3. Neoliberalism and the crisis of liberal modernity in the 1930s

Neoliberalism emerged as a set of ideas and a political movement in the 1930s, in part in response to the crisis of that decade. It had its own interpretation of the crisis and of mass society more widely, but it was one that closely paralleled the concerns of those conservative and elite theorists considered in the previous chapter. This chapter charts the emergence of neoliberal theory, and the diverse movements which constituted the early neoliberal thought collective (Mirowski and Plehwe 2009), which emerged through the formation of the Mont Pelerin Society (MPS) after the Second World War, which is discussed in the opening section. The chapter then goes on to examine the various strands of neoliberal thought at the time, and in particular the Austrian School, the German ordo-liberal school, and the early Chicago School (the later Chicago School and Virginia school of public choice are examined in Chapter 4). Finally, the chapter provides a critical reflection on both the mass society thesis considered in Chapter 3, and the neoliberal interpretation of it considered in this chapter.

FROM COLLOQUE WALTER LIPPMANN TO THE MONT PELERIN SOCIETY

The rise of collectivism in the nineteenth century did not go unchallenged by those claiming allegiance to what they considered to be classical liberalism. In the nineteenth century, Herbert Spencer attacked government intervention which challenged the market, and was critical of legislation on child labour, compulsory vaccination, and factory inspections on the grounds that they represented coercive cooperation. In addition, assistance to the ‘undeserving poor’ was harmful, and democracy was dangerous as it encouraged government intervention at the expense of individual freedom. The extension of education to the masses was also dangerous as it would lead to an increase in their desires and demands. For Spencer, the state had no role apart from simply guaranteeing and shaping what already exists, such as the execution of
contracts. If some people failed in the marketplace, this was simply their own responsibility, as ‘[t]hey are simply good for nothings, who in one way or other live on the good for somethings’ (Spencer 2012: 23). Thus, Spencer (2012: 23) asked, ‘[i]s it not manifest that there must exist in our midst an immense amount of misery which is a normal result of misconduct, and ought not to be dissociated from it?’ For Spencer, the liberalism of the past challenged and set limits to royal power, while the liberalism of the future should limit the power of parliament in the face of pressure from the masses. States should not concern themselves with the well-being of people but with simply guaranteeing the market economy and the competition that arises from this order.

However, it was not until the 1930s that an organised neoliberal movement emerged. This was at the Colloque Walter Lippmann in Paris in 1938, a gathering to discuss Lippmann’s *The Good Society* which had been published the previous year, which railed against the ‘dominant dogma of the age’ (Lippmann 2004: 9), namely collectivism, an illusion shared by ‘communists, socialists, fascists, nationalists, progressives and even liberals’ (Lippmann 2004: 3). He argued that the market economy was superior to state intervention, and that in a free society ‘the state does not administer the affairs of men. It administers justice among men who conduct their own affairs’ (Lippmann 2004: 267). The Colloquium took place in August 1938 and was organised by the French philosopher Louis Rougier. What united participants was regret at the rise of this collectivism and the search for an appropriate role for the state. It was this discussion – namely, finding the appropriate balance between state coercion and market freedom – which led to the formulation ‘neoliberal’, used first in the 1930s by the German ordo-liberal Alexander Rustow (see Nicholls 1994: 96–7).

Neoliberals argued that the state should go beyond laissez-faire, but not promote intervention that undermines competition between private interests (Dardot and Laval 2014: 47). Rather, the state must provide the legal framework for the market to operate. An important figure at the colloquium, Hayek (2001: 84) argued a few years later that ‘[t]he question whether the state should or should not “act” or “interfere” is a highly ambiguous and misleading description of the principles on which a liberal policy is based’. He later argued in a similar vein: ‘it is the character rather than the volume of government activity that is important’ (Hayek 2006: 194). Rougier himself argued for a new interventionism and so rejected laissez-faire and Spencer’s strict anti-state policies. However, this interventionism differed greatly from the new liberals and instead championed the view that the state must plan for liberty to
ensure, in Rougier’s words, ‘the victory of the fittest in a fair competition’ (quoted in Dardot and Laval 2014: 61). This was easier said than done and reflected an ongoing tension in neoliberal thought, to which we will return, for as Dardot and Laval (2013: 63) point out, ‘[t]o break with the “phobia about the state” as manifested in exemplary fashion in Spencer is one thing; to fix the boundary that separates legitimate from illegitimate intervention is quite another’. In the 1930s there were a number of positions: the Austrian thinker, Ludwig von Mises, was most uncompromisingly anti-state, while Rougier and Hayek argued for a general rules approach to state intervention, in the case of the former drawing on a highway code metaphor to distinguish the idea from laissez-faire (where cars can go in any direction) and central planning (where journeys are determined by a central authority) (see Jackson 2010: 137–9). Ordo-liberals emphasised the importance of the state in upholding the market order, but at the same time were in many respects the most critical of the welfare state (Jackson 2010: 140–42; and see further below). This in part was because at this time, neoliberals were generally hostile to private monopolies and saw an important role for the state in maintaining and promoting competition in the face of corporate monopoly. This was again an issue highlighted above all by the ordo-liberals, but the early Chicago School shared this view. For instance Henry Simons (cited in Jackson 2010: 142) wrote in 1934 that ‘the great enemy of democracy is monopoly in all its forms: gigantic corporations, trade associations and other agencies for price controls’. It was also a view endorsed by Hayek (2001: 200) who went so far as to argue that ‘the impetus of the movement toward totalitarianism comes mainly from the two great vested interests: organized capital and organized labour’. While this view was also shared by Friedman as late as 1951 (see Chapter 4), and even to some extent beyond this, we will see in the next chapter that neoliberalism from the 1950s onwards, especially in its (increasingly dominant) Chicago variant, made its peace with corporate monopoly, though not with trade unions.

The Colloquium settled on a definition of neoliberalism that emphasised the priority of the price mechanism, free enterprise, competition and a strong and impartial state (cited in Plehwe 2009a: 14). The Colloquium launched a journal (Cahiers du Liberalisme) and a think tank (Centre international d’études pour la renovation du liberalisme) with a head office in Paris and other offices in Geneva, London and New York. Following a number of national initiatives, such as the founding of the Society of Individualists in Britain in 1942, the American Enterprise Institute in 1943 and the Foundation for Economic Education in 1946 in the US (Cockett 1995: ch. 2; Stedman Jones 2012: ch. 4), Hayek took it
upon himself to restore the Colloque Walter Lippmann after the war (Cockett 1995: 55–6). This was given an added urgency with the 1945 landslide victory for Labour in Britain (still Hayek’s home at this point) against a Conservative Party which, although clearly divided, was influenced by Hayek through the 1944 publication of *The Road to Serfdom*, particularly through the Conservative Party Chair, Ralph Assheton (who later became Lord Clitheroe).¹ The MPS was formed to challenge this encroachment of the state on the individual, and in some respects resist the interventionist claims made by new liberalism (Hartwell 1995: chs 1 and 2).

The founding MPS conference was attended by a number of like-minded thinkers brought together by what they conceived to be the collectivist threat to individual freedom. Among the initial members were the English contingent, located at the London School of Economics and Manchester, which included Hayek, Lionel Robbins, Ronald Coase, John Jewkes and Michael Polanyi; Austrian exiles including Gottfried Harbeler and Ludwig von Mises; a Paris contingent which had emerged out of the Colloque Walter Lippmann, and which included Raymond Aron and Louis Rougier; a fourth group from Germany, largely comprising the Freiburg School of ordo-liberalism, including Ludwig Erhard, Walter Eucken and Wilhelm Ropke; and, finally, Americans largely from Chicago including Henry Simons, Aaron Director and Milton Friedman (Hartwell 1995: 45–6). In the draft statement of aims, the MPS stated that: ‘Individual freedom can be preserved only in a society in which an effective competitive market is the main agency for the direction of economic activity. Only the decentralization of control through private property in the means of production can prevent those concentrations of power which threaten individual freedom’ (cited in Plehwe 2009a: 22–3). The draft statement also emphasised the centrality of consumer choice, planning at the level of the individual, the need for framework for a competitive order, and the rule of law and the need to curtail discretionary state power (see Hartwell 1995: 49–50). In addition, the statement warned of the dangers of historicism and relativism, the need for a widely accepted moral code, and the dangers of totalitarianism. In particular, following Hayek’s account in *The Road to Serfdom* it was stated that: ‘The decline of competitive markets and the movement toward totalitarian control of society are not inevitable. They are the result mainly of mistaken beliefs about the appropriate means of securing a free and prosperous society and the policies based on these beliefs’ (cited in Hartwell 1995: 49).

