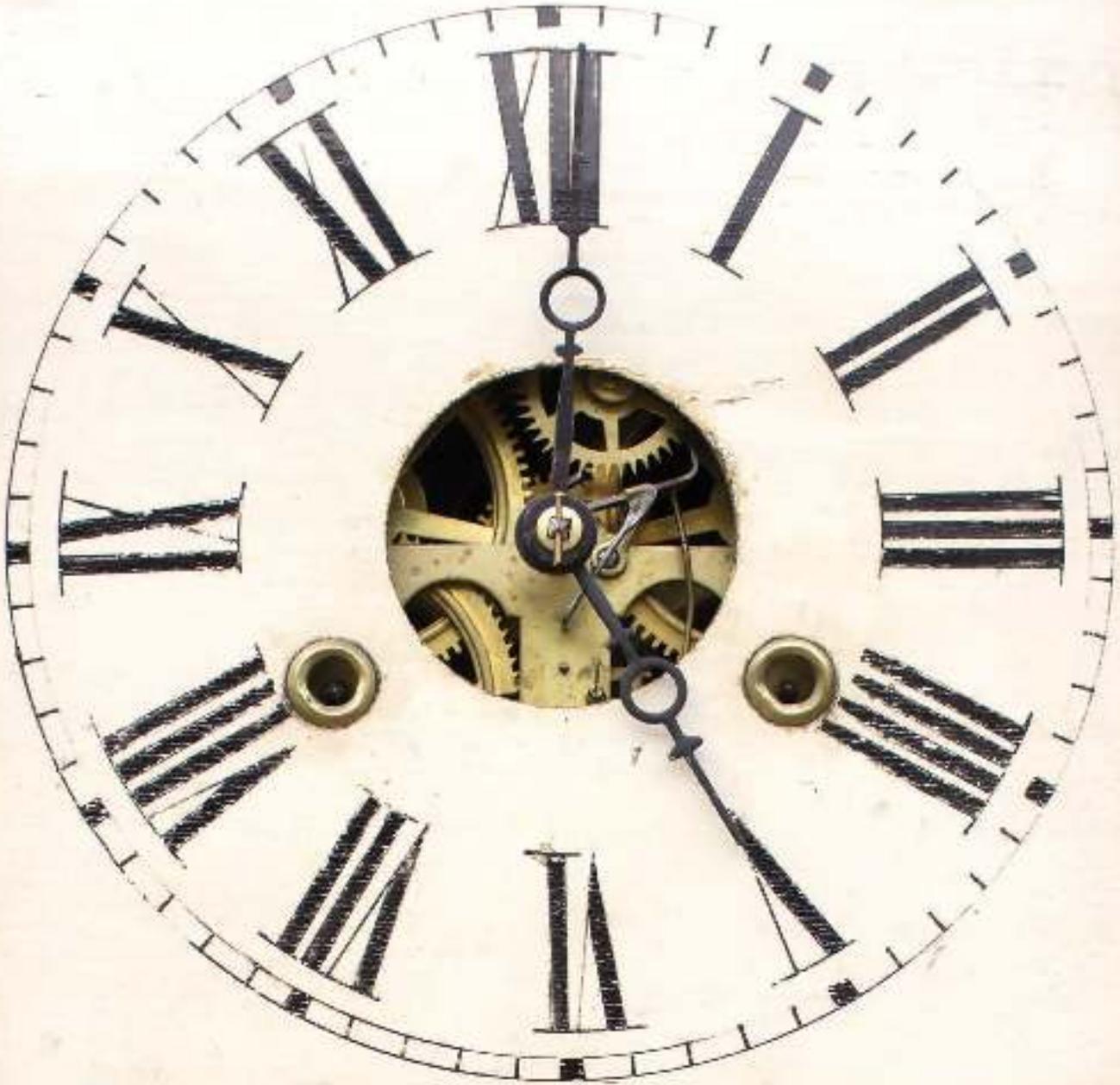


# HARWOOD

*Economic Review*

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH



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**COUNTERREVOLUTION**  
**REVOLUTION**

# Harwood Economic Review

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

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## In This Issue

Edward Peter Stringham, President

Our founder E.C. Harwood was trained as an engineer but his intellectual curiosity was boundless. He turned his attention to economics in the 1920s and discovered that the mainstream profession was leaving important insights behind, such as that which warns about the danger of monetary expansion. As time went on, he turned himself to history. Here is the area that this issue of the *Harwood Economic Review* celebrates.

He was writing in the New Deal period. He saw it for what it was: an illiberal attempt to shut down the progressive forces of the market. It created business cartels. It confiscated the people's money. It fixed wages and prices. It put industry and agriculture under a central plan, and one with teeth. As he predicted, it didn't work. The US wouldn't get out of the Great Depression until after World War II.

Harwood came up with a model to understand and explain historical trends. There is revolution which is freedom. It was an overthrowing of the old world of top-down control. It empowered people and recognized their rights. It acquiesced to property ownership and wealth accumulation. It created prosperity, and the waves of freedom kept spreading.

But certain people don't like freedom, so they plot the counterrevolution. To his mind, every attempt to control the economy via the state amounts to a reactionary push against freedom. It happened in the Progressive Era. It happened in the New Deal. It happened in the 1970s. And it is happening now.

It doesn't really matter how the attempts at control are labeled and marketed. It's always the same: more state means less freedom for the people. The goal is to turn back the clock on prosperity and technological evolution. It often produces unintended consequences that the planners did not anticipate.

I think this issue turned out brilliantly. I won't spoil any surprises but I do think this issue is for the ages. Packed with insight.

Thank you for your support, and your continued defense of the revolution against the counterrevolution.

Edward Peter Stringham

A handwritten signature in black ink that reads "Edward Peter Stringham". The signature is written in a cursive, slightly slanted style.

# The Counterrevolution

E.C. Harwood

**Editor's note** *This article was published August 28, 1950. In the aftermath of the Second World War, a generation of intellectuals worked to revive the old liberal cause of free markets, peace, and prosperity. Among them was E.C. Harwood, founder of the American Institute for Economic Research. In this powerful essay, he explains how liberalism (in the classical sense) was a mighty revolution against old world feudalism, protectionism, and top-down control. The counterrevolution is the reimposition of these controls in ways that set back the cause of liberty. He shows that fascism, communism, welfarism, corporatist New Dealism—far from being “progressive” in any sense—all share the same counterrevolutionary longings to set back progress. The piece is particularly interesting because it severely criticizes Truman’s foreign policy, which was supposedly structured to contain Communism but actually (in Harwood’s view) would do nothing to turn back the tide of statism at home or abroad. He offers dark warnings against intervention in Korea. He concludes with a clarion call for a new commitment to the cause of freedom.*

—Edward Peter Stringham

The struggle against communism is not an attempt either to destroy Russia or to preserve the United States; it is not merely another of the numerous rivalries between nations that have crowded the pages of history. The struggle against communism is a crucial one for the survival of Western Civilization. Whether this struggle will mark the decline and fall of Western Civilization or will set the stage for a new, great advance comparable to that of recent centuries has yet to be seen.

Because this is not merely a struggle between jealous or greedy monarchs, nor solely a war for empire and trade, nor a religious war between ignorant and intolerant tribesmen, we must seek below the surface and behind events of the day for the fundamental causes of the conflict within Western Civilization. At least briefly we must sketch in the outline of developments on a broad front and in the perspective of recent centuries.

## The Situation in Perspective

Several hundred years ago Western Civilization consisted of many vast feudal estates, innumerable peasant holdings of small farms, uncounted villages and towns, and a few cities, small by today’s standards. For the most part, men lived as their fathers and grandfathers before them had lived: folklore and superstition were generally considered

the intellectual keys to understanding, and scientific knowledge as we think of it today was almost unheard of; class distinctions were rigid in many parts of the civilized world; village industry was controlled by the guilds and other authorities; progress was not generally expected and often was not tolerated; most men were slaves, seemingly held in perpetual bondage by custom, fear, ignorance, and superstition.

Only the more fortunate who had been granted dominion over the earth and the fruits thereof, seemingly by an inscrutable Providence, could live much differently than did beasts of burden in that almost forgotten age.

Nevertheless, within that civilization an idea began to find increasing acceptance. In a word, this was the idea that individuals might be free; but its scope developed gradually, and even today we are not sure that we grasp its full implications.

Aided by many circumstances that need not be described in detail, this idea of freedom found more and more disciples. It attributed worth and dignity to the individual man; and, as men gradually and almost reluctantly accepted this new idea, they accepted likewise many increased responsibilities that fostered individual growth in countless ways.

Intellectual freedom opened the doors to the new frontiers of science. As a result, technological progress arose like a giant from sleep to aid the wealth-producing activities of men. Here in America circumstances were most propitious for a civilization based on the idea of freedom. The results we are familiar with; but the magnitude of them is sometimes overlooked, because to us they have become commonplace.

Freedom found acceptance in parts of Europe also. Major social changes marked its advent, and great material progress was one result. However, in much of that area the great revolution never was so successful as it was in the United States. Apparently in only two countries of Europe, Denmark and Switzerland, has the great revolution maintained its gains or progressed in recent decades.

Even here in the United States, however, complete freedom was not reached. Conditions here differed greatly in many respects from those in the Old World; but we now realize that various laws and customs carried over from the Old World had the effect of denying freedom, at least in some degree, to many of the people of our own Nation.

The results of imperfect or partial freedom were not all good. Great material progress came, but the greatly increased production of wealth was not equitably distributed to those who produced it; as a result 12- and 14-hour days for women and children were common in the factories of England, more extensive and more degrading poverty pervaded the slums of Europe, and urban and rural slums developed in the United States.

So striking did the increasing maldistribution of wealth become that many men abandoned the battle for freedom and turned back, thus the counterrevolution within Western Civilization was born. For the past hundred years the counterrevolution has been gaining strength.

Its basic ideas were developed earlier by the utopian Socialists and were organized as counterrevolutionary doctrine by Karl Marx and his followers. These ideas are the roots from which modern communism, socialism, fascism, the New Deal, and the Welfare State all have grown.

In Russia the counterrevolution has reached its apparently inevitable goal; a new despotism has replaced the old. In

this fact there is a lesson for all who desire to learn it. Marx and Engels predicted success for communism (the militant branch of socialism) first in the great industrialized nations where they expected the proletariat to unite and cast off its chains. But communism succeeded first, not in the more advanced industrial nations but in Russia, where the progress of the great revolution had been retarded. The reason is not difficult to understand.

The counterrevolution is fundamentally a retreat from individual freedom, from responsibility and authority for each individual, to the sheltering arms of an all-powerful state. Naturally, communism succeeded first where the progress of the great revolution had been least; and it still achieves success most readily in the backward nations of the world, where the substitution of a new despotism for the old is relatively easy.

### **The Source of Communism's Strength**

However, the fact that communism succeeded first in Russia and that it gains ground most rapidly in the more backward nations of the world should not be permitted to encourage a false sense of security. The basic principles



**Bayeux Tapestry** scene 23, Harold swearing oath on holy relics to William, Duke of Normandy



**Leave the Fear of Red to Horned Beasts**  
Yanker Poster Collection, 1970

of communism have been widely accepted; and the counter-revolution has gained strength during the past century in nearly all nations of Western Civilization, including our own.

In order to grasp the significance of these gains, we must first understand the source of the strength of communism.

Although the hopes it offers are known by many to be illusory and although its promises are vain, communism derives its strength from those who, because of the inequitable distribution of incomes, have become the underprivileged of all lands. What other hope have those who are denied a substantial part of the fruits of their labor (in order that the perquisites of the privileged may be preserved) than that someone will somehow redistribute currently produced wealth in accordance with men's needs?

The Marxian slogan, *From each according to his abilities; to each according to his needs*, offers to the poor hope comparable to the hope of a better world offered by many religions. Communism has the added advantage of promising to provide in this world now or in the immediate future what some religions offer only in the next world at some future time.

The strength of communism's appeal results from its promise to eliminate special privilege for the few and the inevitably corresponding inequality of opportunity and inequality of reward for the many. Communism has grown in strength as special privilege has grown; the farther the nations of Western Civilization have departed from equality of opportunity, one ingredient of freedom, the more they have drifted toward communism.

Fascism often is discussed as though it were the opposite of communism, but such is not precisely the case. Hitler, Mussolini, and Stalin were different in respects; but the principles of their economic ideologies were the principles of socialism; their initial appeal was to the underprivileged; and the final result, a new despotism, was the same in all three instances.

#### **Summary of the Present Situation**

In view of the foregoing, we may summarize the present situation somewhat as follows: Western Civilization as we know it today is the outcome of a great revolution that followed the acceptance of new ideas and that accompanied the progress toward individual freedom including equality of opportunity and economic justice for all men. However, virtually complete freedom has not yet been reached except in relatively small areas of the world and even there only for brief periods.

Primarily because we of this civilization have stopped short of the goal, the results have in part been an inequitable distribution of currently produced wealth. In the minds of many, not even the material progress made possible by the great revolution can offset results that seem so evil. Either not realizing that the goal had never been reached or not understanding that the evils they deplored were attributable to imperfect freedom, many leaders in thought and action sought to turn back; thus the counterrevolution was born.

The counterrevolution is in progress throughout the world. It is recognized as communism; but fascism, various socialist governments, the New Deal, and the Welfare State all have grown from the same roots.

Such is the situation in this midyear of the twentieth century. American foreign policy, if it is to be successful in the long run, must cope with the counterrevolution in Western Civilization.

