealand also introduced a market-based system fisheries, similar to that developed independently in Iceland at the same time. Under it, fishing firms hold ITQs, individual transferable quotas, ITQs, for the fish stocks being harvested offshore. Although the ITQs are extraction rights rather than perfect property rights, their introduction mean that fish stocks are taken into stewardship. Quota holders have a vested interest in maximising the long-term profitability of the resource from which they can harvest an annual share.⁽⁹⁷⁾

In New Zealand, the parliamentary term is only three years. Labour won the elections of 1987, but in late 1988 Douglas resigned when the leader of his party, a traditional social democrat, was unwilling to support further reforms. In 1990, the National Party won the elections in a landslide and Ruth Richardson, a lawyer, became Minister of Finance. In opposition she had been a staunch supporter of Douglas' liberal agenda, and she continued his work, drastically cutting government spending, eliminating waste, reducing public debt and introducing new rules of fiscal accountability and transparency. Universal and generous cradle-to-grave welfare benefits for all were re-calibrated to target those in need and restore incentives to work. The labour market was deregulated, with individual employment contracts largely replacing enforced collective bargaining. Union membership was no longer compulsory. Public services were contracted out and some public enterprises privatised, such as New Zealand Rail, commercial radio stations, Vehicle Testing New Zealand, National Film Unit, and New Zealand Rail. Indeed, the privatisation programme over the whole period of 1984–1999 was the largest in OECD in terms of revenue raised as percentage of GDP. Like Douglas (who became Sir Roger in 1991), Richardson could rely on a world-class Treasury team and firm support in the business community,

(97) Phillip Major, The Evolution of ITQs in New Zealand, *Individual Transferable Quotas in Theory and Practice*, ed. by Ragnar Arnason and Hannes H. Gissurarson (Reykjavik: University of Iceland Press, 1999), pp. 81–102. I discuss the ITQ system in offshore fisheries from the point of view of justice in initial acquisition in the chapter on Locke, of environmental protection in the chapter on Jouvenel, and of agreement on rules in the chapter on Buchanan.

not least in the New Zealand Business Roundtable, a pro-market association with ties to both major political parties, playing a role in New Zealand similar to that of the Institute of Economic Affairs in the United Kingdom. Although the National Party won the 1993 elections, its leader did not want to go as far in liberalising as Richardson and she left office. Her successor however delivered a string of balanced budgets and privatised a number of companies.⁽⁹⁸⁾

In 1993, Douglas founded the Association of Consumers and Taxpayers, ACT, to promote liberal policies. Subsequently, the introduction of a mixed-member proportional representation in New Zealand made new parties more feasible. It was decided to turn ACT into a political party, with Richardson as one of its supporters. ACT received between 6 and 7 per cent of the votes in three elections between 1996 and 2002; it subsequently suffered some defeats and went on to gain 8 per cent of the votes in the 2020 elections. Since 1996, New Zealand governments have been coalitions, led by the National Party until 1999, by Labour in 1999–2008, the National Party in 2008–2017 and Labour since then. The governments led by Labour have retained the fundamental reforms, but symbolically reversed some marginal liberal policies: their bark has been worse than their bite. Even if some grumble over what they see as the social cost of the reforms, there is a widespread feeling that they were inevitable if New Zealand was not to fall further behind Australia and other developed countries than she already had done. The reforms were also successful in the long run: Since 1993, New Zealand has seen steady economic growth. Her relative decline was halted and to some extent reversed. The comprehensive liberal reforms in New Zealand may hold lessons for other nations. Douglas argues that a reformist government had to move quickly and decisively: ‘Do not try and advance a step at a time. Define your objectives clearly, and move towards them in quantum leaps, otherwise the interest groups will have time to mobilise and drag you down.’⁽⁹⁹⁾ If reforms are both swift and sweeping, then the benefits are almost immediate, counterbalancing the inevitable

(98) Ruth Richardson, *The Story of New Zealand's Remarkable Reforms* (Guatemala City: Francisco Marroquín University, 2016).

(99) Roger Douglas, *Unfinished Business* (Auckland: Random House New Zealand, 1993), pp. 220–221. Both Douglas and Richardson eventually became members of the Mont Pelerin Society.



Sheep farming on South Island, New Zealand. Two finance ministers from different political parties, Sir Roger Douglas and Ruth Richardson, in 1984–1993 initiated comprehensive liberal reforms in New Zealand, making her economy one of the freest in the world. Photo: Jorge Royan.

consequences of change: openness means affordable goods from abroad, and newly privatised companies become not only profitable, but also offer better services at lower prices, even if in the adjustment process companies go bankrupt and hidden unemployment in the form of subsidised jobs is revealed.

The liberal reforms in Chile, the United Kingdom, and New Zealand certainly were swift and sweeping. In general, were the benefits worth the sacrifices? Critics point out that in Chile many lost their lives after the 1973 coup, while others were imprisoned, tortured or exiled. As conservative-liberal Peruvian writer and Nobel Laureate Mario Vargas Llosa has eloquently argued, this was unjustifiable.⁽¹⁰⁰⁾ But Chile was a special case. The brutality of the Chilean junta immediately after the coup was not logically connected to the liberal reforms. It was rather

(100) Mario Vargas Llosa, *Funeral Rites for a Tyrant, Sabers and Utopias: Visions of Latin America. Essays* (New York: Farrar, Straus & Giroux, 2009), p. 34. Vargas Llosa is a member of the Mont Pelerin Society.

a consequence of the political polarisation in the years preceding the coup. The examples of the United Kingdom and New Zealand show that dictatorship is not necessary to implement sweeping liberal reforms. Moreover, the coup in Chile was a thing done. Chilean liberals could not change it. They had the choice of increasing the misery of their compatriots by standing by and refusing to help the junta in resolving the economic problems of the country, or of trying to steer the economy out of trouble in the hope that the political situation would improve. This is not an unprecedented dilemma for those liberals who do not enjoy the political stability of the Anglosphere. In France, Benjamin Constant in 1815 accepted Napoleon's invitation to write a liberal constitution despite the bleak record of the military dictator. After the Revolution in February 1848, Bastiat and Tocqueville, both liberal members of the newly elected Constituent Assembly, supported General Louis-Eugène Cavaignac when he in June put down a rebellion in Paris, with over 10,000 people either killed or wounded, and 4,000 deported to Algeria. They both voted for Cavaignac in the presidential elections later in the year.⁽¹⁰¹⁾ Ludwig von Mises served as an adviser to Austrian Chancellor Engelbert Dollfuss after his victory in a short civil war in 1934 where left-wing opponents of the government were killed in their hundreds, and others were driven into exile. It was the lesser of two evils, the other being the Nazis.⁽¹⁰²⁾

Thus, the liberal reforms in Chile, the United Kingdom and New Zealand have to be judged on their own merits. First, it should be pointed out that it is a success in itself if economic freedom increases, irrespective of the rate of economic growth which may or may not follow. More economic freedom, as defined by Friedman and his collaborators in constructing the Index of Economic Freedom, means fiscal and monetary stability, the extension of individual choice and more opportunities. Most people would view all of this as being desirable. In the second place, the reforms undeniably inflicted hardships on people who saw their

jobs disappear or their purchasing power decline significantly. But such hardships tended to be temporary. New jobs were created, and living standards improved. Not only were such hardships temporary, but also from a moral point of view they were the unintended consequences of government policies, and therefore hardly blameworthy, although they may have been foreseeable. When government ceases to use taxpayers' money to subsidise an unproductive company, a Chilean bank, a coal mine in Wales or a New Zealand hotel, jobs will disappear. But the employees of that company are not entitled to the protection of their jobs at the expense of others, under normal circumstances. Thirdly, the reforms were successful economically. Living standards of all classes are vastly better now in these countries than they were when the reforms were begun. The Chilean economy has performed much better than its Latin American counterparts. In the United Kingdom, the heavy burden of monopoly was lifted from the labour market, while the financial market is thriving. New Zealand has recovered her economic footing, and she has a vibrant private sector as well as a relatively efficient public sector.⁽¹⁰³⁾

Nonetheless, the common refrain of critics is that even if the liberal reforms in these three countries may have been successful, inequality has increased. But is this really a relevant complaint? The consequence of increased economic freedom would typically be the creation of more opportunities to become rich. Liberalisation of the economy would hardly take place without a group of people getting richer, surpassing other groups. Thus income inequality is almost bound to increase. A critique in these terms is really circular reasoning. It is said that increased income inequality is undesirable, that income inequality increased as a result of the liberal reforms, and that therefore the liberal reforms failed. The crucial question is not whether some groups became richer than others, but whether the living conditions in the long run worsened for any one group in society. This was certainly not the case in these three countries nor in the European countries whose economies were liberalised in the

(101) I discuss the political activities of Constant, Bastiat and Tocqueville in the chapters on them in this book.

(102) Richard Ebeling, Introduction, *Selected Writings of Ludwig von Mises*, Vol. 2 (Indianapolis IN: Liberty Fund, 2002).

(103) In 1985, GDP per capita in Australia was \$24,206 (in 2011 US\$), and in New Zealand \$17,468 (72 per cent of the Australian figure). In 2016 the figures were respectively \$44,783 and \$34,040 (76 per cent). Maddison Project Database 2018, online.

1990s. For argument's sake, consider a liberalisation of an economy which would result in one group becoming quite a bit richer, while incomes of other groups would remain the same. Some would benefit, while others would not be harmed. In other words, there would be economic growth, but this growth would only benefit one group. It is difficult to see why other groups would have a plausible reason to complain, as their income would remain the same. Then conduct a thought experiment where time would move backwards, from the freer situation to the unfreer one, with the consequence that the income of this group would become quite a bit lower, while incomes of other groups would again remain the same. Then certainly the now worse-off group would have something to complain about. But what would be the point of making this move, lowering the income of one group without raising the income of other groups? Why would this be desirable?

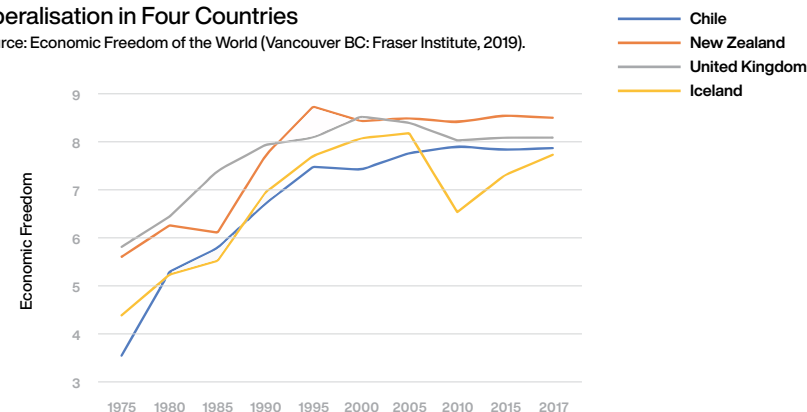
It is instructive to compare economic liberalisation in the three countries discussed here, illustrated in the figure on the opposite page. Economic freedom increased significantly in all of them in the two last decades of the twentieth century. In Chile and New Zealand, it did not increase after that, but it did not significantly decrease either. Neither country abandoned the road taken by the Chicago Boys in Chile and by Douglas and Richardson in New Zealand. By itself, this fact speaks volumes. In the United Kingdom, there was some decrease in economic freedom under Labour governments in 1997–2010, not least during the international financial crisis of 2007–2009, but after that a slight increase. Thatcherism is still largely in place. I also put into the graph changes in economic freedom in Iceland in the same period. From 1980 to 2000, it increased even faster than in the United Kingdom, Chile and New Zealand, but then it went on a totally different track, decreasing significantly in the first decade of the twenty-first century, but increasing again after that, reaching in 2017 almost the same level as in 2000. What happened in Iceland? Thereby hangs a tale.

Liberal Reforms in Iceland

In October 2008, as the international financial crisis was reaching its peak, Iceland's whole banking sector collapsed. The Icelandic government

Liberalisation in Four Countries

Source: Economic Freedom of the World (Vancouver BC: Fraser Institute, 2019).



had to take over all three major banks. Isolated and embattled, the Icelandic government frantically searched for sufficient foreign credit to stave off disaster, but was rebuffed almost everywhere, finally entering an emergency programme of the International Monetary Fund, IMF. The international left-wing economic establishment regards the 2008 Icelandic bank collapse as perhaps the best example of the inevitable failure of Friedman's ideas. Krugman writes that Iceland's economy 'was in effect hijacked by a combination of free-market ideology and crony capitalism' which brought it down.⁽¹⁰⁴⁾ Cambridge economist Ha-Joon Chang states that before the 2008 bank collapse Iceland conducted a 'neo-liberal' experiment, which failed miserably.⁽¹⁰⁵⁾ Before I turn to their assertions, echoed by other left-wing commentators,⁽¹⁰⁶⁾ I must declare an interest. I am, at least according to the Icelandic author of a book on the bank collapse 'one of the main political advisers' of the Independence

(104) Paul Krugman, The Icelandic Post-Crisis Miracle. The Conscience of a Liberal, *New York Times*, 30 June 2010. <https://krugman.blogs.nytimes.com/2010/06/30/the-icelandic-post-crisis-miracle/>

(105) Ha-Joon Chang, *23 Things They Don't Tell You About Capitalism* (London: Allan Lane, 2010).

(106) Some of them make even wilder claims. Mark Cowling writes, Neoliberalism and Crime in the United States and the United Kingdom, *Organising Neoliberalism*, ed. by Philip Whitehead and Paul Crawshaw (London: Anthem Press, 2012), p. 34: 'Iceland applied a vigorous version of neoliberalism which went very well until the banking crisis which saw Iceland go bankrupt, its citizens now being burdened with massive debts.' This is balderdash. Iceland never went bankrupt, and she was in the end not burdened with massive debts, as explained below.

Party, dominant before the crash,⁽¹⁰⁷⁾ while other observers say that I am ‘seen as one of the chief architects of neoliberal policies in Iceland’.⁽¹⁰⁸⁾ One of Iceland’s foremost novelists, Einar M. Gudmundsson, in a book about the collapse designates Milton Friedman and me as its chief culprits.⁽¹⁰⁹⁾ Whereas my influence is greatly exaggerated, I certainly was, and remain, a friend of, and an informal advisor to, Independence Party Leader David Oddsson, Prime Minister in 1991–2004, and I was a member of the Board of Overseers of the Central Bank of Iceland in 2001–2009. In an analysis of the events, this can be an advantage no less than a disadvantage, because I followed these events from the inside. The objectivity of science, as Popper emphasises, lies not in the scientists being impartial which they can never fully be despite their best intentions. Instead, it lies in the free competition of ideas where others are always free to challenge scientists and to present facts which may weaken or even refute their case.⁽¹¹⁰⁾ Here I am going to challenge Krugman and Chang and present facts which I believe will not only weaken, but refute their case.

The Icelandic economy undeniably underwent a transformation in the period from April 1991 when David presented his first government until September 2004 when he stepped down, as the longest-serving Prime Minister in Icelandic history, both in total days and continuously.⁽¹¹¹⁾ Before 1991, it had been politicians, and not capitalists, who had made most investment decisions. The banks as well as the largest investment

funds were almost all under public control. Unsurprisingly, the consequence had been massive malinvestment. The politically well-connected had received generous handouts, either to rescue inefficient enterprises or to finance sometimes unrealistic projects (even if, of course, some of the investments were profitable). The first initiative of the new government was to make clear that inefficient enterprises would not be rescued with taxpayers’ money. When this was put to the test, and it was realised that the government was serious, the whole mindset of the private sector changed. The waiting room at the Prime Minister’s office suddenly became empty. Some public investment funds were dissolved immediately, and others were privatised later, or put under restrictive rules. The crony capitalism of the past virtually disappeared, contrary to what Krugman claims. David’s governments also quickly established monetary and fiscal stability, withstanding, unlike its predecessors, the intense pressure for cheap money. Inflation fell to the same low level as in the neighbouring countries, and fiscal deficits were gradually turned into surpluses, with the surpluses being used to reduce public debt. Probably it helped that moderate trade union leaders had replaced the militant communists of the past. There was not the same unrest in the labour market as Thatcher had had to tackle in the United Kingdom. It also made a difference that the two finance ministers during David’s tenure, Fridrik Sophusson and Geir H. Haarde, fully shared his liberal ideas and did their best to implement them.

A significant factor in the transformation of the Icelandic economy was that in 1994 Iceland joined the European Economic Area, EEA, which meant that the economy became a part of the European internal market, whereas Iceland stayed out of the EU, having the same status in Europe as Norway and Liechtenstein, and for most purposes, Switzerland. Thus Iceland enjoyed the benefits of economic integration without having to commit herself to political integration. Moreover, David’s governments strengthened and stabilised two important structures already in place. One was the successful system of individual transferable quotas in the fisheries, ITQs.⁽¹¹²⁾ The fact that Iceland

(107) Eiríkur Bergmann, *Iceland and the International Financial Crisis: Boom, Bust and Recovery* (London: Palgrave Macmillan, 2014), p. 74.

(108) Gisli Pálsson and E. Paul Durrenberger, Introduction: The Banality of Financial Evil, *Gambling Debt: Iceland’s Rise and Fall in the Global Economy* (Boulder CO: University Press of Colorado, 2015), p. xxi.

(109) Einar M. Gudmundsson, *Bankstraeti null* (Reykjavik: Mal og menning, 2011); *Bankstræde nr. 0*, tran. by Erik Skyum-Nielsen (Copenhagen, Information, 2011); The Storyteller (one chapter), *Iceland Review*, Vol. 50, No. 2 (2012), pp. 26–29; The Disciples of Milton Friedman (one chapter), *Grapevine* 12 August 2011. The *Grapevine* excerpt is available online: <https://grapevine.is/icelandic-culture/art/2011/08/12/high-streets-and-piss-pots/>

(110) Karl R. Popper, *The Poverty of Historicism* (London: Routledge, 2002 [1957]), p. 143.

(111) As I explained in the chapter on Snorri Sturluson in this book, Icelanders only exceptionally have patronymics. Oddsson simply means that David is son of Oddur. Therefore, Icelanders are called by their first names. It should also be mentioned, in all fairness, that a coalition government in 1983–1987 liberalised a lot, at the initiative of two ministers from the Independence Party, Finance Minister Albert Gudmundsson and Trade Minister Matthias A. Mathiesen, both of whom were sympathetic to economic liberalism.

(112) Hannes H. Gissurarson, *The Icelandic Fisheries: Sustainable and Profitable* (Reykjavik: University of Iceland Press, 2015).

was outside the EU enabled her to develop the ITQ system. The other structure was about pension provisions. While a guaranteed pension minimum financed by the Treasury was maintained, chiefly enjoyed by those who had no other pension entitlements,⁽¹¹³⁾ the professional pension funds were greatly strengthened. Unlike pension arrangements in many other countries, they were financed by the members alone and not by the state. Therefore they were more sustainable in the long run, as pensioners were becoming a larger proportion of the population. Soon the Icelandic pension system became one of the strongest in the world. The government also made it possible for individuals to supplement their pension entitlements acquired in the professional pension funds by paying into private pension accounts and thus acquiring additional pension entitlements. The result of these two measures is that since 2004 there has been less poverty among the elderly in Iceland than in any other European country (and probably in the world).⁽¹¹⁴⁾ It should be noted, also, that civil liberties was extended during David's tenure. A law on public administration provided increased protection against the abuse of power; a law on data facilitated the access by individuals to information relevant to them; and discrimination on the basis of sexual orientation became illegal.

A charismatic, strong-willed politician with a conservative disposition but sympathetic to free market ideas, David led the Independence Party successfully through four parliamentary elections, in 1991, 1995, 1999 and 2003. His first government was a coalition of his party and the Social Democrats, but after 1995 he governed in a coalition with the Progressive Party. Once the economy had been stabilised and most of the inefficient enterprises of the past had disappeared (including many cooperatives), David's governments embarked on an ambitious project of tax cuts and privatisation. The wealth tax and a turnover tax on businesses were abolished. The inheritance tax was lowered so that in most cases it did not exceed five per cent. The corporate income tax which had been 50

per cent in 1990, was gradually brought down to 15 per cent. Income from capital was taxed at 10 per cent, whereas previously it had been mostly taxed as regular income, at a much higher rate. The personal income tax going to government and not the municipalities was gradually lowered from 30 per cent in 1997 to 23 per cent ten years later, although this was partly offset by higher rates in many municipalities controlled by left-wing parties. The tax brackets were gradually phased out until the personal income tax had become a flat tax (above a certain tax-free minimum). The tax cuts undoubtedly increased the incentives to work and produce. In the long run they demonstrated the 'Laffer Effect':⁽¹¹⁵⁾ tax revenues went down in the short run and then they went up again as a result of an enlarged tax basis. A small portion of a big cake can be larger than a big portion of a small cake. One example was the corporate income tax where the revenue from an 18 per cent tax in 2003 became larger as a proportion of GDP than the revenue from a 50 per cent tax in 1985.⁽¹¹⁶⁾ Another example was the tax on income from renting out accommodation. Previously defined as personal income and therefore taxed at a rate of 40–50 per cent, the rate was reduced to 10 per cent, but after an initial decrease the tax revenue from this kind of income increased to approximately the same level as before, partly because renting out accommodation became financially more attractive, partly because tax returns became more accurate.

Privatisation in Iceland started with a few obvious candidates such as a government printing press, travel agency, alcohol distiller, shipping line, publishing house, fishmeal plants, educational equipment shop and seaweed factory. In retrospect it seems extraordinary that these should ever have been government enterprises. Most of them had a history of making losses. Privatisation was a test on their feasibility. Either they went under or turned loss into profit. This is what happened, although it is difficult to present concrete evidence on this, because many of them subsequently merged with other firms, illustrating a point made by Coase:

(113) The publicly funded pensions were means-tested so that retired people with adequate income from other sources, such as professional pension funds, private pension accounts or their own capital, received hardly any such pensions.

(114) *Poverty and Social Exclusion in Europe* (Luxembourg: Statistical Office of the European Communities, 2007). This was the first of several comprehensive surveys of poverty in Europe.

(115) Arthur B. Laffer, *The Laffer Curve: Past, Present, and Future*, *Heritage Foundation Background*, No. 1765 (June 2004).

(116) Daniel Mitchell, *The Nordic Tiger: Iceland*, *Cutting Taxes to Increase Prosperity*, ed. by Hannes H. Gissurarson and Tryggvi Th. Herbertsson (Reykjavik: Bokafelagid 2007).



through capital transactions the market tries to find the proper size and shape of individual firms, in other words the proper units of capital.⁽¹¹⁷⁾ But the most important privatised companies were Icelandic Telephone, and an investment bank (which had been formed by the merger of several public investment funds) and the two government banks, Landsbanki and Bunadarbanci, the third major bank, Islandsbanki, having been privatised already in 1990, under a left-wing government. The investment bank soon merged with Islandsbanki and became Glitnir. Bunadarbanci merged with a private investment fund and took its name, Kaupthing. Landsbanki remained a single unit and kept its name. In 2004 when David left office, the Icelandic banking sector thus comprised three major private banks and a few much smaller savings associations.⁽¹¹⁸⁾

Milton and Rose Friedman are shown around a fish processing plant in Reykjavik in August 1984. One key to Iceland's prosperity is her system of ITQs, individual transferable quotas in the fisheries. Photo: Bjorgvin Palsson.

(117) Ronald H. Coase, *The Nature of the Firm*, *Economica*, New Series, Vol. 4, No. 16 (1937), pp. 386–405.

(118) The liberalisation of the Icelandic economy is described in more detail in Hannes H. Gissurarson, *Anti-Liberal Narratives about Iceland, 1991–2017*, *Econ Journal Watch*, Vol. 14, No. 3 (2017), pp. 362–398. Available online.

In an example of unintended consequences, the very success of the Icelandic liberal reforms in 1991–2004 carried seeds of failure. Because of the good reputation acquired internationally by the Icelandic government, and reflected in reports by the IMF and OECD, the newly privatised banks got excellent credit ratings. Therefore, they could expand almost at will in the exceptional circumstances of 2004–2007 when there was an international surplus of cheap money, with artificially low interest rates in the United States and inflow of capital from China. The Icelandic banks were managed by young, ambitious and energetic men who had little or no experience of adversity. They seemed to be in the midst of a virtuous circle where they borrowed cheaply on the international market and lent at a hefty profit to Icelandic businessmen investing abroad. It also helped that pension funds were strong and that fishing firms were making substantial profits. Iceland seemed awash with money. Most stocks were appreciating and therefore neither the bankers nor their customers were unduly worried about repayments or liquidity. The Icelandic bankers deluded themselves, as did their colleagues abroad, that they had got the Midas touch. But they soon found out that in hard times financial survival is about credit, or rather about credibility, and with it, access to money, liquidity.

When the turbulence started in international financial markets in the autumn of 2007, the Icelandic banks suddenly found themselves without much credibility, and therefore without much credit. They had grown to almost nine times the GDP, and it was clear that in adverse circumstances neither the Central Bank of Iceland, the CBI, nor the Icelandic Ministry of Finance were able, on their own, to provide them with sufficient liquidity (like Chile could after all do in her crisis of 1982–1983 which was in some ways similar to the Icelandic crisis). The CBI could print the local currency, krona, but it could not print dollars, or euros, or pounds. After a brief spell as Foreign Minister, David Oddsson had become CBI Governor, and in November 2007 he issued a stern warning publicly to the banks that they had to reduce their foreign liabilities. Privately, he was much more outspoken.⁽¹¹⁹⁾ But neither he

(119) David Oddsson, Speech to the Icelandic Chamber of Commerce, 6 November 2007. <http://www.cb.is/lisalib/getfile.aspx?itemid=5491>

as CBI Governor nor Haarde who had succeeded him as Leader of the Independence Party and Prime Minister had legal authority to order the banks to downsize. Iceland, like the other Nordic countries, had strict rules about the division and limits of powers.⁽¹²⁰⁾

As for the banks, in the intensifying credit crunch they were entrapped: damned if they did, damned if they didn't. They could only sell assets at prices which would have revealed that they, as banks elsewhere, had lost a lot of their book value. What temporarily saved them was that they, again using Iceland's good reputation and her EEA membership, were collecting a lot of deposits in Europe, both in branches (which legally fell under the narrowly-based Icelandic deposit insurance scheme) and in subsidiaries (which fell under local deposit insurance schemes, usually much more broadly-based). By their deposit collection, the Icelandic banks created a lot of worries and resentment in European financial circles that viewed them, not altogether unfairly, as reckless, and, perhaps less fairly, as upstarts. The only way the CBI could provide them with sufficient liquidity in the crisis was by currency swap deals with other central banks. Most European central banks rejected such deals, and eventually so did the US Federal Reserve Board, although in late September 2008 it made such deals with the three Scandinavian central banks. When the markets realised this, a run on the three Icelandic banks began. Things went from bad to worse when the British authorities in early October closed down both the branches and the subsidiaries of Icelandic banks in the United Kingdom, at the same time as they rescued all other banks in the country. In the course of three days, from 6 to 8 October 2008, all three Icelandic banks collapsed, Landsbanki, Glitnir, and Kaupthing. Moreover, the British government imposed an anti-terrorist law on Iceland, putting the CBI and the Icelandic Ministry of Finance on the same list at the Treasury's website as Al-Qaida, the Taliban, and the government of North Korea.⁽¹²¹⁾ One reason for this

(120) This was clearly recognised in what was perhaps the most useful and objective report on the bank collapse, written at the initiative of the IMF, by the former Director of the Finnish Financial Supervisory Authority, Kaarlo Jännäri, *Report on Banking Regulation and Supervision in Iceland* (Reykjavik: Prime Minister's Office, 2009). https://www.island.is/media/frettir/KaarloJannari%20_2009_%20Final.pdf

(121) UK Treasury, The Landsbanki Freezing order 2008, No. 2668. <http://www.legislation.gov.uk/uksi/2008/2668/made> At the request of the Icelandic government, Iceland's name was soon removed

extraordinary action—the like of which was not undertaken by any other state in which deposits had been collected in branches of Icelandic banks—was that the British government was trying to force Iceland into assuming liability for deposits in Landsbanki's British branch (covered, as it was a branch and not a subsidiary, by the ill-financed Icelandic deposit guarantee system). The British government also blocked assistance from the IMF until the Icelandic government in mid-November issued vague promises to try and ensure that British depositors would be reimbursed.