However, there was no agreement on this draft statement and, instead, a far more general and vague statement of aims was adopted, which
Again highlighted the dangers of relativism and the need for a competitive market, the rule of law and the centrality of private property (Hartwell 1995: 41–2). The MPS was the most important think tank for the dissemination of neoliberal ideas after the Second World War, and in many respects was the ‘international’ think tank that sat alongside a growing number of national think tanks. There was no single neoliberalism adopted by the MPS, and from its formation there were significant groupings around the Austrian School and Hayek in particular, the German ordo-liberals, and the Chicago School. Chapter 5 considers these ideas in some depth, but some initial introduction is necessary at this point.

HAYEK AND THE AUSTRIAN SCHOOL

The Austrian School had its origins in debates in economic theory in the 1880s and 1890s, and particularly the shift away from classical political economy’s search for an objective measure of value. This was the marginalist revolution which gave rise to neoclassical economics, and particularly the idea that value cannot be measured outside of the subjective preferences of individuals expressed in and through the market. The Austrian School’s main theorist at this time was Carl Menger, who played a leading role in debates with the German-speaking historical school, the latter of which argued that there can be no universal ideas (such as individual utility) outside specific historical and institutional contexts (see Hodgson 2001). In this debate, Menger had much in common with neoclassical economists such as Jevons and Walras, although in other ways the Austrian School was highly critical of the equilibrium assumptions of this school of economic thought.

Two of the leading thinkers of the Austrian School by the 1920s and 1930s were Mises and Hayek. Both used the methodological individualism that was central to the original development of the school, to develop wider analyses of the rise of collectivism. Central to Hayek’s analysis in his best-selling 1944 work, The Road to Serfdom was the argument that the rule of law and the market order were being undermined by the rise of collectivist politics in mass democracies, and that the latter would undermine the prospects for both liberty and prosperity. The collectivist nature of both state socialism and Nazism meant that Hayek considered both to be socialist doctrines that were not conducive to individual freedom and the rule of law. Hayek consistently argued that Nazi Germany was socialist and that while it was a major threat to liberal civilisation, ‘[i]t is necessary now to state the unpalatable truth that it is
Germany whose fate we are in some danger of repeating’ (Hayek 2001: 2). This was because ‘[f]ew are ready to recognise that the rise of Fascism and Nazism was not a reaction against the socialist trends of the preceding period, but a necessary outcome of these tendencies’ (Hayek 2001: 4). He went on:

[w]ith the decline of the understanding of the way in which the free system worked, our awareness of what depended on its existence also decreased … We have in effect undertaken to dispense with the forces which produced unforeseen results and to replace the impersonal and anonymous mechanism of the market by collective and ‘conscious’ direction of all social forces to deliberately chosen goals. (Hayek 2001: 20, 21)

At this point, and broadly consistent with the arguments made in Paris in 1938, Hayek was critical of monopoly (see above). Hayek’s objection to collectivism was influenced strongly by Mises. As early as the 1920s, he had argued that goods could not be effectively allocated through the mechanism of central planning. This was part of the socialist calculation debate, in which supporters attempted to show that a socialist economy was perfectly feasible and could include the price mechanism, while opponents argued that socialism could not work because of the complexity of coordinating all economic activities in the hands of public authorities (see Lavoie 1985). Hayek’s argument was that no individual could possibly hold the information or knowledge that could make central planning efficient. In contrast to the utility-maximising individual of neoclassical economics, Hayek argued that individual knowledge was limited (Hayek 1972a), and it was precisely for this reason that the market order is the most effective way of organising society, because it coordinates all the limited but spontaneous actions of individuals. The price system is the way of transmitting information about the actions of many individuals, but it operates above the actions of any one individual. It is thus a spontaneous order. State planning is a constructed order which undermines these spontaneous actions. This is detrimental to both efficiency, as it undermines the price mechanism, and to freedom, as it leads to the state undermining the liberty of the individual. This point applies as much to the New Deal and to the post-war consensus as it did to totalitarian regimes, for there can be no middle way. While the effect ‘of Socialist doctrine on Capitalist society is to produce … the Servile State’ (Hayek 2001: 13), Hayek also poured scorn on the ‘inglorious years’ of the coalition government in Britain after 1931 and regretted the transformation of the economic system beyond recognition (Hayek 2001: 12–17). The government’s sins included the suspension of the gold
standard, though this was after a tortuous deflationary period of attempting to go back on to the gold standard at pre-1914 parity, culminating in severe deflation and unemployment once Britain fixed sterling’s value to gold in 1925. Hayek was not necessarily conflating Keynesianism, social democracy and totalitarian government, and *The Road to Serfdom* contains little explicit discussion of Keynes and Keynesianism and gives some support for social welfare spending (see Jackson 2010), but at the same time, there was clearly an implication that the expansion of the state was the start of a slippery slope on the road to totalitarianism. This was why he argued that interventionism in Weimar Germany led to ‘a stage in which it had, in effect … to be governed dictatorially’ and Hitler ‘merely took advantage of the decay of democracy’ (Hayek 2001: 71). This is why that book is dedicated to ‘socialists of all parties’.

In terms of the Great Depression, Hayek (2008) and Mises (2006) argued that the crisis had its roots in the misallocation of resources that followed from a period of boom. Money should serve as an effective signalling device which should ordinarily mean that changes in consumer demand will lead to changes in production. There should be a balance between consumption and investment, and between consumer and capital goods, and this would be maintained through changes in the price paid for money, or the interest rate. However, the issuing of credit through the banking system (including the central bank) meant that interest rates might reflect changes in monetary conditions rather than changes in consumer demand, thus leading to a misallocation of resources between production and consumption, and over-investment by producers in response to easy monetary conditions (see Rothbard 1963). More specifically, the availability of credit at low rates of interest encourages investment in capital goods at the expense of consumer goods. This was in effect Hayek’s account of the business cycle, but in contrast to Keynes, Hayek rejected the idea that government intervention, such as Keynesian fiscal policy, could promote recovery. He instead argued that such policies would merely delay the recovery, and what was necessary was a deep recession which would purge the economy of inefficient and uncompetitive branches, and thus lay the ground for a recovery led by efficient and competitive sectors.

Hayek also made some observations on the crisis of international security, and although his remarks were tentative and mainly focused on the impact of war on planning (Caldwell 1997), they were consistent with his overall theoretical framework. The road to war was also the product of collectivism, and in particular the restrictions imposed by national planning. Hayek envisaged a system of free trade relatively unhindered by national government and was especially hostile to the effect that
national economic planning would have on international relations. He argued (Hayek 2001: 226) that ‘[i]f the resources of different nations are treated as exclusive properties of these nations as wholes, if international economic relations, instead of being relations between individuals, become increasingly relations between whole nations organised as trading bodies, they inevitably become the source of friction and envy between whole nations’. On the eve of war, he advocated an inter-state federation with a common defence and foreign policy (Hayek 1972a: 255–72). Crucially, Hayek argued that this could only occur with a common defence regime (Hayek 1972a: 256), based on a single market and the free movement of capital and labour (Hayek 1972a: 258). So, Hayek was arguing that there was a need for an international federation that limited the power of individual nation states, and in effect acted to limit the power of collectivism at a national level, including democracy (an argument that resonates with some debates over the EU in the early twenty-first century, as we will see). His argument was that:

If, in the international sphere, democratic government should only prove to be possible if the tasks of the international government are limited to an essentially liberal programme, it would do no more than confirm the experience in the national sphere, in which it is daily becoming more obvious that democracy will work only if we do not overload it and if the majorities do not abuse their power of interfering with individual freedom. Yet, if the price we have to pay for an international democratic government is the restriction of the power and scope of government, it is surely not too high a price. (Hayek 1972a: 271)

Hayek’s mentor, Mises, perhaps most consistently developed what was a neoliberal theory of war, arguing that the interdependence that arises from free trade means that ‘there are no incentives for war and conquest’ (Mises 2009: 3). He thus argued that war was a production of protectionism and economic nationalism and that the German policy of expansion for living space – propagated by German imperialism both before and by the Nazis – was counterproductive and unnecessary (see Westley et al. 2011: 28). Mises believed that the promotion of free trade and the preservation of the Gold Standard would preserve social harmony. Both Mises and Hayek recognised the necessity of defeating the Nazis, but both were critical of the planning process that accompanies war and argued that it was counterproductive and should be reversed as soon as possible (Hayek 1941; Westley et al. 2011). In effect they were arguing for a version of what came to be called liberal peace theory (Streit 1939; Ikenberry 2001), in which peace would be based on economic interdependence between nations. Crucially however, this also meant that the
international sphere could and should undermine any national democratic collective will.