### **Lesson of the Immediate Past**

Before proceeding to a discussion of American foreign policy, a brief review of recent developments will be helpful. A valuable lesson can be learned from mistakes of the recent past.

Germany and Russia were destined to fight in World War II, not because their ideologies differed, but because there was not room on the same continent for their ambitious rulers. We were allied with Russia not because Russia was one of the democracies fighting for freedom, but because Russia happened to be fighting Germany and could be induced to fight Japan.

However, Americans are sometimes thought by their political leaders to be squeamish and unwilling to face the facts of life. Consequently, Mr. Roosevelt's administration sought to *sell* the American people the notion that Stalin was a respectable companion in arms. They were not content to use him to the extent that he was useful, while keeping in mind that he was the leader of the counterrevolution threatening Western Civilization; they insisted on adopting Russia into the family of peace-loving nations. In our preoccupation with winning World War II, the Nation's leaders simply closed their eyes to the important long-term developments that have been described here.

Our foreign policy during and immediately after World War II was a series of blunders precisely because we dealt with successive short-term situations as though there were no long-run fundamental conflict of aims or as though we were blind to other than immediately pressing developments. Such was our major error, and the lesson should not be forgotten.

### **What Must Our Foreign Policy Provide For?**

Prior to World War II, American foreign policy had to cope with two classes of potential enemies. The first included Germany and Japan as potential enemies for the same reason, ambition for power, that nations have so often been enemies since the dawn of recorded history. The other class of potential enemies may be roughly designated communists or, to be more specific, the counterrevolutionary elements within Western Civilization.

Fortunately, the problem of formulating an adequate foreign policy is simplified in some respects by the fact that, in coping with Russia as our only potential enemy

of substantial strength in the first class (having a ruler whose ambitions for more territory and power make him a potential enemy), we shall to some extent be coping with the world-wide counterrevolutionary movement.

On the other hand, the situation is complicated by the fact that, in choosing a foreign policy intended to cope with Mr. Stalin's ambitions for more territory and power, we may erroneously assume that the long-run problem of the counterrevolution is automatically solved merely because we associate the long-run problem, also, with Mr. Stalin.

Actually, Mr. Stalin is not the long run problem; he is merely its temporary figurehead or symbol. Regardless of what happens to Mr. Stalin or to Russia in the next several years, the long-run problem of the counterrevolution will remain.

### **What Can Be Done About Counterrevolution?**

We now come to the question, *How can the foreign policy of one nation deal with counterrevolution within a civilization?* A nation faced with such a counterrevolution has any one of three courses available. Each of these will be discussed in turn.



The first possible course is to join the counterrevolution. To a far greater extent than many people realize, the United States already has chosen this course. Many internal policies, especially (but not by any means solely) some of those adopted in the past two decades, conform to the principles advocated by the counterrevolutionists. In our foreign policies we have not hesitated to give extensive financial aid to the political parties in control of various governments that are aiding and abetting the counterrevolution. We refer to the socialist governments of England and France.

It should be apparent that the first possible course, which we have already chosen in part, will be self-defeating in the long run. If we encourage the counterrevolution in other nations and yield to its wiles at home, we shall end by joining wholeheartedly, while Western Civilization declines and falls as others have done before.

The second possible course is to attempt to preserve the status quo; that is, neither to press on with the original revolution nor to join the counterrevolution. This apparently is an objective of the Truman policy as described and made effective to date. Although the Truman policy appeared to be somewhat inconsistent for several months, including as it did the extension of military aid to Greece and Turkey and the denial of military aid to Nationalist China and Korea, recent actions and announcements indicate that the policy has become firm. In essence, it appears to contemplate preservation of the status quo as of June 1950 indefinitely. For example, in Korea the official objective, as thus far described, is only to push the North Koreans back to the thirty-eighth parallel.

The second course, preserving the status quo, would seem to us impossible if we may legitimately deduce from history something other than that men never learn anything from history. And, aside from the lessons of history, we know that the conditions in which communism is rooted and from which it derives its strength have become increasingly favorable to communism; and this trend seems destined to continue until progress toward the goals of the great revolution is resumed. Preserving the status quo would become increasingly costly and increasingly difficult as the years pass. Such a policy is only a slower, not a less certain, road to destruction in the long run than the first possible course.

The third possible course is to oppose communism, but what effective means are there for opposing communism? An answer is not difficult to find if one remembers that communism is the ideology of the counterrevolution. Only if Western Civilization presses on toward the goals of the great revolution will the circumstances that have fostered



Luchamos por la libertad de todos  
We fight for the freedom of all. (1940s)  
—E. McKnight Kauffer

the counterrevolution be changed. Only as the source of its strength is reduced and finally eliminated will the counterrevolution be weakened and finally defeated in the long run.

### **Practicable Foreign Policy**

Only the third course, to oppose communism by pressing on toward the goals of the great revolution within Western Civilization, is a practicable means of coping with the counterrevolution.

Fortunately, no other great nation is so well prepared as our own to undertake this task. In order to reorient our aim, we should study again the Declaration of Independence, the Constitution of the United States, the writings of Jefferson, and other documents such as Lincoln's emancipation address that have described the goals we once sought so eagerly. Then, after reorienting our aim, we must ascertain why the goals have not been reached, why inequality of opportunity and an inequitable distribution of currently produced wealth became so marked even in the United States as well as in the rest of Western Civilization. Then we shall be in a position to correct the fundamental errors in our procedures that have delayed progress toward the goals of the great revolution.

The United States has become a great nation, a tower of industrial strength in the vanguard of Western Civilization, primarily because the goals of the great revolution were more nearly approached here than they were in Europe. In the greater material progress here in the United States, we have all around us tangible evidence that should more than justify the faith needed to press on. Surely we of all peoples of the world should know that freedom for the individual (not merely freedom from outside domination for a nation), equality of opportunity, and economic justice are the goals to be sought.

#### **Implementation of a Sound Foreign Policy**

We have concluded that the only sound foreign policy for the United States in the long run is to resume our former place in the vanguard of the great revolution, to press on toward the goal of complete individual freedom, and to encourage other nations to follow. However, we shall be ill-prepared for such a position of leadership until we have reoriented the policies that we apply at home.

Too long have we yielded to the urgings of those who have joined the counterrevolution. Alger Hiss and others like him may not be traitors in the ordinary sense of that word implying betrayal of their country in order to give advantage to a foreign enemy; perhaps they are merely miseducated men whose good intentions have led them to join the counterrevolution within Western Civilization. We shall underestimate the potential danger if we do not realize that such men are not misanthropic freaks but the products of some of the Nation's leading educational institutions.

#### **Domestic Policy**

Coping with the counterrevolution at home will not be easy. In order to regain the road toward the goals of the great revolution, we shall have to retrace some steps taken in recent years and turn aside from other goals toward which considerable progress has been made.

With her brother on her back a war weary Korean girl tiredly trudges by a stalled M-26 tank at Haengju, Korea, 1951



More specifically, corrective action will be needed along three general lines. First, the distortions of and interference with free-market relationships must be reduced as rapidly as possible and ultimately ended; second, all special privileges must be eliminated; and, third, the activities of the Federal Government must be reduced to the roles of national defense and preventing license or abuse of freedom.

Restoration of free markets is essential if progress is to be made toward the goals of the great revolution. If men are to choose wisely among possible economic alternatives, they must be free to buy and sell at prices agreed among themselves without government intervention, subsidies or controls; they must be free to select, hold, and exchange the money or standard of value that they deem most suitable for the purpose (with men's customs and views as they are, the gold standard must be restored); and such abuses of the monetary system as inflation must be eliminated.

For 35 years Government intervention and *management* of the Nation's money credit mechanism have resulted in progressively greater distortions and more extreme interference with free markets. The counterrevolutionists throughout the world have long regarded inflation as their most potent weapon; and events in Russia, Germany, France, and elsewhere have confirmed their judgment.

Holders of special privileges, especially those related to monopolies of natural resources (including land), under existing customs and laws acquire an expanding portion of the wealth currently produced at the expense of the producers thereof. This situation results in increasing the numbers of underprivileged members at the base of society from whom communism derives its strength, and diverts from producers some of the means that could be used to increase production. Because the situation in this respect is more acute in various other countries, for example Italy, many observers see the problem there more clearly. Nevertheless, this problem is becoming acute here in the United States.

Reduction of the role of the Federal Government to the national defense and to functioning as umpire for the purpose of preventing license or abuse of the principles of freedom is essential to the efficiency of Government in performing its primary functions. United States Senators, who should have time for analysis and study of important policy matters such as those described here, spend their valuable time bickering over the price-support levels for Valencia peanuts and innumerable other trivialities that have become the day-to-day business of an elephantine bureaucracy.



*The people of these United States are the rightful masters of both congresses and courts, not to over-throw the Constitution, but to over-throw the men who pervert that Constitution*  
—E.B. & E.C. Kellogg (Firm), printer 1864

A republic need not be as inefficient as a totalitarian form of government that attempts to control all economic activities; but, if we continue adding to the functions of our Federal Government as we have during recent decades, the fundamental efficiency of free men functioning in free markets will be replaced by the lumbering and creaking performance of a vast bureaucracy. We shall then be as inefficient as our totalitarian enemies.

### **Foreign Policy Based on the Expedient**

If war with Russia is imminent, we should not scorn any allies, even one such as Spain. However, there is no need to repeat the silly process we went through when we used Russia as an ally in World War II, we need not fool ourselves that we are coping with the counterrevolution when we *make a deal* with men like Franco of Spain.

On the other hand, our intervention in Korea has no other excuse but as part of our long-run plan to cope with the counterrevolution. All of our military experts seem to be agreed that Korea would be a liability rather than an asset in the event of war with Russia in the near future. Obviously then, in Korea we should insist on pressing the great revolution, on progress toward the goals of individual freedom, equality of opportunity, and economic justice for all men. Is there any other goal in Korea worth the life of a single American soldier? (Surely our battle cry in Korea is not to be: *Restore to the landlords their vast feudal estates!*)

If in doubt as to how progress toward those goals can be made in Korea once the reconquest is ended, we might well study the situations in Denmark and New Zealand. The lessons we should learn would have the added advantage that they could also be applied here in the United States when we finally realize how badly we need to apply them.

### **A National Policy Commission?**

We realize that the policies we have suggested may not be generally accepted at first. The Nation's legislators who have been preoccupied with Valencia peanuts can hardly be expected to see world affairs in the perspective here described at first glance, and shallow or confused thinking about the problems of Western Civilization in the twentieth century is by no means confined to the halls of Congress.

Therefore, in closing, we raise the following question. Has not the time come for selection of a National Commission on Foreign and Domestic Policy? Such a commission, composed of the most competent men who can be drawn to its service could be expected to survey the entire problem of American foreign and domestic policy from a nonpolitical viewpoint. By holding extensive public hearings and exploring the various possibilities involved, public attention could be focused on these critical problems of our times and the public could become informed regarding these matters. Finally, before its work ended, such a commission could be expected to report findings and recommendations concerning foreign and domestic policy much as the Constitutional Convention did in 1787 or as the National Monetary Commission did on a less extensive scale four decades ago.



Man reading a newspaper with headline, *Presidential Proclamation, Slavery*, which refers to the January 1863 Emancipation Proclamation —Stephens, Henry Louis, 1824–1882, artist

Unless something like this is done, we greatly fear that the statue in New York Harbor of the Goddess of Liberty enlightening the world will no longer be an appropriate symbol of United States policy at home and abroad. And, in that event, what shall it profit us if we gain widespread dominion and for the time being stabilize the world if in so doing we lose our own principles? We shall gain nothing but a little temporary security and shall lose all that we treasure highly as the United States declines and falls with the rest of Western Civilization, a victim of the counterrevolution.

# Revolution and Counterrevolution

Jeffrey A. Tucker

The last few years have brought me some surprising historical revelations I didn't learn in college and I certainly didn't discover in mainstream media. Without them, there would be no way to understand the current political environment.

Mostly it comes down to the following.

The triumph of liberalism in the 18th century—commercial markets, human rights, freedom of religion, strict limits on government, the randomized blending of human populations

through freedom of association—unleashed unparalleled human creativity and prosperity that fundamentally changed the face of the earth and upended our expectations for what human life could be.

It also provoked a backlash, as early as the 1820s. That's hardly surprising. Where there was control there was now choice. Where there was imposition there was now emancipation. What was top down became bottom up. The old order lost power and a new world replaced it. Entrenched interests resented it. They swore to take back what they lost.

That backlash came to take two forms: aristocratic and socialistic. Or replace the terms: Tory and Labor, conservative and fake liberal, Right and Left. The distinction between the two is fuzzy because both were ultimately reacting against choice and progress, the end of aristocracy and the advent of meritocracy, the end of slavery and the rise of universal volition and the seeming chaos that implies. What's even more confusing is that both sides adopted the language of liberalism to sell their ideas.

This tendency toward two forms of reactionary ideology persists to this day. It's why you get the left of 100 years ago agreeing with the alt-right today on eugenics, why the left today agrees with the right of 100 years ago on identity and biology, why the far left of the 60s agrees with the religious extremists today on free speech, why movements such as the New Deal that advertised themselves to unseat corporate power become corporatist themselves.

Further back in history in the 19th century, this produced seeming anomalies. You have conservatives decrying anti-slavery and free-trade movements. You have socialists and Tories alike opposing mass production in factories. You have leftists speaking like rightists in opposing women's right to work, or maybe it is rightists speaking like leftists.

Today you have Elizabeth Warren and Donald Trump agreeing on trade with China, Bernie Sanders and Tucker Carlson agreeing on immigration and the evils of capitalism, and everyone left and right agreeing on the need to regulate new technology. All these impulses are ultimately anti-liberal; the particular flavor of anti-liberalism depends on political appeal and the sore spots that form the ideological resistance.