What caused the collapse of the whole banking sector in Iceland? Krugman mentions crony capitalism. But the privatisation of the banks meant that credit was no longer allocated on the basis of political clout, but rather by price: it was your ability and willingness to pay the required interest rate which made you a desirable debtor, not your party affiliation (as had sometimes happened before privatisation). If there was any significant cronyism left in the Icelandic banking sector, it was between the bankers and their biggest debtors. This may well have been the case, but such cronyism would hardly explain why foreign central banks were unwilling to make currency swap deals with the CBI or why the British government closed down branches and subsidiaries of Icelandic banks in the United Kingdom. These decisions turned a difficult but manageable crisis into a total collapse. Then both Krugman and Chang mention the liberalisation of the Icelandic economy as a cause, indeed the main cause, of the collapse. But if the problem was economic freedom, why did the banking sector in some freer economies, such as Switzerland and Hong Kong, not collapse? This explanation would hardly be plausible unless it could be shown that the Icelandic banking sector operated under lighter regulations than banking sectors elsewhere. But in fact, the same set of rules applied to it as to banking sectors in other member states of the EEA, including all the EU countries. Chang is simply wrong when he writes: 'Between 1998 and 2003, the country privatized state-owned banks and investment funds, while abolishing even the most basic regulations on their activities, such as reserve requirements for the banks.'⁽¹²²⁾ Even if

from the online list, and put into a special list below the main one.

(122) Chang, *23 Things*, p. 233.

Iceland would have wanted to have lighter regulations for the banking sector than other EEA member states, which was not the case, she could not do so under the EEA agreement. The finance sector was a part of the European internal market. When the CBI lowered (not abolished) the reserve requirements for the banks in 2003, it was to bring them to the same level as in other EEA member countries.

A more obvious and seemingly plausible explanation for the collapse of the Icelandic banking sector was its large size relative to the Icelandic economy. This was indeed the main explanation offered by a Special Investigation Commission on the collapse.⁽¹²³⁾ But on a closer look, this is not an explanation of what happened but a description of the problem. It is true that the Icelandic banking sector was large, almost nine times the GDP of Iceland. Nonetheless, it was smaller than the Swiss sector, ten times the GDP of Switzerland, or the Scottish sector, twelve times the GDP of Scotland. Why did the Swiss and Scottish banking sectors not collapse, unlike the Icelandic one? The answer is that they would have collapsed if Switzerland and Scotland had not received the liquidity provisions denied to Iceland, by the American Federal Reserve Board and the Bank of England, respectively. The Icelandic bankers may have been reckless, but so were the Swiss and Scottish bankers.⁽¹²⁴⁾ At least the Icelanders were not, like many of their colleagues abroad, laundering money or manipulating interest rates. The point is that the relatively large size of the Icelandic banking sector was a *necessary*, but not a *sufficient* condition for its collapse. What has to be explained is, first, why the Federal Reserve Board denied the CBI the same assistance, through dollar swap deals, as it gave to the three Scandinavian central banks (enabling them to save important banks in their countries) and

to Switzerland, and, second, why the British government denied British banks owned by Icelandic banks (the subsidiaries) the same assistance as it gave to all other British banks, at the same time as it closed down the British branch of Landsbanki, without closing down branches of any other foreign bank.

I think the American decision can be easily explained. In the eyes of the Americans, Iceland was expendable, and after the Cold War without any strategic interest. The collapse of the Icelandic banking sector would not have a significant impact on the American economy, whereas the Scandinavian economies were important, both for Europe and the United States. Switzerland was even more important, but for an additional reason. The Americans used the financial emergency of 2008 to put pressure on the Swiss authorities to relax their strict rules about bank confidentiality.⁽¹²⁵⁾ This made it possible for Americans tax authorities to get their hands on individuals who had through Swiss banks engaged not only in tax evasion, illegal everywhere, but also in tax planning, legal in many places.

It is harder to fathom the British decision. I asked Alistair Darling, Chancellor of the Exchequer at the time, why he had saved the Royal Bank of Scotland, RBS, and not Heritable Bank (a subsidiary of Landsbanki). ‘That’s because the RBS is a British bank,’ he replied. ‘But so was Heritable Bank,’ I retorted. He paused, realising his slip, and then he said: ‘The RBS was systemically important.’⁽¹²⁶⁾ But certainly Bradford & Bingley which was rescued at the same time was not systemically important. In fact, banks and financial firms owned by foreign banks, for example by Spanish bank Santander, were rescued by the British authorities during the crisis. The decision was not to rescue systemically important banks, because that was an issue already resolved. The real decision was to rescue all banks and financial firms in the United Kingdom *except those* owned by Icelandic banks. Landsbanki’s British branch and its subsidiary Heritable Bank were closed down on 6 October 2008. Obviously, this did nothing to stop the ongoing run on Landsbanki which collapsed that

(123) Special Investigation Commission, *Addragandi og orsakir falls íslensku bankanna 2008 og tengdir atburdir* [Report of the Special Investigation Commission of Parliament on Events Leading Up to and Causes of the Icelandic Bank Collapse] (Reykjavik: Althingi, 2010), Vol. 1, Ch. 2, p. 1.

(124) On Scottish and other British banks: Matthew Hancock and Nadhim Zahawi, *Masters of Nothing* (London: Backbite, 2011); Ian Martin, *Making It Happen: Fred Goodwin, RBS and the men who blew up the British economy* (London: Simon & Schuster, 2013); Ian Fraser, *Shredded: Inside RBS* (London: Birlinn, 2014). On Swiss banks: Stuart Eizenstat, *Imperfect Justice: Looted Assets, Slave Labor, and the Unfinished Business of World War II* (New York: Public Affairs, 2003); Dirk Schutz, *The Fall of UBS: The Forces That Brought Down Switzerland’s Biggest Bank* (Santa Monica CA: Pyramid Media, 2006); Bradley C. Birkenfeld, *Lucifer’s Banker Uncensored: The Untold Story of How I Destroyed Swiss Bank Secrecy* (Washington DC: Republic Book Publishers, 2020).

(125) *The Swiss authorities under the pressure of the financial crisis and the disclosure of UBS customer data to the USA: Report of the Control Committee of the Federal Assembly* (Bern: 31 May 2010).

(126) Interview with Alistair Darling in London on 11 December 2013.



same night. Then on 8 October Kaupthing's subsidiary in the United Kingdom, Kaupthing Singer & Friedlander, KSF, a British bank, was closed down which immediately brought about the collapse of the parent company in Iceland which until then had been the only Icelandic bank to survive, although it had also been suffering a run. It should be noted that the subsequent resolution of Heritable Bank and KSF showed both of them to have been solvent, whereas it seems that British taxpayers will bear a huge loss from the rescue of RBS. It is more difficult to determine whether their parent companies, the Icelandic banks themselves, were solvent, because after the collapse a lot of their assets were sold at very low prices, but probably they were no more and no less solvent than many of the banks which were rescued during the financial crisis, such as Danske Bank in Denmark, RBS in Scotland, and UBS in Switzerland.⁽¹²⁷⁾

Undoubtedly, there were many factors leading to the decision by the British authorities, such as the perceived recklessness of Icelandic

A view of Reykjavik Harbour in 2018. The Opera House, completed after the collapse, to the left, and a stern trawler and a vessel from the Icelandic Coast Guard in the centre. Iceland's quick recovery after the 2008 bank collapse is perhaps the best evidence of the success of the comprehensive liberal reforms inspired by Friedman and implemented from 1991 to 2004. Photo: Flickr/Paolo Napolitani.

(127) This is the conclusion of the most thorough study of the collapse, Asgeir Jonsson and Hersir Sigurgeirsson, *The Icelandic financial crisis: a study into the world's smallest currency area and its recovery from total banking collapse* (Basingstoke: Palgrave Macmillan, 2016). Jonsson is now Governor of the CBI.

bankers, not least with their deposit collection in the United Kingdom and elsewhere, the dispensability of the tiny Icelandic economy, and the need by British politicians to appear resolute on behalf of domestic taxpayers at the same time as they were committing unprecedented amounts of money to the rescue of the British banking sector. But I believe that one possible factor has been overlooked. It so happened that in 2008 the two key decision makers in the United Kingdom, Chancellor Darling and Prime Minister Gordon Brown, were Scottish. Their Labour Party, long dominant in Scotland, was now under threat from the Scottish Nationalist Party. The slogan of the Nationalists was the 'Arc of Prosperity' which was supposed to go from Ireland through Iceland to Norway and of which Scotland was to be a part. The example of these three prosperous countries showed, the Nationalists claimed, that small nations could be better off on their own. It was very much in the interest of both Darling and Brown to counter this. They had to demonstrate to their Scottish voters the perils of independence. Even if the Scottish banking sector was twelve times the size of the Scottish GDP, it did not collapse, and this was because it had access to liquidity from the Bank of England. As Darling gleefully commented in his report on the financial crisis: 'Iceland, along with Ireland, was part of what Scotland's nationalist first minister, Alex Salmond, liked to refer to as an "arc of prosperity", to which he yearned to attach Scotland. It was now an arch of insolvency.'⁽¹²⁸⁾ Before the plebiscite in Scotland on independence in the spring of 2013, where Darling led the 'No' campaign, the UK Treasury published a pamphlet where the main argument was that the Scots risked the ill fate of the Icelanders if they voted for secession.⁽¹²⁹⁾

The collapse of the Icelandic banks in 2008 because they were not provided with liquidity has interesting parallels with the collapse of the New York-based Bank of the United States in 1930 because it was not provided with liquidity, according to Friedman a contributing factor in turning a local recession into a global depression. Even if the Icelandic banks were probably as solvent (or insolvent) as most other banks in

(128) Darling, *Back from the Brink*, p. 138. Cf. also Gordon Brown, *My Scotland, Our Britain: A Future Worth Sharing* (London: Simon & Schuster, 2014), p. 281.

(129) *Scotland analysis: Financial services and banking* (London: HM Treasury, May 2013), pp. 7–8 and 23.

Europe and North America, they were rebuffed because they were Icelandic, whereas the Bank of the United States, also perfectly solvent, was rebuffed because it was Jewish.⁽¹³⁰⁾ Probably Darling and Brown were not personally as hostile to Icelanders in the 2000s as New York bankers were to Jews in the 1930s. But it was definitely in their political interest to demonstrate to their Scottish voters that they were better off in a union with England than in treading the path of independence like Iceland. This may also explain why they took the extraordinary step of invoking an anti-terrorist law against Iceland. This decision was publicly justified by the need to hinder any illegal financial transfers from the United Kingdom to Iceland. But that had already been precluded five days earlier by a Supervisory Notice from the British Financial Services Authority to Landsbanki's British branch.⁽¹³¹⁾ So, this was a pretext, not a reason.

On first sight, it seems incomprehensible to have used an anti-terrorist law against a NATO ally, and a tiny country without a military, to boot. But it becomes comprehensible when the political interest of Darling and Brown in Scotland remaining a part of the United Kingdom is taken into account. Iceland however firmly resisted assuming liability for private transactions between British investors looking for high interest rates and an Icelandic bank collecting deposits from them. (The sums were enormous by Icelandic standards.) After a bitter international dispute in which the anti-terrorism law continued to be in force while the United Kingdom also tried to put pressure on Iceland through the IMF, the EFTA Court came to the conclusion that Iceland had not in any way violated EEA rules and that the Icelandic Treasury was not liable for British deposits in Landsbanki but rather in the first instance the Icelandic Deposit Insurance Fund and then ultimately Landsbanki's

(130) Although the Bank of the United States was liquidated during the worst years of the Depression, its estate ultimately paid off 83.5 per cent of its liabilities. Friedman and Schwartz, *Monetary History*, p. 311. The corresponding numbers for Heritable Bank and KSF, the two Icelandic-owned British banks closed down in the United Kingdom, are 98 and 87 per cent respectively. For Heritable Bank, *Twentieth progress report to all known creditors* (London: Ernst & Young, 10 March 2016). Administration cost was £30 million and legal fees £13.4 million. For KSF, *Kaupthing Singer & Friedlander Limited (in Administration)*. Ernst & Young report from 8 October 2016 to 7 April 2018 (London: Ernst & Young, 2018). Administration cost was £81 million and legal fees £55 million.

(131) FSA First Supervisory Notice to Landsbanki, 3 October 2008. https://www.fca.org.uk/publication/supervisory-notice/landsbanki_3oct08.pdf

estate.⁽¹³²⁾ I should add that the positive impact of the IMF emergency aid to Iceland has been vastly exaggerated. In fact, the country would have been better off by not accepting a huge IMF loan which was never used and just sat and collected interest in a New York bank account, although to build trust it would have been prudent to adopt the IMF programme itself which was not too different from what Iceland needed to do anyway. It was also extraordinary to observe the IMF for a while trying to act as a hand collector for the British government, insisting on Iceland reaching an agreement with the United Kingdom on liability for British deposits in Landsbanki before offering any aid to the ravaged country.⁽¹³³⁾

Meanwhile, the Icelandic Left had used the opportunity provided by the bank collapse to engage in its own reckoning with past right-wing dominance. The Special Investigation Commission, SIC, appointed with all-party support in 2008 was given a generous budget, unlimited access to all documents and special powers to summon witnesses, while its three members were granted full legal immunity. But despite a diligent search for sixteen months, the SIC did not find any cases of criminal behaviour by the CBI governors or the government ministers. It only reprimanded the CBI governors for their way of making two important decisions, first to deny in August 2008 a request by Landsbanki for a big loan in pounds to enable the bank to transfer deposits and assets from Iceland to the United Kingdom and second to deny in September 2008 a request by Glitnir for a big loan in euros to enable the bank to repay maturing loans; in the latter case the government decided instead to recapitalise Glitnir, although the bank eventually went down with the other two Icelandic banks. The SIC did not find any fault with the two decisions themselves, but complained that the governors had not insisted on more information from the banks before making them. These reprimands seem strangely irrelevant, even outlandish, as everywhere during the crisis government ministers and central bankers were almost instantly making much bigger decisions, on

(132) Judgement of the EFTA Court, 28 January 2013, http://www.eftacourt.int/uploads/tx_nvcases/16_11_Judgment_EN.pdf

(133) More details on the whole saga are provided in Hannes H. Gissurarson, *The 2008 Icelandic Bank Collapse: Foreign Factors: A Report for the Ministry of Finance and Economic Affairs* (Reykjavik: Social Science Research Institute, 19 September 2018). Available online.

scant information.⁽¹³⁴⁾ The SIC reprimanded Prime Minister Haarde and two other government ministers for negligence in not having restrained the growth of the banks, although it did not present any convincing evidence that they had had authority to do so. The left-wing majority in the Icelandic Parliament voted to bring Haarde before a special Parliamentary Court. The minority of judges in that Court wanted to acquit him of all charges whereas the majority decided to uphold only one charge, incidentally not found in the SIC Report: that he had not put the impending banking crisis formally on the agenda of cabinet meetings and that by this he had violated a constitutional stipulation requiring important matters to be discussed at cabinet meetings. This seemed like, and probably was, a judicial ploy to placate those who insisted on establishing some culpability somewhere, even for mere formalities. I would argue on the contrary that it might have been Haarde's duty not to put the impending banking crisis on the agenda of cabinet meetings, because it might have instigated a run on them. Sensitive matters sometimes require confidentiality.

This sordid tale has been told here at some length in order to demonstrate how wide off the mark Krugman and Chang are in blaming the 2008 Icelandic bank collapse on the liberal reforms under David. But the decision to leave Iceland out in the cold, and indeed in the British case actively to contribute to her collapse, turned out to be a blessing in disguise, yet another example of unintended consequences. In the beginning of the collapse, at the initiative of the CBI it was decided to limit the liabilities of the sovereign state of Iceland as much as possible. Therefore no legal guarantees of deposits were issued by the authorities, only public reassurances in the media to domestic depositors. Instead, depositors, foreign as well as domestic, were by law made priority claimants on the estates of the falling banks. The assets of the banks turned out to be worth much more than originally estimated, and all depositors got their money back, whereas other creditors of the banks were paid a sizeable portion of their claims. By not rescuing the banks the Icelandic government avoided the heavy liabilities that some other

governments have accepted. The Icelandic way of resolving the crisis, out of necessity rather than conviction, also demonstrated that a refusal to bail out banks need not end in economic disaster. After initial difficulties the Icelandic economy was quick to recover, with rapid economic growth starting in 2012 and reaching 6.6 per cent in 2016. The left-wing government which in 2009 was voted in after the collapse had tried to reverse many of the liberal reforms, with some success. But in the 2013 parliamentary elections it suffered the worst defeat of any Icelandic government ever: both coalition parties, the Left Greens and the Social Democrats, lost half their previous electoral support. The Independence Party again became the largest party and re-entered government. Since then the economy has been somewhat liberalised, albeit not as much as during David's tenure.

But why was Iceland so quick to recover? Mainly because the economy was strong and resilient, not least the fisheries, with tourism becoming a welcome addition, while the possibility of the Treasury to deal with the crisis was greatly enhanced by the fiscal stability imposed in the 1990s and the virtual elimination of public debt. The ability of Iceland to stand alone during this difficult time, and not only to survive, but to flourish, is perhaps the best evidence of how successful the liberal reforms of 1991–2004 were.

The Transition from Communism

If liberalisation was a difficult task in the United Kingdom, Chile, New Zealand, and Iceland, it was a daunting challenge in Central and Eastern Europe. Here I shall focus on three countries where the reforms were the fastest and most comprehensive and where they were implemented by avowed disciples of Friedman, Leszek Balcerowicz in Poland, Václav Klaus in the Czech Republic, and Mart Laar in Estonia. Communism had been imposed on these countries after the Second World War, and Estonia had even been forced to join the Soviet Union. Private property rights to the means of production had been abolished, and central planning of the economy had been introduced. The economies of these countries had been tied to the Soviet economy. The emphasis had been on heavy industry and armaments, not on consumer goods and

(134) Bernanke, *The Courage to Act*; Darling, *Back from the Brink*; Timothy F. Geithner, *Stress Test: Reflections on Financial Crises* (London: Random House Business Books, 2014); Hank Paulson, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* (New York: Business Plus, 2010).

services. Bureaucrats controlled the economy. Venture capitalists and entrepreneurs hardly existed. The result was economic failure. In 1937, living standards, measured as GDP per capita, had been almost equal in the Czech Republic and Estonia, and also in the countries closest to them, Austria and Finland respectively, whereas they had been somewhat lower in Poland. In 1990, however, living standards were twice as high in Austria than in the Czech Republic and more than twice as high in Finland than in Estonia, whereas they were still lower in Poland than in the Czech Republic and Estonia.⁽¹³⁵⁾ Moreover, man lives not by bread alone but also by the word: all the communist countries were one-party states, with strict censorship, a secret police monitoring the population, and prison camps for dissidents.

Leszek Balcerowicz was the first of the three Friedmanites in this saga to take office. When Polish communists imposed martial law in 1981, he joined Solidarity, the workers' movement which eventually brought down the communist regime. He soon became the economics expert of Solidarity and in September 1989 he was appointed Finance Minister and Deputy Prime Minister in Poland's first non-communist government since the war, after the communists had been roundly defeated in parliamentary elections. Balcerowicz faced a difficult task. The Polish state was basically insolvent. The economy was stagnant; many large government enterprises were operated with huge losses; food was rationed; inflation was rampant, in 1989 reaching more than 600 per cent. In the course of a few months, the new Finance Minister took drastic measures which accordingly were called the 'Balcerowicz Plan'. The budget was balanced and subsidies to loss-making enterprises were abolished. The central bank ceased printing money for the government. A special tax on wage increases was imposed to reduce inflation. Interest rates were raised to the market level and the preferential treatment of government enterprises by banks was stopped. Taxes and tariffs were simplified and unified. Foreign investment was encouraged, and the government monopoly in foreign trade was abolished. Price controls

(135) In 1937 GDP per capita was \$5,403 in the Czech Republic and \$5,471 in Austria (in 2011 dollars). In 1990 the numbers were \$15,961 for the Czech Republic and \$29,292 for Austria. In 1990 GDP per capita was \$12,291 in Estonia and \$27,306 in Finland. Maddison Project Database 2018, online.



The market place in the ancient Polish city of Kraków, seen from the tower of St. Mary's Church. Since the fall of communism the countries of Central and Eastern Europe have returned to the European family and reaffirmed their Western identity. They have become normal countries again. Photo: Wikipedia Commons.

were lifted. Small businesses were privatised. The enormous foreign debt accumulated under communism was reduced in half by negotiations with creditors.

The first effects of Balcerowicz' reforms were the same as in West Germany after Ludwig Erhard's 1948 reforms. Waiting lines disappeared, and shops suddenly filled with goods. The long-term effects were that the

huge loss-making government enterprises went under while new firms sprang up. Suddenly a class of entrepreneurs appeared. In 1991 the Warsaw Stock Exchange began operations. By 1992, more than 600,000 new companies had been established, providing jobs for approximately 1.5 million people. Poland's annual growth rate between 1989 and 2000 was the highest of all post-communist countries. On the other hand, unemployment temporarily increased although it was mostly unemployment previously hidden in unsustainable projects. There was also considerable resistance to the privatisation of large enterprises, not least from trade unions. Nevertheless, banks were privatised relatively early and other companies later. Restitution of property expropriated by

the communists has however been fraught with more difficulties than in many other post-communist countries.

Self-confident and combative, Balcerowicz was the obvious target of those who felt they had lost out in the process. He left office in 1991 after two tumultuous but productive years. His successors however largely continued on the course set by him. Balcerowicz was in 1995–2000 chairman of a small liberal party, the Freedom Union, which was later dissolved. He was again Finance Minister from 1997 to 2000 and then he implemented a ‘second Balcerowicz Plan’, cutting taxes and government spending and reforming public services. In 2001, he became Governor of the National Bank of Poland, serving for six years. When Friedman died in 2006, Balcerowicz recalled that the book he wrote with his wife, *Free to Choose*, ‘was published illegally in Poland in the 1980s, helping to inspire me, and many others, to dream of a future of freedom during the darkest years of communist rule.’ He added: ‘I live in a Poland that is now free, and I consider Milton Friedman to be one of the main intellectual architects of my country’s liberty.’⁽¹³⁶⁾ After leaving the central bank in 2007, Balcerowicz has run a free-market think tank, taught economics at the Warsaw School of Economics and been a forceful advocate of fiscal and monetary stability in the European Union. In 2014, he received the Milton Friedman Prize, awarded by Cato Institute. The dream of the young reader of *Free to Choose* had come true. Poland joined the World Trade Organization, WTO, in 1995, the North Atlantic Treaty Organization, NATO, in 1999 and the European Union, EU, in 2004. She is not only free but the only European country which has enjoyed unbroken economic growth since 1992, with unemployment becoming negligible. In 1989, the Poles had been significantly poorer than Estonians and Czechs, but by 2016 they had caught up with those two nations.⁽¹³⁷⁾

In December 1989, four months after Balcerowicz took office in Poland, Václav Klaus became Finance Minister of Czechoslovakia in the first non-communist government after the 1948 communist coup, during

the ‘Velvet Revolution’ when power was peacefully transferred from communists to democrats. Under the communist regime, Klaus had quietly studied Friedman’s works: ‘For us, who lived in the communist world, Milton Friedman was the greatest champion of freedom, of limited and unobtrusive government and of free markets. Because of him I became a true believer in the unrestricted market economy.’⁽¹³⁸⁾ Klaus supported capitalism without adjectives, as he put it. Once in office, he moved quickly. Price controls were abolished; the government monopoly of foreign trade was dismantled; the tax system was reformed; government enterprises were privatised; the budget was balanced; and fixed exchange rates were established. His reforms worked. Inflation fell; the economy started to grow after the inevitable initial difficulties; the budget showed a surplus; unemployment remained low. Property expropriated during the communist regime was returned to their rightful owners. Klaus used voucher schemes to privatise a little less than half of the government assets being transferred into private ownership. Citizens could buy vouchers which were essentially shares in the government companies being sold, and they could sell these vouchers or put them into private investment funds. This had the two advantages that privatisation was quick, and it gained public support. Overall, owners of vouchers benefitted significantly, although inevitably some companies performed much worse than they had hoped.

Klaus soon was elected leader of a new political party, the Civic Democratic Party, and he was appointed Prime Minister after the party’s victory in the parliamentary elections of 1992. During his tenure, the Czech Republic had to overcome the loss of the Russian market, important under communism. Moreover, Slovakia seceded in 1993, leaving Klaus as the first Prime Minister of a new country, the Czech Republic. The peaceful and orderly separation of the two countries was a major accomplishment. In 1997, Klaus had to resign after some political controversies, but he was elected President of the Czech Republic in 2003, serving two terms, until 2013. Since then he has run an economic institute which bears his name. The Czech Republic joined WTO in 1995,

(136) Leszek Balcerowicz, A Revolutionary Muse of Liberty, Project Syndicate 19 November 2006. <https://www.project-syndicate.org/commentary/liberty-s-revolutionary-muse>

(137) However, economic freedom is not as great in Poland. The Polish economy was the 77th freest economy in the world in 2018, having been the 105th in 1990. Gwartney et al., *Economic Freedom 2020*, pp. 9 and 144.

(138) Václav Klaus, Speech at a memorial service for Milton Friedman at the Rockefeller Chapel in the University of Chicago, 29 January 2007. <https://www.klaus.cz/clanky/133>

NATO in 1999 and EU in 2004. Thirty years after the Velvet Revolution, in 2019, living standards in the Czech Republic had improved from half to two-thirds of what they were in neighbouring Austria. In 2018, her economy was the 25th freest in the world, immediately below the Netherlands and above Austria.⁽¹³⁹⁾

Estonia and the other two Baltic countries, Latvia and Lithuania, could only embark on comprehensive reforms in 1991, as the Soviet Union was disintegrating, two years later than Poland and the Czech Republic. All three Baltic countries had been occupied by Stalin's Red Army in 1940, upon which they were forced to join the Soviet Union. During the War and the occupation after it, Estonia lost about 20 per cent of her population. In the first year of independence, the economy lay in ruins. Inflation was rampant, for a while over 1,000 per cent; shops were empty; necessities were rationed. Under the guidance of former communists, cautiously steps were taken to privatise companies and liberalise the economy, and a new currency replacing the Soviet rouble was introduced, linked to the German Mark. The reforms gained momentum in late 1992, when historian Mart Laar became Prime Minister, after parliamentary elections. He was only 32 years, and the only book on economics he had read was *Free to Choose* by the Friedmans. Laar immediately abolished all price controls and drastically cut government spending in order to balance the budget. Waiting lines disappeared. Inefficient, old-fashioned companies from the Soviet era collapsed, while unemployment soared. Estonia desperately needed new capital, and to encourage investment, both domestic and foreign, Laar abolished all tariffs, turning the country into one big free trade area, and introduced a flat personal income tax. 'To everybody's surprise the flat tax really worked, injecting far more money into the budget than had been expected and boosting economic growth.'⁽¹⁴⁰⁾ Wherever possible, properties which the communists had confiscated were returned to their rightful owners. Where this was not

possible, vouchers were used for the privatisation of dwellings or land. The privatisation of small-scale companies was relatively simple and went smoothly. The privatisation of large-scale companies was more complicated. In other post-communist countries, selling enterprises directly to the highest bidders or issuing vouchers, or shares in them, to citizens had both turned out to be problematic: it was difficult to find a reasonable price for an enterprise, and the vouchers were often immediately resold. Laar chose a middle way: Large-scale companies were sold through international tenders for majority owners who had to pay reasonable prices and guarantee investments. A minority of shares were sold to owners of vouchers. 'Thus, the companies got real owners and guaranteed investment, while, at the same time, people could participate in the process.'⁽¹⁴¹⁾ Bankruptcies were reduced to a minimum.