GERMAN ORDO-LIBERALISM

The inter-war period also saw the growth of a neoliberal movement in Germany. This school of thought, which came to be known as the Freiburg School (after the University of Freiburg), or more widely the ordo-liberal school, developed in the context of the collapse of the Weimar Republic and the rise of the Third Reich (Foucault 2008: 106). However, it also regarded itself as attempting to preserve and reactivate a liberal tradition in Germany which had been undermined by the development of a more statist and corporatist direction, which stretched back from Hitler to Bismarck, and the formation of the German empire in 1871. In particular it sought to restore a Rechtsstaat, a constitutional state bound by law, thus limiting the jurisdiction of any state so that individual freedom could be preserved. In some respects it sought to retrieve, but also update, the liberal principles espoused by Kant (1891). Among its influential thinkers were Walter Eucken, Wilhelm Ropke, Alexander Rustow and Franz Bohm. This group developed what came to be known as the Ordo Manifesto in 1936, and then the journal Ordo, founded in 1948, which explicitly described itself as neoliberal (Rieter and Schmolz 1993). It is this group which most clearly distinguished itself from the laissez-faire liberalism of the nineteenth century, arguing not only against the concentration of state power associated with totalitarian regimes, but also the concentration of economic, private power which resulted from laissez-faire. Like Mises, ordo-liberals argued that ‘a market is an economic form of political democracy’ (see Friedrich 1955: 511), but otherwise dismissed the Austrian as a paleo-liberal for what amounted to a defence of laissez-faire on his part. Instead, the ordo-liberals argued that only a strong state could facilitate and promote market competition, entrepreneurship, private property and the price mechanism, which were central features of a free society. They argued that, on the one hand, powerful interests in the market order can develop and capture the state, and thereby lead to a concentration of power. Ordo-liberals were particularly concerned with the rise of cartels. Ropke (in Turner 2008: 82) argued that liberals should fight ‘for the idea of the state and against the lack of freedom in which private economic monopolies – supported by government leading a shadow existence – keep the economy active’. On the other hand, there is also the danger that the state may intervene too much in the economy so that market freedom is undermined, as was the
case with the New Deal and the welfare state for example. The ‘rotten fruit’ of the welfare state reflects the rise of collectivist politics which endangers individual freedom and is an expression of ‘mass emotion and mass passion’ (Ropke 1957: 14, 1998: 152). Although (with some exceptions) critical of the Nazis, ordo-liberals regarded their rise as the product of the weak state that existed under the Weimar Republic, an argument also made by a German contemporary of the ordo-liberals, Carl Schmitt (see further below). What was needed was a strong state that could order the market economy, so that liberalism, according to Rustow, has to ‘look outside the market for that integration which is lacking within it’ (cited in Bonefeld 2013a: 111).

For the ordo-liberals, society is based on a particular relationship between individuals in which competition is the norm (Dardot and Laval 2013: 92). Capitalism has been distorted by monopoly and bad government intervention, the latter of which can lead to the former (Ropke 2009). What is needed is a ‘policy of society’ in which the market economy requires an appropriate social framework. In particular, proletarianisation and the welfare state must be resisted. According to Ropke (2009: 218) millions of property-less workers existed and worked for an ‘industrial mammoth’. There is thus a need to de-proletarianise these workers through the extension of property ownership and independent production. What was needed was a vitalpolitik, a politics of life, which contains the proletarianisation of society through the fostering of a combination of entrepreneurship and civic engagement through family and community. The welfare state simply exacerbates the proletarian condition, exposing the masses to commercialism and cheap materialism. The masses benefit from the creation of wealth that arises from the market society but they do not fully understand it, and so social policy is needed to reconcile the market and individual responsibility, which thus maintains ‘society as an enterprise society’ (Bonefeld 2013a: 107). In contrast to the welfare state, this involves the extension of private property through ‘restoring small property ownership’ (Campbell 2009: xvi), including the renting of garden plots and the expansion of home ownership. Ropke even goes so far as to suggest that the social ideal is best represented by the figure of the peasant, at least when they are not burdened by debt (Ropke 2009: 203). Seen in this way, the ordo-liberals were most explicit in their critique of the outcome of liberal modernity and sought to ‘revive’ the liberal dream of the individual entrepreneur. This can be seen as in some respects hopelessly romantic, but an important legacy of Ropke’s work is its focus on individual empowerment through property ownership, and his vision of the individual as, in the words of Foucault (2008: 241), ‘an enterprise’.

The neoliberal paradox
Ordo-liberals therefore argued for a strong state, but one that is strong enough only to provide the order necessary for a market economy to flourish. Rustow thus used the term ‘free economy-strong state’ to describe the ordo-liberal position (Turner 2008: 84). What was of vital importance for the ordo-liberals was that these rules are clear, and that everyone must abide by them. Crucially, while ordo-liberals did recognise a downside to the market economy, and specifically the rise of cartels and the expansion of the proletarian condition, they argued that while state intervention was necessary to deal with these problems, such intervention should be compatible with the market, and not run against its logic. Vitalpolitik therefore was designed to conform to the principles of free competition, and was consequently market supplementing rather than market controlling. The ordo-liberal interventionist project thus represented ‘not a politics against the logic of the free economy. Rather, it is meant to render free economy effective’ (Bonefeld 2013a: 119). The state therefore sets the rules, in which a market economy can flourish. This is in contrast to Keynesian policies for example, where discretionary spending constitutes an intervention in the market order. For the ordo-liberals there is a demarcation of state and market, but the former is regarded as being absolutely necessary for the latter to work effectively. Indeed, as Foucault (2008: 242) suggested, this involves a vigilant policy of interventionism, in which the free economy is constructed ‘anew each day’ (Ropke 1998: 27).

These ideas were influential in post-war Germany and the development of the ‘social market’ economy (Muller-Armack 1965), especially in the context of currency reform during 1947–48, the promotion of an independent central bank, low inflation and an export-led boom. Although ordo-liberals were themselves concerned about some of the developments around the formation of the European Economic Community in the 1950s (see Turner 2008: 87–8), in some respects recent developments in the EU are compatible with ordo-liberal ideas, particularly around monetary union, independent central banks and low inflation (see Chapters 7 and 8). In terms of vigilant interventionism, we also see that this has some overlap with ideas about the third way, although the latter was far more relaxed about rising debt than were the ordo-liberals (see Chapter 7).

The relationship of ordo-liberals to other neoliberals was also ambiguous. Hayek contributed to the journal Ordo, and became a professor at Freiburg in 1962, and various ordo-liberals were members of the MPS. He was however uncomfortable with the term social market economy (Turner 2008: 85), while Mises was far more dismissive of the ordo-liberals for their statism (see Chapter 4). Meanwhile, in West Germany,
as the social market economy developed over time, there was a growing willingness to support the state provision of social safety nets for the poor, and so ‘it was the “social” element that began to predominate over the market, and throughout the 1960s the country began to resemble a Scandinavian welfare state, to which its original liberal theorists had originally been vehemently opposed’ (Barry, N. 1989: 119). Interestingly, alongside some other features of German capitalism that stretched back to the late nineteenth century, namely, the close coordination of state, finance and industry in investment decisions, this development culminated in the promotion of a Rhineland, corporatist capitalism as a progressive alternative to the Anglo-American neoliberal capitalism of the 1980s and 1990s. However, this was something very different from the ordo-liberal conception of a social market economy.

THE (EARLY) CHICAGO SCHOOL

The Chicago School is often regarded as the third strand of neoliberalism established by the foundation of the MPS. At the founding conference there were a number of important Chicago economists, including Frank Knight, Milton Friedman and Aaron Director. Henry Simons and Jacob Viner were also important figures, but Simons died in 1946 and Viner did not attend the inaugural MPS meeting. These figures were important influences on what became the ‘second’ Chicago School, a more clearly identifiable school of thought that emerged and developed in the 1950s, and included Ronald Coase, Aaron Director and Milton Friedman (and, more indirectly, Hayek) among its most significant figures. This second school – and the Virginia ‘public choice’ tradition that developed out of Chicago – became important for developing a critical account of inflation based on the theory of monetarism, and in gradually developing a defence of private monopoly and critique of government attempts to regulate the size of corporations. These are discussed in the next chapter.