Portrait of Prince Rupert,  
Count Palatine (1619-1682)

It can all get crazy confusing until you realize that some people just don't want the world to be free of government authority. If you understand that, you can discern the underlying dynamic at work in modern politics. The dynamic stretches back two centuries. All the rest is detail.

There's an even simpler way to understand this. Freedom was the revolution. All the rest is counterrevolution. Counterrevolution means an attempt to turn back, to harness the pace of history and recapture what was lost, first by disabling the forces of change and then imposing an imagined idyllic past. That past could be one in which strong men ruled, where a pious people happily lived out a public faith, a time of glorious equality, a society where people worked with their hands, some lost period of greatness. The specifics can be left to the intellectual imagination.

This model of revolution and counterrevolution is enormously helpful in clearing out the historical confusions and anomalies. Keep it in mind and much makes sense that previously seemed mysterious, such as why a conservative Germany ruled by Otto von Bismarck was the creator of the modern welfare state and patricians like Woodrow Wilson and Franklin Roosevelt would do the same in the United States. These *Progressives* were as misnamed as the *liberals* are in our own time. Their ambition is not to allow progress much less liberty but the opposite. Every socialist is a reactionary at heart, and every reactionary must ultimately rely on socialistic means to realize his ends.

In practice, it means the forces of classical liberalism are surrounded on all sides of the political spectrum. The threat ebbs and flows but never entirely goes away.

What's odd about this outlook is not only its explanatory power but also how rare it is to find a thinker who can elucidate this with clarity. One of them was Edward C. Harwood, founder of the American Institute for Economic Research (AIER). His 1951 book—written just a few years into the Cold War in which a former ally suddenly became the enemy again—was *The Counterrevolution*.

He beautifully describes the revolution:

*Several hundred years ago Western Civilization consisted of many vast feudal estates, innumerable peasant holdings of small farms, uncounted villages, and towns, and a few cities, small by today's standards. For the most part, men lived as their fathers and grandfathers before them had lived; folklore and superstition were generally considered the intellectual keys to understanding, and scientific knowledge as we think of it today was almost unheard of; class distinctions were rigid in many parts of the civilized world; village industry was controlled by the guilds and other authorities; progress was not generally expected and often was not tolerated; most men were slaves,*

*seemingly held in perpetual bondage by custom, fear, ignorance, and superstition. Only the more fortunate who had been granted dominion over the earth and the fruits thereof, seemingly by an inscrutable providence, could live much differently than did beasts of burden in that almost-forgotten age.*

*Nevertheless, within that civilization, an idea began to find increasing acceptance. In a word, this was the idea that individuals might be free; but its scope developed gradually, and even today we are not sure that we grasp its full implications.*

The movement allied against that revolution became the counterrevolution in Europe and America. Harwood would know because he lived through and fought against a major element of this in the New Deal. The monetary reforms of 1933 that defaulted on gold contracts and stole money from the people inspired him to found the American Institute of Economic Research as a institution standing solid for the revolution against the despotism of the past.

**Le Faucon Hagar** from *Traité de Fauconnerie* (1844-1853)  
—Hermann Schlegel and Abraham H Verster van Wulverhorst  
Falcons are a symbol of unrestrained freedom, liberty, pride and invincibility.



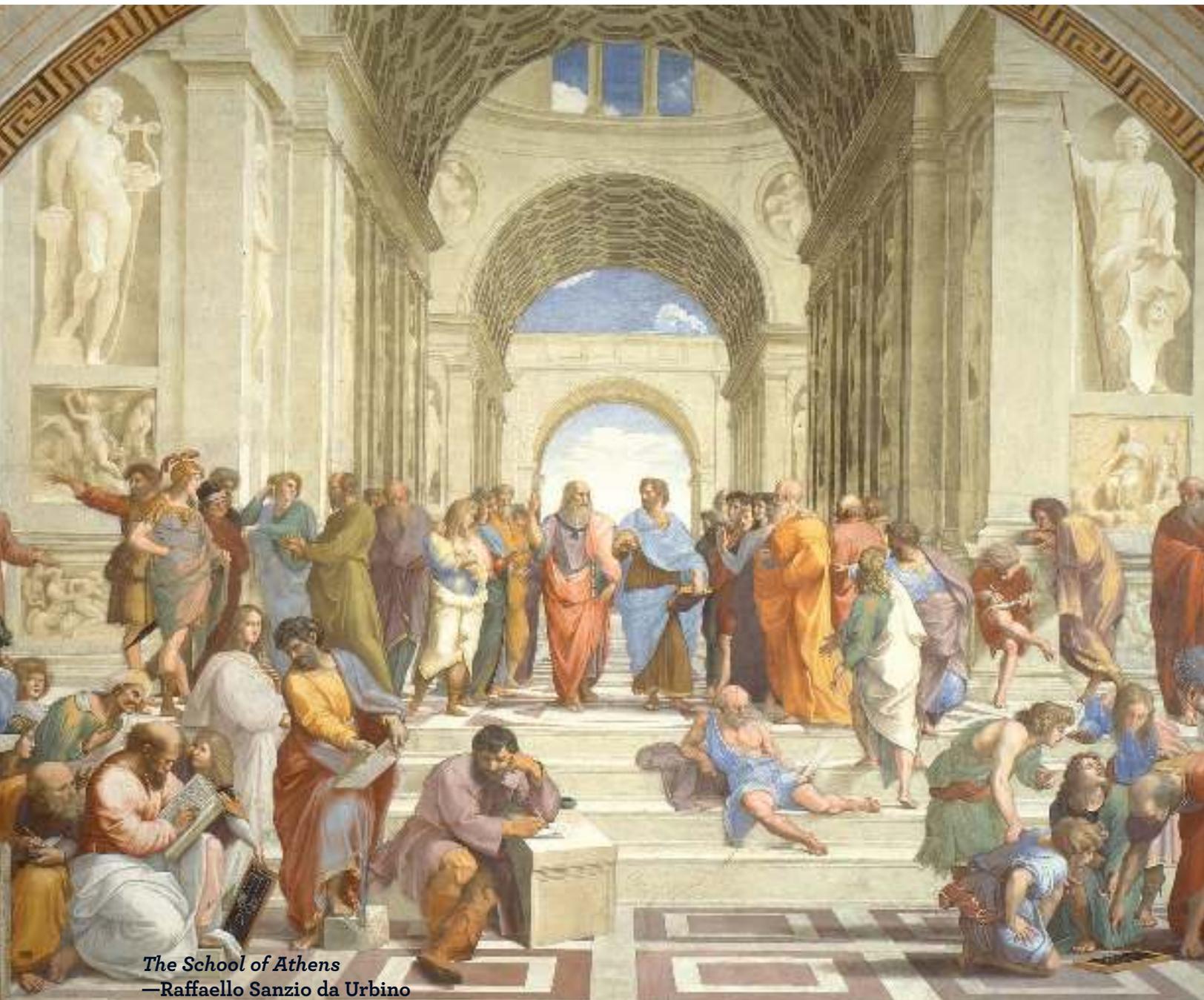
*The Counterrevolution* has been republished again by AIER, with new editorial material by Edward Stringham, Pete Earle, and Fred Harwood. They explain the context and larger implications of the Revolution/Counterrevolution model for understanding political topography.

It's fascinating to see how little has changed in 70 years. One the one hand, you have what we might call the merchant class that has the strongest interest in sound money, the freedom of trade, emergent social institutions, and constitutional government. This group does not think of itself as the inheritors of a revolution from centuries ago but that is what they are.

In opposition are those who want to weaken constitutional restraints, unleash power, depreciate the currency, throttle the pace of technological development, and restrict the freedom of trade and movement. This group does not think of itself as a counterrevolutionary force but that is precisely what it is.

The conceptual breakdown of revolution/counterrevolution is vastly better than any modern typology that too often distracts from the key issue: the place of power in our lives.

Join the revolutionaries.



*The School of Athens*  
—Raffaello Sanzio da Urbino

# The Beautiful Philosophy of Liberalism

Richard M. Ebeling

There has been a great paradox in the modern world. On the one hand, freedom and prosperity have replaced tyranny and poverty for tens, indeed for hundreds of millions of people around the world over the last two centuries. Yet the political and economic system that historically has made this possible has been criticized and condemned. That political and economic system is liberalism.

By liberalism, I do not mean American *progressive* liberalism, historically a modified and reduced form of what used to be called socialism—that is, central planning of all economic affairs. In its modern *progressive* form, it has been watered down to mean extensive and intrusive government regulation of private enterprise with wide redistribution of wealth based on a prior conception of social justice. (See my article *Barack Obama and the Meaning of Socialism*.)

Nor do I mean what in many other parts of the world is often referred to as neoliberalism. While it is frequently claimed that neoliberalism favors a wild and unrestricted capitalism, in fact it is institutionally far closer to American *progressive* liberalism, under which private enterprise and profit seeking are permitted, but, again, an extensive interventionist welfare state combined with government-business crony favoritism and corruption hampers the functioning of a truly free and competitive market. (See my article *Neo-Liberalism: From Laissez-Faire to the Interventionist State*.)

What is lost in all the labeling is the original meaning and significance of political and economic classical liberalism, which has nothing to do with what passes for American *progressive* liberalism or neoliberalism in other countries around the globe.

## The Real Liberalism

Classical liberalism, the liberalism that began in the 18th and 19th centuries and transformed the world in ways that have bettered the material and social circumstances of humankind, has been going down an Orwellian memory hole. Yet it was this older liberalism that began the liberation of humanity from tyranny and poverty, and wherever remnants of this original form of liberalism still exist, prosperity continues to grow.

Natural rights are today often ridiculed or discounted by philosophers who frequently find it easier to speak about ethical nihilism and political relativism. And yet the modern

world of freedom had its origin in them. These are rights that reside in people by their nature as human beings and that logically precede governments and any man-made laws that may or may not respect and enforce these rights.

Political philosophers such as John Locke articulated the meaning of these rights in the 1600s and 1700s. *Though the earth and all inferior creatures be common to all men, yet every man has a 'property' in his own 'person,'* insisted Locke. *This nobody has any right to but himself. The 'labor' of his body and the 'work' of his hands, we may say, are properly his.*

While all people have a natural right to protect their lives and their peacefully produced or acquired property, they form political associations among themselves to better protect their rights. After all, people may not be strong enough to protect themselves from aggressors; and they cannot always be trusted when in the passion of the moment they use defensive force against others that may not be proportional to the offense against themselves.

Here in a nutshell is the origin of the ideas that germinated for nearly a century after John Locke and then inspired the Founding Fathers in the words of the Declaration of Independence in 1776, when they spoke of the self-evident truths that all men are created equal with certain unalienable rights, among which are life, liberty, and the pursuit of happiness, and for the preservation of which men form governments among themselves. (See my article *John Locke and American Individualism*.)

While every American schoolchild knows, or used to know, by heart those stirring words, what most Americans know less well is the remainder of the text of that document. Here the Founding Fathers enumerated their grievances against the British crown: taxation without representation; restrictions on the development of trade and industry within the British colonies, and regulations on foreign commerce; a swarm of government bureaucrats intruding into the personal and daily affairs of the colonists; and violations of basic civil liberties and freedoms.

What aroused their anger and resentment is that a large majority of these American colonists considered themselves British by birth or ancestry. And here was the British king and his Parliament denying or infringing upon what they considered their birthright: the customary and hard-won

*rights of an Englishman*, gained over several centuries of successful opposition against arbitrary monarchical power.

Freedom is the common intellectual inheritance left to us by the great thinkers of the West. But it is nonetheless the case that much that we consider and call individual rights and liberty had their impetus in Great Britain, in the writings of political philosophers like John Locke and David Hume, legal scholars like William Blackstone and Edward Coke, and moral philosophers and political economists like Adam Smith.

What their combined writings and those of many others gave the West and the world over the last three or four centuries was the philosophy of political and economic liberalism. What began as the *rights of an Englishman* became by the late 18th and early 19th centuries a universal political philosophy of the individual rights of all human beings everywhere and at all times.

### **The Classical-Liberal Crusade Against Slavery**

What was the vision and agenda of 18th and 19th-century classical liberalism? They may be understood under five headings.

First was the freedom of the individual as possessing a right of self-ownership. The great British classical-liberal crusade in the second half of the 18th and the early decades of the 19th century was for the abolition of slavery. The words of the British poet William Cowper in 1785 became the rallying cry of the anti-slavery movement: *We have no slaves at home—Then why aboard? Slaves cannot*

*breathe in England; if their lungs receive our air, that moment they are free. They touch our country, and their shackles fall.*

The British Slave Trade Act of 1807 banned the slave trade, and British warships patrolled the West Coast of Africa to interdict slave ships heading for the Americas. This culminated in the Slavery Abolition Act of 1833, which formally abolished slavery throughout the British Empire on August 1, 1834.

Though not overnight, the British example heralded the legal end to slavery by the close of the 19th century through most of the world touched by the Western nations. The end to slavery in the United States took the form of a tragic and costly civil war that left a deep scar on the country. But the unimaginable dream of a handful of people over thousands of years of human history, that no one should be the slave of another, finally became the reality for all under the inspiration and efforts of the 19th-century classical-liberal advocates of individual freedom.