Laar agreed with Balcerowicz that 'Bitter medicine is easier to take in one dose than in a prolonged series of doses.'⁽¹⁴²⁾ But the political situation in Estonia was volatile, and Laar had to resign in 1994. Nevertheless, his successors continued with the liberal reforms, although at a slower pace, and in 1999 Laar returned as Prime Minister, serving for three years. The reforms were bearing fruit. Inflation had fallen, and with great effort trade had been reoriented from Russia to the West. Estonians were learning to assume responsibility for their own future. They appreciated that the flat income tax did not punish those who were successful, as a progressive income tax does. In 1992, Estonia had 2,000 enterprises. Two years later their number had increased to 70,000. Foreign investors, not least from the Nordic countries, flocked to Estonia. The Tallinn Stock Exchange opened in 1996 and Estonia joined WTO in 1999. I attended a reception at the Estonian Embassy in London in late 2002 when Laar was launching a book about his reforms.⁽¹⁴³⁾ Thatcher was present, and in his remarks Laar recalled a story about his first meeting with her shortly after he had become Prime Minister in 1992. When Laar told her that he

(139) Gwartney et al., *Economic Freedom 2020*, pp. 9 and 64. The earliest rating for the Czech Republic was in 2000 when the economy was the 53rd freest in the world.

(140) Mart Laar, *The Power of Freedom: Central and Eastern Europe after 1945* (Tallinn: Unitas, 2010), p. 174.

(141) Ibid., p. 178.

(142) Ibid., p. 169.

(143) Mart Laar, *Estonia: the Little Country that Could* (London: Centre for Research into Post-Communist Economies, 2002).



was introducing a flat personal income tax, she gazed at him with her eyes wide open and exclaimed: ‘You are one brave young man!’ Under the second Laar government, Estonia continued her political and economic integration with the West, eventually joining both NATO and EU in 2004. Much effort has been devoted to making government transparent and effective through use of the internet. In 2006, Laar received the Milton Friedman Prize given by Cato Institute. He was for a while chairman of a centre-right political party, now called Isamaa, and served as Defence Minister from 2011 until 2012

when he had to step down for health reasons. When out of office he has written several books on Estonian history.⁽¹⁴⁴⁾ In 2018, Estonia had the 14th freest economy in the world, with the same score as Chile, above

At the 2005 Mont Pelerin Society regional meeting in Iceland, which I organised, three politicians spoke. Inspired by Friedman, they had implemented comprehensive liberal reforms in their countries, extending individual choice: Václav Klaus, Prime Minister of Czech Republic 1992–1998 and President 2003–2013, David Oddsson, Prime Minister of Iceland 1991–2004, and Mart Laar, Prime Minister of Estonia 1992–1994 and 1999–2002. Photo: Gunnar Geir Vigfusson.

(144) In English translations, for example, Mart Laar, *The Forgotten War: Armed Resistance Movement in Estonia in 1944–1956* (Tallinn: Grenader, 2005).

Taiwan and below the United Kingdom.⁽¹⁴⁵⁾ Materially, she is catching up on her neighbour Finland: GDP per capita has gone up from half of that of Finland to two thirds. Indeed, GDP per capita of Estonia has more than doubled in the period between 1992 and 2016.⁽¹⁴⁶⁾ Today, the Estonian economy is regarded as one of the most competitive in Europe.

The transition in Central and Eastern Europe was successful, I believe, because it was directed by competent, single-minded and self-confident men, skilful at politics no less than at economics. They knew where to go and what to do. But there is no question that many were disenchanted. Could the transition have been gentler? Did Balcerowicz, Klaus, and Laar perhaps produce more shock than therapy? Left-wing economist and Nobel Laureate Joseph Stiglitz argues that gradualism would have been a better strategy. He says that it would have led to less pain in the short run and to greater stability and faster growth in the long run as the example of China showed. ‘In the race between the tortoise and the hare, it appears that the tortoise has won again.’⁽¹⁴⁷⁾ But Stiglitz’ argument is flawed. First, the contrast between shock therapy and gradualism is overstated. All sensible people would agree that some reforms have to be gradual while others should be made at a fast pace. It depends on circumstances and the nature of problems. In the second place, the short-term ‘pain’ from the liberal reforms starting in 1989 was much exaggerated because official statistics in the communist countries of Europe were wildly inaccurate. Some of the reported initial decline in production was the elimination of fictitious or largely worthless activities. It would be more instructive to look at statistics on consumption rather than production, and such statistics suggest a dramatic improvement in living standards in post-communist countries, almost from the beginning. Thirdly, in the post-communist countries of Europe the task was to remove barriers to the creation of value through mutually beneficial exchanges, and the choice was between removing

(145) Gwartney et al., *Economic Freedom 2020*, pp. 9 and 70. The Estonian economy had been the 98th freest in the world in 1990, and had become the 10th freest by 2005.

(146) GDP per capita of Estonia was \$9,726 in 1992 and \$24,857 in 2016, whereas GDP per capita of Finland in 2016 was \$37,239 (in 2011 dollars). Maddison Project Database 2018, online.

(147) Joseph Stiglitz, *Globalization and Its Discontents Revisited* (New York: W. W. Norton, 2018), p. 277.

those barriers quickly or slowly. The Friedmanites believed that they should be removed as quickly as possible, before bureaucratic inertia set in and before special interests were able to organise themselves. ‘Reform generates discontent—but in the long run non-radical reform produces more discontent.’⁽¹⁴⁸⁾

The evidence supports the Friedmanites. The group of countries choosing radical reforms, including Poland, the Czech Republic and Estonia, reached economic growth and decent living standards much earlier than the group pursuing gradualism. Thus short-term ‘pain’ actually lasted longer in the group of countries pursuing gradual reforms, whereas there was no larger long-term gain.⁽¹⁴⁹⁾ In the old fable the hare only lost because in its arrogance it took a nap during the race. But Balcerowicz, Klaus, and Laar did not rest from the duties with which they had been entrusted. Therefore their hare won the race against Stiglitz’ tortoise. As for China, undeniably the introduction of controlled capitalism there, and for that matter also in India, has enabled hundreds of millions of people to escape poverty. But unfortunately, China did not fully introduce the rule of law, whereas it should be recalled that the three other Chinese economies, in Taiwan, Hong Kong, and Singapore, have done much better with their less controlled capitalism. Both China and India may reverse course, precisely because their liberal reforms were not as fast and comprehensive as in Central and Eastern Europe.

The peaceful and swift transition from communism to capitalism, and from despotism to democracy, in Central and Eastern Europe after 1989 is one of the most remarkable turning points in twentieth century history. It was like the Glorious Revolution of 1688 in Great Britain in two important ways: it was bloodless; and it was conservative in nature, made to reclaim traditional individual liberties and remove existing economic barriers, not to reconstruct the whole of society. Poland, the Czech Republic, Estonia, and most other former communist countries

in Europe have reaffirmed their Western identity and rejoined the European family. They have become normal countries again. If the British revolutionaries of the seventeenth century were inspired by Locke, it is fair to say that the European revolutionaries at the end of the twentieth century—first Thatcher, and then Oddsson, Balcerowicz, Klaus and Laar—were inspired by Friedman. The momentous events in Central and Eastern Europe were a part of an international sea change. Russian-American economist and Harvard professor Andrei Shleifer asks: ‘In the Age of Milton Friedman, the world economy expanded greatly, the quality of life improved sharply for billions of people, and dire poverty was substantially scaled back. All this while the world embraced free market reforms. Is this a coincidence?’⁽¹⁵⁰⁾ I think not.

(148) Leszek Balcerowicz, *Post-Communist Transitions: Some Lessons* (London: Institute of Economic Affairs, 2001), p. 14.

(149) Andrei Shleifer and Daniel Treisman, Normal Countries: The East 25 Years After Communism, *Foreign Affairs*, Vol. 93, No. 6 (2014), pp. 92–103. Cf. also *The Great Rebirth: Lessons from the Victory of Capitalism over Communism*, ed. by Anders Åslund and Simeon Djankov (Washington DC: Peterson Institute for International Economics, 2014), with contributions by Balcerowicz, Klaus, Laar and others.

(150) Andrei Shleifer, The Age of Milton Friedman, *Journal of Economic Literature*, Vol. 47, No. 1 (2009), p. 123.

James M. Buchanan

(1919–2013)

A spectre has been haunting political theory for millennia: that of the benevolent despot, ruling only in the public interest. Even in modern democracies, this spectre is around. Somehow the elected representatives of the people, with the help of their experts, are supposed to be guided by the public interest, or the general will, or the common good, whereas everybody else is thought to serve only his private interest. It is American economist James M. Buchanan who has provided the strongest arguments for regarding the idea of the benevolent despot as oftentimes a delusion, no less in political theory than in economics. One of his points is deceptively simple, so obvious that it is often overlooked. When people are making political decisions they cannot be assumed to be different in nature to what they are when making decisions in a private capacity. They remain the same individuals, pursuing their own goals, as they move from the private to the public sector. They are not mysteriously transformed by crossing over from business into politics. Voters, politicians and bureaucrats are like Adam Smith's butcher, brewer, or baker in that they should be expected to be driven by self-interest rather than by benevolence. Both in business and politics individuals make exchanges, intended to further their goals. Another important argument follows. The imperfect outcomes of the market process have to be compared to the imperfect outcomes of the political game, not to a non-existent ideal. Economists and political theorists should not commit the 'Fallacy of the Singing Contest', when once upon a time a Roman emperor wanted to know which of two singers was the best. Having heard the first one sing, he immediately gave the prize to the second singer. Even if the first singer may have been bad, the second one might have been even worse. The emperor should have heard both of them out. Likewise, an economist who observes



Buchanan on 8 April 2009 at Virginia Tech Pamplin College of Business. His lifelong ambition was to convince his fellow scholars of the logical requirement to apply the same model of man to politics and business. If man pursues his self-interest in the marketplace, he can be expected to do the same in the political arena. Photo: Virginia Tech/Pamplin College.

inefficiencies in the marketplace should not jump to the conclusion that political outcomes would be any better. This remains to be seen. There are government failures as well as market failures. A third and no less important question follows: Which could be the rules under which individuals pursuing their own goals in politics would reach acceptable outcomes? In theory, and often in practice, market exchanges are mutually beneficial, and non-coercive. How could collective decisions made by different individuals be arranged so that some would not coerce and exploit others? In dealing with such problems, Buchanan laid the foundations of two new branches of economics, public choice theory and constitutional economics, for which he was awarded the Nobel Prize in Economics in 1986.

Buchanan's Life and Works

James McGill Buchanan was born on 3 October 1919 in Murfreesboro, Tennessee, the eldest child of James Buchanan and his wife Lila, born Scott. His parents were farmers of modest means. They were of Scottish ancestry, and his grandfather, John P. Buchanan, had served as populist governor of Tennessee for one term, in the 1890s. In 1936–1940 the young farmer's son attended a teachers' college in Murfreesboro, living at home and earning money for fees and books by milking cows morning and night. Graduating first in his class, he received a scholarship to the University of Tennessee where he in 1941 received his master's degree in economics. The United States entered the Second World War in December 1941, and during the War Buchanan served in the Navy. In Honolulu in Hawaii he met his future wife, Ann Bakke, a nurse of Norwegian descent, and they were married in 1945. In the Navy, Buchanan's antipathy to elitism was reinforced when he witnessed the privileges granted to graduates from 'leading' universities. After the War, Buchanan studied economics at the University of Chicago. When he entered the university, he was an egalitarian socialist. After only a few weeks, he had become an egalitarian liberal, believing that more often than not individuals could resolve economic problems by voluntary cooperation in the



Buchanan at the Nobel Banquet in Stockholm on 10 December 1986 with his wife Ann (left) and his long-time assistant and secretary Betty Tillman. Buchanan inspired his colleagues and students by his hard work, sharp focus and personal integrity. Photo: Lasse Hedberg/Pressens Bild.

marketplace. It was his teacher, Frank H. Knight, who convinced him.⁽¹⁾ Was it not as self-evident that people respond to prices as that water flows downwards? At Chicago, Buchanan specialised in public finance, and the other significant influence on him, besides Knight, was

Swedish economist Knut Wicksell. In his works on taxation, Wicksell had pointed out that in market exchanges individuals are normally not subject to the will of others: they only engage in trade if they so desire. But in collective decisions they may be subject to the will of others unless the decisions are required to be unanimous.⁽²⁾ One of the main lessons Buchanan learned from Knight and Wicksell was that economists had to analyse not only markets but also the social and political framework under which markets operated.

(1) Frank H. Knight, *Freedom and Reason* (Indianapolis IN: Liberty Fund, 1982).

(2) Knut Wicksell, *Finanztheoretische Untersuchungen: Nebst Darstellung und Kritik des Steuerwesens Schwedens* (Jena: Gustav Fischer, 1896). Buchanan only came across Wicksell's book when he had finished his doctoral dissertation.

Graduating from Chicago in 1948, Buchanan taught economics at the University of Tennessee until 1951 when he moved to Florida State University. In 1955–1956 he was Fulbright Scholar in Italy where he immersed himself in the local culture, learned the language and closely studied seminal works by Italian scholars on public finance. Returning to the United States he was appointed Professor of Economics at the University of Virginia in Charlottesville where he in 1957 established the Thomas Jefferson Center for Studies in Political Economy. It was to 'be made up of scholars who start from the philosophical premise that the free society is worth maintaining, and who sense the dangers to the free society brought about by the ever-increasing role of government, especially highly centralized authority'.⁽³⁾ The same year Buchanan was invited to become a member of an informal international academy of liberal scholars, the Mont Pelerin Society, which Friedrich von Hayek had founded ten years earlier. Attending the Society's general meeting in St. Moritz in 1957, the young man from rural Tennessee was not overly impressed. While he had become an economic liberal under Knight's influence, he remained a strong anti-elitist, sceptical of all hierarchies, and he thought he detected among the European members of the Society a nostalgia for the fallen Habsburg Empire. Nonetheless, Buchanan became an active member of the Society. In Charlottesville he entered into a fruitful association with a creative and unorthodox thinker, Gordon Tullock, a lawyer by training who had for a while worked in the American Foreign Service. What they both found exciting was to apply economic analysis to fields such as politics and law. Together, Buchanan and Tullock published what came to be regarded as a seminal work in 'public choice', or the economics of politics, *The Calculus of Consent*.⁽⁴⁾

Buchanan was a hard worker, both as scholar and administrator, and an effective fundraiser. Under his leadership the Thomas Jefferson Center flourished. Prominent economists such as Ronald H. Coase, later

to receive the Nobel Prize in Economics, joined him and Tullock there. In 1964, the Public Choice Society was founded, with Buchanan as its first President. In economics, Buchanan dared to be different, as he put it himself. This came at a cost. In the United States of the 1950s and 1960s, interventionists occupied almost all prestigious positions in economics faculties. They not only controlled most academic appointments but also many publishing houses and some of the largest external sources of funding, such as the Rockefeller, Carnegie, and Ford foundations. By comparison, institutes sympathetic to economic freedom such as the Volker Fund and, later, Liberty Fund were relatively small. They were dwarfs alongside giants. In the mid-1960s, the success of Buchanan's Thomas Jefferson Center caught the attention of interventionists who started to try and obstruct its activities. For example, Coase and Tullock were denied professorships. Subsequently, Coase left for Chicago, and in 1967 Buchanan and Tullock also decided to move, Buchanan to the University of California at Los Angeles, UCLA, and Tullock after a short interlude to Virginia Polytechnic Institute, VPI, in Blacksburg.

These were tumultuous years in the United States. Buchanan thought that peaceful demonstrations in support of African-Americans were 'motivated by wholly admirable precepts for achieving racial justice',⁽⁵⁾ but he was out of sympathy with the violent student riots at UCLA and shocked by the ineptitude of the university administration in tackling them. In disgust, he resigned from UCLA after only a year and joined Tullock at VPI where in 1969 they established the Center for the Study of Public Choice. The Center flourished, as its previous incarnation had done, and foreign visitors, students and scholars, flocked to Blacksburg to do research and participate in Buchanan's seminars. He was a demanding teacher, requiring his students to turn in a paper every second week. 'Don't get it right, get it written,' he used to tell them.⁽⁶⁾ With their associates, from 1968 Buchanan and Tullock also published the scholarly journal *Public Choice*.

(3) James M. Buchanan, Working Paper (1956). Here from Peter Boettke and John Kroencke, The real purpose of the program: a case study in James M. Buchanan's efforts at academic entrepreneurship to 'save the books' in economics, *Public Choice*, No. 183 (2020), p. 236.

(4) James M. Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor MI: University of Michigan Press, 1962). Repr. in *The Collected Works of James M. Buchanan*, Vol. 3 (Indianapolis IN: Liberty Fund, 1999).

(5) James M. Buchanan, *Limits of Liberty: Between Anarchy and Leviathan* (Chicago: University of Chicago Press, 1975), p. 173. Repr. in *Collected Works*, Vol. 7 (2000).

(6) Peter J. Boettke and Alain Marciano, The past, present and future of Virginia Political Economy, *Public Choice*, No. 163 (2015), p. 60.

When Hayek visited Iceland in the spring of 1980, he told me and my friends in the Icelandic Libertarian Association that he found public choice at Blacksburg to be one of the most promising research programmes in American university economics. By then I had already read some introductory works on public choice published by the Institute of Economic Affairs in London, finding them very illuminating on the nature and limitations of politics.⁽⁷⁾ I first met Buchanan at the Mont Pelerin Society general meeting at Stanford in the autumn of 1980 where he gave a paper on taxation. One of my libertarian friends, Fridrik Fridriksson, took Hayek's advice and went to Blacksburg for postgraduate studies in economics and business administration. We persuaded Buchanan to have a stop over in Iceland in the autumn of 1982, on his way to the Mont Pelerin Society general meeting in Berlin, and he delivered a lecture at the University of Iceland on the public choice perspective.⁽⁸⁾ A year later, in the spring of 1983, I visited Blacksburg and gave a talk at Buchanan's seminar, on the possible development of exclusive and transferable harvesting rights in the Icelandic fisheries which would remove the incentives of fishing firms to overinvest.⁽⁹⁾ Buchanan's associate Tullock had published a highly original, but little-noted, paper on this subject twenty years earlier.⁽¹⁰⁾ The seminar took place in the lovely, spacious old mansion occupied by the Center for the Study of Public Choice. Perched on a hill in the middle of campus, it had once been the residence of the University's President.

During my visit, Buchanan invited Fridrik and me to dinner at his Blacksburg house where his wife Ann served traditional food from

(7) William A. Niskanen, *Bureaucracy: Servant or Master?* (London: Institute of Economic Affairs, 1973); Gordon Tullock, *The Vote Motive* (London: Institute of Economic Affairs, 1976); James M. Buchanan, John Burton and Richard E. Wagner, *The Consequences of Mr Keynes* (London: Institute of Economic Affairs, 1978); James M. Buchanan, *The Economics of Politics* (London: Institute of Economic Affairs, 1978). Later I read a fourth monograph, equally accessible, James M. Buchanan and Geoffrey Brennan, *Monopoly in Money and Inflation: The Case for a Constitution to Discipline Government* (London: Institute of Economic Affairs, 1981).

(8) It was, I can see, nearly identical to Chapter 2, The Public Choice Perspective, in James M. Buchanan, *Essays on the Political Economy* (Honolulu HI: University of Hawaii Press, 1989), pp. 11–24.

(9) Hannes H. Gissurason, The Fish War: A Lesson from Iceland, *Economic Affairs*, Vol. 3, No. 3 (1983), pp. 220–223.

(10) Gordon Tullock, *The Fisheries ... Some Radical Proposals* (Charleston SC: University of South Carolina, Bureau of business and Economic Research, School of Business Administration, 1962).

the South. The host was pleasant but not overly talkative, unlike his colleagues Hayek and Milton Friedman who were both used to keep a conversation going with admiring audiences. I said to Buchanan: 'When one studies public choice theory, one tends to conclude that everything is settled, nothing can be changed, all is a matter of price. It is simply too costly to implement liberal reforms. Special interests are too strong. Is there not a place somewhere for political leadership, for a hero, for Hegel's man on the horse,⁽¹¹⁾ unwittingly a tool of the World Spirit? Somebody who changes the rules of the game?' Buchanan smiled and said: 'Perhaps this can occasionally be the case. But I would approach this differently. In modern democracies, those who provide political leadership and change the rules of the game are the tools of an emerging consensus. They are expressing views that are becoming relevant. They are political entrepreneurs who have found a market for their views. Of course some of them fight heroic battles, but this is the case with all entrepreneurs. They sometimes risk everything.' We discussed the Austrian-American economist Joseph Schumpeter who had predicted the victory of socialism despite realising its failings.⁽¹²⁾ I remarked: 'How was it that an economist who knew all the arguments—who had indeed attended Böhm-Bawerk's famous seminar in Vienna and listened to his conclusive refutation of socialism—could just stand by and make ironical remarks?'⁽¹³⁾ We both wondered whether this was because Schumpeter was an avowed elitist, unlike Hayek whose theory of dispersed knowledge implied the rejection of elitism as a guiding principle. Or perhaps the explanation was cynicism. I later learned that Schumpeter and German sociologist Max Weber had had a telling row about the Bolshevik Revolution at a Viennese coffeehouse in 1918. Schumpeter had welcomed the Revolution as a laboratory experiment because now socialism had to prove its practicality. Weber retorted that

(11) Having watched Napoleon in Jena, Hegel wrote on 13 October 1806 to F. I. Niethammer: 'I saw the Emperor—this world-soul—riding out of the city on reconnaissance. It is indeed a wonderful sensation to see such an individual, who, concentrated here at a single point, astride a horse, reaches out over the world and masters it.' *Hegel: The Letters*, tran. by Clark Butler and Christiane Seiler (Bloomington IN: Indiana University Press, 1984), pp. 114–115.

(12) Joseph Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper & Bros., 1942).

(13) In the chapters in this book on Menger and von Mises I discuss Eugen von Böhm-Bawerk's ideas.

it would be a laboratory full of corpses and, after some further exchanges, stormed out. Schumpeter remained seated and remarked with a smile: ‘How can someone carry on like that in a coffeehouse?’⁽¹⁴⁾

Tall, erect, handsome, with thick black hair and a moustache, Buchanan somewhat resembled Clark Gable playing Rhett Butler in the film adaptation of Margaret Mitchell’s *Gone with the Wind*. Buchanan certainly came across as a Southern gentleman. But he was far from being frivolous. He was formal, serious, even austere. He spoke in a rather deep, monotonous voice like many Americans, with a Southern accent. He was not a very eloquent speaker, but his papers were nevertheless so insightful that he usually held the attention of his audiences. When I visited Blacksburg in April 1983, he had already decided to move later in the year, with Tullock and the Center for the Study of Public Choice, to George Mason University in Fairfax, Virginia. In his new base, Buchanan kept up his working habits. When his colleagues and students arrived at work, they could hear the clatter of a typewriter from his study. He usually turned up at 6:30 in the morning and worked until 17:30 every weekday. I occasionally visited Buchanan in Fairfax, and also always chatted with him at Mont Pelerin Society meetings. He was invariably friendly and ready with helpful suggestions on research topics. I had a vague feeling that he thought I was too involved with Icelandic politics and too little with scholarly research which was his real passion. He did not think much of politicians in general, not even Ronald Reagan and Margaret Thatcher, although he reluctantly agreed that they were the best of the lot. For example, he found Thatcher’s Falklands War absurd, like two bald men fighting over a haircomb, as Jorge Luis Borges had commented. Buchanan was usually very calm and reflective. I only saw him upset twice at Mont Pelerin Society meetings. In Stockholm in 1981 he protested vehemently against the interpretation of Robert Nozick’s *Anarchy, State and Utopia* offered by a German economist, Professor Wolfram Engels, in a paper on the welfare state. Buchanan pointed out that Nozick had not presented a social contract theory, as the speaker had suggested. In Vevey in 1997, Buchanan strongly criticised a paper read by

(14) *The Raven of Zürich: The Memoirs of Felix Somary*, tran. by A. J. Sherman (London: C. Hurst, 1986), p. 121. The Austrian-born Somary, a friend of Schumpeter, was with them in the coffeehouse.



Hegel watches Napoleon ride out of Jena on 13 October 1806. Is the individual who changes the game, like Thatcher did for the better, and Napoleon and other warrior-kings did for the worse, a world-soul on horseback, an agent of history, as Hegel thought, or a successful political entrepreneur who has made the right bet? Illustration: *Harper's Magazine*, Vol. XCI, No. 541 (June 1895), p. 209.

his former associate Professor Jennifer Roback. The topic was supposed to be ‘Liberalism, Religion, and the Family’, and Roback used the opportunity to write about how rewarding it had been for her to bring up a handicapped child she and her husband had adopted from Romania: it had been a factor in her decision to

abandon both her academic career and

her libertarianism and to become a born-again Christian. Buchanan commented that her paper was out of place in this setting, an emotional outburst irrelevant to the topic under discussion.

Liberty Fund, a small but effective institute in Indianapolis with a focus on studying the free society, past and present, was established in 1960, republishing important works in the conservative and classical liberal traditions and organising conferences. Buchanan became one of its most prominent advisers. I attended many Liberty Fund colloquia with him over the years. He was an ideal participant, erudite, open-minded, respectful and polite, thinking aloud, engaging in a conversation rather than a debate. At social events he was rather quiet, drinking very

modestly, if at all, except that usually he loosened up a bit at the closing dinner of a conference. Then he had a few drinks and laughed heartily at jokes. He was also noticeably more affable in the presence of women. His wife Ann was somewhat reserved unlike his cheerful and efficient long-time personal secretary Betty Tillman who acted as a surrogate mother to his students, first in Blacksburg, then in Fairfax. Buchanan was President of the Mont Pelerin Society in 1984–1986 and gave the opening address at its general meeting in St. Vincent in Italy in the autumn of 1986, predictably on the need for constitutional constraints. Soon after the meeting it was announced that he had received the Nobel Prize in Economics. In December that year, I attended a dinner in Stockholm that Nordic members of the Mont Pelerin Society gave for him, and understandably he was in good spirits. He felt that the constitutional perspective which he had promoted was finally being understood. ‘I have fought a lonely and mostly losing battle to convince my fellow economists of truths which to me appear almost trivial—truths which they either ignore or dismiss but which are often obvious to the man in the street,’ he said. ‘I hope I shall now have more success.’ In 1999–2001, Liberty Fund published Buchanan’s *Collected Works* in twenty volumes. In my opinion the most accessible one is *The Reason of Rules* which he wrote with an Australian economist, Professor Geoffrey Brennan, besides the three IEA pamphlets by him already mentioned. I once asked Buchanan how he managed to write books in cooperation with other scholars. I would myself find it almost impossible. Who did the writing in his case? ‘I think I can say that at one time or another every passage in the books I have written with others has passed through my typewriter,’ he said.