The initial Chicago School was based around three important figures: Jacob Viner, Frank Knight and Henry Simons. Viner had some links with Lionel Robbins, and thus indirectly with Hayek, and both he and Knight forged some links with the London School of Economics (Burgin 2012: 32). Each of these were critical of Keynes. Knight for instance wrote in 1940 (to Viner) of Keynes’s anti-intellectual populism which was guilty of ‘passing the keys of the citadel out of the window to the Philistines hammering at the gates’ (cited in Burgin 2012: 28). They were also critical of some forms of government intervention and Keynesianism (Viner 1936; Knight 1937). Simons argued that the New Deal was...
leading the US down the road of ‘authoritarian collectivism’ (cited in
Burgin 2012: 39). Knight’s (2009) distinction between risk and uncer-
tainty in many ways anticipated Hayek’s argument that knowledge was
too fragmented and reason too limited for collective plans to be efficient
or freedom enhancing. In particular he argued that while some forms of
uncertainty – risks – are measurable, others are not. Cost–benefit
analyses are used to measure public policy, and reflect the growth of
information in society. However, Knight argued that uncertainty cannot
be eliminated because decision-making occurs without full information.
This argument thus had parallels with Mises and Hayek’s critique of state
planning.

On the other hand, the early Chicago economists were suspicious of
what they saw as the excessive rationalism of the Austrian School; Viner
dismissed some of Mises’ work as ‘crank economics’, while Knight
regarded it as dogmatic (cited in Burgin 2012: 33). Viner said much the
same about Hayek’s *The Road to Serfdom*, while Knight argued that it
downplayed the necessity of government intervention (Burgin 2012: 34).
While each warned of the dangers of intervention, they all argued that
this was not the same as arguing against any forms of intervention in the
economy. What was perhaps most distinctive about this first Chicago
School was that they argued – like the German ordo-liberals – that, in
terms of private corporations, there should be ‘direct limitations upon
size, for the purpose of preventing unnecessary concentrations of power’
as the corporation is ‘simply running away with our enterprise system’
(cited in Burgin 2012: 40).

Despite the differences both within and between these schools of
thought, we can identify the emergence of a neoliberal intellectual
movement at the Lippmann Colloquium and after the war, with the
formation of the MPS. This was not necessarily a united movement, but
there was sufficient common ground, above all a hostility to the rise of
collectivism, which included totalitarian movements, but also the exten-
sion of state activities within liberal democracies. While there was
suspicion of the state, at this time no neoliberal was prepared to defend
laissez-faire, and the term neoliberal was conceived in such a way as to
find an appropriate role for the state that would defend individual
freedom and the market order, including against the rise of private
concentrations of economic power. This was in stark contrast to the
management theory that was discussed in the previous chapter and which
was developed in order to deal with the reality of the large corporation.
However, the neoliberal critique of private monopoly at this time also
contrasted with the development of neoliberal ideas from the 1960s
onwards, as we see in the next two chapters.
CRITICAL REFLECTIONS ON NEOLIBERALISM AND ‘MASS SOCIETY’

In terms of common agreement then, there were three strands to the neoliberal argument concerning the crisis of the 1930s. First, the rise of collectivism had undermined the freedom of the individual. Second, this in turn had led to the rise of policies which undermined not only the freedom of the individual but the efficiency of the market. Socialism, National Socialism, the New Deal and planning in liberal democracies were all part of this turn, which was expressed intellectually by the rising influence of the idea of Keynes. Third, these developments led to national protectionist policies which increased tensions between countries, and ultimately led to war. There is then in early neoliberal thought a relatively straightforward linear process of causality from the rise of collectivist ideas, through to misguided economic policies and on to increased international tensions. In the relatively early stages of the development of neoliberalism, some of the ideas were tentative, especially in the case of Hayek, and only became more explicit in later writing.

In terms of the first argument, at first sight there is a great deal of truth to the claim that liberalism was undermined in the inter-war period and in the crisis of the 1930s in particular. Fascism in both its Italian and German varieties was a collectivist project that mobilised ‘the masses’, and thus politicised them in ways that did undermine individual freedom. This was also true of the state in these countries, as well as in the Soviet Union. The collectivist project of fascism in both its Italian and German varieties involved the idea of reinvigorating a supposed national community, which was said to be under threat from the forces of liberalism, democracy and socialism (Griffin 2006). In this regard it is committed to a collectivist project antithetical to liberalism, including to neoliberalism. Mises (2009: 578) thus claimed after the war that ‘[t]he philosophy of the Nazis … is the purest and most consistent manifestation of the anti-capitalistic and socialistic spirit of the age’. Hayek also famously argued that liberalism was dead by the time that Hitler came to power and that ‘it was socialism that had killed it’ (Hayek 2001: 31). This argument became central to some versions of the totalitarian thesis which became influential at the height of the Cold War in the 1950s, and again during the second Cold War in the 1980s (Kirkpatrick 1979; see also Halliday 1983: ch. 5). Irrespective of the instrumentalisation of various theories that were put to use for Cold War purposes, we see in Chapters 4 and 5 that much of the neoliberal critique of the state is that intervention
favours particular interests at the expense of others, a charge that can be laid at the door of both fascist and state socialist regimes.

However, after the Bolshevik Revolution the threat to liberal constitutional government came largely from the right and not from the left. In the period from 1918 to 1939, 17 legislative assemblies were dissolved or became ineffective and this increased by a further five countries as a result of German occupation in 1940 (Hobsbawm 1994: 111). Some of this was a result of fascism but most was a conservative response to what was regarded as the threat from the masses. Neoliberalism on the other hand saw no difference between left and right when it came to collectivism, as should by now be clear. The question that needs to be addressed in this section is whether this final claim is accurate, and related to that, where does neoliberalism ‘sit’ in terms of its relationship with those theories of mass society discussed in the previous chapter? This latter question is far from straightforward and we return to it again in the chapters that follow. This section can only begin to address this question, rather than fully answer it, and much of the critique here is on the particularities of the neoliberal understanding of the 1930s crisis, although these specifics often have wider general significance for understanding the problems of neoliberal theory and practice.

Nonetheless, in terms of a beginning, we might start with the observation that all forms of liberalism are characterised by a dialogue – or tension – between liberty and equality. If liberty, in the sense of the individual being free to do what they want as long as they do not coerce others, is paramount, then this might to some degree be at the expense of equality. However, liberalism also believes in some forms of equality, and at the very least equality in the sense that everyone is equally subject to the rule of law. However, as we saw in Chapter 2, new liberals such as Hobhouse and Green argued that this formal equality was insufficient in promoting the liberty of the individual and there needed to be some social guarantees to allow all individuals to flourish. For Hayek, this is the start of a slippery slope towards totalitarianism. Chapter 2 also showed how various conservative and elite theorists were concerned that equality carried with it a number of dangers and that in this respect democracy was dangerous. These kinds of theories are often regarded as being attacks on liberalism as much as socialism, for the former’s support for extended franchises and parliamentary rule also means that the masses can increasingly ‘rule’. However, we have also seen that some liberals themselves also expressed concerns about the extension of the franchise and the danger of rule by the masses. The dilemma faced by liberals was how to square the circle of the extension of the franchise, on the one hand, and the freedom of the marketplace, on the other.
The last third of the nineteenth century saw the extension of the franchise but it also saw strict limits in terms of the power of elected assemblies, continued limits on adult voting, weighted voting, property qualifications and deliberate manipulation of voter registration (Hobsbawm 1987: 86). In the real world, the question concerning Adam Smith’s (qualified) support for the free market was asked in a more candid way, namely: ‘Would not democracy inevitably interfere with the operations of capitalism, and – as businessmen considered – for the worse? Would it not threaten free trade in Britain, to which all parties were religiously attached? Would it not threaten sound finance and the gold standard, keystone of all respectable economic policy?’ (Hobsbawm 1987: 96). That is, the fear of the masses was shared by those liberals who did not accommodate themselves to the new liberalism, and this fear reflected concerns that the rise of mass democracy also meant the end of the liberal individual and the free market. We have seen that this was also a concern of elite theorists, and particularly Pareto and Michels, both of whom gave their support to Mussolini. Mosca, by contrast, saw Mussolini and the fascists as uncultured and preferred to place his faith in older elites, but this was less a concern with authoritarianism per se and more of which set of elites should rule. Interestingly, in September 1921, the Italian fascist Massimo Rocca talked of a ‘neo-liberalism’ and suggested that a movement ‘would rebel against the collectivist mania … [and] would end up being a liberal neo-conservatism from the right’ (cited in Landa 2010: 8–9). Seen in this way, ‘fascism became feasible because of the profound difficulties of liberalism in its classical form to cope with the challenge represented by that many-sided phenomenon to which we now refer as “mass society”’ (Landa 2010: 13).