### **The Classical-Liberal Crusade for Civil Liberties**

The second great classical-liberal crusade was for the recognition of and legal respect for civil liberties. Since the Magna Carta in 1215, Englishmen had fought for monarchical recognition of and respect for certain essential rights, including no unwarranted or arbitrary arrest and imprisonment. These came to include freedom of thought and religion, freedom of speech and the press, and freedom of association. Above it all was the wider idea of the rule of law: that justice was to be equal and impartial, and



John Locke, 1632–1704



David Hume, 1711–1776



William Blackstone  
1723–1780

that all were answerable and accountable before the law, even those representing and enforcing the law in the name of the king.

In the United States, many of these civil liberties were incorporated into the Constitution in the first 10 amendments, which specified that there were some human freedoms so profoundly fundamental and essential to a free and good society—freedom of speech and the press, freedom of religion, a right to armed self-defense, freedom of association, protections against self-incrimination and unwarranted search and seizure of private papers and property, and speedy trials along with impartial justice—that no government should presume to abridge or deny them.

### **The Classical-Liberal Crusade for Economic Freedom**

The third great classical-liberal crusade was for freedom of enterprise and free trade. Throughout the 17th and 18th centuries, governments in Europe controlled and regulated all the economic activities of their subjects and citizens as far as the arms of their political agents could reach.

Adam Smith and his Scottish and French allies demolished the assumptions and logic of mercantilism, as the system of government planning was then called. They demonstrated that government planners and regulators have neither the wisdom, nor the knowledge, nor the ability to direct the complex, interdependent activities of humanity.

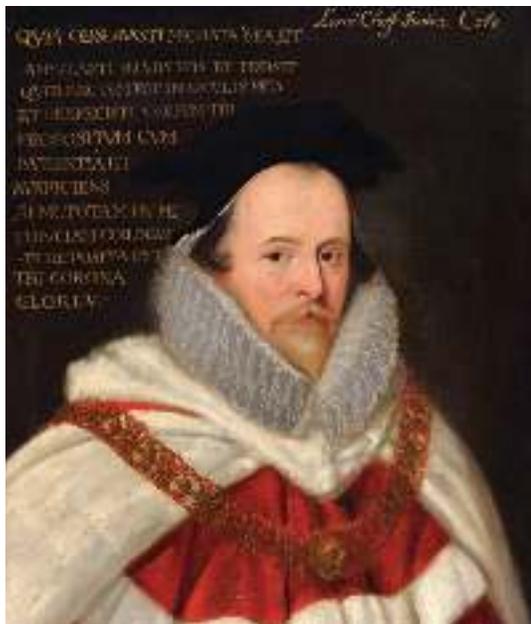
Furthermore, Adam Smith and his economist colleagues argued that social order was possible without political de-

sign. Indeed, *as if guided by an invisible hand*, when people are left free to direct their own affairs within an institutional setting of individual liberty, private property, voluntary exchange, and unrestricted competition, a *system of natural liberty* spontaneously forms that generates more wealth and coordinated activity than any governmental guiding hand could ever provide.

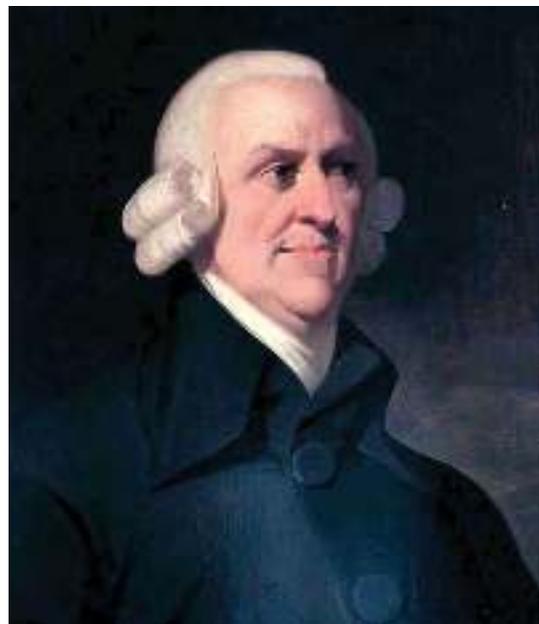
The benefits of such economic liberty made Great Britain and then the United States the industrial powerhouses of the world by the end of the 19th century; classical-liberal economic policy rapidly did the same, though at different rates, in other parts of Europe, and then, slowly, in other parts of the world as well. Population sizes in the West grew far above anything known or imagined in the past, yet increased production and rising productivity were giving those hundreds of millions of more people an increasing standard and quality of living. Indeed, if enough economic freedom and open competition continue to prevail, it is possible that by the end of the 21st century, abject poverty will be a thing of the past everywhere around the world.

### **The Classical-Liberal Crusade for Political Freedom**

The fourth classical-liberal crusade was for greater political liberty. It was argued that if liberty meant that people were to be self-governing over their own lives, that should also mean they participate in the governing of the society in which they live, in the form of an enlarged voting franchise through which the governed select those who hold political office on their behalf.



Sir Edward Coke 1552-1634



Adam Smith 1723-1790



Mezzotint portrait of a woman (traditionally identified as Catherine Voss) as Saint Agnes —J. Smith, 1716

Liberals condemned the corrupt and manipulated electoral process in Great Britain that gave office in Parliament to handpicked voices defending the narrow interests of the landed aristocracy at the expense of many others in society. So as the 19th and early 20th centuries progressed, the right to vote moved more and more in the direction of universal suffrage in a growing number of countries around the world, including the United States.

It was not that these earlier liberals were unconcerned about the potential abuses from democratic majorities. In fact, John Stuart Mill, in his *Considerations on Representative Government* (1861), proposed that all those who received any form of financial subsidy or support from the government should be denied the voting franchise for as long as they were dependent in such a manner upon the taxpayers. There was too much of a possible conflict of interest when

those who received such redistributive benefits could vote to pick the pockets of their fellow citizens. Alas, his wise advice has never been followed. (See my article *Thinking the Unthinkable: No Voting Right for Those Living at the Taxpayer's Expense.*)

### **The Classical-Liberal Crusade for International Peace**

Finally, the fifth of the classical-liberal crusades of the 19th century was for, if not abolishing war, then at least reducing the frequency of international conflicts among nations and the severity of damage that came with military combat.

In fact, during the century that separated the defeat of Napoleon in 1815 and the commencement of the First World War in 1914, wars at least among the European powers were infrequent, relatively short in duration, and limited in their physical destruction and taking of human life.

Classical liberals argued that war was counterproductive to the interests of all nations and peoples. It prevented and disrupted the natural benefits that can and did improve the conditions of all people through peaceful production and trade based on an international division of labor in which all gained from the specializations of others in industry, agriculture, and the arts.

Because of the classical-liberal spirit of the time, there were some successful attempts to arrange formal rules of war among governments under which the lives and property of innocent noncombatants would be respected even by conquering armies. There were treaties detailing how prisoners of war were to be humanely treated and cared for, as well as banishing certain forms of warfare deemed immoral and ungentlemanly.

It would, of course, be an exaggeration and an absurdity to claim that 19th-century classical liberalism fully triumphed in its ideals or its goals of political and economic reform and change. The counter-revolutionary forces of socialism and nationalism gained momentum and influence before classical-liberal policies could be fully followed and implemented in the years leading up to the First World War in 1914.

However, if there is any meaning to the notion of a prevailing spirit of the age that sets the tone and direction of a period of history, then it cannot be denied that classical liberalism was the predominate ideal in the early and middle decades of the 19th century and that it changed the world in a truly transformative way. Whatever (properly understood) political, economic, and personal liberty we still possess today is because of that earlier classical-liberal epoch of human history.

### **America the Beacon of Individual Liberty**

In the new nation of the United States of America at the end of the 18th century, there was a written constitution that in principle and a significant degree of practice recognized the rights of individuals to their life, liberty, and honestly acquired property.

In America, most individuals could say and do virtually anything they wanted, as long as it was peaceful and not an infringement on other citizens' similar individual rights. In America, trade across this new and growing country was generally free from government regulations and controls or oppressive taxes, so people could live, work, and invest wherever they wanted, for any purpose that took their fancy or offered them attractive gains and profit.

It may seem to many a cliché, but in those decades of the 19th and early 20th centuries, when few migration restrictions barred the door, America stood out as a beacon of hope and promise. Here people could have a *second chance*. They could leave behind the political tyranny, religious oppression, and economic privileges of the *old country* to have a new start for themselves and their families. Between 1840 and 1914, nearly 60 million people left the Old World to make their new beginnings in other parts of the world, and almost 35 million of them came to America. Many of us are the lucky descendants of those earlier generations who came to *breathe free* in the United States.

Today, in America and around much of the world, these classical-liberal ideas and ideals of individual liberty, unhampered free markets and free enterprise, and constitutionally limited government, the purpose of which is to secure and protect each person's life and property rather than abridge them, are being lost.

They are disappearing from high school and college and university curricula, or when referred to are condemned or ridiculed as outdated or irrelevant or wrong-headed. The self-appointed social critics and intellectual trendsetters of ideas have turned to new collectivist versions of race, gender, and social group. This can only end badly for the future of freedom. (See my articles *Campus Collectivism and the Counter-Revolution Against Liberty* and *Collectivism's Progress: From Marxism to Race and Gender Intersectionality.*)

The ideas and spirit of classical liberalism, the original and true liberalism, need to be fully reborn, restated, and reintroduced as the guiding ideas for an America and a world of liberty, prosperity, and peace.

# Let's Revive the Term Individualism

Stephen Davies

If like me you are someone who believes in the values and political principles of individual liberty, personal rights, and limited government, then you face many challenges in the contemporary cultural and political climate. Ideas directly opposed to those principles are gaining ground—on both political sides.

Faced with this situation it may seem frivolous to think about what to call yourself, what label to give your ideas. Surely that is a trivial matter and you should concentrate on the serious stuff such as developing your ideas and getting them out into the public realm.

Indeed you should be doing that, but the question of what name to give the body of beliefs you subscribe to is not trivial: the names of political ideals and movements have a power of their own, independent of the actual content of the philosophy, because of the associations they bring and the emotional response they provoke.

One aspect of this is the way that political labels often begin their life as pejoratives, terms of abuse, before being taken up as a badge of pride by the people they refer to. In that case the power of the label derives from the way it comes to embody a spirit of defiance and solidarity on the part of a group who are being attacked and abused by their opponents. The classic English terms Whig and Tory are examples of this—originally Whig meant a Scottish outlaw and Tory an Irish robber.

This is a case of turning a term of abuse against its originators and making it something descriptive and identity defining in a positive way. Another case is that of a word being appropriated by people opposed to the ideas it originally referred to, because of its positive connotations. This is of course what has happened with the ideas of individual freedom and limited government.

Originally the word universally used to describe people who supported that position (and related ideas such as rationalism and progress or optimism about the future) was *liberal* with the ideas being labeled *liberalism*. The word had positive connotations partly because of the popularity of the values so labeled but also because of the favorable associations of the word *liberal* in its original sense (meaning open-hearted, generous, broad-minded, and tolerant).

In the United States in the late 19th and early 20th centuries the word *liberal* was taken over as a label by people who advocated a very different kind of politics and ideas. They had originally called themselves *progressives* but by 1900 had adopted the label of *liberal* and in so doing redefined the commonly understood referent or content of that term. It now meant large and active government combined with ethical collectivism of various kinds. Something similar happened in Britain with the appearance at the same time of so-called *New Liberalism*, but the shift in meaning was less clear-cut.

Elsewhere the word *liberal* retained its original meaning for most people. However because of the dominance of the American academy and popular culture in the 20th century it became difficult for advocates of individual liberty in the Anglophone world to continue to describe themselves as *liberals* because that term had come to refer to what everywhere else was called *social democracy*.

Increasingly they came to describe themselves (and be described) as *conservatives*. This was problematic for a number of reasons: in particular, self-identified conservatives had been the main opponents of liberals since the two philosophies had emerged in the 1820s, and there are still significant differences between the two positions and traditions of thought. In particular, liberals and conservatives, who may sometimes agree about economics, are typically sharply divided over issues of personal liberty, privacy, and the role of the state in upholding traditional mores and ways of life. This reflects a more profound disagreement over the moral status of rules and institutions that restrict personal liberty but do not derive from government.

Conservatives typically support them, while liberals oppose them.