It was Buchanan who first suggested that I should organise a regional meeting of the Mont Pelerin Society in Iceland, and so I did in 2005. By then he was 86 years old and not travelling much so that to my regret he did not attend. Nevertheless his mind continued to be active and fertile. For example, in that same year he published a remarkable piece in the journal *Public Choice* where he, at the request of the editors, tried to envisage what the new century would hold. He made a distinction between four kinds of socialism. Managerial socialism, the idea that the economy could be run like a factory, was definitely dead. Paternalistic socialism, the demand by self-appointed elites to decide for themselves

and for the rest what should be consumed, was certainly alive. So was distributionist socialism which, according to Buchanan, could under certain circumstances be compatible with a free economy. The fourth kind of socialism had not been much discussed by economic liberals, Buchanan remarked. He suggested it should be called ‘parental socialism’. This was the desire by some people to have values imposed on them. They looked on the state as a substitute parent because they were afraid of the responsibility implied by liberty. They lived in fear of freedom.⁽¹⁵⁾ This kind of socialism would gain in influence in the new century, Buchanan predicted. When Buchanan and his wife moved from Blacksburg to Fairfax, they kept a farm of 400 acres near Blacksburg where they reared cattle and grew vegetables. Buchanan was not motivated by nostalgia for his early rural life, but he liked to be able to grow his own food. He and his wife returned regularly to the farm, but in 2005 Ann passed away. They were childless. Buchanan continued to divide his time between Fairfax and the Blacksburg farm and he was in reasonably good health when he celebrated his ninetieth birthday in 2009. He died on 9 January 2013.

Private and Public Choice

The magic number of economics is two because it takes two to engage in mutually beneficial exchanges. If Robinson Crusoe is better at fishing than Man Friday, on the proverbial desert island, whereas Friday is better at picking fruits than Crusoe, then they both gain by division of labour and exchanges. In the same way, the magic number of politics is three, for two separate reasons. Under normal circumstances, two individuals such as Crusoe and Friday have roughly equal (although different) mental and physical capabilities. Thus, one of them will hardly be able to subject the other one to his will. But when a third person arrives, say the Spaniard whom Crusoe and Friday rescue from cannibals, then there is a possibility that two will form an alliance against one.⁽¹⁶⁾ The possibility

(15) James M. Buchanan, *Afraid to be free: Dependency as desideratum*, *Public Choice*, No. 124 (2005), pp. 19–31. Michael Oakeshott had of course made a similar argument earlier, mentioning the faceless masses who lacked the will or ability to make choices for themselves and who therefore tried to retreat into a community with a predetermined purpose, cf. the chapter on Oakeshott in this book.

(16) In the novel, Crusoe and Friday rescue both a Spaniard and Friday’s father from the cannibals, but

of coercion may already exist when there are only two individuals on the island, as one may be somewhat stronger than the other, but it becomes much more imminent when the number of inhabitants increases to three or more. Suddenly, a majority and a minority may form. The second reason why three becomes such a magic number is that although exchanges between two individuals may be mutually beneficial they could be harmful to a third person. Perhaps Friday has constructed a machine which produces fruit juice so that he can sell it to Crusoe. But his machine emits both noise and odour. These are harmful side effects of economic activities, sometimes called ‘spillover effects’ or ‘externalities’ because a market exchange between two imposes an external cost on the third. Moreover, even in this simple economy there are goods which should be produced but which probably cannot be produced by individuals acting alone. The most obvious example is defence against the cannibals who occasionally descend on the island. Crusoe, Friday, and the Spaniard have to join in the effort to repel them. Then there are projects which would benefit all but which might require more effort than an individual can provide on his own, such as dredging a harbour on the island or building a water reservoir. It seems that both spillover effects and public goods are cases where collective action is required because markets may not deliver. Arguably, you cannot be allowed to be a ‘free rider’, enjoying the production of public goods without paying for them.

In the twentieth century, many economists concluded that in modern, complex societies the state must correct ‘market failures’ such as externalities and public goods. English economist Arthur C. Pigou and other interventionists presented sophisticated theories about externalities. A simple and visible case of externality is when a factory releases waste into a river used by people nearby for fishing. A more complicated case, audible rather than visible, arose after new technology made broadcasting over the wireless possible. If stations were broadcasting on frequencies close to one another, then the signals could interfere. Yet another case, not always immediately obvious

of course Friday’s father would be expected to form an alliance with his son so he should be left out here.

to onlookers, is when a group imposes costs on its own members by jointly over-utilising an open-access resource. Two examples would be congestion on a motorway or overfishing in deep sea.⁽¹⁷⁾ According to Pigou, externalities are really about a divergence between the total social cost and the private costs faced by decision-makers such as the owner of the polluting factory or of the interfering radio station, or the owners of additional motor cars and fishing vessels. The state should correct the inefficient situation. It could impose a pollution tax on the factory to force its owner to take into account the harmful effects of releasing waste into the river. It could allocate broadcasting licences for the different frequencies to private companies, as it did in America, or it could run radio stations itself, as it did in Europe. The state could impose a road toll on the motorway and charge a users’ fee for harvesting in a fishing ground. Besides ‘internalising externalities’ in this way, the state should produce public goods, not only defence and law and order, on which almost everybody agrees, but also education and health care and perhaps some other goods.

However, economists sceptical of government intervention have exposed various flaws in arguments based on market failures.⁽¹⁸⁾ If the river would be privately owned, the factory owner could not release waste into it without paying the full price. Radio frequencies could be privately owned, and in the United States courts had actually in the 1920s started to recognise such private ownership before the Federal government suddenly decided to appropriate the whole radio spectrum and to allocate different frequencies to different companies in a ‘beauty contest’, as economists call allocation according to the attractiveness of the contestants in the eyes of decision makers.⁽¹⁹⁾ A motorway would not be congested if it was privately owned and if its owner would charge the

(17) On traffic congestion Arthur C. Pigou, *The Economics of Welfare* (London: Macmillan, 1920), p. 194. On overfishing H. Scott Gordon, *The Economic Theory of a Common Property Resource: The Fishery*, *Journal of Political Economy*, Vol. 62, No. 2 (1954), pp. 124–142.

(18) Ronald H. Coase, *The Problem of Social Cost*, *Journal of Law and Economics*, Vol. 3, No. 1 (1960), pp. 1–44.

(19) Thomas Hazlett, *The Rationality of U.S. Regulation of the Broadcast Spectrum*, *Journal of Law and Economics*, Vol. 33, No. 1 (1990), pp. 133–175.



correct price for its use.⁽²⁰⁾ Overfishing in the form of excessive fishing effort would not take place if harvesting rights to fish stocks, catch quotas, held by private fishing firms, would be made permanent and transferable.⁽²¹⁾

Although Buchanan accepts the findings of his colleagues that the market itself may be able to correct at least some market failures if property rights to scarce resources are defined, he approaches the problem from a different angle. He insists that an instance of a market failure does not just by itself constitute an argument for government 'correction'. What has to be done is to compare the imperfect situation labelled 'market failure' and the situation after

Voters in the London borough of Hackney during the 2010 general election in the United Kingdom. Buchanan explores the differences between private and public choice: choosing as individuals with different amounts of money and choosing as members of a group, each with one vote. Can individuals express their preferences as effectively in the polling booth as they can in the shopping centre? Photo: Alex Lee.

the task in question has been transferred to government. In order to do so economists have to apply a uniform model of man in economic and political situations instead of assuming in economics a rational maximiser—somebody wanting to achieve his ends with the least costly means—and in politics a benevolent despot—somebody only concerned with the public interest or the common good. It is true, Buchanan concedes, that some market exchanges may impose external costs on third parties, or on society as a whole, and that some goods which cannot be produced privately, such as defence, may be indispensable or beneficial. But political decisions also impose external costs on people, not least on those who end up in the minority on hotly contested issues or on those who have to pay with their taxes for benefits enjoyed by others. Why should the majority be able to prevent the minority from consuming alcohol, like it tried (and failed) to do in the United States in the 1920s? Why should bachelors and spinsters subsidise the education of children? Why should owners of radio stations be dependent on government favours to continue broadcasting? Why should fishermen pay users' fees to government instead of owning themselves harvesting rights to the fish stocks? The external costs of private and public choice have to be weighed together.

One of Buchanan's most important contributions to economics is his comparative analysis of public and private choice. Consider on the one hand the 'democracy of the shopping centre' where people vote with their pounds and pennies every day and on the other hand the 'democracy of the polling booth' where they vote with their pencils every fourth or fifth year. One important difference is that in the shopping centre you can return a defective good the next day whereas in politics you have to wait for the next elections to switch allegiances. Thus, it is much more cumbersome to correct mistakes in politics than in business. Another difference is that in the shopping centre you have a choice between thousands of articles, reflecting different preferences and tastes, whereas in the polling booth you can usually only choose between a few parties or candidates, or between a few bundles of policies. A third difference is that in the shopping centre you can directly examine the various goods on offer, whereas you will usually find it hard to evaluate the policies of candidates standing in elections. A related, and crucial, difference is that

(20) Frank H. Knight, Some Fallacies in the Interpretation of Social Cost, *Quarterly Journal of Economics*, Vol. 38, No. 4 (1924), pp. 582–606.

(21) Cf. my piece, previously mentioned, The Fish War, *Journal of Economic Affairs* (1983); Ragnar Arnason, Minimum Information Management in Fisheries, *The Canadian Journal of Economics*, Vol. 23, No. 3 (1990), pp. 630–653.

in the shopping centre you find price labels on everything whereas in the polling booth you have little idea about the real cost of alternative party programmes. Fifthly, there is much less uncertainty about the final outcome after a visit to the shopping centre than after voting in elections. Your choice in the shopping centre is your decision alone, whereas in the polling booth it will be only one of many choices entering into a process of whose final outcome you know little or nothing. You carry a bag with your chosen goods out of the shopping centre, but you have only a scant idea about the outcomes of the possible negotiations between your party and the others after the elections. As you know your vote will make little, if any, difference, you have limited incentive, also, to acquire sufficient knowledge about the election issues.

Seemingly there is more equality in the polling booth than at the shopping centre: Each citizen has one vote in elections, but some consumers have more money to spend on shopping than do others. But this equality is also a sixth disadvantage of the polling booth: It does not take into account the different intensity of individual preferences. If some principles are dear to your heart you are willing to spend as much money or effort on it as you can. But in politics you have just your one vote at the interval of a few years. Yet another difference between private and public choice that in the shopping centre you only vote for the goods you buy, but in the polling booth you may be voting strategically, against a party or a candidate, and thus you would be voting for what you do not really want. In 1976 Italian journalist Indro Montanelli famously warned against giving power to the communists of his country: ‘Hold your nose and vote Christian Democratic.’⁽²²⁾ In the second round of the 2002 presidential election in France, where the choice was between the two top candidates from the first round, many socialists grudgingly voted for moderate rightwinger Jacques Chirac in protest against the other candidate, ultra-nationalist Jean-Marie Le Pen. Likewise, in the 2016 presidential election in the United States some voted for Hillary Clinton because they disliked Donald Trump, while others voted for Trump because they disliked Clinton.

The general conclusion from this brief and informal comparison between the two kinds of democracy, at the shopping centre and in the polling booth, is that as voter the citizen is often less likely than as consumer to get what he wants. There is market failure, to be sure, but there is also government failure. When decisions are transferred from the marketplace to the political arena, they do not end up in the hands of a benevolent despot working in the public interest. Instead, they become elements in a process in which different individuals seek to further their aims, just like they do in the marketplace. Moreover, the fact that individuals are different makes public choice problematic. In the marketplace individuals benefit from exchanges because they can get what they do not have themselves: Crusoe benefits from Friday’s skill in picking fruits, and likewise Friday benefits from Crusoe’s skill in fishing. But precisely because these individuals are different they have different preferences, and it will be difficult if not impossible to combine their preferences in decisions acceptable to all. Envisage three persons choosing between three policy proposals where each of them orders the proposals differently, and you may not reach a coherent conclusion. This was discovered already in the eighteenth century by Marquess Nicolas de Condorcet.⁽²³⁾ It is an important result because it implies that people will find it hard to reach an agreement about the common good or, in Rousseau’s terms, the General Will. As economists would put it: there is no such thing as a social welfare function, no way of constructing an acceptable concept of public interest out of private preferences—except as Buchanan points out: by unanimity, the disappearance of any distinction between majorities and minorities.

Politics Without Romance

To me, the hold which the myth of the benevolent despot had on twentieth century economists is truly astonishing. Consider again a market failure where a group imposes a cost on its own members, such as over-utilisation of a fertile fishing ground. Correctly observing that the fishing

(22) Spencer DiScala, Italy: stability despite all the turmoil, *Christian Science Monitor*, 9 July 1986.

(23) Peter Kurrild-Klitgaard, An empirical example of the Condorcet paradox of voting in a large electorate, *Public Choice*, no. 107 (2001), pp. 135–145.

ground is not priced correctly, the Pigovians want to introduce a users' fee on it, such as a tax on the catch. This would lead to a more efficient situation, the argument goes, because the effort spent on harvesting at the fishing ground would be reduced to an optimal level. Waste would be eliminated. This would in other words produce what economists call a Pareto-optimal situation where no further change would be an economic improvement.⁽²⁴⁾ But this is preposterous.⁽²⁵⁾ Why should one external cost for the economic agents—excessive fishing effort—be replaced by another external cost for them—users' fees charged by government? Why should the benefit of the more efficient end state be captured by politicians and bureaucrats? You would not have internalised the externality for the fishermen. You would just have replaced one externality by another and driven half of them out of business, to boot. At any rate, such a proposal would not be likely to gain support from the fishing community.⁽²⁶⁾ It would seem much more practical to allocate extraction rights to everybody already harvesting in the fishing ground, on the basis of their catch history. This would enable them gradually to reduce the fishing effort to an optimal level in market exchanges where the more efficient fishermen would buy out the less efficient. Moreover, the Pigovian solution would not in fact be Pareto optimal because those fishermen unable to pay the users' fees (which would have to be set high enough significantly to reduce fishing effort, according to the analysis) would have to leave the fisheries while their vessels and gear would obviously have become worthless without the right to harvest fish. They would be much worse off by the change. The more efficient fishermen would however be no better and no worse off: they would just pay in

(24) Thorvaldur Gylfason and Martin L. Weitzman, Icelandic Fisheries Management: Fees Versus Quotas, Discussion Paper (London: Centre for Economic Policy Research, 2003).

(25) Even competent liberal economists like Gary Becker have fallen into the Pigovian trap. Gary S. Becker, How to Scuttle Overfishing: Tax the Catch, *Business Week* 18 September 1995, p. 30. Repr. in *Economics of Life: From Baseball to Affirmative Action to Immigration, How Real-World Issues Affect Our Everyday Life* (New York: McGraw-Hill, 1997), pp. 17–18. Less surprisingly, on Pigovian lines left-wing economist Paul Krugman proposes taxation as the correct response to market failures such as congestion, in Taxes and Traffic Jams, *New York Times* 4 July 1996; Earth in the Balance: Economists Go for the Green, *Slate* 18 April 1997. Repr. in *The Accidental Theorist, and Other Dispatches from the Dismal Science* (New York: W. W. Norton, 1998), pp. 173–178 and 167–172.

(26) My remarks here are partly inspired by an article by Buchanan, Who cares whether the commons are privatized? *Post-Socialist Political Economy: Selected Essays* (Cheltenham: Edward Elgar, 1997), pp. 160–167.

users' fees what they previously spent on excessive fishing effort. In the alternative case when rights of utilisation would be issued to all those already harvesting in the fishing ground, with the possibility of voluntary transfers, there would be no losers.⁽²⁷⁾ The superfluous fishermen would be bought out, not driven out.

That is not the end of it. What will happen to the government's additional source of income, the revenue from the 'corrective' tax? It is somewhat optimistic that it will be spent wisely by a benevolent despot, for example to replace some distortionary tax.⁽²⁸⁾ In a democracy, it is more likely that the money will be kept and allocated in the political process. What Buchanan emphasises time and again is that the state is no entity or organism acting on its own. It has its supply side, the bureaucracy, and the demand side, the politicians representing the voters. Consider first the supply side. What motivates bureaucrats? A plausible answer would be that it is more or less the same as motivates members of other groups: their idea of the public interest, income, security, prestige, power, perquisites, and leisure. Perhaps in addition bureaucrats crave, more than some other groups, deference and discretionary power. Be that as it may, in their particular position, their motivation means that they will try to maximise their budgets. Indeed, it is likely that they will expand their budgets far beyond what most voters would like to spend. In this endeavour, they enjoy several advantages over any rivals. It is much more difficult to monitor them than managers of private companies where profit serves as the ultimate criterion of performance and where those unhappy with the results can simply sell their shares. The bureaucrats also know much more about the costs and complexities of production than the politicians, and ultimately voters, whose servants they are supposed to be. When times are good, bureaucrats meet little resistance in expanding their budget. Under more adverse conditions, they zealously guard their institutions against cuts. In Iceland, for example, I observe a game being repeated on television

(27) I also discuss the solution to overfishing in the deep sea, but in different contexts, in the chapters on Locke, Jouvanel, and Friedman.

(28) This was Becker's hope in his response to my critical comment on his proposal, Becker, *Economics of Life*, p. 14.



Buchanan was President of the Mont Pelerin Society in 1984–1986. On the 50th anniversary of the Society in 1997, some members met at a special meeting in Montreaux in Switzerland to take stock. In front row from left: Dr. Rita Ricardo-Campbell, Arthur Seldon, Buchanan, Professor Allen Wallis, Rose and Milton Friedman, Dr. Richard Ware, Professor Chiaki Nishiyama and Professor Ronald Hartwell. In second row from left: Professor Peter Bernholz, Marjorie Seldon, Joan Culverwell, Dr. Isabel Mühlhens, Professor Herbert Giersch, Mrs. and Professor Pascal Salin, Mrs. and Professor Antonio Martino, Lord

and Lady Harris, Mrs. and Mr. Arthur Shenfield, Lorraine Hartwell, and Leon Louw. MPS past Presidents include in third row Manuel Ayau, 7th from left, and Dr. Ed Feulner, 8th; in fourth row Professor Pedro Schwartz, 10th from left; in sixth row Professor Christian Watrin, 10th from left; in seventh row Dr. Ramón Díaz, 2nd from left; and in eighth row Leonardo Liggio, 1st from left, Greg Lindsay, 2nd, and Professor Ken Minogue, 4th. I am in the 5th row to the right, above Professor Carlos Cáceres, besides Dr. Gerhard Schwarz and below Dr. Richard Rahn. Photo: My archive.

every autumn, after the budget is presented by the Finance Minister. The largest government enterprise by far, the National Hospital in Reykjavik, enormously expensive to run, is each year required to cut costs. The management reacts by reducing or even temporarily closing down those services that most affect ordinary people, after which well-spoken, knowledgeable doctors patiently explain to open-mouthed reporters that this is all a matter of political will: the hospital cannot be starved of money; only the patients will suffer. The politicians invariably relent—and the taxpayers suffer.

Then consider the demand side of the state, the politicians who are supposed to correct market failures, on behalf of the voters. Under a representative democracy, in normal times, if there is one overriding motive of a typical politician it would be to get elected, and then re-elected. The game is about collecting votes and forming winning coalitions, just like football is about scoring goals. However much the democratic politician may want to serve the public interest, or his own ideals, he has to get elected, and re-elected. ‘I don’t give a good goddamn *what* Milton Friedman says,’ President Richard M. Nixon once barked to one of his aides. ‘He’s not running for re-election.’⁽²⁹⁾ What the politician discovers is the difference between concentrated and dispersed interest. Assume that there are two groups, a small one of 100 people and a large one of 1,000,000 people, and that a sum of £1,000,000 is somehow available from the larger group. (The small group may of course be a part of the large one, but it makes no difference for the argument.) One alternative would be to allow the large group to keep the money. Another possibility would be to tax the large group and transfer the money (at some cost) to the small group. Each member of the large group then loses £1, a negligible sum of money. Each member of the small group gains something a little less than £10,000, a considerable amount of money for most people. The point is that the same sum of money means something totally different to members of the two groups. The special interests of the small group are concentrated, whereas those of the large group are dispersed. This would normally imply that the small group would be more conscious

about its potential gain from the transfer than the large group would be about its potential loss. It would therefore be much easier to organise the small group in support of the transfer than it would be to provoke opposition to it. The cost of an individual in the large group will barely be registered. What happens in this simple example will in a democracy be repeated many times over with every citizen usually belonging to small and large groups alike, receiving as well as contributing, keenly aware of their gain from a government intervention but blissfully unaware of their loss except when they confront the outcome of the process, the tax bill. If they are paying indirect taxes which are not always immediately visible they may never really discover the total cost of all these transfers. Elections will degenerate into what American social critic Henry L. Mencken memorably called ‘advance auctions of stolen goods’.⁽³⁰⁾

Buchanan urges political theorists to study ‘politics without romance’.⁽³¹⁾ They have to realise that there is little or no connection between the public interest in any widely accepted sense and the outcomes of the bargaining process where well-organised and self-conscious small groups with concentrated interests, for example farmers, dentists and doctors, benefit by transfers from ill-organised large groups with widely dispersed interests such as taxpayers and consumers. ‘Rent-seeking’ is also an important feature of democratic politics, according to Buchanan and his associates.⁽³²⁾ In ordinary economics, rent is a concept used about the income from a resource where the supply cannot be increased at the same rate as the demand. It really means limited or no irreproducibility. One example might be land. It is difficult to increase the amount of arable land. It is for most purposes a given number. But the demand for products from land may grow, thus making it more valuable, seemingly without any effort by the landowners themselves. This surplus value is what rent is. Other examples could be antiques, rare paintings, special

(30) H. L. Mencken, *Sham Battle* (1936), *On Politics: A Carnival of Buncombe*, ed. by Malcolm Moos (Baltimore: Johns Hopkins University Press, 1956), p. 331.

(31) James M. Buchanan, *Politics Without Romance: A Sketch of Positive Public Choice Theory and Its Normative Implications*, Inaugural Lecture, Institute of Advanced Studies, Vienna, 1979, *The Theory of Public Choice – II*, ed. by James M. Buchanan and Robert D. Tollison (Ann Arbor MI: University of Michigan Press, 1983), pp. 11–22.

(32) Anne O. Krueger, *The Political Economy of the Rent-Seeking Society*, *The American Economic Review*, Vol. 64, No. 3 (1974), pp. 291–303.

(29) Thomas Sowell, *Applied Economics: Thinking Beyond Stage One* (New York: Basic Books, 2009), p. 1.

talents, skills and fame. There is only one Marilyn Monroe or Vera Lynn. It is desirable that somebody collects rent from such scarce resources as land, coal mines, oil wells, or fish stocks, instead of it being dissipated in excessive effort, as would be the case under open access.⁽³³⁾ But the rent that Buchanan and his associates are talking about is really monopoly profit: when you in a position to derive income from a resource where you can limit supply in some way. Rent-seeking is the activity of trying by political means to obtain such a position, and it sometimes requires quite some effort: special interest groups employ lobbyists and press agents and try by various means and often successfully to put pressure on politicians. But all this effort is in an economic sense waste: it takes from and does not add to the total product of a society. Rent-collecting from a resource is efficient, while rent-seeking in politics is inefficient.

There may however be an upper limit to how much money can be transferred through political mechanisms. This is illustrated by the Laffer Curve which goes up from a tax revenue of zero at a tax rate of zero to a maximum revenue at a certain tax rate and then down to a tax revenue of zero at a tax rate of 100 per cent: if everything is immediately removed from you, what will happen is that you will stop producing anything except perhaps the bare necessities for you and your family. The Laffer Curve is really an old truism, presented by the Arab scholar Ibn-Khaldun in the fourteenth century,⁽³⁴⁾ and by many economists and men of affairs in modern times,⁽³⁵⁾ although it is by no means certain how the curve is shaped and when taxation starts to be counter-productive (in that an increase in the tax rate will lead to a decrease in the tax revenue). But it caught the imagination of two officials in the administration of President Gerald Ford, Donald Rumsfeld and Dick Cheney, when they

had dinner at the Washington restaurant Two Continents, close to the White House, with young economist Arthur Laffer on 16 September 1974, shortly before the US mid-term elections.⁽³⁶⁾ They were wondering how to avoid a tax raise, never popular with voters. Laffer sketched the curve for them on a paper napkin to illustrate that after a certain point an increase in the tax rate would not automatically lead to a corresponding increase in tax revenue and, more intriguingly, that after this point had been reached a decrease in the tax rate might in fact lead to an increase in tax revenue. The size of the tax base, for example your willingness to work longer hours and to report all of your income, is affected by the tax rate. Laffer later showed the curve to an aspiring politician, Ronald Reagan, who was likewise impressed, and Reagan's radical reduction of the marginal income tax during his presidency was at least partly inspired by the Laffer Curve. It was not that Reagan and his people, including Cheney and Rumsfeld, naively thought that their tax cuts would immediately pay for themselves. They believed that the tax base was not of a fixed size and that it might in the long run grow as a result of the tax cuts, as it indeed did.⁽³⁷⁾

There is little question that in the long run there are strong 'Laffer Effects' at work in the economy. In the 1990s, Switzerland raised roughly the same amount of tax revenue per capita as Sweden, even though the Swedish tax rate was about double that of Switzerland.⁽³⁸⁾ Probably for a while Sweden was at the wrong side of the Laffer Curve, where an increase in the tax rate produced a decrease in the tax revenue. But Buchanan poses an interesting question: How can countries end up on the wrong side of the Laffer Curve since it is obviously against the interests of the tax collectors, politicians and bureaucrats? His answer is that there is a difference between short-term and long-term Laffer Effects. Politicians can in the short term increase revenue by increasing

(33) Even interventionists recognise this, Paul A. Samuelson, Is the Rent-Collector Worthy of His Full Hire? *Eastern Economic Journal*, Vol. 1, No. 1 (1974), pp. 7–10.

(34) Khaldun wrote: 'It should be known that at the beginning of the dynasty, taxation yields a large revenue from small assessments. At the end of the dynasty, taxation yields a small revenue from large assessments.' Here from Arthur Laffer, *The Laffer Curve: Past, Present, and Future* (Washington DC: Heritage Foundation, 2004).

(35) John Maynard Keynes wrote: 'Nor should the argument seem strange that taxation may be so high as to defeat its object, and that, given sufficient time to gather the fruits, a reduction of taxation will run a better chance than an increase of balancing the budget.' *The Means to Prosperity* (1933), *The Collected Writings of John Maynard Keynes*, Vol. IX (London: Macmillan, 1972), p. 338.

(36) Donald Rumsfeld, *Known and Unknown* (New York: Penguin-Sentinel, 2011), p. 183. Apparently Laffer gave a similar exposition two months later to an economic journalist, Jude Wanniski.

(37) For an accessible account, Robert L. Bartley, *The Seven Fat Years, and How to Do It Again* (New York: Free Press, 1992).

(38) Victoria Curzon-Price, How to Become a Rich Country: Lessons From Switzerland, *Tax Competition: An Opportunity for Iceland?* ed. by Hannes H. Gissurarson and Tryggvi Th. Herbertsson (Reykjavik: University of Iceland Press, 2001), p. 11.

taxes to more than a long-term Laffer Curve would allow, but in the long term the tax revenue will be determined by the long-term Laffer Curve. This is because people adjust their behaviour, including their willingness to work and to declare all their income, to the tax rate, but only over a period of time, not instantly. By repeated increases in the tax rate politicians can increase revenues temporarily, before taxpayers have adjusted their behaviour, but this will eventually bring them to a point on the wrong side of the Laffer Curve where they will then be entrapped, because a change of the tax rate in either direction from there will not increase revenues in the short term. Buchanan's ingenious explanation is based on the fact that the time horizon of politicians is relatively short: they may prefer higher tax revenue now to lower tax revenue later when they are themselves out of office.⁽³⁹⁾ 'Après nous, le déluge.' After us, the flood.