The German theorist, Carl Schmitt is often seen as one of the leading critics of liberalism, and has influenced theorists hostile to liberalism from both left and right. He was clearly a theorist of the right, and indeed shifted from a conservative stance to Nazi Party membership in the years between 1933 and 1936 (see Muller 2003). Schmitt was hostile to the reality of mass democracy, and his views strongly echoed those of other theorists of mass society. He argued that:

Discussion means an exchange of opinion that is governed by the purpose of persuading one’s opponent through rational arguments of the truth or justice of something … To discussion belonged shared convictions as premises, the willingness to be persuaded, independence of party ties, freedom from selfish interests. Most people today would regard such disinterestedness as scarcely possible … The situation of parliamentarism is so critical today because the development of modern mass democracy has made argumentative public discussion an empty formality … The parties … do not face each other today
discussing opinions, but as social or economic power groups calculating their mutual interests and opportunities for power, and they actually agree compromises and coalitions on this basis … (Schmitt 1988: 5–6)

Schmitt’s argument here essentially followed a similar path to that of both Weber and Schumpeter. Mass society, including the emergence of mass markets, massive inequality and large corporations, undermined the liberal individual consumer and entrepreneur. Mass society was thus made up of conflicting group interests rather than rational individuals. Mass politics generated increased demands on the state and, therefore, the role of the state became politicised and thus extended beyond its role as a mere regulator. In the process the rule of law was undermined because the state must arbitrarily choose between conflicting interests which reflect the ‘politicization of all economic, cultural, religious and other dimensions of human existence’ (Schmitt 1976: 216, original emphasis).

What is distinctive is Schmitt’s critique of liberal accounts of politics. In a world of conflict, the distinction between friend and enemy is central to politics. In contrast, liberals naively believe in negotiation rather than conflict (Schmitt 1985: 63). Schmitt upholds a pluralism which questions the idea that all forms of life can be unified in a single framework. Liberalism believes that the political can be linked to the ethical via the rule of law, but this downplays the fact that the state and the rule of law are the products of political struggle. The state is established to both stabilise internal conflict and preserve territorial authority from external threats, and thus defend friends from enemies. Sovereignty is thus a political act (Schmitt 1985: 5). Similarly in mass democracy liberalism presupposes the de-politicisation of large areas of social life, and the rule of law provides the framework which enables social activity to take place without leading to conflict. However, ‘in the concrete reality of the political no abstract orders or norms but always real human groupings and associations rule over the other human groupings and associations’ (Schmitt 1976: 72–3). In democracies, where sovereignty is invested in the will of the people, the notion of a constitutional order upheld by the state loses any meaning. As Bellamy (2000: 80) describes it: ‘In a situation where a putative popular will and the rule of law are one and the same, the latter offers no check on the former but is rather formulated by it. Consequently, it becomes constitutionally possible to undo the constitution.’

In the dying days of the Weimar Republic, Schmitt considered these questions, and argued not only that the liberal interpretation of the rule of law was inadequate in the context of the rise of parties committed to
ending the constitution, but also that the decision over what constituted legitimate activity was political, and could not be resolved by the rule of law. Schmitt argued strongly that the president was sovereign and therefore could act in an extra-legal manner in exceptional circumstances. Hindenburg’s presidency was weak, as was the German Reichstag, and it was relatively easy for the Nazis to claim absolute power. Schmitt joined the Nazis on the grounds that as the rule of law rests on political power, we must obey whoever has the authority to lead. By 1936 however he was subject to a Nazi campaign against him as he tried to establish a new constitutional order, reflecting that fact that he ‘had failed to see that for the Nazis, the exception was the norm’ (Bellamy 2000: 81).

Schmitt’s account of the limits of liberalism looks initially like a powerful critique. However, this is not necessarily the case, and while some have argued that Schmitt’s analysis of liberalism highlights the ways in which it depoliticises political processes (Mouffe 1999), Schmitt actually regretted mass democracy because it placed too many items on the political agenda, and he wished these to be taken off that agenda (Cristi 1998; Hardt and Negri 2004: 6). We might argue that Schmitt, a conservative, had much in common with neoliberalism. Although Hayek was dismissive of ‘Adolf Hitler’s crown jurist, Carl Schmitt’ (Hayek 1967: 169), who defined sovereignty as the capacity of the state to declare exceptional power, his case for market freedom was uncomfortably close to that view. Schmitt’s argument rested on a distinction between general legal norms and specific commands, and he claimed that only the former could satisfy the condition of upholding the rule of law. His problem with the Weimar republic was that as a pluralist party state it led to rule through specific discretionary demands, that is, by specific commands. The state was the prisoner of powerful interest groups in civil society which therefore undermined the rule of law; in some respects Weimar replicated a Hobbesian state of nature (Drolet 2011: ch. 2). The state was thus entangled in far too many activities and this undermined the constitutional order, an argument close to Hayek’s defence of the rule of law and later neoliberal criticisms of government overload in the post-war era (see Chapters 5 and 6). In Schmitt’s (1998: 226–7) words:

only a strong state can depoliticize, only a strong state can openly and effectively decree that certain activities … remain its privilege and as such ought to be administered by it, that other activities belong to the … sphere of self-management, and that all the rest be given to the domain of a free economy.
Schmitt argued that the liberal rule of law might be abandoned in a time of crisis, such as the Depression of the 1930s (see Scheuerman 1997: 176), that is, he was arguing that the liberal constitution needed to be abandoned in order to save itself from democratic forces that threatened the liberal order. As Scheuerman (1997: 175) argues: ‘By means of a remarkable intellectual sleight of hand, Schmitt … can depict precisely those voices who fought to the end to defend Weimar … as revolutionaries bent on debilitating the “substantial kernel” of the Weimar constitutional order.’ That is, the rule of law might be abandoned in a state of emergency. Thus by 1930 and especially 1932:

[in] the face of the left’s attempt to construct the democratic welfare state … just such an emergency is what Schmitt now proposes … The ‘quantitative total state’ – a weak, social democratic inspired interventionist state – should be replaced by a ‘qualitative total state’ – an alternative brand of interventionism, but one which guarantees authentic state sovereignty and simultaneously manages to provide substantial autonomy to owners of private capital. (Scheuerman 1997: 176, original emphasis)

In a sense then, Schmitt was questioning the extent of Weberian rationalisation in mass societies. While he accepted that this was a growing tendency in modern societies, Schmitt also argued that the world could be partially re-enchanted through executive decision carried out by charismatic leaders. So for Schmitt there is a realism which challenges liberal views concerning the rule of law, because he argues that the sovereign may always ultimately challenge the generality of the law, for this is precisely how we define and characterise sovereignty. However, at the same time, this realism about arbitrary government is based in part on Schmitt’s normative evaluation that a social democratic pluralist state is not desirable and exceptional measures can and should be used to undermine such a state, and thus depoliticise and re-establish the ‘free economy’. In this way there is considerable common ground, not only between Schmitt and Hayek, but also to some extent with Schumpeter. For just as Schmitt applies charismatic leadership to the political sphere, so Schumpeter applied this to the economic sphere, highlighting the entrepreneur as the heroic leader of the capitalist economy (see Scheuerman 1999: 185–9). While Schumpeter was not a neoliberal, his vision of the entrepreneur is a central feature of neoliberalism.

Hayek (2001: 73) also distinguishes between the rule of law and specific commands, a distinction he develops further in his work after The Road to Serfdom (see Chapter 5 in this volume). In 1944 he argued that democracy can only exist within a framework ‘based on free disposal of private property’ he went on that ‘[w]e have no intention … of making
a fetish of democracy … Democracy is essentially a means, a utilitarian device for safe-guarding internal peace and individual freedom. As such it is by no means infallible or certain’ (Hayek 2001: 73). However, from there he went on to say that ‘[n]or must we forget that there has often been much more cultural and spiritual freedom under an autocratic rule than under some democracies – and it is at least conceivable that under the government of a very homogeneous and doctrinaire majority democratic government might be as oppressive as the worst dictatorship’ (Hayek 2001: 73–4). As we shall see in later chapters, after the war Hayek began to develop distinctly authoritarian proposals designed to protect the market order from liberal democracy. Herman Finer’s argument (1946: 1) that Hayek’s book ‘constitutes the most inopportune offensive against democracy to emerge from a democratic country for many decades’ was not without merit. Hayek implicitly defends an exception to the rule of law that he otherwise suggests is central to the existence of freedom. This is done in the name of the primacy of private property and the so-called free market. Thus, while classical liberals feared that democracy could undermine the rule of law through the promotion of a tyranny of the majority, Hayek agreed but extended this further, suggesting that under certain circumstances, both democracy and the rule of law could be suspended, in what amounted to the freedom of private property owners. Some might choose to call this a tyranny of the minority.