However labels and names have real power and effects. If you use one label to describe yourself, then you will often be influenced by the associations the word brings, even if unconsciously, and your own views will tend to shift. (They will also shift because you now associate with and are allied to people fully committed to the original set of meanings associated with the word.) So the appropriated or adopted label will change its commonly understood meaning

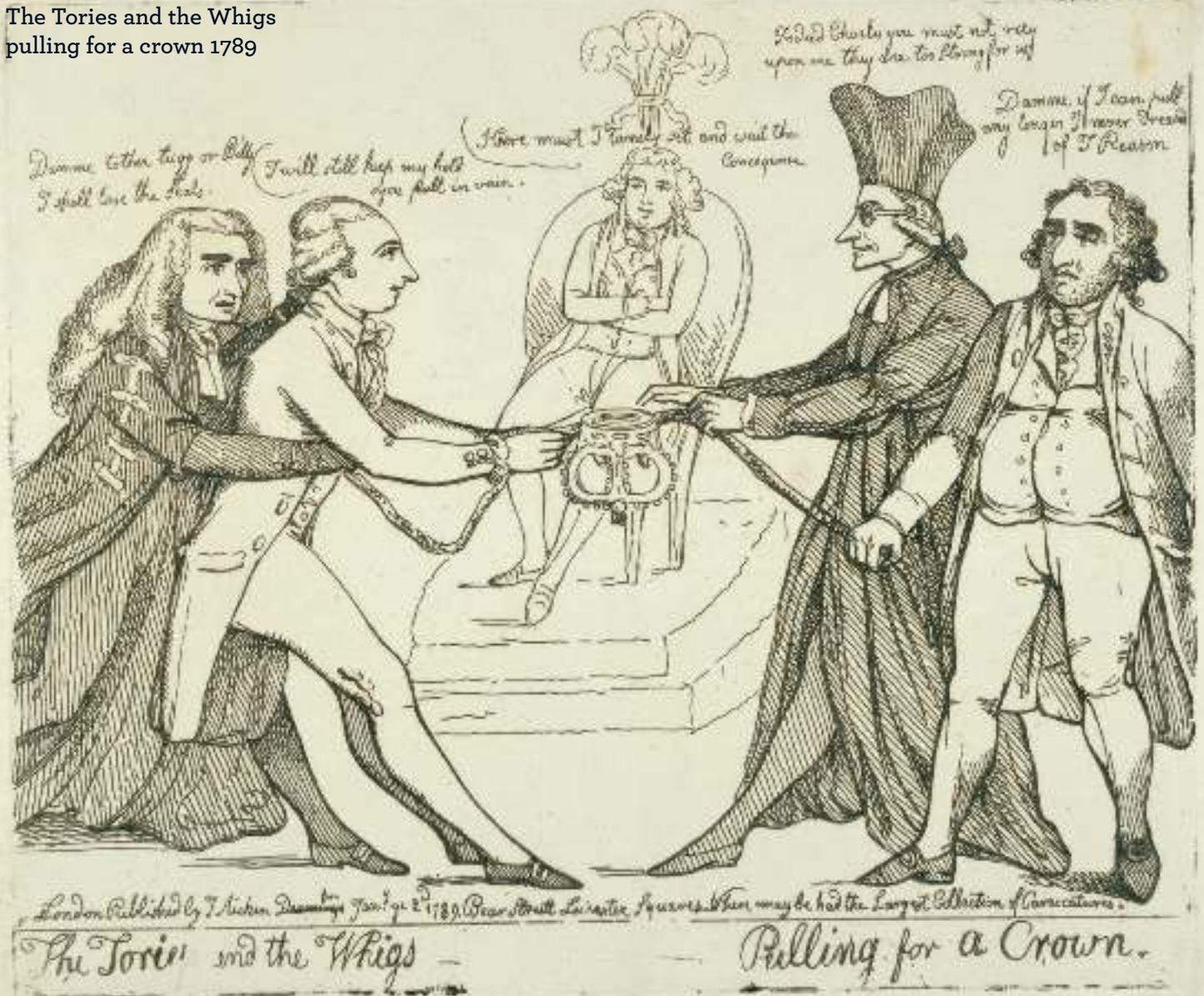
or referent, but at the same time that referent will be changed by its being associated with the label. (We can see this with the aforementioned progressives, who did indeed move away from their originally robust collectivism in some ways as they came to think of themselves as liberals while at the same time shifting the commonly understood meaning of the term.)

However the story for Anglophone supporters of individual liberty is a more complicated one than that. There was always another label available to them, and for a long time they made enthusiastic use of it. This was the term *individualism* and the associated *individualist*. Individualism was a word that had undergone the change from being a term of opprobrium to one of positive identity. It had originally had connotations of selfishness and egoism but by the 1870s had been adopted by a number of radical liberals as a label for their views, on both sides of the Atlantic (and, interestingly, particularly in France).

In the 1880s and 1890s there was a vigorous intellectual debate on both sides of the Atlantic between the self-defined individualists on one side and the self-defined *collectivists* (in the UK, Canada, and Europe) or *progressives* (in the U.S.) on the other. Subsequently the terms *individualist* and *individualism* remained the main labels used by advocates of the radical case for personal, individual liberty. This was true in the 1920s and even as late as the 1940s and early 1950s (Friedrich Hayek used the term for example and spoke of *those of us who adhere to the individualist position*).

Then quite suddenly, in the middle of the 1950s, all of this changed. People who had described themselves as individualists and identified with that label suddenly stopped using it (with a very few exceptions such as Frank Chodorov). Many adopted the label *conservative*, particularly in the U.S. Most however took to calling themselves classical liberals or libertarians (a word that had previously referred to communist anarchists of the Peter Kropotkin type). The

The Tories and the Whigs pulling for a crown 1789



term *individualist*, which had been used until then by both friends and critics, almost vanished.

Why this happened is a mystery. My own suspicion is that it was due to a combination of a generational rupture and the successful meta-political strategy of the CIA at that time, to unite disparate groups into an anti-Communist front—this involved ditching terms and concepts that were clear and therefore divisive.

Today however, people who support the ideals and practice of individual liberty should think very seriously about reverting to the older label and once again calling themselves individualists. The two terms they have used are both problematic, for different reasons. Classical liberal is essentially a historical term, referring to the ideas and personalities of a specific historical period (broadly the 1780s to the 1900s). The danger with using this as a label is that it implies you are advocating a kind of embalmed truth rather than a living intellectual tradition. It also has limited appeal or resonance to people from outside Europe or North America (there were in fact individualist liberals in other parts of the world throughout the 19th and 20th centuries, but they are not remembered in the same way as their counterparts in Europe and the Anglosphere).

Simply using the term *liberal* without qualification is attractive, but there is a definite tradition of collectivist liberalism now and this means a constant need to explain how your own position is different from that, or a qualification of the core individualist perspective.

The widely used term *libertarian* (which I have employed myself) is even more problematic and becoming critically so. Individualism as a label has always had a thick and extensive meaning or set of referents. It refers not just to economic liberalism (free markets and *laissez-faire*) or political individualism (strictly limited government) but also to lifestyle individualism (J. S. Mill's experiments in living), cultural individualism and innovation (as in, e.g., Ibsen and Strindberg), and a particular vision of personal identity and the way to live and flourish as a human being. So the label comes with a particular kind of attached content and association, which is philosophical and cultural as well as economic and political.

By contrast the term *libertarianism*, once divorced from its associations with anarchist communism, comes to be understood as meaning only the first two of those things and increasingly only the first, so the economic content comes to dominate and crowd out the social and cultural elements and even the political. Simply saying you are opposed to large government or support free markets says

little or nothing about the kinds of culture, ways of living, character, and social relations that you admire and advocate. So you have a much more thin and ultimately impoverished understanding of what you are about and support.

Even more seriously, using a label that implies that support for free markets and opposition to state welfare is the whole of your position or at least the essential core of it allows very different and actually opposed political philosophies and identities to claim the same label. In particular it allows people who combine the two positions described earlier with collectivist ideals such as nationalism and ethnic identity, or who support the subordination of the individual's pursuit of happiness to tradition and social (as opposed to governmental) authoritarianism, to claim the label *libertarian*.

In fact there is a deep cleavage between people of that kind and radical individualists. As long as their principal opponents were advocates of a planned and collectivist economy this division could be ignored. However we are now rapidly moving into a world where the division between these two kinds of self-defined libertarians is becoming the main issue in politics.

In that situation the label *libertarian* is the object of a tug-of-war between individualists and small-government conservatives over who has the right to use it. A serious risk is that the term will become associated with what we may call right-wing collectivism and this will discredit and obscure individualists who continue to use it.

Given this, why not revive the term that was used until the 1950s and call yourself an individualist and your philosophy individualism? If you do not want to surrender the term *liberal* to soft collectivism, then speak of individualist liberalism rather than classical liberalism.

There is no danger of this term and its associated identity being appropriated by self-aware collectivists of either the left or right varieties, and in fact it makes it clear that you are at a third point of that triangle, rejecting both kinds of collectivist politics. In other words using the term *individualism* will clarify both what you are for and what you are against, which is always a good thing to get straight.

# The Pejorative Origins of the Term *Neoliberalism*

Phillip W. Magness

The term *neoliberalism* is probably the trendiest scapegoat in intellectual circles at the moment. It refers to a purported ideological movement that bears blame for a variety of progressive grievances about the world today: inequality, poverty, climate change, deregulation, globalization, and the proliferation of money in politics. This neoliberal ideology also holds higher education captive, inflicting faculty-size stagnation, administrative bloat, and expanding student debt onto the universities at the expense of *faculty governance*.

While many of these alleged problems are tenuously demonstrated at best, to large swaths of the academic and intellectual elite there is no doubt that *neoliberalism* is their source. This moniker makes for a very strange diagnosis though, as almost no self-identified adherents of neoliberalism exist (and the very few that do are almost all attempting to appropriate the term from the political left's derogatory deployment).

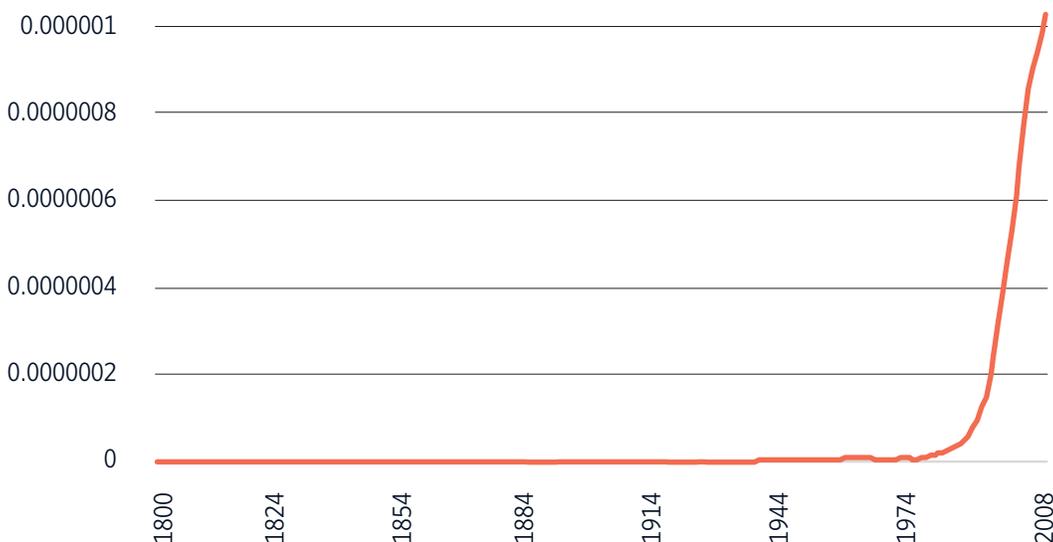
For a movement with next to zero actual claimants, neoliberalism attracts an inordinate amount of scorn, much of it viciously profane and spiteful. Even more curious, the term only entered the common academic lexicon in the last 30 years.

## Academia's Favorite Conspiracy Theory

So how did a term that almost nobody used until 1990 become the target of academia's favorite conspiracy theory on all of the problems in the world, real and imagined? The most commonly encountered version of the story links the word *neoliberal* to a small group of free market economists around Ludwig von Mises and F.A. Hayek in the decades between the two world wars.

According to this standard narrative, the term originates from a small academic conference held in Paris in 1938, now referred to as the Walter Lippmann Colloquium. In addition to its namesake, the American political columnist Walter Lippmann, the meeting's attendees included Mises, Hayek, and an assortment of other European intellectuals who generally hailed from the classical liberal political tradition. The Colloquium is widely regarded as the birthplace of neoliberalism in the scholarly literature. Aside from the history of economic thought, hundreds of published works now repeat as established fact that this 1938 conference actually coined the term. Although not their exclusive domain, this historical account is especially common in present day Marxist and Critical Theory attacks on *neoliberalism* itself.

## Ngram Uses of Neoliberalism 1800–2008



The internal politics of the Colloquium are fascinating and complex. They also complicate the term's modern-day association with free markets. Facing a crisis of method that stemmed from the Great Depression and the rise of fascism in Europe, some attendees proposed abandoning the laissez-faire precepts of classical liberalism and inviting an increased role for government as an institutional stabilizer of the economy through its ebbs and flows.

The proposed shift entailed acquiescence to a fiscally disciplined but active role for the state in the economy. To avoid relegation to political oblivion amid the threats of the Depression era, according to the proposal, classical liberals must show their willingness to indulge in public works spending, adopt a greater tolerance for redistributive taxation, and admit a role for the state in establishing and guiding economic institutions. Supporters of this strategy, led by colloquium participants Louis Rougier and Alexander Rüstow, proposed a new name for their intellectual movement: neoliberalism.

The moniker proved controversial from the moment of its introduction, and the faction of attendees associated with Mises rejected this abandonment of economic non-intervention. As Richard Ebeling has shown, this variant of the term *neoliberal* was wedded to economic planning from the outset.

While some of the French and German delegates briefly turned to the moniker after the Second World War, it never really caught on in the mainline of classical liberal thought. The Austrians associated with Mises rejected it, and its closest intellectual descendant today is not to be found among economic libertarians of the United States but rather the comparatively narrow and less-known Ordoliberal school, which emerged in mid-century Germany. The Ordoliberals today still operate under the broader classical liberal umbrella, but mainly as a variation down the route not taken by the Misesian mainline.

Curiously, most academic applications of the term *neoliberal* today nonetheless attempt to link it to Mises, Hayek, and the many American derivatives of the Austrian school. They portray neoliberalism as an undemocratic sort of laissez-faire ideology with *property rights supremacy*, wherein the masses are denied their ability to collectively appropriate wealth from its owners through the ballot box. The term is accordingly deployed to describe the rejection of state intervention in economic affairs, or precisely the opposite of the concessions that the Ordoliberals made at mid-century.