The Laffer Curve demonstrates to the beneficiaries of taxation that there may be a limit to how far they can exploit the productive part of the population. Thus, the Laffer Curve is mainly an expository device, showing that there is an upper limit to effective taxation. I think that it may provide a partial explanation of the fact that in many countries the growth of the state was, at least temporarily, halted in the last two decades of the twentieth century. Bureaucrats and politicians realised that it was not in their self-interest to expand the state much further because then they would just end up with deriving less revenue from taxpayers. They were therefore more receptive than they previously would have been to self-confident, strong leaders like Reagan and Thatcher who adopted long-term strategies in the belief that they would be not only elected, but re-elected. I should emphasise, though, that for an economic liberal the goal would not be to reach the top of the Laffer Curve and maximise government revenue. Neither would the goal be the level at which economic growth would likely be maximised (if this level could be found, or at least roughly estimated) although that would make more sense. For an economic liberal, the optimal level of taxation would be that which would be necessary to derive the revenue required

(39) James M. Buchanan and Dwight R. Lee, Politics, Time, and the Laffer Curve, *Journal of Political Economy*, Vol. 90, No. 4 (1982), pp. 816–819.



The headquarters of the Federal Reserve Board in Washington DC. Buchanan thinks that central banks should be analysed in the same way as other monopoly firms. If excessive monetary expansion is in the interest of the governors themselves, they will allow it, when unrestrained. Photo: Flickr/Federal Reserve Board.

for services the state should be providing. Buchanan estimates that the production of widely accepted public goods would perhaps require taxation at the level of around 15 per cent of GDP.⁽⁴⁰⁾ This would mean much less government than is now in place. In 2019, for example, the government of the United States spent 36

per cent of GDP, while the numbers for Switzerland, the United Kingdom, and Sweden were 33, 39, and 48 per cent respectively.⁽⁴¹⁾ Buchanan is not however willing himself to name any number. This is for the taxpayers to decide. The task as Buchanan sees it is to find a procedure under which the taxpayers as voters could make a decision about the production of public goods and the level of taxation which would correspond to their real preferences, without some groups coercing and exploiting others.

(40) Aaron Steelman, Interview with James M. Buchanan, *Region Focus*, Vol. 8, No. 2 (Richmond VA: Federal Reserve Bank of Richmond, 2004), p. 35.

(41) General government total expenditure as Percent of GDP, *World Economic Outlook 2020* (Washington DC: IMF, 2020). In 1982, at the heyday of Swedish social democracy, the government was spending 64 per cent of GDP!

Constitutional Economics

How do people get the amount of government they want? When their decisions are unanimous because then no individual or group is subduing others, as Buchanan points out. He makes a crucial distinction between choice *within rules* and choice *of rules*. Choice within rules is for example when you elect representatives to a parliament or vote in a national referendum, whereas choice of rules is when you and your fellow citizens agree beforehand on a constitution defining and constraining choices. In his writings, Buchanan explores how a constitution would be accepted unanimously in a state of nature, thus reviving the idea of social contract presented by John Locke. This would be the only legitimate constitution, he thinks, because it would be the only constitution that would not allow some to benefit at the expense of others. The only benefit on offer would be the general one of moving from a state of nature, with its uncertainty and possible violence, to a civilised state of affairs. For practical reasons, once that move has been made, political decisions would however not have to be unanimous, Buchanan concedes, because it would create the power of veto by any member of society and this power could be abused. But he challenges the view that there is something special about simple majority voting. Assume that the number of voters in a country is n . Majority voting means that the group $(n/2)+1$, one person more than half the population, needs to support the decision. What makes it more legitimate than a decision accepted by a group of one person *less* than half the population? Buchanan also emphasises that rules about decisions make a difference. Imagine a society with five members who have to decide how to divide between themselves a sudden windfall gain, some manna from heaven. If majority voting is adopted, three of the five will divide it up between themselves and leave nothing to the minority. But if qualified majority voting is adopted, for example that 4/5 of the voting population has to agree, then four out of the five will receive a part in the manna.⁽⁴²⁾

Buchanan's constitutional theory is not a prescription about a certain

kind of constitution, but rather an exploration of the ways in which enforced exploitation through political maneuvers can be avoided or at least drastically reduced by constitutional pre-commitment. This can best be brought out by examples. According to Keynesian orthodoxy, domestic public debt was not really a problem because we owed it to one another. We could therefore increase it almost at will without any serious repercussions.⁽⁴³⁾ Buchanan disagrees. He points out that individuals who buy government bonds bearing interest are voluntarily forsaking a part of their present income for a larger future income. They are not worse off. In fact they are better off because they have used this opportunity to increase their future income. But future taxpayers who have to pay back the loans, with interest, to the bondholders did not voluntarily take on this obligation. They are having the debt service forced upon them. The accumulation of public debt is therefore an involuntary transfer to the present generation from coming generations. Moreover, it does not necessarily benefit the whole of the present generation, but rather the present recipients of government favours. What is crucial however is that the transfer is involuntary. Coming generations are not represented in the political negotiations preceding the relevant decisions on the loans. They are being exploited. The old proverb that he who is absent is always in the wrong could be rephrased: he who is absent will always be wronged. The task as Buchanan sees it is to protect the freedom of coming generations to dispose of their income, and this can only be done by constraining the ability of the present generation to seize a part of it. One way of achieving this would be to ban public debt, in other words to adopt the constitutional rule of a balanced budget. Another possibility would be to limit the ability of government to accumulate significant debt, either by rules about the maximum amount of permissible public debt or by rules about the qualified majority needed to agree to it.⁽⁴⁴⁾

(43) For example, Abba P. Lerner, *The Burden of the National Debt, Income, Employment and Public Policy: Essays in Honor of Alvin H. Hansen*, ed. by Lloyd A. Metzler et al. (New York: W. W. Norton, 1948), p. 256.

(44) Adam Smith realised the fallacy in the reasoning that it was 'the right hand which pays the left'. *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776), ed. by Edwin Cannan (London: Methuen, 1904), Bk. V, Ch. III, p. 412. He pointed out that it was the more productive people who paid taxes so that it was a transfer from them. Hume commented that the doctrine was based on 'loose reasonings and specious comparisons'. *Of Public Credit, Essays Moral, Political, and Literary*, ed. by

(42) Buchanan and Tullock, *Calculus of Consent*, p. 122.

One reason why Keynesians regarded the occasional accumulation of public debt as inevitable was that they believed capitalism to be inherently unstable. The economy needed prudent management by the government and its experts, the role of which Keynesian economists reserved to themselves. Government should correct market imbalances. Economists like Hayek and Friedman have however demonstrated that the Keynesians underestimated the stabilising forces of capitalism while overestimating the government's ability to correct economic imbalances by 'fine tuning'. If the price mechanism was allowed to function, markets would clear, also the labour market. Mass unemployment would eventually disappear. But this is not Buchanan's focus. It is rather the very assumption that politicians would always follow the advice of economic experts. Buchanan notes that Keynes was strongly imbued with what one of his biographers called 'the presuppositions of Harvey Road', referring to the location of Keynes' family residence in Cambridge. This is the idea 'that the government of Britain was and would continue to be in the hands of an intellectual aristocracy using the method of persuasion'.⁽⁴⁵⁾ But politicians in Western democracies cannot be assumed to be enlightened despots, willing to listen to an intellectual aristocracy. Politicians operate under pressure from voters and bureaucrats. They want to be elected and re-elected. They will only heed advice from experts when it is in their own interest. This creates an asymmetry where Keynesians falsely assumed a symmetry: Politicians will listen to the experts about a deficit, but not about a surplus. The reason is simple. A budget deficit means more money for politicians to spend on getting re-elected, whereas a budget surplus means less money for the same purpose. Buchanan criticises Keynes for breaking with a long tradition of fiscal rectitude where the principle was to balance the budget. Keynes provided politicians with a theoretical justification for profligacy. They had always been tempted to spend without taxing, but now it became legitimate. 'Keynesian economics has turned the politicians loose; it has destroyed the effective constraint on politicians'

Eugene F. Miller (Indianapolis IN: Liberty Fund, 1985), p. 356.

(45) Roy Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), p. 193.

ordinary appetites to spend and spend without the apparent necessity to tax,' Buchanan comments.⁽⁴⁶⁾

It should be emphasised that Buchanan's chief objection to spending without taxing is that this is done without the consent of the taxpayers. Another example of this is inflation. It is caused by the supply of money increasing at a faster rate than the supply of goods corresponding to it, with the consequence that the value of money goes down, or in other words that prices go up. It is a government agency, the central bank, which produces money, and almost everywhere it enjoys a legal monopoly. Buchanan points out that a central bank should therefore be analysed like any other monopoly firm.⁽⁴⁷⁾ But why does a central bank produce too much money with inflation as the inevitable and foreseeable consequence? Because inflation is a transfer mechanism from creditors to debtors, from those who hold money and see it depreciate in their hands to those who owe money and see their debts diminish. Thus inflation is really a tax on the holders of money, and mostly paid in the future. It is tempting for politicians to use inflation instead of direct taxation to satisfy their need for money because its pleasant consequences appear immediately, as more money enters the economy and stimulates demand, whereas the unpleasant and much worse consequences of inflation appear later, as prices go up, but this would probably happen at a time when these very politicians are out of office. Buchanan believes that central banks should, like other monopoly firms, be restrained by rules so that they do not abuse their position. He discusses several kinds of possible monetary restraints suggested by economic liberals, such as the removal of the monopoly by central banks to produce money; or the introduction of a commodity standard such as the gold standard whereby the production of money is limited by the fact that it is convertible into the commodity held by the central bank; or the adoption of rules about the growth of the money supply.

(46) Buchanan et al., *The Consequences of Mr Keynes*, p. 27. The name of the monograph refers to the polemical pamphlet which Keynes wrote, *The Economic Consequences of Mr. Churchill* (London: L. and V. Woolf, 1925), in protest against the return of the British pound to the pre-war level.

(47) Brennan and Buchanan, *Monopoly in Money and Inflation*.

The taxation implied by budget deficits and inflation is taxation without representation. These are cases of one group benefitting at the expense of another: the present generation exploiting coming generations, and debtors exploiting creditors. By his constitutional proposals, Buchanan is thus seeking to include groups that have been excluded from decisions that however significantly affect them. Democracy is not only about those who are voting here and now: it is also about the future. Indeed, one of the worst defects of unrestrained democracy is that the time horizon of its decision makers is much shorter than that of individuals. As an individual, you make decisions about your whole life and even beyond it if you have a family. As a voter, or a politician, you can hardly make decisions further into the future than over the next electoral term, if only because of uncertainty. Moreover, and perhaps more importantly, exploitation in a democracy is not only covert. It can also be the overt result of political negotiations where a majority decides to exploit a minority or where an alliance of well-organised minorities band together to exploit a majority. This may be taxation with representation, but under unrestrained democracy it has an inherent bias where some interests are represented more strongly than others. One obvious remedy for this would be a constitutional rule requiring qualified majorities for certain decisions, such as increasing existing taxes or introducing new taxes. An additional problem is that the transfers, whether covert or overt, by stealth or in the open, are not net transfers. The gains of some do not make up for the losses of others. They mean less efficiency, with transfers from the more to the less productive, distortions of the price mechanism and the growth of a large, expensive and non-transparent bureaucracy. In the end, everybody loses, also the less productive.

Another restraint on government suggested by Buchanan is federalism: if you can choose between many different self-governing territories within a federation, then you have an exit option, somewhat like you have in the marketplace where you can express your dissatisfaction with a service by changing to another. Switzerland is a good example of a relatively successful federation where many religious and linguistic groups live peacefully together through decentralisation, whereas in early twenty-first century the European Union may be repeating the mistakes made in the Habsburg Empire where some groups imposed their will on others through



Odysseus knew that the sirens would destroy him and his crew if he allowed them to seduce him. Therefore, he had himself bound to the mast and had wax put in the ears of his men while they were passing the island of the sirens. The Western constitutional tradition is about restraining rulers. Painting by John William Waterhouse, *Odysseus at the mast*.

centralisation. Perhaps a counter-factual story may throw some light on the issue. Assume that in the nineteenth century the Southern States in the US were politically much stronger than the Northern states and that they used their superiority to impose slavery on the North, whereupon the Northern states unsuccessfully tried

to secede. Instead of being limited to some states, slavery would now be the rule in all the states. This would of course have been a disaster. The point is that central government is not always a liberating force, whereas decentralisation reduces the danger of oppression, although certainly it does not eliminate it. Despotism is always deplorable, but despotism from above will affect all, while despotism from below may affect only some. What in fact happened in the United States was that the Northern states were for a while able to impose their will on the Southern ones, thus creating unnecessary hostility there towards people of African descent and delaying for a century the full recognition of them as equal citizens. Without a civil war, claiming 700,000 lives, slavery would probably have faded away in the South, as it did more or less in Brazil at the same

time.⁽⁴⁸⁾ Buchanan's constitutional proposals such as decentralisation, qualified majority voting, a balanced budget and a monetary rule should be understood as attempts not to put 'democracy in chains' but rather to put constraints on the ability of special interests to overrule by political means individual preferences.⁽⁴⁹⁾ As British political theorist John Meadowcroft perceptively writes: 'Buchanan's work provided a compelling account of how individuals seeking to escape the wretchedness of the state of nature, where every individual is at constant risk of predatory attack, find themselves locked into a political structure where the risk of predatory exploitation is similarly ever present.'⁽⁵⁰⁾ Refusing to accept that politics has to be the continuation of war by other means, Buchanan tries to find escape routes from predatory exploitation.

In my opinion it is not a relevant, though a frequent, objection to Buchanan's approach that man is not in fact a *homo economicus*, a rational maximiser of utilities. Certainly man is not. He is often emotional and irrational. We all are. But Buchanan's premise is neither that man is rational or that he ought to be. It is the weaker one that *homo economicus* is a useful analytical tool for a specific purpose, the comparison and evaluation of different systems.⁽⁵¹⁾ If it is assumed that individuals do not change their nature when they move from the marketplace to the political arena, what set of rules is it sensible to adopt? The Ancients knew as well as the Moderns, and perhaps better,

(48) When slavery was formally abolished in Brazil, in 1888, only one-fourth of the African-American population was still enslaved. Most Brazilians today are of mixed origin. I also discuss the issue in the chapter on Lord Acton in this book.

(49) Nancy Maclean, *Democracy in Chains: The Deep History of the Radical Right's Stealth Plan for America* (New York: Viking, 2017). While this extraordinary attack on Buchanan demonstrates the author's diligence in doing archival research, it also shows her fertile or perhaps febrile imagination. Maclean simply invents a connection between Buchanan and the nineteenth century apologist of slavery John C. Calhoun, on the basis that both of them supported states' rights (as did Tocqueville and Lord Acton, for the same reason as Buchanan, that decentralisation was on the whole preferable to centralisation). Maclean completely misunderstands or misconstrues Buchanan's constitutional theory. He stands squarely in the economic tradition of Knight and Wicksell, while at a later stage he was influenced by Mises and Hayek. Cf. *The Soul of Classical Political Economy: James M. Buchanan from the Archives*, ed. by Peter J. Boettke and Alain Marciano (Fairfax VA: Mercatus Center at George Mason University, 2020).

(50) John Meadowcroft, *James M. Buchanan* (London: Bloomsbury, 2013), p. 83.

(51) Geoffrey Brennan and James M. Buchanan, 'The normative purpose of economic 'science': Re-discovery of an eighteenth century method', *International Review of Law and Economics*, Vol. 1, No. 2 (1981), pp. 155–166.

that man, the leader as well as his followers, is a frail being who could succumb to temptation. The seafarer Odysseus had been warned against the Sirens who lured sailors with their enchanting voices to a certain death on their rocky island. Odysseus wanted to hear their song and therefore he made a pact with his men as they approached the island. He put wax in their ears so that they could not hear and had them tie him to the mast. He ordered them not to change course under any circumstances. Transfixed by the song of the Sirens, Odysseus tried with all his might to break free of his bonds, but in vain. His crew kept the pact, and the ship passed the island safely.⁽⁵²⁾ The crux of the matter is that in politics there is no invisible hand which leads the individual pursuing his own interest to work at the same time for the public interest. The self-regulation observed in the marketplace has no equivalent in the political arena where politicians are tempted all the time by the siren songs of special interests and short-term preferences to expand the budget. Therefore they have to be tied to the mast like Odysseus. Constitutional precommitment enables agents playing the political game to extend their time horizon beyond the next electoral term and to invite into their negotiations groups that would otherwise have been totally absent (such as coming generations) or at least sparsely represented (such as creditors, consumers and taxpayers).

A further reason to distrust rulers in general is that individuals who spend the most resources, time, effort and money, on getting power may be doing so for a reason: they may want to impose their preferences on others, or to exploit them. The first person to seek power may be the last person to entrust with it. Again, when you call for central government to correct situations, try to imagine that your enemies are in power, not your friends. As Buchanan stresses, it is an old insight that in politics we should be guided by distrust, assuming the worst. Hume wrote, for example, that without constitutional constraints

“ we have no security for our liberties or possessions, except the good-will of our rulers; that is, we shall have

(52) *Homer's Odyssey*, Bk. 12, 44–60 and 180–217.

no security at all. It is, therefore, a just political maxim, that every man must be supposed a knave: Though at the same time, it appears somewhat strange, that a maxim should be true in politics, which is false in fact.⁽⁵³⁾

John Stuart Mill observed that ‘the very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of the holder; not because it is always so, because such is the natural tendency of things to guard against which is the special use of free institutions’.⁽⁵⁴⁾ A ship is built to survive rough weathers, because any vessel can sail in good weather. Or more dramatically, the point of constitutional precommitment is, as French philosopher André Glucksmann put it, ‘not to open the gates of paradise, but to bolt the gates of hell’.⁽⁵⁵⁾

Buchanan as a Conservative Liberal

Buchanan’s theory of politics had great explanatory power. The reason why so many are disillusioned with politics is that they expect much more of it than it can deliver. However, I find the theory wanting in two respects. First, Buchanan rejects any natural rights or moral principles antecedent to his social contract whereby people escape from the state of nature. The social contract is what people decide it will be, he says, not what he would necessarily wish himself for them. The old riddle was whether something was good because God had willed it, or whether God had willed it because it was good.⁽⁵⁶⁾ Is Buchanan’s social contract good because people have agreed on it, or do people agree on it because it is good? Buchanan’s own answer, that it is good because people have agreed on it, unduly simplifies the issue. Understandably, he refuses to

play a god, or to pose as a master legislator for mankind. He is, he says, just elucidating the possible agreement that individuals in the state of nature would reach if they were given the necessary information. But in fact Buchanan tacitly presupposes a certain kind of morality. Who are the people negotiating the social contract, and why are they there? When Buchanan says that individuals have to be treated as ends in themselves and not merely as means, he is invoking a moral principle which most people in the West nowadays accept, but which certainly has not been respected throughout history. In other words, Buchanan presupposes the morality of individuality, perhaps most aptly described in modern times by English philosopher Michael Oakeshott. The person who is negotiating the social contract with others is an individual who has acquired the will and ability to make choices. He will agree on the social contract because it is good, in accordance with the principle that individuals should be treated as ends in themselves and not merely as means. But where Buchanan may be right is that the good in question is not absolute. It will be subject to revisions as our ideas of what is good slowly and slightly change. Therefore it is not absurd to hold also, as Buchanan does, that the social contract is good because people agree on it. Buchanan has himself called this idea of moral principles which are fixed in the short run and flexible in the long run ‘relatively absolute absolutes’.⁽⁵⁷⁾

Buchanan has however to go further towards traditional morality, it seems to me. His individual must be a certain kind of person. Buchanan seeks a way to express individual preferences reasonably well in the political process, but in writing his constitution he must exclude some preferences which are common even if condemned by most people as immoral. He plausibly applies the principle of Pareto optimality in the discussion of social changes. But the principle does not mean that everybody explicitly has to consent to a change. It means, rather, that nobody should become worse off as a result of a change and that at least one if not more should become better off. This implies that the cardinal sin of envy as a preference is excluded: An envious person prefers a

(53) David Hume, *Of the Independence of Parliament*, *Essays*, p. 42.

(54) John Stuart Mill, *Considerations on Representative Government* (1861). *Collected Works*, Vol. XIX, ed. by John M. Robson (Toronto: University of Toronto Press, 1977), p. 505.

(55) André Glucksmann, *The 2004 Time 100* — Bernard Kouchner, *Time* 26 April 2014.

(56) Plato, *Euthypro*, 10a.

(57) Geoffrey Brennan and James M. Buchanan, *The Reason of Rules*, p. 85.

situation where nobody would be better off to a situation where only some others would be better off even if nobody else would be worse off. 'Whenever a friend succeeds, a little something in me dies.'⁽⁵⁸⁾ A second preference which has to be excluded is wrath, another cardinal sin, which can manifest itself in many ways. One of them is sheer malice. 'It is not enough to succeed; others must fail.'⁽⁵⁹⁾ Another manifestation of wrath is active antipathy to external groups, such as Jews, Catholics, WASPs (White Anglo-Saxon Protestants), Germans, people of colour, men or women. A third preference which has to be excluded is lust, the third cardinal sin, at least if it is an aggressive lust for power or for sexual favours from reluctant adults. The point is that envy, wrath and lust are not legitimate individual preferences, however strong they may in fact be. Perhaps a distinction can be made between active and other-directed sins like envy, wrath and lust and passive and self-directed sins like vanity, greed, gluttony, and sloth. You need not harm others if you have too high an opinion of yourself, or if you have an excessive desire for money, or if you eat and drink in excess, or if you are lazy (and not in addition guilty of immoral or criminal negligence). The passive sins therefore need not be explicitly excluded from the negotiations leading to the social contract. But this distinction and the decisions that follow from it are all based on moral principles and ideas about virtues and vices antecedent to any social contract.

The second defect of Buchanan's theory is perhaps not as obvious, although it is closely related to the first one. It is that even if it is conservative, it is not conservative enough. It is conservative in that it places individuals here and now, instead of throwing them into a utopia. It seeks to accommodate them, not to transform them or turn their lives upside down in the name of some intellectual construction. Social changes must be Pareto optimal: nobody should be made worse off by them. To take a mundane example, if it is decided that taxi driving should not be subject any more to licences, present taxi drivers may have to be compensated for

(58) Susan Barnes, *Behind the Face of the Gifted Bitch: A Profile of Gore Vidal*, *Sunday Times* 16 September 1973.

(59) Iris Murdoch, *The Black Prince* (London: Chatto and Windus, 1973), p. 98. Apparently, William Somerset Maugham first said something to this effect.



The Norwegian Constituent Assembly at Eidsvoll on 17 May 1814. The delegates wrote the most liberal constitution in Europe at the time, and still in force. It enabled Norway to survive the long dominance of social democracy. The meeting took place in the manor house of Adam Smith's friend and disciple Carsten Anker. Painting by Oscar Wergeland.

past outlays in obtaining their taxi licences, even if arguably taxi licensing in the past was tantamount to organised exploitation of passengers. (Perhaps if slave owners had been compensated upon emancipation in the United States, like they were earlier in the British Empire, the savage and costly Civil War would have been avoided.)⁽⁶⁰⁾

But one group is absent from Buchanan's constitutional democracy: our ancestors. He plausibly wants to include coming generations in the deliberations leading to a social contract, for example by not permitting the present generation to pass debts over to them. But why should past generations not be included as well? There is, I think, great wisdom in Burke's famous exclamation that society is a partnership between the past, present and future.⁽⁶¹⁾ What is meant by including past generations

(60) The Slave Emancipation Act of 1833 gave all slaves in the British Empire their freedom, albeit after a set period of years, while slaveowners received compensation from a government grant of 20 million pounds.

(61) Edmund Burke, *Reflections on the Revolution in France* (1790), *Select Works of Edmund Burke*, Vol. II (Indianapolis IN: Liberty Fund, 1999), p. 192–193.

in the negotiations leading to a social contract is that ancient traditions should be respected, although we would reserve the right to revise them if necessary. For example, the justices of the US Supreme Court should not take it upon themselves to change the Constitution. They may not be able fully to discern the original intent of the Founding Fathers or the original meaning of the text, but they surely should respect the clear and undisputed principles according to which the Constitution was written.⁽⁶²⁾ Likewise, and of course much less importantly, the staff of foundations established by creative entrepreneurs such as Andrew Carnegie, John D. Rockefeller Sr. and Henry Ford should respect the wishes of the founders instead of turning these foundations into left-wing contrivances, acting almost as grave robbers.⁽⁶³⁾

Again, this would mean that national treasures and monuments should be cared for and conserved by the state: Parthenon in Athens, Colosseum in Rome, the crown of St. Stephen in Hungary, the Icelandic manuscripts, St. Basil's Cathedral in Moscow, copies of the Gutenberg Bible, Yellowstone Park, the Giant Panda and the American Eagle. Moreover, the language, culture and history of a country should be maintained, if need be by government. This does not require much in Anglophone countries, but small nations have to make an effort. For example, the present inhabitants of Quebec owe it to their forefathers to keep their French language although this should perhaps be regarded as a moral duty rather than a legal obligation. The Irish lost something valuable when they abandoned their Celtic language. Although there is truth in the observation that the annals of a happy nation have blank pages, most people find inspiration and enjoyment in their national history and literature. Buchanan and many other American economists do not display the same awareness as European conservative liberals of the various ties and attachments with which individuals are born.⁽⁶⁴⁾ As Oakeshott notes, in a civilised society we

want to keep, cultivate and enjoy even more than to acquire and enlarge.⁽⁶⁵⁾

Nevertheless, conservative insights into the human condition are quite compatible with Buchanan's two major contributions to the study of society, public choice and constitutional economics. Thus, he can be regarded as a conservative liberal. Indeed, Buchanan himself invokes tradition: 'I hope that I seem what I think I am: a constitutional political economist who shares an appreciation for the Judeo-Christian heritage that produced the values of Western culture and institutions of civil order, particularly as represented in the Madisonian vision of what the United States might have been and might still become.'⁽⁶⁶⁾ Like the Italian political thinker Niccolò Machiavelli, Buchanan is concerned with politics as it *is*, not as it *ought to be*. But he is very different from Machiavelli in another respect. In politics, there are basically two places, the square where the people gather, and the castle where the rulers reside. Once upon a time the masters of the castle were put there by the grace of God, as they believed, whereas nowadays they are there by the consent of the citizens—a majority or the largest minority. But from the castle's balcony they still look down on the people in the square. Some economists and political theorists dream of being invited up into the castle, where they would stand behind the rulers on the balcony, whisper advice into their ears and watch the people in the square from above. Machiavelli wrote a manual for rulers, *The Prince*, *Il principe*. Others prefer to stay in the square and advise the individuals gathered there on how they can maintain their liberties against the occasional bad occupants of the castle and how they can keep at least some of their income from greedy tax collectors. Buchanan is one such thinker. As a whole, his works could have one title, *The People*, *Il popolo*. To us down in the square he has much more to say than the loquacious potentates and courtiers up in the castle who are of the people and by the people, but not for the people.

(62) I find the arguments cogent in Antonin Scalia, *A Matter of Interpretation: Federal Courts and the Law* (Princeton NJ: Princeton University Press, 2018, 2nd ed.); Randy E. Barnett, *Restoring the Lost Constitution: The Presumption of Liberty* (Princeton: Princeton University Press, 2013).