The ordo-liberals were even more explicit in their support for authoritarianism at this time, with some openly acknowledging their debt to Schmitt (Tribe 1995: 212). Although sometimes presented as a body of thought that proposed a liberal democratic alternative to Nazism (see Rieter and Schmolz 1993), such an argument ‘is confronted by the paradox that its founding thinkers did not write in defence of liberal democracy. Rather they perceived Nazism as the tyrannical consequence of the lamentable weakness of the Weimar Republic to maintain a liberal economy’ (Bonefeld 2013a: 108). In the words of Alexander Rustow (quoted in Bonefeld 2013a: 108), Weimar was:

being pulled apart by greedy self-seekers. Each of them seeks out a piece of the state’s power for himself and exploits it for his own purposes … This phenomenon can best be described by a term used by Carl Schmitt – ‘pluralism’. Indeed, it represents a pluralism of the worst possible kind. The motto for this mentality seems to be the ‘role of the state as a suitable prey’. What is needed is a state that ‘governs, that is, a strong state, a state standing where it belonged, above the economy and above the interest groups.
Rustow thus advocated a dictatorship within the bounds of democracy, or what Ropke called a ‘commissarial dictatorship’ and Muller-Armack called a strong state which ‘suppresses the class struggle’ (cited in Bonefeld 2013a: 108). Thus, the collectivist, welfare-based revolt of the masses must be countered by a ‘revolt of the elite’ (Ropke 1998: 130), in which democracy must be ‘hedged in by such limitation and safeguards as will prevent liberalism being devoured by democracy’ (Ropke 1969: 97). A weak state has no independence from the vested interests operating in civil society, and is thus easily captured by these interests (Rustow, cited in Bonefeld 2012: 640). Muller-Armack thus called for a total state in order that the free economy could properly exist, and at the same time suppress ‘the class struggle’ (cited in Bonefeld 2012: 649). Indeed, he was the one prominent ordo-liberal to join the Nazi Party, and he described the Nazi state as an ‘accentuated democracy’ (cited in Bonefeld 2012: 649). These views are very close to those of Schmitt who, as we have seen, was critical of liberalism, but only that liberalism which gave rise to the politicisation of economic life, and on these grounds advocated dictatorship in part to depoliticise the free economy.

Echoing the earlier views of Michels (see Beetham 1977b: 175), another leading ordo-liberal, Walter Eucken, claimed that Weimar gave rise to unrestrained socio-political forces, and thus a politicised pluralism which eventually led to mass democratic demagogy (see Bonefeld 2013a: 109). However, we might here remind ourselves of Raymond Williams’ (1989) observation that there is no such thing as the masses, only ways of seeing people as masses. What he meant by this was that while collectives existed in society, the idea of a homogenous, atomised and irrational mass was a political construct, and far from an innocent one. In normative terms it was designed to preserve and protect elite rule, and in analytical terms it glossed over the conflicts and differing interests that existed between varieties of collective movements. Thus, in terms of the specifics of Germany, if we examine the historical evidence, there is little to suggest that the political left voted for Hitler, nor that the so-called masses were attracted to Hitler simply because of their atomised social existence. In the period from 1928 to 1932, the Nazi vote went up from 2.6 per cent to 37.3 per cent of the vote, while the nationalist and conservative vote fell from 41 to 11 per cent (Hagtvet 1980: 79). The combined vote of the Social Democrats (SPD) and communists (KPD) stood at 37.3 per cent in November 1932, a small decline from 37.6 per cent in 1930, but an increase from 35.9 per cent in July 1932, the most significant shift over the period being leftward from the SPD to the KPD. Over the same period, the Catholic vote – an important social bond in an ostensibly atomised society which took form in the guise of Zentrum and...
the Bavarian People’s Party – remained constant at around 15 per cent (Hagtvet 1980: 80–81). Over this period there was an increase in the electorate and a massive increase in unemployment, but the evidence points to the Nazi vote increasing most in rural areas, where Nazi support was already more firmly entrenched (Hagtvet 1980: 81). The rise of fascism in Germany reflected the specific nature of that country’s socio-economic development. This does not mean that Nazism was the product of a unique German exceptionalism, rooted in some timeless conception of German culture or explained by supposedly ‘abnormal capitalist development’, a thesis which has some parallels with Hayek’s argument that classical liberalism was undermined by German ideas (Stern 1961; Mosse 1964; Hayek 2001: 21–2), but rather reflected a combination of specific manifestations of a more universal theme, namely the ambivalent relationship between liberalism and democracy. As Hagtvet (1980: 104; see also Blackbourn and Eley 1984; Eley 2013) argues:

In Germany, due to the absence of any thoroughgoing democratic revolution, agrarian protest and middle class unrest did not appeal to democratic ideals against established rulers. On the contrary, because capitalism was never forced to make itself legitimate through democracy in Germany, agrarian and lower middle class rebellions almost immediately revealed their anti-democratic and authoritarian potential.

Furthermore, it was the right in Germany which invited Hitler into office, which certainly puts Hayek’s assertion that socialism was in some way responsible for the Nazis into perspective. We could argue again then that when faced with a trade-off between liberalism and democracy, or between economic liberalism and political liberalism, conservatives, fascists and neoliberals are all prepared to choose the former. Recall Tocqueville’s distaste for the coup which abolished the Second Republic in France in 1848, but at the same time his acceptance that he was ‘much more concerned with putting a powerful leader quickly at the head of the Republic than with drafting a perfect republican constitution’ (Tocqueville 1997: 201, 178). This is precisely ‘the exception’ that led conservatives to invite the Nazis into office, Schmitt to join the Nazis, and neoliberals to support authoritarianism as preferable to the collectivist demands generated by liberal democracy. Mises (2002: 51) was quite explicit on this point:

It cannot be 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.
Fascism has thereby won for itself will live on eternally in history. But …

Furthermore, once in office the Nazis departed from their middle-class social base and did not challenge the economic dominance of large-scale corporations. In his later distinction between totalitarian and authoritarian regimes, Hayek (2006: 90) argues that Nazi Germany was in the latter camp, when in fact private property was preserved and not abolished under Hitler. As with Italy after 1922, there was a substantial programme of privatisation following the Nazi accession to power (Bel 2010, 2011).

Hayek argued in 1944 that ‘[i]f we want to form a picture of what society would be like if, according to the ideal which has seduced many socialists, it was organised as a single great factory, we have to look at contemporary Germany’ (Hayek 2001: 132). We have already suggested reasons why this argument is unconvincing, but Hayek appears to be arguing that the growth of collectivism can be explained by the development of ‘wrong-headed’ ideas. In this regard at least, he implies that ideas are autonomous but this contention ‘conflicts with Hayek’s other argument, that economic and social institutions cannot be chosen but evolve spontaneously’ (Gamble 1996: 83). This reflects a central tension in Hayek’s thought, and indeed neoliberalism more generally, in that:

he moves uneasily between arguing that the only institutions capable of co-ordinating the Great Society are the product of spontaneous evolution, without the exercise of any rational foresight on the part of human beings, and at the same time arguing that human beings have to exercise rational foresight and make a positive choice between the individualist road and the collectivist road, otherwise they will unwittingly destroy what has evolved spontaneously. After centuries of blind evolution, human societies have reached a point where evolution can no longer be trusted to ensure progress. The free society has to be consciously endorsed if it is to survive. (Gamble 1996: 83)

This argument sounds suspiciously like an endorsement of the constructivist rationalism that Hayek otherwise rejects, an issue taken up in more detail in later chapters, but which is also apparent in what amounts to a call for an authoritarian liberalism that stands above the so-called masses. This recourse to constructivism is a theme to which we return throughout this volume.

Moreover, in terms of the more specific argument concerning the influence of foreign and especially German ideas, Hayek’s arguments are weak. Although there were nationally specific variations, capitalism had changed character in all of the advanced capitalist countries, not least in
Britain. This was a product of war, social pressure from below, the extension of the franchise, and new political forces which emerged as a result (Harling and Mandler 1993: 49). In the context of rising defence spending and increased welfare budgets, dependence on borrowing from capital markets and especially indirect taxation proved unreliable and expensive sources, thus paving the way for the introduction of income tax. To reduce these developments to being the product of foreign, and specifically German influences and ideas, does appear to be one-dimensional in the extreme. Moreover, this fits uneasily with Hayek’s other argument that the market serves as a spontaneous coordinator of the fragmented knowledge which exists throughout society. In terms of the rise of collectivist and welfare-based ideas, we might argue alongside Karl Polanyi that these reflected, in Hayekian terms, a spontaneous process rather more than simply being the product of a conspiracy of collectivist ideas (see further below). Similarly, the rise of the joint-stock company and the growing concentration and centralisation of capital were general features of capitalist development, better theorised by Weber and Schumpeter as well as Marx (Chang 2002; Taylor 2014; see also Chapter 2).