The Mises-Hayek origin story of neoliberalism is pervasive in the academic literature. Elaborate histories purport to trace its lineage from the Hapsburg Empire of early 20th-century Vienna to the World Trade Organization today, always by way of the Walter Lippmann Colloquium. Other works adapt this narrative to their own modern political causes, crediting the events of 1938 with spawning a *neoliberal thought collective* that supposedly became the main culprit for the 2007–8 financial crisis and, in their telling, still dominates economic policy making today.

Much of the term's recent popularization appears to trace to the 1978–79 lectures of French philosopher Michel Foucault, who ironically did not adopt the overwhelmingly pejorative connotation of its modern uses. Foucault did however popularize the Walter Lippmann Colloquium as a central moment of its origin story.

Referring to the French-language transcripts of the 1938 proceedings, Foucault noted that *in the course of this colloquium the specific propositions peculiar to neo-liberalism are defined. . . . In all the texts of the neo-liberals you find the theme that government is active, vigilant, and intervening in a liberal regime*. This distinctive view broke from laissez-faire precepts, Foucault acknowledged, and also imbued *neoliberalism* with a form of political agency—thus the view's modern reputation as supportive of proactive governance on behalf of free markets.

Even as Foucault remained infamously ambiguous about the nature of neoliberal governance, his followers in successive decades have not. The current norm thus treats neoliberalism as a global poltergeist, a malicious entity of conscious design that wields power advantageously and wreaks havoc and destruction upon the marginalized persons of the world for its own gain. Thus we arrive at the conspiratorial core of the present day's grievance.

### **An Alternative Etymology**

Aside from its politicized deployment, a recurring problem with the modern neoliberalism literature is that it has settled upon a deeply confused and partial origin story for the term. This much was already evident in Mises' rejection of Rougier and Rüstow's proposed retreat from laissez-faire nonintervention in 1938. As a result, modern uses almost unwittingly embrace a historical contradiction. The term is today much more heavily associated with the Misesian tradition that refused it in 1938 than its actual claimants from the same gathering, who are comparatively obscure.

Even more fundamentally, the Walter Lippmann Colloquium is also an erroneously identified and retrofitted beginning for the label.

To find neoliberalism's actual origins, we must turn the clock back by over a decade to the intellectual scene of 1920s Vienna and, with it, neglected sources in the German language. In doing so, we quickly find that *neoliberalism* first emerged as a political label for economic liberalism as applied by its critics on the far left and far right of the inter-war European intellectual scene (a handful of 19th-century uses predate this deployment, but with different definitions that do not map onto the current term).

In this earlier use, first dating to around 1922, the term *neoliberalismus* or *neoliberalismus* was coined to designate practitioners of free market economics who modified its classical precepts not by rejecting *laissez-faire*, but rather by adopting marginalism in their analysis and with it, crucially, a marginal theory of valuation that directly challenged Marxist labor-theory dogma. These earlier designations used the term to describe the Viennese thinkers associated with Mises, who was seen as the *neoliberals* champion.

One early example appears in a footnote from Max Adler's 1922 book *Die Staatsauffassung des Marxismus*. Adler was an avowed communist and associate of Rudolf Hilferding, the Marxist theorist-turned-politician who engaged in a decades-long debate with the Austrians over the nature and feasibility of centralized planning. The Austro-Marxist school of Adler and Hilferding was notable for attempting a succession of rejoinders to Eugen von Boehm-Bawerk's devastating critique of Marx's labor theory of value, first published in 1898.

In 1922, Adler named Mises' recently published *Nation, State, and Economy* (1919) as exemplifying *der neueren und eifervollsten des Neoliberalismus*—essentially the most zealous articulation of *neoliberalism* to date. Adler treated the concept pejoratively, and regarded Mises' effort as a politically driven response to the ascendance of his own brand of Marxian socialism. Adler conveniently accepted his socialist position as a historically demonstrated truism and accordingly saw Mises as attempting to breathe life into what he saw as a failing capitalist status quo.



Two years later, Hilferding commissioned Alfred Meusel, a Marxist colleague, to pen a lengthy critique titled *Der Neu-Liberalismus* for his magazine *Die Gesellschaft*, one of the main political organs of the Austro-Marxists. Meusel's article specifically targeted Mises' 1922 book *Socialism*, which investigated the intractable obstacles that afflict central planning as a result of the socialists' destruction of a functional allocation mechanism.

To the historian Meusel, Mises' *neoliberal* alternative to socialism amounted to a utopian scheme that he regarded as unsuited for the *realities* of Marxian labor struggle; the latter also accepted as a truism. Like Adler, he conveniently claimed the weight of history as a reason to cast aside Mises' criticisms. A labor uprising was to be a political certainty, and the Marxists claimed to possess the tools to accommodate it. Similar themes would characterize Meusel's sparring with Mises in German-language journals and magazines for the next decade.

Just two years after Meusel's adoption of the term in *Die Gesellschaft*, another of Mises' intellectual adversaries attempted to map out a distinct *neoliberal* school of economics as part of a revision to the adversary's widely circulating German-language textbook on the history of economic thought. But this time the critique came from the political far right in the form of social theorist Othmar Spann.

Spann is best-known today as a proto-fascist philosopher who championed a German collective identity and a radical repudiation of 19th-century liberalism. He was also a central figure in the academic politics of the University of Vienna as well as a frequent rival of Mises on the faculty (Mises would write a blistering attack on Spann's critique of marginal valuation in his 1933 book *Epistemological Problems in Economics*).

In his 1926 textbook revision (later translated to English in 1931), Spann added a new chapter on what he dubbed the *neoliberal trend* (or *school* in the original version) in economics. He presented this development as an effort to resuscitate the *Ricardian school*, or essentially classical economics, from its death at the hands of its critics.

Like his Marxist contemporaries, Spann was bitterly hostile to the object of his labeling and designated it pejoratively. The very existence of a *neoliberal* movement and the *fact that this school should recently have become dominant, he groused, are manifest indications that our science is still talking the language of the eighteenth century.*

Spann's taxonomy attempted to formally define the *neoliberal* schools of thought. As with the Marxists, he immediately extended the moniker to the *marginal utility school* in an unelaborated reference to his Viennese colleagues. But he

also linked the term to the contemporary Stockholm school of Knut Wicksell and Gustav Cassel, treating such economists as parallel expositors of a modernization of classical precepts amid their anti-liberal critics (Cassel rejected marginal valuation and posited his own theory of pricing derived from scarcity and comparative price levels across countries).

Spann further associated *neoliberalism*, in its many geographical components, with the methodological individualism that his own *universalist* system sought to purge from economic and social theory. To Spann, liberalism's great failing was its individualism, which he saw as an exercise in denial of a natural and spiritual national community.

Although an anti-Marxist himself who rejected Marx's *surplus value* solution to economic valuation as *theoretically unsound*, Spann effusively praised Marx's *good service by drawing attention to the inequality of the treatment meted out to worker and to entrepreneur respectively in the individualist order of society.*

The collectivist dispositions of these two camps, far right and far left, made individualist liberalism a common enemy under their shared pejorative label *neoliberalism*.

### **The Return of the Neoliberal Label**

While Mises himself appears to have left very little that would indicate what he thought of this label, its adoption by several of his most vocal opponents, right and left, in the early 1920s may be easily established by the works of Adler, Meusel, and Spann. It is not difficult to see how these earlier uses may have weighed on his mind in 1938 when the other Lippmann Colloquium attendees proposed the term and associated it with a shift toward greater state economic intervention.

Curiously, the pejorative use of the 1920s continues to have much in common with the deployment of the *neoliberal* label that we see all around us today. While some modern *neoliberalism* critics do target what might be better designated as an Ordoliberal-style melding of market liberalism with a fiscally disciplined social safety net, the classical liberal positions of deregulation, free trade, and above all *laissez-faire* remain the far more common target.

Yet also hovering just beneath the surface in these uses are a number of familiar concepts from Mises' 1920s adversaries: an almost-axiomatic valorization of labor, a rejection of marginalism and its derivative theory of value, and a belief in the collective identity struggles that typify both classical-Marxist and modern critical-theory approaches to social analysis. The *neoliberal* label, it seems, never shed its original pejorative political purpose.

# Why They Try to Turn Back the Tide of History

Jeffrey A. Tucker

Maybe like me, you have been mystified about the frantic imposition of tariff walls around the world over the last 18 months. It started in the US but has spread like a wildfire. Daily the barriers go up and the taxes on trade are increased. It's hard to account for unless you want to take sole recourse in the theoretical confusions and political stamina of a US president who somehow believes that tariffs are a magic elixir that creates national economic cohesion. The growing reality, however, is that this is an international movement that is everywhere bringing back protectionism.

Something about it still doesn't make sense. We've seen with our own eyes and personal experience how international economic cooperation and lower barriers to trade have broadened the division of labor and confirmed Adam Smith's theory that this is the first condition of wealth creation. In all our own lifetimes!

Human Progress reports constantly that around the world in the last half century of growing free trade and globalization, life expectancy is up 29%, infant mortality is down 72%, medium income per person is up 167%, food supply is up 22%, and poverty has fallen more than ever recorded in human history. Concomitant with this, authoritarian governments are fewer around the world and human rights vastly more protected, which is to say, in general, governments have lost power.

This is a beautiful record. In the language of E.C. Harwood, this looks like revolution of the good sort, the overthrow of the old order of national isolation and the introduction of a new freedom and cooperation that has massively benefited humanity.

Why is there a reaction against it? Why stop what works? Why now?

## Two Periods of Dramatic Change

We can get a clue by examining another case of a similar enterprise-driven revolution that occurred during the age of laissez-faire from the end of the Napoleonic Wars in 1815 to the beginning of the Great War in 1914.

During this period, the world saw similar dramatic changes in economic growth, income, infant mortality, communication technology, urbanization, and human choice generally. The end of slavery, the rise of women's rights, the invention

of the steamship and railroad, electricity, the commercialization of steel, the building of mighty cities, and flight, the rise of travel, just for starters. Government power was receding as private enterprise grew ever more powerful. The old establishment of command and control was being displaced by a new order ruled by the principles of commerce and choice.

Thus was the old order upended. But in the blink of an eye, a remarkable thing happened. There were anti-trust regulations. There was the income tax. The central bank was born. The regulatory state started policing food, medicine, labor, and law. You needed a passport to get from here to there. Even egregious ideas such as eugenics—the central planning of the population—became fashionable in the highest academic circles. There was wartime economic planning, censorship, and the regulation of financial markets.

It was the creation of the total state—that is to say, a state that knew no limits to its power. It happened over the course of one decade, from about 1908 to 1918. Again, referring to the language of Harwood, this was the counterrevolution's answer to the revolution.

## Progressivism Is Not

Now, this picture is likely to be confusing to most people with superficial historical training today. This is because for generations now, all the above changes have been characterized as Progressivism, the movement by which a benevolent elite acted for the people to protect them against private business. This myth still persists.

Actually, the deeper research shows that the real impetus of Progressivism was very different. In the words of the great historian Gabriel Kolko, this period was actually The Triumph of Conservatism. The elites of the period were in a panic about the rise of competition and commercial life and all the revolutionary changes that this implied for economy, society, culture, and the traditional powers of the ruling class.

All the controls of the period—and Kolko offers a detailed story for every big change—were designed to lock down and roll back the changes that new freedoms were bringing about. They weren't trying to bring about Progress; they were trying to roll back history. A counterrevolution.

Of course it didn't quite work out. Prosperity and freedom continued their march through the 20th century despite all terrible setbacks with depression and war. Their efforts proved futile but still very costly.

century and continued through the end of the century before reaching exponential levels later. In Europe and Asia, this is sometimes called the Great Divergence.

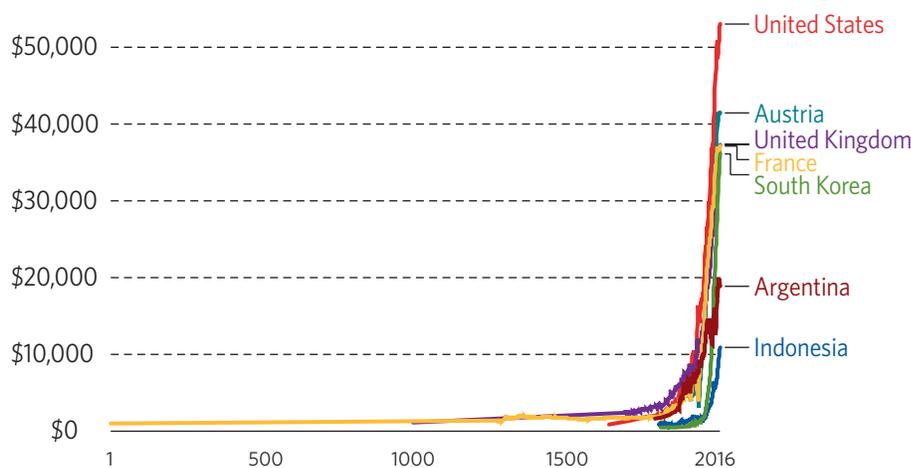
### The Parallels

Now the parallels between then and now are becoming clear. This becomes apparent when considering the following charts. The first shows the famous hockey stick of prosperity that began soaring up in the early years of the 19th

Here is a picture of what this meant for the world. It was truly the birth of mass wealth and prosperity. It would be naive to imagine that something on this level could happen without provoking reactionary forces, even when those forces go by the name Progressivism.