(63) Cf. the 'law' thus expressed by the poet and writer Robert Conquest: Any organisation not explicitly and constitutionally right wing will sooner or later become left wing.

(64) Roger Scruton, *Conservatism: An Invitation to the Great Tradition* (London: Macmillan, All Points Books, 2017).

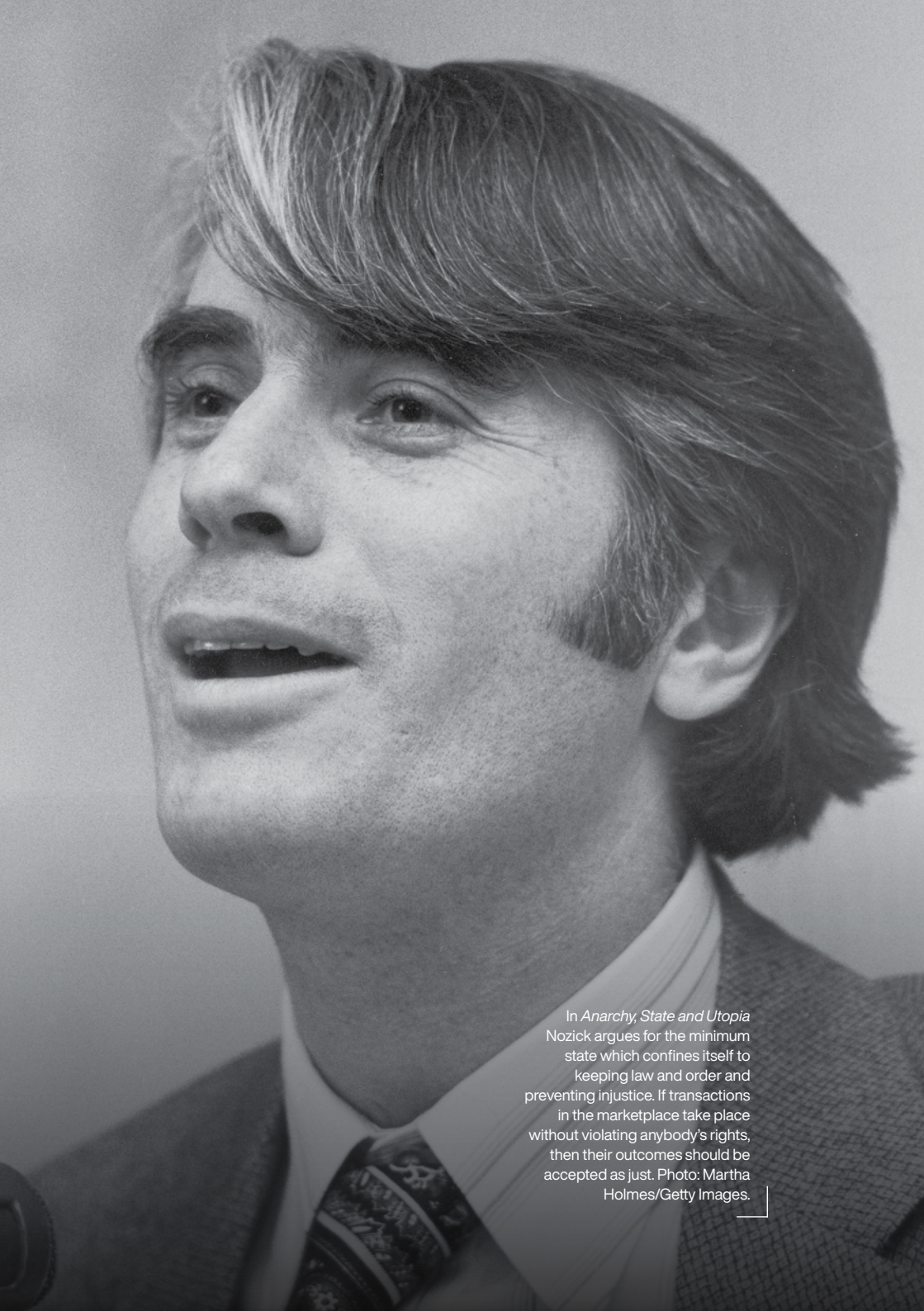
(65) Oakeshott, On Being Conservative, *Rationalism in Politics and Other Essays*, 2nd ed. (Indianapolis IN: Liberty Fund, 1991), pp. 408–409.

(66) James M. Buchanan, From the Inside Looking Out, *Eminent Economists: Their Life Philosophies*, ed. by Michael Szenberg (Cambridge: Cambridge University Press, 1992), p. 106.

Robert Nozick

(1938–2002)

In the third quarter of the twentieth century in the United States, far removed from the totalitarian threat, two different schools of political thought developed, both of them centred on the rational, unattached individual, a being sometimes coming across as uniquely American. One of these schools, anarcho-capitalism, was mostly seen as a fringe movement although its proponents, economists Murray Rothbard and David Friedman, presented clever arguments for their contention: that government, with its enormous coercive apparatus, was not really necessary because in the marketplace individuals could through free exchanges resolve all the problems traditionally assigned to the state, such as law and order, even defence, and the production of other public goods.⁽¹⁾ The other school, redistributionism, whose most articulate member was philosopher John Rawls, was considered much more respectable, especially in the academy, although it had little impact on the general public.⁽²⁾ It held that the rational decision of enlightened and prudent individuals would be to form a society in which the rich would have to share their income with the poor up to the point when such redistribution would become counter-productive. In 1974, however, philosopher Robert Nozick caused a sensation with the publication of *Anarchy, State and Utopia*.⁽³⁾ Against the anarcho-capitalists, he demonstrated how the state might arise without violating individual rights. It could be regarded as the



In *Anarchy, State and Utopia* Nozick argues for the minimum state which confines itself to keeping law and order and preventing injustice. If transactions in the marketplace take place without violating anybody's rights, then their outcomes should be accepted as just. Photo: Martha Holmes/Getty Images.

(1) Murray Rothbard, *Power and Market: Government and the Economy* (Kansas City MO: Sheed Andrews & McMeel, 1970; David Friedman, *The Machinery of Freedom* (LaSalle IL: Open Court Publishing, 1973).

(2) John Rawls, *A Theory of Justice* (Cambridge MA: Harvard University Press, 1971).

(3) Robert Nozick, *Anarchy, State, and Utopia* (Oxford: Blackwell, 1974).

outcome of an spontaneous, evolutionary process. Against Rawls and other welfare capitalists he argued that only the minimum state was morally justifiable. Enforced redistribution of private assets by government violated individual entitlements. Nozick also asserted that a night-watchman state could be attractive and inspiring because it would leave people free to form all kinds of communities, provided they did not force others to participate.

Nozick's Life and Works

Nozick's life was less eventful than that of some other political thinkers. He was not executed by royal decree like Snorri Sturluson, imprisoned by his family like St. Thomas Aquinas, or driven from his own country like John Locke, Benjamin Constant, Ludwig von Mises, Wilhelm Röpke, and Karl Popper. He was born in Brooklyn 16 November 1938, the only child of Max Nozick and his wife Sophie, born Cohen. His parents were both Jewish immigrants from Russia, and his father ran a small business. Young Robert was a fat, anxious, and precocious child.⁽⁴⁾ He overcame obesity and soon became interested in philosophy. When he was fifteen years old, he carried around in the streets of Brooklyn a paperback copy of Plato's *Republic*. 'I had read only some of it and understood less, but I was excited by it and knew it was something wonderful.'⁽⁵⁾ He went to Columbia College on the other side of the river, in Manhattan, where he was influenced by the witty and acerbic philosopher Sidney Morgenbesser. In college he was a committed socialist who helped found a local chapter of a left-wing student organisation. In 1959, Nozick graduated from Columbia and began postgraduate studies in philosophy at Princeton University, completing his Master's thesis in 1961 and his doctoral dissertation in 1963. He married Barbara Fierer, a teacher, in 1959, and they had two children, Emily and David.

(4) Although Nozick was precocious, he was not a founding member of the Mont Pelerin Society in 1947, when he was eight years old, as two British professors claim, Phillip Brown of Cardiff University and Hugh Lauder of the University of Bath, *Capitalism and Social Progress: The Future of Society in a Global Economy* (London: Palgrave Macmillan, 2001), p. 124. The authors also inform their readers that the Society is a think tank founded in Geneva!

(5) Robert Nozick, A Portrait of the Philosopher as a Young Man, *The Examined Life: Philosophical Meditations* (New York: Simon & Schuster, 1989), p. 303.

It was at Princeton that Nozick learned about 'libertarianism', as some of its adherents had started to call their position after American social democrats appropriated the word 'liberalism'. There is really no fundamental difference between libertarianism and the classical liberalism of John Locke and Adam Smith, or, say, Benjamin Constant and Frédéric Bastiat. One of Nozick's fellow students, Bruce Goldberg, was a member of the 'Circle Bastiat', a group of bright young New Yorkers who passionately believed in free trade and non-interventionism, both within and between states. They argued endlessly about the possibilities and limits of liberty and property. Taking their economics from Bastiat, Mises and Friedrich von Hayek, they were fascinated by the recent novel *Atlas Shrugged* in which Ayn Rand depicted capitalists and entrepreneurs as modern heroes and described what would happen if they would refuse to hand their earnings over to others.⁽⁶⁾ The members of the Circle Bastiat were also inspired by two nineteenth century thinkers who had sunk into oblivion in the academy, Herbert Spencer and William Graham Sumner. Nozick and Goldberg became friends, and under relentless criticism from Goldberg Nozick began to question his early beliefs. Once he confronted old friends at the left-wing magazine *Dissent*: 'If the minimum wage is so good, why not set it at, say, \$10 an hour?' It was a large sum in those days. His socialist friends did not know what to say. Nozick's doubts became stronger. He carefully read Hayek's *Constitution of Liberty* and his essays about the impossibility of rational central planning.⁽⁷⁾ Then one evening Goldberg brought Nozick to a gathering of the Circle Bastiat held at the flat of Rothbard and his wife on West 88th Street in Manhattan. Nozick had a long and intense discussion with Rothbard about the case for anarcho-capitalism which was stronger than he had previously thought, he reluctantly granted.⁽⁸⁾

(6) Ayn Rand, *Atlas Shrugged* (New York: Random House, 1957).

(7) Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960). Hayek's essays from the 1930s on central planning were reprinted in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

(8) Information from Ralph Raico (1936–2016) who was Goldberg's friend and also a member of the Bastiat Circle. I personally knew three more members of the Circle Bastiat, Leonard P. Liggio (1933–2014), Ronald Hamowy (1937–2012) and its oldest and perhaps most prominent member, Murray Rothbard (1926–1995), and occasionally the Circle was mentioned in our conversations which admittedly were few and far between. Cf. Nozick, *Anarchy*, p. xv, where he suggests that the

In 1963–1964 Nozick was Fulbright Scholar at Oxford University, and then Assistant Professor of Philosophy at Princeton. In 1965 he moved to Harvard University where he taught for two years. Then he spent another two years at Rockefeller University in Manhattan before he was appointed Professor of Philosophy at Harvard, only thirty years old.

Nozick took up his position at Harvard in the autumn of 1969. Students were rioting all over the United States, protesting against capitalism and demanding an end to American support of South Vietnam. Nozick was scheduled to teach a course on ‘the moral examination of capitalism’ in the spring of 1970. When left-wing students found out that he would be discussing arguments not only against capitalism but also for it, they were upset. At a reception one of them approached the young professor and said: ‘We don’t know if you’re going to be allowed to give this course.’ Nozick said: ‘What do you mean, not allowed to give this course?’ The student replied: ‘Well, we know what ideas you hold. We just don’t know whether you will be allowed to give the course.’ Nozick retorted: ‘If you come and disrupt my course, I’m going to beat the shit out of you!’ The student was taken aback and exclaimed: ‘But you are taking all this very personally.’ Nozick said: ‘What do you mean, personally? You are threatening to disrupt my *course*! You can do other things; you can stand outside the room and hand out leaflets. You can ask students not to register for my course. But if you come into my classroom while I am lecturing and disrupt the class, then I take that very personally.’ Some time later this student and some of his comrades informed Nozick that they would be handing out leaflets outside the classroom when the course was on. But they never showed up. When Nozick later came across the student, he asked: ‘Where are the leaflets? I was counting on something special happening with the leaflets.’ The student lamely replied that it had just seemed to them to be too much effort.⁽⁹⁾

While Nozick was a fellow at the Center for the Advanced Study in Behavioral Sciences at Palo Alto in 1971–1972 he wrote the first draft

of a book on political philosophy. He completed it in the summer of 1973. *Anarchy, State and Utopia* was published in 1974 and received the National Book Award in 1975. It was widely acclaimed as one of the most important works in political philosophy in the twentieth century. American philosopher Loren Lomasky described its impact: ‘Brash and bold, almost indecently clever in method and style, *Anarchy, State and Utopia* had thechutzpah to defend a classical liberalism that most philosophers had believed interred a century previous with the bones of Herbert Spencer.’⁽¹⁰⁾ But not all were pleased. Some of the reaction to it was similar to that which had met Hayek’s *Road to Serfdom* thirty years earlier.⁽¹¹⁾ A left-wing British philosopher, Brian Barry, published a scathing review. ‘The book’s conclusions are not in the least unusual,’ he wrote. ‘They articulate the prejudices of the average owner of a filling station in a small town in the Midwest who enjoys grouching about paying taxes and having to contribute to ‘welfare scroungers’ and who regards as wicked any attempts to interfere with contracts, in the interests, for example, of equal opportunity or anti-discrimination.’ Barry told his readers that Nozick’s book had ‘a sort of cuteness that would be wearing in a graduate student and seems to me quite indecent in someone who, from the lofty heights of a professorial chair, is proposing to starve or humiliate ten percent or so of his fellow citizens (if he recognizes the word).’⁽¹²⁾ Nozick made it clear however that he was not interested in becoming the intellectual spokesman of a libertarian movement. Political philosophy was just one of his many interests. At Harvard, he only taught the same course twice, on the good things in life. He published *Philosophical Explanations* in 1981 where he demonstrated how he thought philosophy should be done, as exploring issues such as free will and personal identity rather than as proclaiming full and final explanations.⁽¹³⁾ The same year he divorced his wife Barbara.

conversation with Rothbard on anarchism took place in 1967 or 1968. Raico thinks it was earlier. Most likely, the conversations were more than one.

(9) Albert Zlabinger, An Interview with Robert Nozick, *Libertarian Review*, Vol. 6, No. 8 (1 December 1977).

(10) Loren Lomasky, When Hard Heads Collide: A Philosopher Encounters Public Choice, *American Journal of Economics and Sociology*, Vol. 63, No. 1 (2004), p. 190.

(11) Incidentally, Hayek wrote an introduction to the German translation of Nozick’s book, *Anarchie, Staat und Utopia*, tran. by Hermann Wetter (München: Moderne Verlagsgesellschaft, 1976).

(12) Brian Barry, Review of Anarchy, State, and Utopia, *Political Theory*, Vol. 3, No. 3 (1975), pp. 331–336.

(13) Robert Nozick, *Philosophical Explanations* (Cambridge MA: Harvard University Press, 1981).

Nozick identified with neither the American right nor left. ‘The right-wing people like the pro-free-market arguments, but don’t like the arguments for individual liberty in cases like gay rights—although I view them as an interconnecting whole, and the liberty to engage in market transactions as continuous with other liberties,’ he complained. ‘And then there are the people on the left who like some of the personal-liberation things but who don’t like the things which they see as supporting private property.’⁽¹⁴⁾ Nozick’s left-wing critics gloated when he in the mid-1980s had a dispute with his landlord about rent. He took the landlord to court, invoking the Massachusetts rent control laws at the time, and won the case.⁽¹⁵⁾ Certainly the very existence of rent control goes against Nozick’s principles in *Anarchy, State and Utopia*, as the author makes explicit.⁽¹⁶⁾ But interventionists can hardly expect economic liberals to put up with violations of their legal rights, just because they are against some such rights: what is crucial is that the landlord had broken the rules and done Nozick down, perhaps in anticipation of acquiescence from a libertarian critical of those rules. In 1987, Nozick remarried, to poetess Gjertrud Schnackenberg. Two years later he published *The Examined Life*, a collection of essays. The title, of course, refers to Socrates’ claim that the unexamined life is not worth living.⁽¹⁷⁾ In the book Nozick apparently turned his back on libertarianism, remarking that some of the views expressed in *Anarchy, State and Utopia* now seemed to him to be ‘seriously inadequate’.⁽¹⁸⁾ He later commented that he had been misunderstood: he had not renounced libertarianism, only moved away from some of the more extreme positions he had taken in that book.⁽¹⁹⁾ As he had himself famously remarked: ‘There is room for words for subjects other than last

(14) Jonathan Lieberman, Harvard’s Nozick: Philosopher of the New Right, *New York Times Magazine* 17 December 1978.

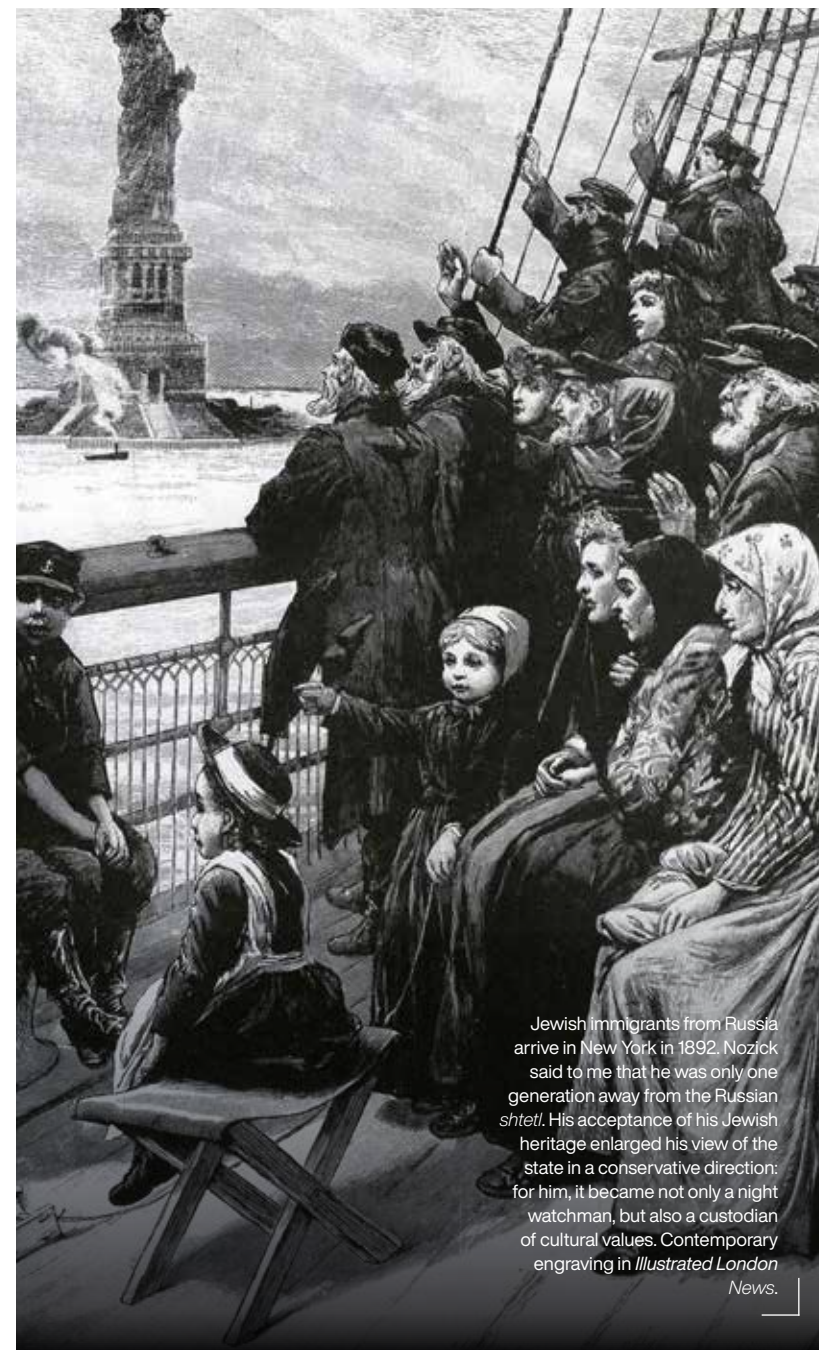
(15) William Tucker, Anarchy, State and Rent Control, *New Republic*, Vol. 195, No. 25 (22 December 1986), pp. 20–21. This quarrel would hardly be worth mentioning if not for the fact that left-wing academics often use it to try and discredit the arguments in *Anarchy, State and Utopia*.

(16) Nozick, *Anarchy*, pp. 270–271.

(17) Plato, Socrates’ *Apology*, 38a5–6.

(18) Robert Nozick, Introduction, *Examined Life*, p. 17.

(19) Julian Sanchez, Interview with Robert Nozick (26 July 2001). <http://www.juliansanchez.com/an-interview-with-robert-nozick-july-26%202001/>



Jewish immigrants from Russia arrive in New York in 1892. Nozick said to me that he was only one generation away from the Russian *shtetl*. His acceptance of his Jewish heritage enlarged his view of the state in a conservative direction: for him, it became not only a night watchman, but also a custodian of cultural values. Contemporary engraving in *Illustrated London News*.

words.’⁽²⁰⁾ Nozick published three more books on philosophy, *The Nature of Rationality*, *Socratic Puzzles*, and *Invariances*.⁽²¹⁾ They were brimming with fresh ideas, although often quite technical, but they did not surprise and shock the academy like his first book. Nozick was diagnosed with cancer in 1994, and after a long and heroic struggle he succumbed to the disease on 23 January 2002. In a book of poems published after his death his widow aptly described him as ‘A mind that never darkened.’⁽²²⁾

The Entitlement Theory of Justice

Anarchy, State and Utopia starts with a resounding declaration. ‘Individuals have rights, and there are things no person or group may do to them (without violating their rights). So strong and far-reaching are these rights that they raise the question of what, if anything, the state and its officials may do.’⁽²³⁾ Nozick’s critics accuse him of offering ‘libertarianism without foundations’ because in his book he does not present a complete theory about how individuals come to have such rights.⁽²⁴⁾ I think this criticism misses the mark. What Nozick is primarily doing is to bring out some of the logical consequences of taking human beings seriously as ends rather than merely as means, of regarding them as separate, inviolable persons, with their own goals and projects in life. Although this ethical postulate is often ostensibly accepted, its full implications are not always recognised. *Anarchy, State and Utopia* is a brilliant book, full of striking examples and challenging propositions, at the same time playful and serious. Although the first part where Nozick responds to anarcho-capitalism falls outside the scope of this work, it is in my opinion more original than the second part. He and the anarcho-

capitalists are right that the state, with its monopoly of force, has to be justified, not only assumed. ‘No one who has not sat in prison knows what the State is like,’ Leo Tolstoy once observed.⁽²⁵⁾ Nozick’s justification, that the state can arise in an invisible-hand or unplanned process without violating individual rights, is ingenious and, to me, plausible.⁽²⁶⁾ Some of Nozick’s arguments in the second part against interventionism were on the other hand already familiar to American libertarians, even if they appeared completely new and outrageous to university professors who had perhaps heard the names of Spencer, Sumner, Mises, and Hayek, but who had never made any effort to understand their arguments. Their gasps of surprise only revealed their ignorance. Nozick’s main accomplishment in the second part of his book is to restate and reinforce the traditional case against interventionism in a manner which is lively, robust and academically respectable.

Individuals pursue different projects in life, and rights can be conceived of as side constraints on their actions, according to Nozick. A moral theory that would impose one end on all individuals would violate such side constraints. Utilitarianism is the best-known example. It treats individuals as means to an end: the greatest amount of pleasure for the greatest number. If an individual stands in the way, he must go, somehow. But why should we all pursue this one end, pleasure? One of Nozick’s most famous arguments against utilitarianism refers to the experience machine. Assume there is a machine which would give you any experience you could desire. You could for example think and feel that you were writing a great novel, making a new friend, or listening to a wonderful piece of music, perhaps even creating it. There would be no negative repercussions of entering and staying in the machine, and an incredible variety of experiences to be selected inside it. Would you plug in for, say, two years at a time? Nozick replies: No, for several reasons. We want to *do* certain things, and not just have the experience of doing them.

(20) Nozick, *Anarchy*, p. xii.

(21) Robert Nozick, *The Nature of Rationality* (Princeton NJ: Princeton University Press, 1993); *Socratic Puzzles* (Cambridge MA: Harvard University Press, 1997); *Invariances* (Cambridge MA: Harvard University Press, 2001).

(22) Gjertrud Schnackenberg, Venus Velvet No. 2, *Heavenly Questions* (New York: Farrar, Straus & Giroux, 2010), p. 30.

(23) Nozick, *Anarchy*, p. ix.

(24) Thomas Nagel, Libertarianism Without Foundations, *The Yale Law Journal*, Vol. 85, No. 1 (1975), pp. 136–149. Repr. in *Reading Nozick*, ed. by Jeffrey Paul (Lanham MD: Rowman & Littlefield, 1981), pp. 107–129.

(25) Here after Robert Conquest, *The Great Terror: A Reassessment* (Oxford: Oxford University Press, 2008), p. 308.

(26) Anarcho-capitalists would not agree, and for their position they offer cogent arguments, largely ignored by ‘mainstream’ philosophers. *The Journal of Libertarian Studies*, Vol. 1, No. 1 (1977), was devoted to their spirited responses. Randy E. Barnett, Whither Anarchy? Has Robert Nozick Justified the State?, pp. 15–21; Roy A. Childs, The Invisible Hand Strikes Back, pp. 23–33; Murray Rothbard, Robert Nozick and the Immaculate Conception of the State, pp. 45–57.

We also want to *be* a certain way, to be a certain sort of person. The man in the experience machine is just floating around, with no personal traits, not being courageous, kind, intelligent, witty, or loving. Thirdly, plugging into an experience machine limits us to a man-made reality, whereas we want to live our lives for ourselves.⁽²⁷⁾ I think Nozick is making a valid point. It has however gone unnoticed that a similar story was told by nineteenth century German philosopher Friedrich Paulsen, also as an argument against utilitarianism:

“ Let us suppose that we could distil a drug like opium, capable of arousing joyful dreams, without, however, producing harmful effects in the intoxicated one or his surroundings. Should we recommend the use of the drug, and praise the discoverer as having made life more valuable? Perhaps not even a hedonistic moral philosopher would do that. Why not? Because the pleasure is illusory? But pleasure is pleasure, whatever be its cause. Or, because the philosopher has found out by computation that the pleasures of our sober waking life are still greater? It would not be easy to prove it in the example assumed. The simple reason is that such pleasures would be ‘unnatural’, and a life composed of them would no longer be a ‘human’ life.