In terms of security, the neoliberal position is equally problematic. Tooze (2015: 81) suggests that:

*[b]efore 1914, all powers may have been struggling to get to grips with the implications of globalisation for international security, but not all of them were equally bellicose or insecure. Those that seemed most anxious for a clash of arms were the least democratic and had the least to lose in any breakdown of global economic integration.*

On the face of it, this appears to confirm the contentions of liberal peace theory, namely, that with integration peace is far more likely. This was precisely the argument made by Hayek and Mises, the latter of whom explicitly argued that free trade and the gold standard were necessary features of international harmony (see above). However simply to point to the collapse of integration is not sufficient to demonstrate causality in terms of 1914 or 1939, for, as Tooze (2015: 81) also implies, we need to ask why free trade (prior to 1914) and the gold standard (between the wars) collapsed. Before 1914 the more liberal democratic states were less willing to go to war than some in the Balkans, but:

*in resting their case on this reassertion of a development hierarchy, theorists of the liberal peace reveal their failure to recognise the implications of the entanglements of the international system. For it was an essential feature of the alliance system that exploded into war in August 1914 that it harnessed...*
together countries at very dissimilar stages of development. What the liberal theory captures is the unevenness of international development. What it does not address are the mechanisms by which those differences were produced, or how they were brought into combination with one another. (Tooze 2015: 81)

In terms of the First World War, the assumption that some countries were more liberal, and therefore at a higher stage of civilisational development than others was an important factor in justifying the call for war (Tooze 2015). Thus, while the theory of liberal peace was developing from around the turn of the century (Streit 1939), it generally still upheld hierarchy in the international order, and reflected John Stuart Mill’s division between civilised and barbaric peoples (see Bell 2014). More generally, three points are relevant. First, liberalism itself has a history of imperialism. Second, the economic nationalist or mercantilist turn that preceded both world wars responded to liberal competitive pressures in the context of uneven development. Third, and closely related to the previous point, the collapse of the gold standard must be situated within this context.

In terms of imperialism, there was a long-standing tradition of opposition based on the expense of colonies and the fact that interaction with other territories can occur through free trade rather than through territorial acquisition (Ricardo 1973: 227), an argument repeated by Mises in his critique of Nazi expansion in the East (see above). Adam Smith (1981: 606–14, 616) linked colonialism to the vested interests associated with mercantilism rather than free trade, while Jeremy Bentham (1793) called for the emancipation of the colonies. On the other hand, Smith wrote in disparaging terms about ‘backward territories’ and ‘miserable savages’ (1981: 559), and his opposition to colonialism was largely based on its negative effects on the coloniser rather more than any concern for the colonised (see Williams 2014). Even Bentham eventually suggested that limited government could occur in a colonial context, and gave his support to the colonisation of South Australia in 1831 (Winch 1965: 38). John Stuart Mill gave his active support to colonial endeavours on both narrowly economic – it would relieve population and upward pressure on wages at home and provide an overseas market for British products – and cultural grounds – it would enable advanced nations to civilised barbarian ones (Mill 1984: 121). Locke (1980: ch. 16) had earlier argued a case for colonialism based on commercial improvement through the creation of private property and the diffusion of rational ideas among backward peoples.
To some degree there was a significant difference between nineteenth-century British imperialism and the more explicitly protectionist imperialism associated with rising powers from the late nineteenth century (Kiely 2010: ch. 3). In particular, Britain envisaged an empire and a wider international order based on the principles of free trade, whereas European and Japanese imperialism involved the use of protectionist policies such as tariffs at home, and more exclusive trading policies with its colonies abroad. Rather than being the product of German ideas, as Hayek suggested, this was instead a response to competitive pressures and the fact that Britain advocated free trade because it was the industrial leader at the time. Thus, as early as 1841, List (1966: 79) had argued that:

A country like England which is far in advance of all its competitors cannot better maintain and extend its manufacturing and commercial industry than by a trade as free as possible from all restrictions. For such a country, the cosmopolitan and the national principal are one and the same thing. This explains the fervour with which the most enlightened economists of England regard free trade, and the reluctance of the wise and prudent of other countries to adopt this principle in the actual state of the world.

Even in the US, this argument was commonly made. Future President Ulysses Grant argued that:

For centuries England has relied on protection, has carried it to extremes and has obtained satisfactory results from it. There is no doubt that it is to this system that it owes its present strength. After two centuries, England has found it convenient to adopt free trade because it thinks that protection can no longer offer it anything. Very well then, Gentlemen, my knowledge of our country leads me to believe that within two hundred years, when America has gotten out of protection all that it can offer, it too will adopt free trade. (Cited in Chang 2006: 287)

Seen in this way, the breakdown of free trade and, eventually, the gold standard reflected the fact that these were not institutions or policies which reflected a universal good but rather they were ‘the policy of English domination’ (Foucault 2008: 108). Protectionism, the gradual shift from the gold standard and colonialism were all policies designed to find ways to catch up with Britain, the dominant economic power at the time. Moreover, both liberal Britain and the US were in some respects inspirations for colonialism in Germany both in the pre-Nazi and Nazi eras (Tooze 2007; Mazower 2008; Kakel 2011). Hitler’s second book asserted that the growth of US wealth as being the product of western expansion and conquest and the extermination of native Americans, an argument repeated by Göring during his incarceration at Nuremberg (see...
Tooze 2007). Hitler was also an enthusiast for the Wild West novels of Karl May, and during the war had 200,000 copies printed for German troops (Evans 2015: 355). Hitler also stated that ‘What India is for England, the territories of Russia will be for us’ (cited in Evans 2015: 361). This is not to say that Nazi imperialism was identical to other imperialisms, be it the British or German empires before 1914 or the frontier expansion of the US. The Nazis were more extreme in terms of their repressive apparatus, and while other colonialisms carried out many significant atrocities, only the Nazi empire committed itself to the extermination of a perceived race that they believed was a threat to the existence of Germany, no matter where Jews actually lived (Arendt 1966: 410, 415; Evans 2015: 365–89). Nonetheless, there was also some degree of similarity between previous empires, both liberal and illiberal, and the Nazi expansion after 1936 (Mazower 2008). In Arendt’s (1966: 206) words, ‘African colonial possessions became the most fertile soil for the flowering if what later was to become the Nazi elite’.

In 1944 Karl Polanyi (2001: 32) argued that ‘[i]n order to comprehend German fascism, we must revert to Ricardian England’. What he meant by this statement was that the uneven development of the liberal political economy meant that there was bound to be a reaction, both domestically and internationally. In terms of domestic politics the reaction took the form of a counter-movement to the state promotion of liberal economic policy, and ‘the utopian endeavours of economic liberalism to set up a self-regulating market system’ (Polanyi 2001: 31). Polanyi thus argued that there was a double movement, the first of which was the attempt to promote a market economy and the second of which was an attempt to deal with the destructive consequences of the first movement, including inequality, displacement, unemployment, and so on. Polanyi recognised that liberals and neoliberals were fully aware of this movement,

but they put an entirely different interpretation on it. While in our view the concept of a self-regulating market was utopian, and its progress was stopped by the realistic self-protection of society, in their view all protectionism was a mistake due to impatience, greed, and short-sightedness, but for which the market would have resolved its difficulties. (Polanyi 2001: 148)

Liberals ‘from Macaulay to Mises, from Spencer to Sumner, there was not a militant liberal who did not express his conviction that popular democracy was a danger to capitalism’ (Polanyi 2001: 234).

While Hayek saw the rise of planning as the product of constructivist ideas, Polanyi turned the tables and instead suggested that ‘this creation of barriers was a spontaneous and unplanned response by all groups in
society against the impossible pressures of a self-regulating market system’ (Block 2001: xviii). Fascism was in some respects part of this collectivist turn but it was not identical to all forms of collectivism, but rather a response to the growing power of the working class and socialism (Polanyi 2001: 200). Seen in this way, fascism was not so much a socialist challenge to capitalism but rather reflected the fact that capitalism had increasingly led a strained existence alongside democracy, and thus Nazism was a reaction to ‘the chronic deficiencies of unbridled competition as the governor of the modern economic order’ (Finer 1946: 24). Thus in this account, the rise of fascism occurred ‘when neither movement was able to impose its solution to the crisis (and so) tensions increased until fascism gained the strength to seize power and break with both laissez faire and democracy’ (Block 2001: xxviii–xxix).