## GDP per capita

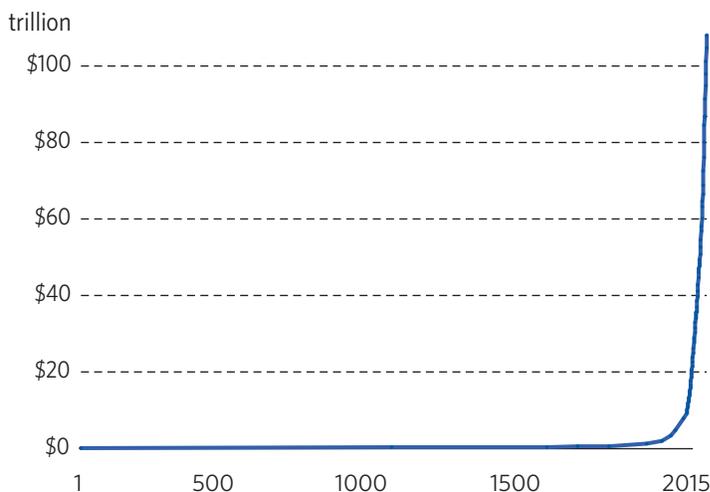
GDP per capita adjusted for price changes over time and price differences between countries—it is measured in international \$ in 2011 prices.



Source: Maddison Project Database (2018)  
 Notes: These series are adjusted for price differences between countries based on only a single benchmark year, in 2011. This makes them suitable for studying the growth of incomes over time but not for comparing income levels between countries.  
 OurWorldInData.org/economic-growth • CC BY

## World GDP over the last two millennia

Total output of the world economy; adjusted for inflation and expressed in international \$ in 2011 prices.



Source: World GDP—Our World In Data based on World Bank & Maddison (2017)  
 OurWorldInData.org/economic-growth

The next two charts I ran in my piece on the return of protectionism. What you see here are similar leaps in the hockey-stick formation.

We can say here exactly about our times what I said above about the movements in the early 20th century: It would be naive to imagine that something on this level could happen without provoking reactionary forces.

The globalization of commerce has empowered the common person around the world, unleashing prosperity unlike anything human history has ever seen. This has been particularly true since the collapse of communism and the reforms in China added the creative minds of many billions of people to the great project of creating wealth for all. Add to that the internet, the free speech movement, the app economy, cryptocurrency, and general

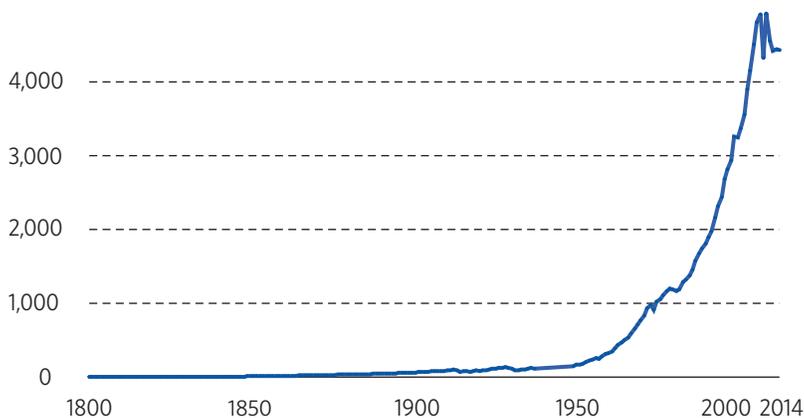
empowerment of just about everyone, and you have all the makings of a counterrevolution.

The nation-state and all the established interests associated with it are fighting back, attempting to turn back the tide of history. It's taking recourse to government control to stop the rise of freedom. We've seen this pattern before, revolution followed by counterrevolution. There are different names for the movements making this happen—right and left, socialist and nationalist, liberal and conservative—but the driving motivation is the same, namely to roll back freedom.

Knowing and seeing the pattern here makes it no less alarming but it does help reveal that these economic/political cycles are not arbitrary. And if history is our guide, we can also see that the efforts of the reactionaries against freedom will fail.

## The value of global exports

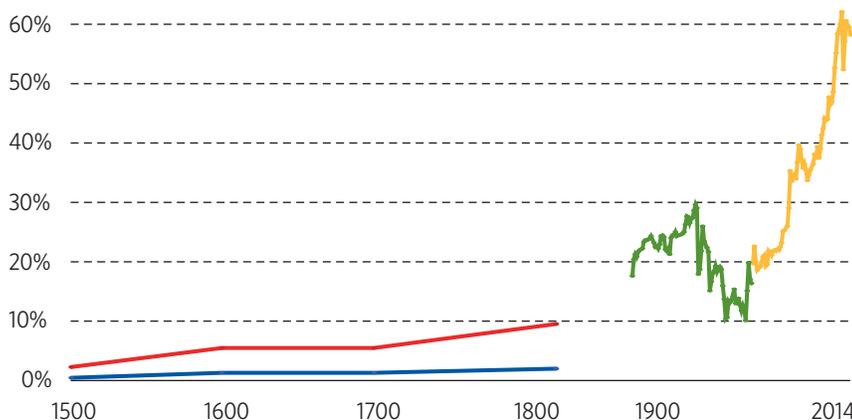
Time series of value of world exports at constant prices, relative to 1913 (i.e. values correspond to world export volumes indexed at 1913 = 100)



Source: Federico and Tena-Junguito (2016)  
OurWorldInData.org/international-trade • CCBY

## Globalization over 5 centuries

Shown is the *trade openness index*. This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



Penn World Tables (9.0)  
Klasing and Milionis (2014)  
Estevadeordal, Frantz, and Taylor (2003) (upper bound)  
Estevadeordal, Frantz, and Taylor (2003) (lower bound)

Source: Penn World Tables 9.0, Estevadeordal, Frantz, and Taylor (2003),  
Klasing and Milionis (2014) • CCBY

# The Many Problems With the Ideology of Nationalism

Kai Weiss

Turning Point USA has become one of the leading political campus groups ever since being established in 2012. Founder and President Charlie Kirk has developed into a shooting star among the Right and is good friends with Donald Trump Jr. Responding to the success in the United States, the organization has announced recently that it wants to expand to the U.K.

But at the launch event of the U.K. branch, Candace Owens, Turning Point's communications director, caused a major controversy when she put forth her rather interesting views on nationalism. For Owens, there are no *problems at all with the word 'nationalism.'* And while everyone will immediately refer to Hitler when it comes to nationalism, the problem of Hitler was merely that he was not a nationalist. *If Hitler just wanted to make Germany great and have things run well, OK, fine. The problem is that he had dreams outside of Germany. He wanted to globalize.*

Shortly after the video of her speech surfaced on social media, she tried to clarify her comments—which, obviously, were totally taken out of context by the SJW media anyway (while Turning Point's U.K. branch fell prey in its own way to identity politics by writing on Twitter that *the epitome of racism is claiming a black woman supports Hitler*). For Owens, nationalism means *believing in the sovereignty of your nation first*, which would justify a *Germany First* approach. But *Hitler wasn't about putting Germans first. There were German Jews that he was putting into camps and murdering* (disregarding the fact that Hitler only put Jews into camps precisely because he did not think of them as German).

Recall her initial statement: *If Hitler just wanted to make Germany great and have things run well, OK, fine.*

There are so many ways this assertion is wrong, of course, especially for someone like Owens who works for an organization that is supposedly fighting for *free markets and limited government*. Free market capitalism was after all one of the main targets of the Nazi regime, which did not promote limited government but instead created one of the most centralized and most intrusive states in world history.

As Ludwig von Mises wrote, *The main point in the propaganda of Nazism between 1919 and 1933 was: World Jewry and Western capitalism have caused your misery; we will fight these foes, thus rendering you more prosperous.*

Excluding the Holocaust and other eugenic attempts by the Nazis to establish a German master race, which, I am absolutely sure, Owens does not support in any way whatsoever, the national-socialist regime was still, well, socialist throughout. In contrast to the Communist megastate to the east, which simply abolished private property, the Nazis left it in place. But every minute detail was regulated and controlled so that one could in fact not do anything freely.

For instance, the *Reichsnährstand* (Reich Food Estate) had complete control over the agricultural industry. It was not the farmer anymore who had decision-making powers on his farm. It was the state that told the farmer what to produce, when to sell it, and at which price. It was not only in farming, though, that the despotic government intervened. Wherever you look—to the labor market, general business, charities (the Nazis were quite into the idea of a welfare state for *ethnically pure* Germans)—the Nazis controlled all economic life. This is not even mentioning social and political regulations like *banning opposition parties, muzzling the press, terrorizing and imprisoning dissidents, building a police state, and disenfranchising Jews*, as Cathy Young notes in another response to Owens.

That Candace Owens doesn't seem to think of this as very important is shocking. It also shows the problem with the type of nationalism that is so often expounded today by those on the right. There is little question that nationalism has seen a revival on the conservative end in the last few years. The U.S. president has declared himself a nationalist, and serious intellectuals like Yoram Hazony have come out proposing a rethink of nationalism.

And there is a point to their criticisms that rings true. Too often in the last few decades have those advocating liberal democracy simply dismissed the nation-state by referring to Hitler and Mussolini. Libertarians, too, have heavily neglected and thus quickly bedeviled nationalism by merely looking to the *state* part in *nation-state* while forgetting the concept of a nation.

A nation can be quite compatible with liberty, and in some cases can even be a bulwark against collectivism—just look at the nation states of Great Britain and the United States over the centuries. If we mean by nation merely a group of people that share the same heritage, culture, language, or religion, there is indeed as little wrong with it as with the existence of local communities and their accompanying traditions and mores.

A nation also has to be open to the wish of others to belong to it. That is, the nationality can be fluid, in the sense that, for example, someone who is not born in the U.S. can still become an *American by choice*. It also has to give others the right to establish their own nation. For Mises, this was the premise of nationality: the right of self-determination.

Only in this negative, or defensive, sense can a nation not be aggressive, because, in contrast, as Mises wrote, *national policies, which always begin by aiming at the ruination of one's neighbor, must, in the final analysis, lead to the ruination of all*. Only by living in peace with one another and granting everyone's freedom can nations coexist.

Finally, and perhaps most importantly for today, one should not mistake the nation with its state. Surely, those two will go hand in hand in some cases. But a more prudent form of nationalism, as described, can't equate the two. Indeed, a true patriot, one who is proud of his country, has to be the first critic of the work his government is doing.

As G.K. Chesterton said, *'My country, right or wrong,' is a thing that no patriot would think of saying except in a desperate case. It is like saying, 'My mother, drunk or sober.'* Or, to take an actual example of Chesterton's, *a man who says that no patriot should attack the Boer War until it is over is not worth answering intelligently; he is saying that no good son should warn his mother off a cliff until she has fallen over it*. Thus, a true patriot, if faced with government abuse, has to step up and call this abuse out for his country, instead of mumbling his support in the crowd.

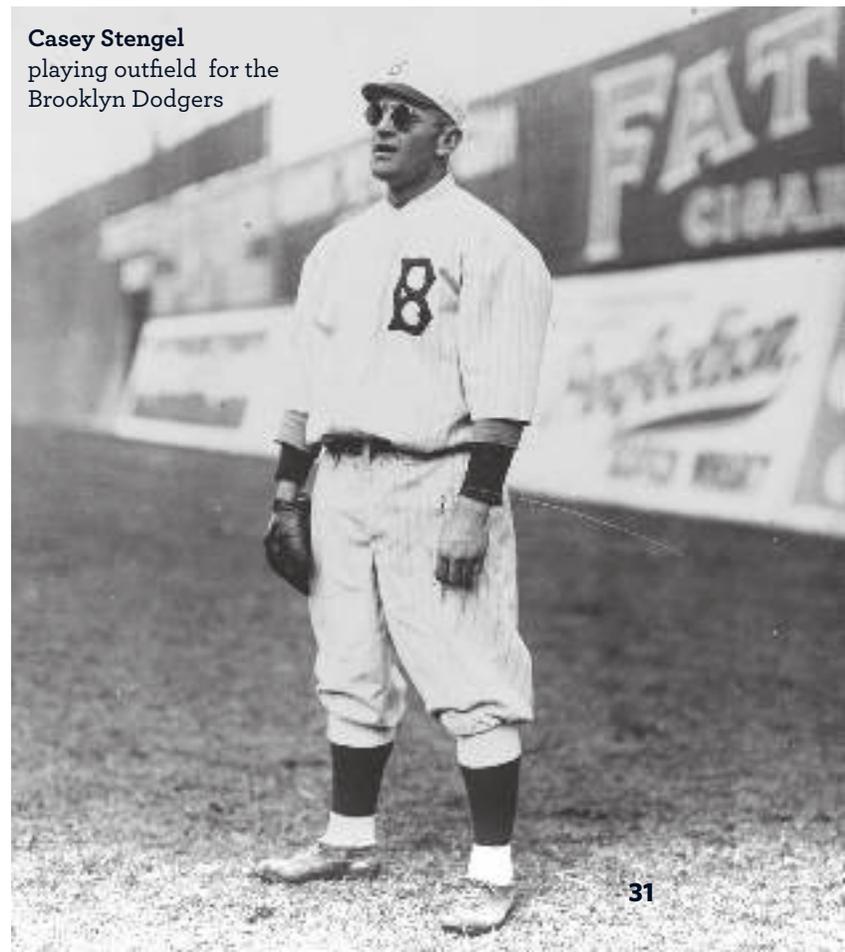
This latter part specifically seems to have been missed by most of today's *conservative* nationalists like Owens. *America First*, meaning the unwavering support of the nation-state (i.e. the government, not the country), has left little room for criticism of policies like the protectionism that supposedly needs to be implemented because American workers are hurt by free trade. Or it means immigration has to be reduced or even halted because American jobs would go away otherwise. This type of nationalism necessarily leads to a conception of an American people that is smaller than the total of American citizens. All elements that are against the *national interest*, even if American (like free trade advocates), have to be silenced or eliminated.