Paulsen recalls the tale in the *Odyssey* of the sorceress Circe who changed the visitors of her island into well-fed and thoroughly contented swine. Was it then a blessing to have been cast on her shores?⁽²⁸⁾ Of course not, Paulsen replies. Man is no swine. ‘He desires to live a *human* life and all that is implied in it; that is, a *mental, historical life, in which there is room for the exercise of all human, mental powers and virtues*. He desires to play and to learn, to work and to acquire wealth, to possess and to enjoy, to form and to create; he desires to love and to admire, to obey and to

rule, to fight and to win, to make poetry and to dream, to think and to investigate.’⁽²⁹⁾

How would a theory of distributive justice look like that would treat individuals as ends in themselves and not merely as means? Nozick replies that it contains three main principles: 1) Justice in acquisition requires that individual holdings, such as land or other resources, can only be acquired from the commons and turned into private property if others are not thereby made worse off. 2) Justice in transfer requires that holdings change hands by mutual consent. 3) Rectification of injustice means that victims of past injustices should be compensated, or the unjust acts against them rectified by other means. A just distribution of holdings would be in accordance with these three principles. If people have acquired their holdings justly, then they are entitled to them. Therefore, Nozick calls his theory the ‘entitlement theory of justice’. He points out that distribution should not necessarily be thought of as a task about to be undertaken: it is rather the unplanned outcome of past activities. When philosophers talk about just distribution they are however usually referring to their own ideas of what would be a just *redistribution* of holdings. Since holdings usually come into the world attached to individuals, this implies the demand that government should use its monopoly of force to move holdings from some to others, thus impeding the projects of the potential contributors. Nozick thinks that this demand is unjustified. He contrasts his entitlement theory with end-state theories. For him, justice depends on past activities: if they were all just, then the outcome would be just. Thus, the entitlement theory is historical. End-state theories on the other hand prescribe certain conditions, for example that nobody should hold more than double the average of individual holdings or that everybody should end up equal. Nozick also contrasts his entitlement theory with patterned theories, for example that the only just income distribution would be according to moral merit. The entitlement theory only requires that your holdings have been justly acquired by you or justly transferred to you: then you are entitled to it, irrespective of your moral merit or other qualities.

(27) Nozick, *Anarchy*, pp. 42–45.

(28) Friedrich Paulsen, *System der Ethik* (Berlin: Hertz, 1889). *A System of Ethics*, tran. by Frank Thilly (New York: Charles Scribner's Sons, 1899), Bk. II, Ch. II, §4, pp. 268–269.

(29) Ibid., §5, p. 270. Cf. John Stuart Mill, *Utilitarianism* (1861). *Collected Works*, Vol. X, ed. by John M. Robson (Toronto: University of Toronto Press, 1969), p. 212.



Nozick believes that generally speaking capitalism satisfies what he calls the 'Lockean proviso'. Nobody is necessarily made worse off by the transfer of a resource, such as a piece of land, from the state of nature, or the commons, into private ownership because the enormous creative powers of capitalism more than make up for the opportunity lost by others of using the resource. One opportunity disappears, but many others appear instead. Those now deprived of this opportunity to appropriate the resource cannot find its loss to be of special significance because by definition hitherto the resource was unowned and unattached to anyone. Nozick's justice in acquisition may however be of readier application in North America than elsewhere because four hundred years ago this continent was to a large extent virgin soil. What about Europe, with all her old castles rising into the sky as monuments of past oppression? Nozick readily concedes that in practice many holdings were originally acquired unjustly, by violence. He speculates that a welfare state operating over a few generations might be required by his rectification principle. 'Although to introduce socialism as the punishment for our sins would be to go too far, past injustices might be so great as to make necessary in the short run a more extensive

The sorceress Circe with the men she had turned into pigs, from the *Odyssey*. Nozick's refusal to enter an experience machine refers to the anti-utilitarian argument that it is better to be a human being, acting, choosing, learning and perhaps sometimes suffering, than to be a pig satisfied. Painting by Briton Rivière.

state in order to rectify them.'⁽³⁰⁾ While this may have been a plausible argument for the welfare state at the end of the nineteenth century, I would say that it is hardly relevant today. Paradoxically the welfare state keeps growing at the same time as the real need for welfare is rapidly diminishing with better health and more prosperity. In any case, the importance of just acquisition and proper rectification is probably greatly exaggerated. Income from unimproved natural resources is only a small proportion of total income, at the most five per cent.⁽³¹⁾ Economic research also suggests that all the pecuniary advantages or disadvantages of ancestors are wiped out in three generations.⁽³²⁾

Nonetheless, some may find it difficult to accept that capitalism more than makes up for the resources originally appropriated by individuals. I suspect this is because they focus on the undeniable fact that private property rights to a resource are rights to exclude others from its use. They ignore the fact that exclusivity is also the key to the increased productivity of the resource. If privately owned, it will be priced according to its quality, and therefore used properly. Good fences not only make good neighbours: they also enable individuals to concentrate on cultivating the gardens inside. It should be noted, though, that Nozick's defence of private property rights is not utilitarian. It is, rather, that because of their great utility their introduction need not violate individual rights. Nozick's principle of justice in acquisition can be seen as a variant of Pareto Optimality: a social change is Pareto optimal if it leaves at least one person better off and nobody else worse off.⁽³³⁾ It can also be interpreted as a variant of John Stuart Mill's Harm Principle: an individual can appropriate a resource if he is not harming anyone else.⁽³⁴⁾

(30) Nozick, *Anarchy*, p. 231.

(31) David Friedman, *The Machinery of Freedom* (New York: Harper & Row, 1973), pp. xiv–xv.

(32) Gary S. Becker and Nigel Tömes, Human Capital and the Rise and Fall of Families, *Journal of Labor Economics*, Vol. 4, No. 3, Part 2: The Family and the Distribution of Economic Rewards (1986), pp. S1–S39.

(33) James M. Buchanan, Positive Economics, Welfare Economics, and Political Economy, *Journal of Law and Economics*, Vol. 2, No. 1 (1959), pp. 124–138.

(34) John Stuart Mill, *Essay on Liberty* (1859). *Collected Works*, Vol. XVIII, ed. by John M. Robson (Toronto: University of Toronto Press, 1977), p. 223. In the chapter on Spencer in this book I argue that Spencer's Principle of Equal Liberty is much clearer than the Harm Principle. Nozick's Lockean

The idea behind Nozick's principle is therefore nothing new. What he does is to present it clearly and convincingly. It is a different issue whether a Lockean Proviso is necessary at all. Hume and some modern philosophers argue that it is superfluous. The absence of a legitimate counter-claim to the hitherto unowned resource that you acquire is sufficient, according to them.⁽³⁵⁾

Nozick uses an illuminating example to show that patterned and end-state theories of distributive justice require continuous government enforcement. Suppose that a just distribution of income D_1 has been established in a country, to the satisfaction of interventionists. Then along comes the skilful and popular basketball player Wilt Chamberlain. He makes a deal that he gets 25 cent from each ticket sold to the games in which he plays. After the season, he is richer by 250,000 dollars whereas each of his one million spectators is poorer by 25 cents. The distribution of income has changed from D_1 to the less equal D_2 . But where is the injustice? Everybody is satisfied. Who has a legitimate complaint? What is wrong with D_2 ?⁽³⁶⁾ While the Wilt Chamberlain example surely is clever, it has gone unnoticed that American conservative writer William F. Buckley made a similar point in 1951, in a critique of the economics teachers at his alma mater, Yale University:

“ Not one of them so much as pays lip-service to the highly respectable doctrine that it is anti-democratic to take from someone what *the people* in the first instance decide to give him. If several hundred thousand people, acting *without coercion of any description*, elect to pay Joe DiMaggio \$100,000 a year for the *privilege* of seeing him at bat (and of course in a free economy it is the *people* who, in their role as ultimate employers, pay the wages), and the government promptly turns

around and absorbs the greater part of this sum, who is thwarting the most directly expressed will of the people?⁽³⁷⁾

I sometimes use a third real-life example. Suppose we have established the much-touted Scandinavian income equality in Iceland. The interventionists are happy. Then Milton Friedman is invited to our country. He gives a lecture where the admission fee is 50 dollars. People flock to his lecture, gladly paying at the entrance. He fills the lecture hall, with its capacity of 500. Now he is richer by 25,000 dollars and each member of his audience is poorer by 50 dollars.⁽³⁸⁾ The income distribution has become less equal. But where is the harm? Or injustice?

Nozick also imagines a socialist economy where government requires people to work in the daytime and takes care of their needs. But individuals may have wants exceeding their needs. Suppose a diligent man works at night in his garage, producing something others want to buy. Thus he unintentionally upsets the pattern imposed by government. Nozick's conclusion is that the 'socialist society would have to forbid capitalist acts between consenting adults'.⁽³⁹⁾ In Vasily Grossman's novel about the Second World War, *Life and Fate*, a Soviet prisoner of war, Pavlyukov, explains his dream:

“ Ever since I was a child, I'd wanted to open a shop of my own—somewhere a man could buy whatever he wanted. With its own little restaurant. 'There, you've finished your shopping—now treat yourself to a beer, to some vodka, to some roast meat!' I'd have served country dishes. And my prices would have been really cheap. Baked potatoes! Fat bacon with garlic! Sauerkraut! And you know what I'd have given people

Proviso can also be considered to be variant of Spencer's Principle.

(35) David Hume, *A Treatise of Human Nature*, ed. by L. A. Selby-Bigge (Oxford: Oxford University Press, 1978), Bk. III, Sect. I, p. 514; Jan Narveson, Property Rights: Original Acquisition and Lockean Provisos, *Public Affairs Quarterly*, Vol. 13, No. 3 (1999), pp. 205–227.

(36) Nozick, *Anarchy*, pp. 160–164.

(37) William F. Buckley, *God and Man at Yale: The Superstitions of 'Academic Freedom'* (South Bend IL: Gateway Editions, 1977 [1951]), p. 57. Emphasis in the original.

(38) I touch upon the story in the chapter on Friedman in this book. Icelandic socialists debating him on television complained that an admission fee was charged to his lecture. Friedman replied that it was fairer that those attending the lecture paid for it than those not attending.

(39) Nozick, *Anarchy*, p. 163.

to go with their drinks? Marrow-bones! I'd have kept them simmering away in the pot. 'There, you've paid for your vodka—now have some black bread and some bone-marrow!' And I'd have had leather chairs so there wouldn't be any lice. 'You just sit down and be quiet—we'll look after you!' Well, if I'd come out with any of that, I'd have been sent straight off to Siberia. But I really don't see what harm it could have done anyone.⁽⁴⁰⁾

Indeed, what harm could it have done anyone? Redistributionists have made several unconvincing attempts to refute Nozick's Wilt Chamberlain argument: for example that people can only dispose conditionally of their money, or that the unintended outcomes of market transactions can be subject to correction. But they have only succeeded in rephrasing their old demands for redistribution. The point remains that liberty upsets patterns.

In the Soviet Union Pavlyukov would have been sent to Siberia if he so much as mentioned his dream about running a little shop. In the West he would have been taxed on his earnings from it. Nozick makes the controversial claim that taxation on earnings from labour for redistributive purposes could be viewed as forced labour.⁽⁴¹⁾ If Pavlyukov was paying a 40 per cent income tax after a working week of 40 hours, he would be working for others sixteen hours a week instead of working all the time for Stalin in a Siberian labour camp. American economist James M. Buchanan, certainly no socialist, has taken issue with Nozick's claim, pointing out that there is a crucial difference between being on the one hand forced to work, under penalty, and having on the other hand a choice between working full time, paying full tax on the income, or working only part time and paying less in tax.⁽⁴²⁾

(40) Vasily Grossman: *Life and Fate*, tran. by Robert Chandler (New York: Harper & Row, 1987), p. 306.

(41) Nozick, *Anarchy*, p. 169.

(42) James M. Buchanan, *The Libertarian Legitimacy of the State, Freedom in Constitutional Contract* (College Station TX: Texas A&M University Press, 1977), pp. 62–63.

I think both Buchanan and Nozick are right. Of course there is an important difference between being forced to work and having to pay a tax on your earned income in your self-chosen profession where the tax rate is set in a democratic process. But this does not change the fact that you are working part of the time for yourself and part of the time for others. You are only allowed to work for yourself on the condition that you also work for others, against your will. (Nobody stops you of course in working voluntarily for others. But that is not the issue here.) It is not necessarily relevant that you may not perceive this as forced labour: serfdom is no better, and it is perhaps worse, if the serfs are contented. Moreover, Buchanan takes it for granted that the state would always allow its citizens to decide how much, or rather how little, to work. This is not self-evident. Consistent socialists might outlaw what they would regard as shirking. Nozick suggests that even those finding absurd his claim about taxation as forced labour 'would oppose forcing unemployed hippies to work for the benefit of the needy'.⁽⁴³⁾ Would they really? Not all of them, apparently. 'But Weary Willie may say that he hates work, and is quite willing to take less, and be poor and dirty and ragged or even naked for the sake of getting off with less work. But that,' Fabian socialist George Bernard Shaw wrote, 'cannot be allowed: voluntary poverty is just as mischievous socially as involuntary poverty: decent nations must insist on their citizens leading decent lives, doing their full share of the nation's work, and taking their full share of its income.'⁽⁴⁴⁾ In Russia, after their 1917 coup the Bolsheviks sent requisition squads to the countryside, forcing peasants to 'give' their grain to the public.

The entitlement theory puts in their proper place two common theories of just income distribution. It incorporates them at the same time as it supersedes them.⁽⁴⁵⁾ One is the theory that your income should reflect your marginal product, your contribution to the productive

(43) Nozick, *Anarchy*, p. 169.

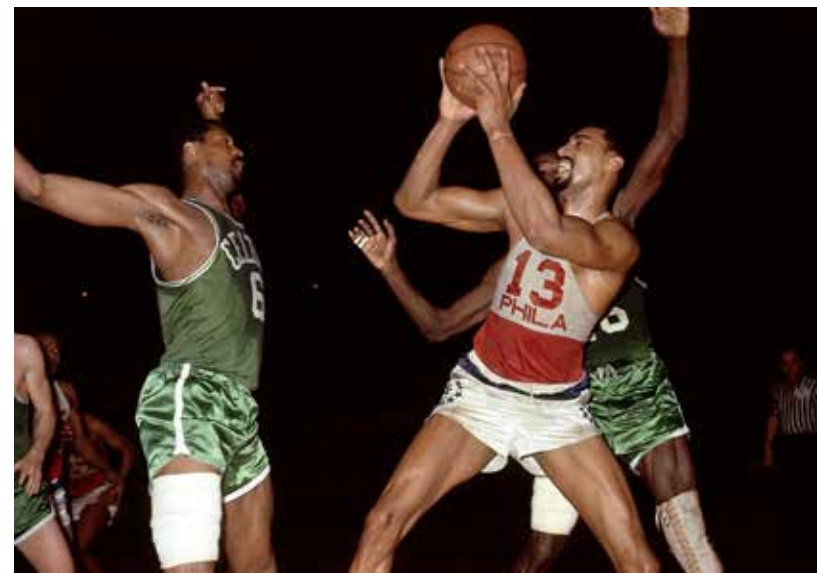
(44) George Bernard Shaw, *The Intelligent Woman's Guide to Socialism and Capitalism* (New York: Brentano's Publishers, 1928), p. 72. It should be noted, though, that Nozick was with the hippie example only referring to those who opposed forced labour in the first place. Shaw was certainly not one of them. He had no qualms about introducing it.

(45) A Hegelian might say that the entitlement theory 'aufhebt' both these theories in a dialectical manner. Each has an element of truth in it, as a thesis and an anti-thesis, but the entitlement theory preserves and transcends them as a synthesis.

process. This is the widely accepted explanation of most income generated in typical continuous market exchanges. But Nozick points out that not all income can be explained that way, for example when you receive a gift, inherit money or win in the lottery. You may be entitled to the assets that you receive this way, but it is a bit of a stretch to say that the transfer reflects your marginal product. Nevertheless, income distribution in a free society will roughly correspond to individual marginal utility. The other theory is that burdens and benefits should be distributed according to moral merit. This is plausible inside institutions with clearly defined goals. A judge should decide on the merits of a case, not be governed by any personal prejudices against a defendant. A teacher should grade the papers of his students according to their quality, irrespective of the sex, race or religion of the authors. In a singing contest, the jury should give the prize to the best singer, not to the best-connected one. But in market exchanges, you are free to dispose of your money according to your preferences whether or not others deserve your approval or disapproval. Your liberty upsets any pattern which others try to impose on you, including moral merit.

Recall the Parable of the Workers in the Vineyard. The owner of the vineyard went out in the morning and hired workers for one denarius a day. He went out later in the day and hired other workers who therefore only worked for part of the day. In the evening, he paid the latecomers the same as the all-day workers, one denarius for their work. When the all-day workers grumbled, he replied: 'Am I not free to do as I wish with my own money? Are you envious because I am generous?'⁽⁴⁶⁾ It should be emphasised, as the owner of the vineyard indeed did, that the all-day workers had agreed to being paid one denarius for their work. He was not violating his contract with them. It was none of their business that he decided to be generous to the latecomers. This shows one of the positive aspects of Nozick's entitlement theory: It allows people to be generous. End-state or patterned theories of distributive justice on the other hand can hardly allow for generosity, because it would change end states and upset patterns. Moreover, outside of institutions with clearly defined goals such as courts or schools, moral merit becomes irrelevant:

(46) Matthew, 20, 15.



If people want to spend their money on watching Wilt Chamberlain (in red shirt) play basketball, with him becoming wealthy as a consequence, it is difficult to discern any injustice. Those philosophers who try to impose their ideas of just income distribution upon society have to prohibit capitalist acts between consenting adults. Photo: NBA.

in the marketplace nobody is consciously distributing benefits and burdens. Income distribution in a free society is the unintended outcome of countless decisions individuals make about how to dispose of their money. As Nozick sums it up: 'From each as they choose, to each as they are chosen.'⁽⁴⁷⁾

It is sometimes said that Nozick may have caused a sensation with *Anarchy, State and Utopia* but that he had little impact in the long run because he found few if any followers. I disagree, on two counts. Nozick articulated views that were widely held outside the academy, not only by owners of filling stations in the Midwest (which is by the way a perfectly honourable profession, not to be spoken of with disdain like Barry did). Of the two Harvard philosophers who in the 1970s published influential works in political theory, Rawls and Nozick, it 'is Nozick who seems closer to the political spirit of the present age', a prominent left-wing philosopher

(47) Nozick, *Anarchy*, p. 160.

remarked in 1991.⁽⁴⁸⁾ In the second place, there were some quite reputable, productive and sophisticated philosophers who accepted many of Nozick's arguments, for example Lomasky, Antony Flew, Jan Narveson, and Tom G. Palmer.⁽⁴⁹⁾ They were however usually ignored by 'mainstream' philosophers who kept repeating arguments that Nozick had refuted. Why was this the case? Nozick has suggested an explanation of the fact that intellectuals such as professional philosophers tend to oppose capitalism, often vehemently, although they themselves fare relatively well under it. He calls intellectuals 'wordsmiths' because they deal with and transmit ideas as expressed in words. They are located mainly in three places, the academy, the media, and the government bureaucracy. Nozick's explanation is that the special skill which intellectuals have, a way with words, verbal dexterity, is regarded with much more respect in the school system than in the marketplace. As students, the future wordsmiths receive good grades and are praised by their teachers. They also read textbooks by Plato, Aristotle and other thinkers about the importance of intellectuals. But already as students, the future wordsmiths can observe that in the marketplace other skills receive greater rewards. Owners of vineyards and filling stations may earn much more than journalists and university professors. Therefore at school intellectuals develop resentment against capitalism, and this resentment is reinforced when they enter the labour market. It is not that they themselves fare badly: it is that others, with less verbal dexterity, fare better than they. They formed the 'upper class' at school, but in society they experience relative downward mobility.⁽⁵⁰⁾ Therefore intellectuals eagerly support proposals for government to use force to seize at least some of the earnings of owners of (and workers in) vineyards and filling stations and transfer them to others.

(48) Jonathan Wolff, *Robert Nozick: Property, Justice and the Minimal State* (Cambridge: Polity Press, 1991), p. 1. Accessible introductions to Nozick's ideas include A. R. Lacey, *Robert Nozick* (Princeton: Princeton University Press, 2001); Ralf M. Bader, *Robert Nozick* (London: Bloomsbury, 2013); Aeon J. Skoble, *The Essential Robert Nozick* (Vancouver BC: Fraser Institute, 2020).

(49) Antony Flew, *The Politics of Procrustes: Contradictions of Enforced Equality* (Buffalo NY: Prometheus Books, 1981); Loren Lomasky, *Persons, Rights, and the Moral Community* (New York: Oxford University Press, 1987); Jan Narveson, *The Libertarian Idea* (Philadelphia PA: Temple University Press, 1988); Tom G. Palmer, *Realizing Freedom* (Washington DC: Cato Institute, 2009).

(50) Robert Nozick, Why Do Intellectuals Oppose Capitalism? *Socratic Puzzles*, pp. 280–295.

Arguments Against Redistribution

Nozick contrasts his entitlement theory with the much-discussed theory of distributive justice presented by Rawls. He rejects Rawls' premise that the product of social cooperation is somehow easily available. Suppose that there are ten Robinsons Crusoes, each working alone for two years on separate islands. They then discover one another and observe their different living standards. Would they have a claim on one another, possibly because of their unequal personal capabilities or because of the different fertility of their islands? Of course not, Nozick answers. It is clear what each of them created. But what about the situation after they start to cooperate? Neither is there then a social product ready to be distributed. Individuals produce goods and exchange them, benefitting from division of labour and comparative advantage. 'Why does such sequential social cooperation, linked together by people's voluntary exchanges, raise any special problems about how things are to be distributed?' Nozick asks.⁽⁵¹⁾ Nothing essential changes if people then work together to produce goods. They will, in a competitive market, receive roughly the income corresponding to their marginal product. There is nothing to distribute. What would happen under Rawls' scheme is that assets would be forcibly removed from some (or all) for redistribution. In theory, it may be a high-minded attempt to construct a criterion of justice, but in practice it becomes a demand for redistribution. Be that as it may, Rawls believes that a group of rational individuals who would not know their own personal advantages or final position in society would, in an imaginary original position, agree on the 'Difference Principle'. Under a 'veil of ignorance' they would design the social structure in such a way that the worst-off group under it would be as well off as would be possible. This is the 'maximin' rule, the maximisation of the minimum.

Nozick asks why Rawls would choose a group of the worst off and not an individual and also how the group would be chosen. Would alcoholics and depressives be excluded, and then why? Rawls himself mentions two possible definitions: the group with the average income and wealth of an

(51) Nozick, *Anarchy*, p. 186.

unskilled worker; or the group with less than half of the median income and wealth in society.⁽⁵²⁾ Both definitions seem somewhat arbitrary and overly broad. Rawls says that the distribution of benefits has to draw forth the willing cooperation of everyone, including those ‘less favoured’ (less favoured by whom?). But Nozick wonders whether Rawls’ proposed distribution would really draw forth the willing cooperation of those better endowed. Whence the asymmetry? Nozick suggests that indeed the worse endowed may gain more from social cooperation than the better endowed. On this Rand’s thought experiment in *Atlas Shrugged* is relevant: What would be the difference between the situation in a country after the 10 per cent most gifted would emigrate, and the situation after the 10 per cent least gifted would leave? Historical examples of the first alternative would be the exodus of Jews from Spain under Ferdinand and Isabel, of Huguenots from France during the reign of Lewis XIV and of the whole middle class from Castro’s Cuba. There is no doubt that society as a whole, including the worst off, became much worse off by the emigration of those above-average productive groups. It is harder to find real-life examples of the second alternative, when the least gifted would leave. What might perhaps serve as an imperfect example would be when the less productive region of a country secedes from the more productive one. But this hardly ever happens (for an obvious reason that Rawls chooses to ignore). Usually the less productive region fiercely opposes secession of the more productive one. Spain fights to retain Catalonia and Belgium wants to keep Flanders. The point is that Rawls has not convincingly shown that in the original position rational individuals would focus almost solely on placating the worst-off group in the fear that they themselves might end up as its members.

A crucial difference between Rawls and Nozick is that Rawls does not accept that people own their personal abilities, talents, and skills. He points out that nature distributes such abilities arbitrarily. You do not deserve your superior intelligence or robust health. Therefore people are not necessarily entitled to the income they can derive from their personal abilities, Rawls argues: ‘No one deserves his greater natural

capacity nor merits a more favorable starting place in society. But it does not follow that one should eliminate these distinctions. There is another way to deal with them. The basic structure can be arranged so that these contingencies work for the good of the least fortunate.’⁽⁵³⁾ But is he then not treating the more capable people as means to an end, the maximisation of the minimum? It is strange to regard people’s personal abilities as resources for others. Your abilities, talents and skills seem to be as much a part of your personality or identity as your eyes or kidneys, for example. If you have two good eyes and another person is completely blind, nobody would argue that an eye should be transferred from you to him to make you equal in the sense that you would both be one-eyed (given that this was technically possible). It is not your fault that he is blind. You may voluntarily transfer one of your kidneys to your sister, but we would hesitate to call on government to seize you and remove one of your kidneys without your consent, for use by others. Rawls not only dismisses our strong moral intuition that our abilities are as much a part of our personality or identity as the organs of our bodies: he also ignores the fact that they will be developed differently by different individuals. Some people nurture their natural abilities and turn them into valuable assets, while others neglect their abilities and slowly ruin them.

I find Nozick’s arguments against Rawls’ theory devastating. But historically Rawls’ theory appears to me to be what could be called Georgism in persons. In the nineteenth century, Henry George had observed how pieces of land could appreciate in value without any effort by their owners. One major reason for this was that the supply of land was more or less fixed, whereas the demand was often increasing. George had concluded (like some other philosophers such as Spencer and Mill) that landowners did not deserve the income they effortlessly derived from their ownership of land, and that therefore government should expropriate this income, the rent from land.⁽⁵⁴⁾ But Georgism is quite

(53) *Ibid.*, p. 102.

(54) Henry George, *Progress and Poverty. An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy* (New York: D. Appleton & Co., 1879); John Stuart Mill, *The Principles of Political Economy* (1848), Bk. V, Ch. 2, §5. *Collected Works*, Vol. III, ed. by John M. Robson (Toronto: University of Toronto Press, 1965), pp. 819–820; Herbert Spencer, *Social Statics, or the Conditions Essential to Human Happiness Specified, and the First of Them Developed* (London: John Chapman, 1851), p. 115.

(52) Rawls, *Justice*, p. 98.



problematic. First, it is difficult if not impossible to make a distinction between that part of the landowners' income which is derived solely from the land and that part which is derived from their effort in improving it, or in increasing its value in other ways. In the second place, most landowners have paid full price for their land, which means that they have not just effortlessly enjoyed its appreciation in value. The rent from land is not available somewhere in a treasure chest, ready to be taken and distributed: it has already entered the prices of pieces of land. Thirdly, and consequently, the social upheaval from trying to expropriate land might be worse than the present situation. For these reasons Spencer abandoned the idea.⁽⁵⁵⁾

Rawls' Georgism in persons is even more problematic than the original Georgism in natural resources. First, special abilities, skills and talents seem much more a part of a distinct personality than external objects:

The Parable of the Labourers in the Vineyard illustrates that in the marketplace distribution is by choice, not necessarily by desert. The owner of the vineyard met all his obligations, but paid some more than others. Painting by Rembrandt van Rijn.

(55) Herbert Spencer, *The Man Versus the State* (Indianapolis IN: Liberty Fund, 1981 [1884]), p. 52. I discuss Spencer's change of mind in the chapter on him in this book.

self-ownership is intuitively more attractive than world-ownership.⁽⁵⁶⁾ In the second place, it is well nigh impossible to make a distinction between that part of your income which is derived from the abilities with which you were born and that part of the income which is derived from your efforts to improve upon your abilities, hone your skills, develop your talents. Thirdly, in a free society usually the transactions between you and those who want to enjoy your special abilities, skills and talents have already taken place. The question therefore becomes why your income from these transactions should be expropriated. Before the tax collector comes around, Wilt Chamberlain, Joe DiMaggio and Milton Friedman have already charged the market price for their services, for their special skills in playing basketball and baseball and in giving lectures, respectively. Would they continue to offer these services if their income from them would almost all be expropriated? Perhaps they would, but in the future others might not be tempted to join them. 'Only birds sing for free,' Russian opera singer Feodor Chaliapin exclaimed.⁽⁵⁷⁾ Would there be a point in trying to discover and develop special abilities if they were not specially rewarded? Fourthly, it is even more obvious about the possession of special abilities in limited supply than it is about the ownership of pieces of land or other resources in limited supply that others are not harmed. They are not deprived of anything by not having those abilities themselves. On the contrary, they will be able to enjoy those abilities as spectators.