Polanyi argued that this analysis applied to international politics as well. He placed particular emphasis on the gold standard, which was increasingly adopted by leading capitalist powers in the last third of the nineteenth century. The gold standard meant that the value of currencies were fixed at a certain weight against the value of gold, and which was supposed to facilitate a market-based approach to regulating such trade. Thus a country that imported more than it exported would see a flow of gold out of the country to pay for those imports. The effect would be a fall in the money supply, a rise in interest rates (as money was scarcer) and a fall in wages and prices. This would then lead to a fall in demand for imports and cheaper exports which would return the country to a position of trade equilibrium, and thus a process of market clearing without government intervention. However, the cost of this system was great as countries in deficit could only adjust to falling gold reserves through deflation, which could lead to an ongoing process of contraction as wages and prices fell, unemployment increased and businesses went bankrupt, and the vicious cycle could then restart again. International trade was supposed to alleviate these problems as the outflow of gold would restore competitiveness through lower prices and wages, but in fact an outflow of gold would have the effect of diminishing the supply of loanable capital, and raise the rate of interest, thus further stifling investment. A deficit country may receive loans from surplus countries attracted by higher interest rates, but these loans (or at least the interest on them) have to be repaid, and there is no guarantee that such loans will encourage investment in production rather than financial speculation. This lays the basis for free trade and the gold standard promoting uneven development between countries (Shaikh 1980: 38–9, 2005), and crucially is not simply uneven in the sense of development taking place at a
differential pace, but rather one in which unevenness is a cumulative process (Kiely 2016).

It was therefore not surprising that countries responded to this by increasingly pursuing protectionist policies, including tariffs at home and colonialism abroad (Polanyi 2001: 19). In the period from circa 1880 to 1914, average tariff rates in all countries apart from Britain rose substantially (Bairoch and Kozul-Wright 1996: 8), and even though the famous Underwood Tariff substantially reduced tariff rates in the US in October 1913, this only meant a still high average rate of 25 per cent. For much of the period the US average was 44 per cent (Bairoch 1993: 40). Polanyi accepted that the collapse of the liberal system and the move to war in 1914 did coincide, but in contrast to the neoliberals, he saw this collapse as a reflection of the contradictions of that liberal order (Dale 2010: 48). This point applied also after 1918 when attempts were made to restore the gold standard, leading to stalemate in the 1920s and then the revolutionary 1930s, which saw the collapse of the liberal system.

A fourth point might be added, which is more specific to neoliberalism, and this relates back to the question of politics. This is that 1914 gave rise to the collapse of old regimes, some of which were distinctly illiberal. However, as should be clear by now, neoliberals were prepared to countenance politically illiberal regimes provided that they resisted the rise of collectivism and defended the market order. Also, as we have seen, this puts neoliberals very much in the camp of conservative authoritarianism in the 1930s. Again this is not to say that neoliberalism was identical to fascism and Hayek’s (2010) question ‘Was the rise of the fascist regimes really simply an intellectual reaction fomented by those whose privileges were abolished by social progress?’ is partly a valid one. However, Polanyi’s arguments concerning the rise of fascism was less a theory of fascism per se and more an understanding of the conditions that gave rise to fascism. Seen in this way, fascism was in part a defensive reaction to the threat of collectivist forces, particularly once it achieved power, and it was certainly far more than the unfolding of a singular collectivist project as imagined by Hayek. Notwithstanding some problems with Polanyi’s wider theory (see Chapter 13), his account is far more convincing than Hayek’s reduction of fascism to the rise of collectivist ideas, and fascism was partly a reaction to, rather than conformation of, the rise of socialism.
CONCLUSION

This chapter has provided a historical account of the emergence of neoliberalism in the 1930s and 1940s. In contrast to much treatment of neoliberalism, which starts with the promise that it is mainly concerned with the defence of free markets, here I have focused on the political origins of the neoliberal movement. In particular I have shown that neoliberalism emerged as part of a much wider critique of the rise of collectivism, outlined in this and the previous chapter. The neoliberal critique of collectivism tended to conflate distinct collectivist projects, such as Stalinist state socialism, German and Italian fascism, the New Deal in the US and, to varying degrees, Keynesian liberalism. However, most important, what should be clear from the analysis of this chapter is that neoliberalism from the outset was prepared to use state power in ways that would defend the market order. In this respect, as Ropke suggested, it was a revolt of the elite that, implicitly or explicitly, defended an authoritarian position in order to deal with the revolt of the masses and the politicisation of the economy. This points to one possible paradox of neoliberalism, central to the arguments that follow, which is that neoliberalism has always been prepared to use maximalist politics in its task of minimising or even eliminating politics from public life. In this respect neoliberalism can be regarded as an authoritarian liberalism (Heller 2015), which certainly has close parallels with Schmitt’s view of the sovereign exception. Seen in this way, neoliberalism might be considered a designed and not a spontaneous order. On the other hand, at this point the illusion of spontaneity is maintained, for while a sovereign exception might be necessary in order to restore or (re-)construct ‘the impersonal and anonymous mechanism of the market’, this is premised on precisely the kind of uncertainty and limited knowledge that renders sovereignty problematic. The state is necessary to protect and plan for competition. It is the one form of planning that is deemed acceptable because it has no definite outcome, and thus ‘to be impartial means to have no answer to certain questions’ (Hayek 2001: 80). The sovereign state, as Hayek described it, plays the supposed role of impartiality and agnosticism (albeit leaving unquestioned the distribution of property ownership), while the price mechanism coordinates the plans of each individual operating in the market order. Given the centrality of the price mechanism and the market order, neoliberalism in the 1930s was critical of corporate power, and the concentration of private economic power, as well as the collectivism associated with the state and socialism. However, at the same time, the market came to be defined as a democracy, in which ‘consumers by their
buying and abstention from buying elect the entrepreneurs in a daily repeated plebiscite’ (Mises 2008: 113). In this way, what Ropke called ‘the democracy of the consumers’ is guaranteed by the marketplace (cited in Schwarzkopf 2011: 12), and the rise of mass marketing and advertising is explained as a service in the market for information (Stigler 1961). The next chapter examines the rise of neoliberalism in the context of a second crisis of liberal modernity, this time in the 1960s and 1970s. Part of this story is neoliberalism increasingly downplayed the significance of limited knowledge and the price mechanism, and instead moved increasingly towards an acceptance of private monopoly and consumer sovereignty, alongside both expert economic knowledge and price theory (Davies 2014). At the same time, and perhaps paradoxically, neoliberalism also increasingly developed as a (market) populist rather than simply an elite project. This is considered in the next chapter.

NOTES

1. Assheton incorporated Hayekian ideas into his speeches at the election campaign, and the Conservative Party surrendered 1.5 tons of its paper assignment for the election campaign to Routledge so that they could publish an abridged version of the book, which was edited by future Heath government minister Geoffrey Rippon. The abridged version came too late for the election and was not published until March 1946. Churchill’s notorious party election broadcast of 4 June 1945, in which he talked of Labour’s need for ‘some form of Gestapo’ to implement its programme, clearly owed something to a crude reading of Hayek, probably via Assheton. Although often seen as an aberration, the Conservative campaign made heavy use of the ‘National Socialist’ card (see Cockett 1995: 93–4).

2. Albeit one which chimes with some strands of the so-called ‘anti-globalisation’ or ‘global justice movement’ of the 1990s and beyond, despite this ‘movement of movements’ espoused hostility to neoliberal capitalism. In particular some argue for small-scale private ownership of land and exchange based on perfect competition between these landowners. See, for example, Shiva (1988). On the related question of ‘neo-classical neo-populism’, see the debate between Byres (2004) and Griffin et al. (2004).

3. A much fuller discussion of liberty can be found in Chapters 5 and 12.

4. Mises also served as an economic adviser to the Austro-fascist regime led by Dollfuss in Austria. Dollfuss was anti-Nazi and pro-Mussolini and argued that Hitler’s Germany had more in common with Stalin’s USSR, a view which accords with Mises’ later views, as quoted previously in the chapter. However, this was at least in part because he feared Nazi designs on Austria and, in any case, his regime was still authoritarian. Also, as the chapter shows, the Nazis were hardly anti-capitalist once in power.

5. At the same time, however, the Nazi state apparatus was far from totalitarian, in the sense of a centralised state apparatus controlling local states and the people (see Kershaw 1997).