Rawls wrongly presupposes a treasure chest ready for redistribution and he rejects the strong moral intuition that our abilities, skills and talents form an integral part of our personality. In short, no more than the utilitarians does he take the separateness and inviolability of persons seriously. Nozick points out that Rawls' original position where rational individuals deliberate under a veil of ignorance on an ideal structure is designed in such a way that they will not even include in their deliberations the entitlement theory, let alone accept it. I would

(56) The contrast between self-ownership and world-ownership is crucial to G. A. Cohen's attempt to refute Nozick, *Self-Ownership, Freedom, and Equality* (Cambridge: Cambridge University Press, 2010). Accepting self-ownership, Cohen tries, unsuccessfully I think, to counter the move from self-ownership to world-ownership.

(57) Victor Borovsky, *Chaliapin: A Critical Biography* (New York: Knopf, 1988), p. 352.

go further than Nozick and say that the main defect of Rawls' theory of justice is that it is a theory of prudence, not of justice.⁽⁵⁸⁾ The rational individuals in Rawls' original position are risk averse. They are focused on the worst outcome possible for the least-endowed group in society and seek to make this outcome as tolerable as possible, out of fear of ending up in that group. They are adopting a strategy in face of a risk. Traditionally, justice is something different, a requirement, not a strategy. It is really defined by its opposite: Justice is the absence of injustice, just like peace is the absence of war and freedom the absence of coercion. As Adam Smith observed: 'Mere justice is, upon most occasions, but a negative virtue, and only hinders us from hurting our neighbour.'⁽⁵⁹⁾ Justice is that on which you can insist from other people, unlike for example generosity, charity or courage. Mill commented: 'When we think a person is bound in justice to do a thing, it is an ordinary form of language to say, that he ought to be compelled to do it.'⁽⁶⁰⁾

Because the Difference Principle, or the maximin rule, is a strategy rather than a real principle of justice, it is contingent. It can hardly be applied universally. In the second decade of the twenty-first century the world population is around seven billion. Many people live in abject poverty in countries like the Democratic Republic of Congo, Yemen and Haiti, with scant opportunities to better their conditions. It is estimated that in 2017 almost half the world population lived on less than \$5.50 a day, although poverty has been rapidly decreasing in the last two decades.⁽⁶¹⁾ It would be hard to extend the moral vision of the negotiators in the original position to all the people living on our planet. The worst-off group in Rawls' structure apparently refers only to the underclass in a prosperous, liberal democracy. Rawls' redistributionism has to be 'socialism in one country'. Indeed, his theory is parochial, almost comically so. Rawls closes his eyes and tries to imagine what a

just society would be like, and when he opens his eyes again what he sees is something like the Commonwealth of Massachusetts in which he happens to live himself, an affluent society but more liberal politically than economically. It is not a problem, on the other hand, to apply Nozick's entitlement theory to the whole world because it does not stipulate any claims by the worst-off Yemenis on the resources of Swiss citizens. Nozick can both 'delete' and 'add' groups in his society without a significant effect on the process.⁽⁶²⁾ Moreover, is Rawls' maximin strategy really all that credible? In life, people are inspired by hope no less than fear. It seems to me a real possibility that in the original position, under a veil of ignorance, rational individuals would not be motivated by risk aversion alone. They might decide on a safety net, a guaranteed minimum income, financed by taxes and dependent on the level of prosperity, but with no restriction on incomes above this minimum. Rawls' thought experiment might lead to outcomes different from what he himself envisaged.

It should be noted that Rawls did not consider himself to be a socialist or even a defender of the welfare state. He was for a while member of Hayek's Mont Pelerin Society although he later seemed to have moved to the left.⁽⁶³⁾ I see two merits in Rawls' theory. First, it sets an upper limit to redistribution that even socialists should accept (just like Laffer's theory of public finance sets a limit to taxation that even tax collectors should recognise). Redistribution can become counter-productive. If it has such detrimental effect on production that the worst off will in fact be worse off by it than otherwise, then the only reason for socialists to continue supporting it would appear to be sheer envy, a desire to bring down the rich. But even if socialists should perhaps accept the upper limit Rawls sets to redistribution, it is not by any means certain that they in fact do so. In a massive recent work on income distribution French socialist Thomas Piketty proposes confiscatory global taxes on the rich:

(58) Cf. John R. Lucas, *On Justice* (Oxford: Clarendon Press, 1980), p. 186; Flew, *Politics of Procrustes*, pp. 81–2.

(59) Adam Smith, *A Theory of Moral Sentiments* (1759), Pt. II, Sect. II, Ch. I (London: Henry G. Bohn, 1853), p. 117.

(60) Mill, *Utilitarianism* (1861), *Collected Works*, Vol. X, p. 245.

(61) Poverty, The World Bank (2020). <https://www.worldbank.org/en/topic/poverty/overview>

(62) Nozick writes in *Anarchy*, p. 210: 'The entitlement principle of justice in holdings satisfies both the deletion and the addition conditions; the entitlement principle is non-organic and aggregative.'

(63) Katrina Forrester, *In the Shadow of Justice* (Princeton NJ: Princeton University Press, 2019), pp. 109–110.

He is concerned about the rich, not the poor.⁽⁶⁴⁾ While most people would consider poverty to be a social evil, some of us would not think in the same way about prosperity. It should be welcomed, not lamented. In the half a century since Rawls published his tome the rich have become richer. But the poor have also become richer. The main cause of both trends is liberalisation of international trade, or ‘globalisation’. People with clever ideas or special talents have found billions of new customers; and the poor urban masses of countries like China and India have migrated into the middle class in hundreds of millions. They have produced themselves out of poverty. Perhaps the reason why the left has shifted its focus, moved it from Rawls’ poverty to Piketty’s wealth, is that poverty has become much less of a problem than it used to be. But who are the rich today? The composition of billionaires has greatly changed since 1984 when the American business magazine *Forbes* published its first list of the 400 richest people in the world. Then less than half of the people on the list were self-made. Most had inherited their wealth. But in 2018, two thirds had created their own fortunes.⁽⁶⁵⁾ Piketty’s worries about the rich seem unwarranted, unlike Rawls’ concerns about the poor.

The second merit in Rawls’ theory is that it poses an important question: In what kind of society is the worst-off group likely to find the least bad living standards? Hayek mentions a situation somewhat akin to Rawls’ original position under a veil of ignorance. In the early stages of the Second World War, when Hayek was living in England, he might have been able to place his two children in some neutral and therefore presumably safe country. In what kind of society would he have liked his children to grow up, where he could not assume the advantages of his own class and position? The answer was: where they would have the best chances of living a decent and meaningful life. It was Hayek’s judgement at the time that North America would have offered them

more opportunities than, say, Sweden.⁽⁶⁶⁾ Today, a well-documented answer to Rawls’ question about the worst off can be found in the Index of Economic Freedom which extends to 162 jurisdictions. If the countries of the world are divided into quartels according to economic freedom, in 2018 the average GDP per capita in the top quartile was \$44,198, compared to \$5,754 in the bottom quartile. For our purposes it is however more interesting how the worst off fare. In 2018, the average income of the poorest 10 per cent in the top quartile was \$12,293, compared to \$1,558 in the bottom quartile. The numbers are remarkable, although not surprising: the average income of the poorest 10 per cent in the freest economies was more than twice the average per-capita income in the least free economies. Moreover, in the top quartile 1.7 per cent of the population lived in what is usually considered to be extreme poverty (\$1.90 a day), compared to 31.5% in the bottom quartile.⁽⁶⁷⁾

The conclusion is that capitalism, based on free trade, private property and limited government, passes the Rawlsian test. It is not only just according to Nozick’s entitlement theory: it is also the best strategy to adopt in Rawls’ original position. The freest economies have the best, or least bad, living standards to offer to all, also their worst off. A distinction can however be made between the Anglo-Saxon and Scandinavian varieties of capitalism, with higher taxes and more generous welfare benefits in the three Scandinavian countries, Sweden, Denmark and Norway, than in the United States, United Kingdom, Canada, Australia and New Zealand (most other countries being somewhere in-between these two models). The main difference between the Anglo-Saxon and the Scandinavian countries is that living standards of the poorest are roughly equal in both kinds of societies, whereas the richest are richer (the scale of incomes reaches further upwards) in Anglo-Saxon countries.⁽⁶⁸⁾

(64) Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge MA: Belknap Press, 2014). Cf. a collection of reviews and essays critical of Piketty’s work, *Anti-Piketty: Capital for the 21st Century* ed. by Emmanuel Martin, Nicolas Lecaussin, and Jean-Philippe Delsol (Washington DC: Cato Institute, 2017). Also Hannes H. Gissurarson, *Spending Other People’s Money: A Critique of Rawls, Piketty, and Other Redistributionists* (Brussels: New Direction, 2018).

(65) Louisa Kroll, The Forbes 400 Self-Made Score: From Silver Spooners to Bootstrappers, *Forbes* 3 October 2018.

(66) Friedrich A. Hayek, *Law, Legislation and Liberty*, Vol. II (London: Routledge & Kegan Paul, 1976), pp. 188–189.

(67) James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy, *Economic Freedom of the World: 2020 Annual Report* (Vancouver BC: Fraser Institute, 2020). All numbers are in US 2017 PPP dollars.

(68) What confuses the issue is that many sociologists work with a concept of *relative* poverty which paradoxically implies that if somebody becomes richer (or if a billionaire moves to the country) while nobody becomes poorer, poverty has increased. On the contrary, it is *absolute* poverty which is relevant. ‘Poverty is about not having *enough* rather than about having *less*,’ philosophers Loren Lomasky and Kyle Swan point out, *Wealth and Poverty in the Liberal Tradition*, *The Independent*

Some would see this as a blessing rather than a curse because it would suggest that there are more economic opportunities in the Anglo-Saxon model. In other words: in terms of fear of the worst there are negligible differences between the two kinds of societies, but in terms of hope for the best the Anglo-Saxon countries have more success.

Nozick considers some other complaints about capitalism. One is that under it people have limited choices. But it may be the legitimate choices of others that are reducing your alternatives. Suppose there are ten girls and ten boys seeking lifetime partners. The most desirable girl ends up with the most desirable boy, the second most desirable girl with the second most desirable boy, and so on, until only the tenth girl and tenth boy are left. The two of them face very limited alternatives. They can choose each other or celibacy. But this is nobody's fault. No injustice has been committed. Perhaps the tenth girl and the tenth boy should also regard this as a challenge to become more attractive. The market for labour is similar in that the ablest workers will have no difficulty in obtaining desirable jobs, while others will find themselves at the end of the line. The difference between the choice of partners and the labour market is however that job applicants can make themselves more desirable by special offers, for example about training more, working longer or charging less. The number of jobs is not fixed, unlike the number of available (monogamous) partners. One advantage of price flexibility under competitive capitalism is that individuals with low skills or from an unpopular group can at least partly make up for their disadvantages by offering their potential employers better terms. In general, if the rule is 'From each as they choose, to each as they are chosen,' then individuals might perhaps try to do something about being chosen. In a free society they have however no claim on others to be chosen by them.

In the third part of *Anarchy, State and Utopia* Nozick addresses

Review, Vol. 13, No. 4 (2009), p. 495. According to World Bank estimates, in the mid-2010s a negligible fraction of the population both in Anglo-Saxon and Scandinavian countries, less than 1 per cent, lived on \$5.50 a day or less, except in the United States where the number was 2 per cent (probably because of immigration and variance between states). Poverty headcount ratio at \$5.50 a day (2011 PPP), <https://data.worldbank.org/indicator/SL.POV.UMIC> According to CIA estimates, the proportion of the population below the poverty line was roughly similar in all these countries, varying between 9 per cent in Canada and 15 per cent in the United Kingdom and Sweden. Population below poverty line, *The World Factbook* (Washington DC: CIA, 2018).



Volunteers at Kibbutz Amir in Israel (then British Mandate for Palestine) on 30 June 1940. Nozick stresses that a free society is essentially a framework within which people can establish their own utopias, including socialism. But this has to be socialism by choice, like the kibbutz. Photo: Kluger Zoltan.

the question whether his minimum state is inspiring enough. He points out that such a state leaves it to the citizens themselves to make something of their lives. Individuals are different and they can form different communities, provided they do not force others to participate in their projects.

The minimum state can be regarded as a structure under which people may seek to realise their dreams without turning them into nightmares for other. It is a meta-utopia where they can join with others in building their freely chosen utopias. On a practical level, the competition between different communities under a federal system may approach Nozick's choice between utopias.⁽⁶⁹⁾ You move from the community you do not like to a community where you

(69) Charles M. Tiebout, A Pure Theory of Local Government Expenditure, *Journal of Political Economy*, Vol. 64, No. 5 (1965), pp. 416–424; James M. Buchanan, Utopia, the Minimal State, and Entitlement, *Public Choice*, Vol. 23 (1975), pp. 121–126; Chandran Kukathas, E Pluribus Plurum, or, How to fail to get to utopia in spite of really trying, *The Cambridge Companion to Nozick's Anarchy, State, and Utopia*, ed. by Ralf M. Bader and John Meadowcroft (Cambridge: Cambridge University Press,), pp. 289–302.

feel more comfortable, for example from a high-tax canton to a low-tax canton in Switzerland. This idea has a long and respectable pedigree in liberal thought, in the works of Tocqueville, Lord Acton, Hayek and Buchanan, although it is not without its problems. How far should harmonisation of laws, standards and policies go within a federation? Might some coercion inside an enclave, such as a religious sect, be tolerated if initially accepted by the members even if such coercion would not be generally permitted? Should secession be allowed? Nevertheless, it is an intriguing idea if you are a committed socialist that there may be nothing to prevent you from forming a socialist community inside Nozick's minimum state. In the nineteenth century Mill believed that socialism should be put to the test in this way. 'If Communist associations show that they can be durable and prosperous, they will multiply, and will probably be adopted by successive portions of the population of the more advanced countries as they become morally fitted for that mode of life.'⁽⁷⁰⁾ Nozick poses the question who would choose socialism. To get an answer he looks at the kind of collective community found in Israel, the kibbutz, in which people jointly own the property and work together. It is a genuine choice because both alternatives are reasonably attractive, to enter a kibbutz and to stay outside it, in 'normal' society. The answer is that around six per cent of the Israeli population choose to live in a kibbutz.⁽⁷¹⁾ This is presumably the proportion of people in the West who would choose socialism if it was not enforced: around six per cent.

Nozick as a Conservative Liberal

I met Nozick twice, at Liberty Fund colloquia in the early 1980s when I was a graduate student. In the first colloquium, he and James M. Buchanan gave presentations which then were discussed, and in the second one it was the turn of him and David Friedman. Buchanan and Friedman were formidable, but Nozick made an even stronger impression. He looked

more like a film star than a philosopher: George Clooney playing John Galt. He was tall and handsome, with a square jaw and full mouth, heavy black eyebrows and thick, grey-streaked hair which flowed over his forehead.⁽⁷²⁾ He moved briskly and had an easy smile. He was self-assured without being arrogant, friendly in a slightly impersonal way. He spoke in a loud, clear voice, with a strong Brooklyn accent. In debate, he was brilliant, quick as a lightning, the only equal I have ever seen of Milton Friedman. Over dinner, he was expansive, but also a good listener. To me, he recalled his pleasant stay in Oxford as a Fulbright Scholar in the 1960s and admitted, with a chuckle, that the history of political thought put together by John Plamenatz which he had then read had saved him the effort of going through some boring stuff.⁽⁷³⁾ He told me that some time after the publication of *Anarchy, State and Utopia* the US Ambassador to the United Kingdom had been given the task to introduce the heir to the throne, Prince Charles, to prominent American thinkers. Nozick had therefore been flown to London for dinner with the Prince and some other prominent people at the Ambassador's residence. 'I was seated next to a duchess. I was only one generation away from the Russian shtetl,' he said and laughed. He took the same position on political philosophy as Popper: that it was not his main vocation. 'I am certainly not going to write the Son of Anarchy, State and Utopia. I want to move on,' he said dismissively. When I met him at Oxford, a collection of articles had recently been published about his book. It was my feeling that Nozick did not think much of the contributions, with one exception: He told me that the essay by Professor Israel Kirzner was quite insightful, describing how entrepreneurs discovered value which they could then be said to have created.⁽⁷⁴⁾

Nozick was an explorer of uncharted territory, not necessarily the defender of an existing position. In one of the colloquia he confessed to us that he saw one main weakness in libertarianism. It was the

(72) Cf. Lieberman, Harvard's Nozick.

(73) John Plamenatz, *Man and Society: a Critical Examination of Some Important Social and Political Theories from Machiavelli to Marx*, I–II (London: Longmans, 1963).

(74) Israel M. Kirzner, Entrepreneurship, Entitlement, and Economic Justice, *Eastern Economic Journal*, Vol. 4, No. 1 (1978), pp. 9–25. Repr. in *Reading Nozick*, pp. 383–411.

(70) John Stuart Mill, *Chapters on Socialism* (1879), Ch. 4. *Collected Works*, Vol. V, ed. by John M. Robson (Toronto: University of Toronto Press, 1967), p. 746.

(71) Robert Nozick, Who Would Choose Socialism? *Socratic Puzzles*, pp. 277–279.

possibility that property squeezed out liberty. ‘Imagine that all the land is owned by a few people and that they, for one reason or another, intensely dislike a particular person. They prohibit him from travelling on their land. But there is nowhere else to go, no other land. How is this man going to survive?’ I pointed out (as did others in the conversation) that this unpopular person might fare even worse if resources were publicly controlled. Then he had much less chance of finding somebody to help him than under a system where resources were dispersed, under the control of many different individuals. ‘Yes, but the possibility remains,’ Nozick replied. ‘It seems to me that in such cases property has to give way to liberty. But this is not the position of Rothbard and his crowd. I would make a distinction between the libertarianism that I support and their position which I would call propertarianism. For them, private property seems always to take precedence, come what come may.’ Nozick gave another example: ‘Suppose there are three men in a spaceship which would only return to earth in a year. They have sufficient supplies of oxygen. But then somehow, the oxygen ends up in the hands of one of them, perhaps when they were playing cards. Is this man allowed to extort from the others most or all of their earthly goods and then to take possession of those goods when they return? The propertarians say yes, but I as a libertarian would say no.’ Nozick did not criticise Rothbard personally in public, but privately he told me that he found Rothbard to be sometimes quite unfair in debate. He really did not want to understand the views of those he considered to be his opponents, only knock them down. ‘He has a powerful mind,’ Nozick said to me, ‘but not a subtle one.’

Nozick is right: Although political power is certainly more of a threat to liberty than is private property, we may not want a few individuals to control all our space, all our means of communication. Suppose all motorways in a country are owned by, say, one or two private companies and that their main owners all happen to be misogynists. They decide to prohibit women from driving on the roads. This may be unlikely (although it was the case in Saudi Arabia until 2018), but it would be unacceptable to all but the most committed propertarians. With the emergence of social media in the twenty-first century a similar problem has arisen, that of dominant internet companies in global social media,

such as Amazon, Facebook, Twitter and Youtube. If Amazon refuses to sell your book because it is not ‘politically correct’, you have been deprived of your possibilities to promulgate your views, whereas in the past no single company had comparable control over book distribution.⁽⁷⁵⁾ If Facebook or Twitter or Youtube close your account, you have practically been silenced. If you depend on your followers for your livelihood, then you have also been financially ruined.⁽⁷⁶⁾ The dominant internet companies may also take it upon themselves to label some news on politics as ‘fake news’ and to close the account of those who forward it. This is a problem German economist Wilhelm Röpke, with his fear of monopolies and cartels, would certainly have recognised. The solution is however not necessarily to pass new anti-trust laws or establish yet another regulatory agency, but rather to facilitate challenges to the giants now dominating the internet.

The distinction between propertarianism and libertarianism was implicit in *Anarchy, State and Utopia* where Nozick discussed cases when property had to give way to liberty.⁽⁷⁷⁾ But I think that the main reason why Nozick was later to regard the libertarianism presented there as ‘seriously inadequate’ also came out in our conversations in Oxford, especially in private. In his book, Nozick had based his arguments on the rational, unattached individual with no collective identity or historical ties. But afterwards he had obviously rediscovered his Jewish identity. He had realised that he was, and had not chosen to be, a member of a community which had been persecuted and almost exterminated in Europe only a few decades earlier. The Holocaust had taken on a special

(75) Amazon refuses to sell books deemed to be offensive or hostile to the Jewish, Muslim, African-American, gay and lesbian communities, but apparently happily sells book offensive or hostile to Christians. Most books banned by Amazon are without doubt composed by odious bigots, crackpots, and fantasists, but perhaps one should argue with them, or alternatively not dignify them with a response, instead of simply trying to silence or excommunicate them. Private censorship seems less harmful than public censorship because there are alternatives: you can sell your stuff somewhere else. But what if there are no alternatives?

(76) An example is how both Twitter and Facebook in 2016 and 2019 respectively cancelled the popular accounts of English contrarian Milo Yiannopoulos. As a result he was cut off from his many followers who had contributed to his cause. Subsequently he went bankrupt. But since he had managed to alienate almost all civilised people, few were prepared to take up his cause. But if this happens to Yiannopoulos today, could it not happen to you tomorrow?

(77) Nozick, *Anarchy*, p. 180.

significance for him.⁽⁷⁸⁾ The foundation of a Jewish state changed his conception of the state. It became for him not only an enterprise with a monopoly on using physical force, confining itself to producing pure public goods like defence and law and order. It also represented the common identity of a certain group, a nation with her own history and the will to live together.

We had a discussion about Iceland and Israel, two small nations with unusually strong collective identities, forged in the first case by a common struggle for survival on a remote island for more than eleven hundred years, in the second case by a long, unbroken cultural tradition. I told Nozick that in 1947 Iceland had given crucial support to Israel at the United Nations. Iceland's delegate to the UN had been appointed rapporteur for a committee on the partition of Palestine which was necessary if Israel was to become independent. 'The key to this turning point in the first part of the UN meeting would lie in the hands of a small island country in the middle of the Atlantic Ocean,' Israeli diplomat Abba Eban wrote. 'Our future as a people depended on its most decisive day on the momentum or atmosphere which would be created by a representative of Iceland.' Before the meeting, Eban went to see Iceland's delegate, Ambassador Thor Thors, who turned out to be much more sympathetic to the Jewish cause than he had expected. The Ambassador told Eban that Iceland 'was a stubborn and tenacious democracy, guarding its national particularity within its rain-swept island boundaries for century upon century—a people determined to be itself, sharing its language and literature with no other nation.' He added: 'Such a people could be relied upon to understand the perseverance with which the Jewish people clung to its own specificity and to the recollections of its own patrimony.' The Ambassador gave an outstanding performance at the UN meeting, and a plan for the partition of Palestina was adopted.⁽⁷⁹⁾

Nozick listened to this with great interest. He said that he was both a loyal citizen of the United States and a committed member of the

(78) Cf. the chapter on the Holocaust in Nozick's *Examined Life*.

(79) Abba Eban, *Autobiography* (New York: Random House, 1977), pp. 97–98.



Nozick argues that the creative powers of capitalism, increasing opportunities for all, more than compensates for some not being able to appropriate assets others enjoy. Illustration by Norman Rockwell.

Jewish community. He had lived and worked in Israel. I told Nozick that the relationship between Iceland and Israel had been quite friendly since Israel proclaimed her independence in 1948. For example, Israel's Prime Minister David Ben-Gurion had paid a memorable visit to Iceland in September 1962 where he had been received by the Prime Minister, Olafur Thors, brother of the Ambassador who had played such a crucial role fifteen years earlier. The two prime ministers went to Thingvellir, the site of the old Icelandic parliament, established in 930. For more than three hundred years, Iceland had been a Commonwealth, under the law, but without government. Thors proudly told his colleague that many of the Icelandic sagas took place at Thingvellir. They, along with the historical chronicles by Snorri Sturluson and others, were a marvelous cultural heritage, cherished by modern Icelanders. The Icelanders could still read them in the original. Ben-Gurion remarked that it could be said that Israel was the land of *the Book*, and that Iceland was the land of *the books*.⁽⁸⁰⁾ The Book was the Hebrew Bible, and the books were the old Icelandic sagas and chronicles. I added that in many ways the Icelandic Commonwealth had been like a federation of many protective associations, similar to those Nozick described in the first part of *Anarchy, State and Utopia*. Then in late eleventh and early twelfth century many of them had been merged with the result that Iceland essentially became a country of five mini-states, governed by prominent families, after which the Norwegian king annexed her in 1262.⁽⁸¹⁾

My conversations with Nozick about collective identities prepared me for his later revision of the views expressed in *Anarchy, State and Utopia*. He did not move in the direction of more economic interventionism. Instead he added conservative insights about the human condition to the general liberal principles he had presented with such gusto in his book. Nozick did not become a 'communitarian' like those modern intellectuals who think little of individual choice.⁽⁸²⁾ He became more of a conservative liberal in the tradition of Hume, Tocqueville, Hayek,

Röpke, and Oakeshott. As Nozick put it himself, his earlier libertarianism 'did not fully knit the humane considerations and joint cooperative activities it left room for more closely into its fabric'. We should note his recognition that the free society 'left room for' humane considerations and joint cooperative activities. He was observing their absence from most liberal writings, especially from free-market economics, and not suggesting that they should replace individual choice. What I think Nozick realised, having embraced his Jewish identity, was that modern man is more than an unencumbered individual who has acquired the will and ability to make choices. He (or she) is also a member of a community, the family into which he has been born and of his neighbourhood, congregation, region and state, and, ultimately, of humanity. He will form a new family and he may move away from his place of birth (as Nozick's parents did), but he cannot leave behind all his attachments and ties although he will replace some of them with new attachments and ties, in an historical, continuous process. The rational, unattached individual with no awareness of other times and other places is a uniquely modern creature, whereas a free society is a partnership between past, present and unborn generations, as Edmund Burke put it.⁽⁸³⁾ There is no basic incompatibility between the state as a night watchman both protecting us from forces of the dark and rescuing us in emergencies, and the state as the custodian of our cultural heritage to which we owe firm loyalty as well as moderate taxes. These roles are complementary rather than dissimilar. 'There are some things we choose to do together through government in solemn marking of our human solidarity,' Nozick observed,⁽⁸⁴⁾ not unlike Benjamin Constant who stressed that we are not only customers of one another but also citizens, joined together in recognition and appreciation of our civilisation, Western in origin, but of universal application.

(80) Matthias Johannessen, *Olafur Thors*, Vol. II (Reykjavik: Almenna bokafelagid, 1981), p. 334.

(81) Cf. my discussion of Snorri Sturluson in the first chapter of this book.

(82) Cf. Charles Taylor, *Sources of the Self* (Cambridge MA: Harvard University Press, 1992); Michael Sandel, *Liberalism and the Limits of Justice* (Cambridge: Cambridge University Press, 1998).

(83) Edmund Burke, *Reflections on the Revolution in France* (1790), *Select Works of Edmund Burke*, Vol. II (Indianapolis IN: Liberty Fund, 1999), p. 192–193.

(84) Nozick, *The Zigzag of Politics, Examined Life*, p. 287.

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