It is no different in other countries: Those who demand *Hungary First* will be on board with everything the Hungarian government says because the government is claiming to fight for Hungary—even if that means abolishing the rule of law and the free press. Those in favor of *Europe First* will be on board with everything the European Union does because the EU is for them Europe—even if it is slowly abolishing economic freedom across the Continent.

And while Candace Owens' arguments can be brushed away as pure ignorance in a single hectic moment, if we take her comments at face value they are just another example of this. For her, if Hitler had stayed within German boundaries and treated everyone in this territory, including Jews, well (in the sense of not killing them), everything else he did would have been fine—simply because he would have supposedly fought for the *national interest*.

This might be the biggest issue with those embracing *nationalism* today. They are not advocating organic, bottom-up community-building, which might, through voluntary cooperation, make possible bigger communities based on some shared understanding. They are not patriots that are proud of where they come from or the values they advocate together but still allow everyone else in the world to do the same through their right of self-determination.

Neo-nationalists like Candace Owens instead are just following a great leader because he is supposedly promoting their tribe—even if, in reality, he hurts them.



**Casey Stengel**  
playing outfield for the  
Brooklyn Dodgers

# Read Hayek As If Your Children's Lives Depend On It

Art Carden

Had he not passed away (about a month and a half before his 93rd birthday in 1992), F.A. Hayek would have celebrated his 120th birthday a few days ago. Hayek carried the flag for what Peter J. Boettke calls *mainline* (as opposed to *mainstream*) economics in the 20th century. About a decade ago, I exhorted students at an Institute for Humane Studies seminar to read Hayek's *The Road to Serfdom* as if their children's lives depend on it.

Boettke's new book *F.A. Hayek: Economics, Political Economy, and Social Philosophy* reinforces my assessment, and newfound public enthusiasm for socialism—democratic socialism, of course, like they practice in Norway, and not the top-down totalitarian variety of the Soviet Union and Mao's China, which anyway was *not real socialism*—reinforces my sense of urgency. Boettke's book will, I hope, induce more scholars to take Hayek seriously and to reexamine his contributions to economic science, political theory, and social philosophy.

The knowledge problem, which Hayek explained most famously in his classic essay *The Use of Knowledge in Society* and his collection of essays *Individualism and Economic Order*—which includes *The Use of Knowledge in Society*—is at the heart of Hayek's work from beginning to end. How, Hayek asks, do people possessing fragmentary knowledge dispersed over some 7.5 billion minds coordinate and reconcile their disparate and often-conflicting plans? As Boettke has written elsewhere with Zachary Caceres and Adam Martin, *error is obvious, coordination is the puzzle* (in a paper of that title). To Hayek (and Boettke), a lot of the economic modeling that explores the characteristics of and transitions between different equilibria obscures (or begs) the scientifically important and scientifically interesting questions about, for example, the institutional context governing political and commercial exchange.

Boettke divides Hayek's career into four periods. From 1920 through 1945 (though he never abandoned the project), Hayek focused on *economics as a coordination problem*, to borrow the title of a book by Gerald O'Driscoll. 1940-1960 was the *abuse of reason project*, in which Hayek took the social sciences to task for thinking of articulated reason and planning as *solutions* to social problems of calculation

and coordination. From 1960 to 1980, Hayek worked on *the restatement of the liberal principles of justice*, and from 1980 through his death was a protracted emphasis on *philosophical anthropology and the study of man*.

In his analysis of these phases of Hayek's intellectual evolution, Boettke dispels a few myths and works (albeit implicitly) to rescue Hayek's scientific program from the *calumnies of his modern ideological critics*. Keynes, Boettke argues, did not win the Hayek-Keynes debate, just as the socialists did not win the socialist calculation debate. Importantly, *The Road to Serfdom* was not a *slippery slope* argument in which any intervention whatsoever ultimately leads to totalitarianism.

Take the Hayek-Keynes debate, for example. Boettke notes that *Keynes's theory begins with an aggregate demand failure, and thus, with unemployment. Idle resources are postulated, not explained* (p. 43). Hayek, by contrast, builds on a tradition stretching back to Adam Smith and J.B. Say and reaching through luminaries of the Austrian school like Carl Menger, Eugen von Boehm-Bawerk, Friedrich von Wieser, and Ludwig von Mises in working to explain how, in light of what we know about how alternative institutional arrangements generate alternative outcomes, we end up with miscoordination and with idle resources to begin with. Hayek concludes, famously, that *Mr. Keynes's aggregates conceal the most fundamental mechanisms of change*. Those most fundamental mechanisms of change, in turn, are informed by *the epistemic function of alternative institutional arrangements and its impact on productive specialization and peaceful cooperation* (pp. 29-30, Boettke's words, emphasis in original).

This informs all four phases of Hayek's work. The socialist calculation debate has been misinterpreted as what we might call a *big enough computer* problem. According to this perspective, Hayek criticized socialist planning on the grounds that it is merely inefficient relative to market calculation. Advances in economic modeling combined with orders-of-magnitude increases in computational capacity in the late 20th and early 21st centuries mean Hayek's criticism of the inefficiency of socialist planning no longer applies. Hayek, it seems, has been refuted by Moore's law.



## Friedrich August von Hayek

But this is a straw man, and it is one Hayek addresses at the very beginning of *The Use of Knowledge in Society*. He notes that if we define the economic calculation problem as one of solving a massive system of known equations producing known outputs using known inputs, then *economic calculation* is simply a matter of math. It might be hard math, but it's just math all the same.

That, however, isn't Hayek's argument, and as Boettke explains in detail, Hayek is not answered completely or correctly by the mechanism-design studies for which Leonid Hurwicz was awarded the Nobel or the information-economics contributions that earned Joseph Stiglitz a Nobel. Hayek's emphasis, Boettke points out (p. 82), is on *how actors within the process are going to learn what they need to learn and why they need to learn it so they can adjust their plans to those of others who are also continually learning and in such a manner that the coordination of economic activities through time is achieved*.

Competition, then, becomes a way of discovering the nature of things and implies the existence of sheer (or 'radical')

*ignorance and genuine uncertainty, which is a highly significant element of Hayek's economic thought and marks an important departure from mainstream economics* (p. 86). Or, as Boettke puts it in summarizing the Hayekian position (p. 111): *The competitive market process embodies greater knowledge than any single mind could possess because its institutional structure enables individuals to utilize their own subjective knowledge in pursuing their goals, and contains endogenous mechanisms that encourage the entrepreneurial discovery and spontaneous correction of economic errors*.

In this light, Boettke argues, we should read *The Road to Serfdom* not as a political tract but as a detailed examination of how a real-life socialist economy would have to solve economic and social problems. It raises a crucial point that builds on the questions pursued by Adam Smith, the father of mainline economics. Smith, Hayek, and others in the *mainline* differ largely in their assumptions about people's moral and cognitive capacity, and the institutional problem for mainline economics is not, as Boettke quotes Hayek on Smith's analysis of our capabilities, searching for a system that helps good people do the most good but *a system under which bad men can do the least harm* (p. 228-29).

This informed Hayek's turn toward political theory and *philosophical anthropology* in *The Constitution of Liberty*; *Law, Legislation, and Liberty*; and *The Fatal Conceit*. What, Hayek asked, are the *liberal principles of justice* and the underlying principles that encourage and govern social cooperation broadly construed? What, he asks, constitutes *the political order of a free people*? Boettke's treatment shows us that Hayek is worth reading in a new light.

Hayek worked in the context of the near death of civilization in the world wars, near-universal enthusiasm for socialism among the intellectuals, and repeated exhortations in the face of periodic economic troubles that this time really was the Final Crisis of Capitalism. In Boettke's hands, Hayek's work is a beginning, not an end: it is the jumping-off point into a vital and dynamic research program on how economic coordination happens in a world rife with fallibility and ignorance. *F.A. Hayek: Economics, Political Economy, and Social Philosophy* is essential reading for any scholar interested in the Hayekian tradition.

# How E.C. Harwood Stood Firm Against FDR's Attempts to Censor AIER

Phillip W. Magness

Many ongoing *speech controversies* of the modern era involve a certain amount of tension between ostensibly private actors—media outlets, tech companies, universities—and the freedom of expression. While we must acknowledge the right of private entities to chart their own rules of content and expression in their respective fora, recent congressional hearings amply demonstrate that political actors are often lurking closely in the background of these controversies, ready to nudge the private sector toward censorious design.

Free speech is more than just a political right. It is a desirable social norm that sustains and promotes a culture of tolerance around the free and open exchange of ideas, even if we find some of those ideas objectionable. When the pressures of the state align against free expression, even indirectly and through private actors, it imperils this norm.

Unfortunately, the United States government has a long and sordid history of applying pressures to silence disliked political speech. One such episode actually threatened the existence of AIER itself in its infancy, when our founder E.C. Harwood ran afoul of the New Dealer economic designs of Franklin Delano Roosevelt.

## **Censored!**

Harwood founded AIER in 1933 while serving as a professor of military science at MIT. Although trained as an officer in the U.S. Army Corps of Engineers, he had studied economics in graduate school at Rensselaer Polytechnic Institute and turned his attention to the examination of business cycles. His work in this area brought him into occasional conflict with the Roosevelt administration's interventionist policies until he retired from the army in 1938, intending to devote his energies to teaching and economic research.

With a war raging in Europe and the storm clouds gathering around the United States, several of Harwood's former commanders convinced him to resume active duty as an officer in the Army Corps of Engineers in August 1940. They would need experienced and trusted engineers should the U.S. enter the war. Harwood accordingly took a leave from his teaching position, named Donald G. Ferguson as the Acting Director of AIER in his place, and reported for duty at the Army Corps of Engineers in Boston.

Shortly thereafter in March 1941, Harwood received an unexpected visitor from Washington. The Adjutant General's office was opening an investigation of him over *the appearance, in the Weekly Bulletin of January 13, 1941, of the American Institute for Economic Research, of matter critical of the President of the United States*. Since Harwood still remained a trustee of AIER, the War Department considered this position subject to military rules governing the political activities of soldiers:

*In view of the fact that you are a senior official of the American Institute for Economic Research, the War Department must consider that you have at least a partial responsibility for the publications of that Institute. Therefore, the Secretary of War has directed:*

- a That you use such means as are at your disposal to prevent the appearance, in the Weekly Bulletin of the American Institute for Economic Research, of articles which are in violation of War Department or other legal restrictions on articles published by Army officers, or,*
- b That you terminate your active participation in the activities of the American Institute for Economic Research.*

Although Harwood had placed editorial control of the Bulletin under Ferguson during his absence, this novel interpretation of army rules had an ulterior political design. Fully knowing that Harwood's resignation from the institute he founded was not an option, the government intended to leverage his wartime officer's reactivation as a tool for silencing AIER's long-running criticisms of New Dealer economic policy.

The political persecution of Harwood appears to have originated in the highest ranks of the Roosevelt Administration. As Harwood later recounted, an investigator showed him a copy of the Bulletin containing a handwritten directive to *investigate and stop this*. It was signed by Lauchlin Currie, a former Harvard professor who became Roosevelt's chief adviser on economic affairs in 1939.

## **Who Was Currie?**

A prominent New Dealer in his own right, Currie was one of the main architects of Roosevelt's Banking Act of 1935,

which centralized the Federal Reserve's organizational structure and expanded its ability to use open market operations for monetary meddling.

Currie was a consummate central planner, using his position at the White House to push for aggressive expansions in entitlement spending, public works programs, and centralized economic design. His public service career ended in disrepute after the war when investigators learned he was working as a spy for the Soviet Union. In short, Currie was a living antithesis of Harwood's economic philosophy.

Harwood saw right through the bureaucratic formalities of the War Department's investigation and recognized a blatant attempt by the White House to silence one of its economic critics. In a lengthy written response, he detailed the steps he had taken to *discontinue. . . my work there except that related to the duties of Trustee*, a strictly fiduciary position, for the duration of his return to active duty. The institute's daily operations were handed over to its faculty at this time under the terms of its nonprofit charter. *It is not my personal property*, Harwood answered, *nor is it subject to my orders.*

Calling the government's bluff, he offered to resign his trusteeship at AIER or accept being relieved from active duty so that he may return to private life. *My only concern at the present is to be of help to those whom I have undertaken to serve during the emergency* of the looming war.

In doing so, Harwood likely recognized that his personal status was of little consequence to the White House. Rather, they wanted to leverage his return to active duty as a tool for censorship over AIER, as proposed by the investigator's memorandum. Unsatisfied with the offer to resign, the investigator pressured him to instead reveal the authors of each article criticizing Roosevelt in the Weekly Bulletin.

Harwood stood firm, noting that *if I choose to reply to questions of this character, I shall inevitably narrow the field of responsibility for authorship of the material and facilitate what in effect will be the persecution of a limited number of other people* on AIER's faculty. *My present belief is that it would be wholly improper for me to participate, even directly, in any such proceedings.*

### One of Four

Turning the tables on the government, Harwood next enlisted Roosevelt's own words to reveal the hypocrisy of the White House's efforts. Only a few weeks prior, Roosevelt delivered his famous *Four Freedoms* address to Congress, highlighting the growing threat of Nazi Germany from across the Atlantic. In Roosevelt's telling, *The first is freedom of speech and expression—everywhere in the world.*

In declining the government's *solution* of using him to censor AIER on their behalf, Harwood retorted *It is my intention always to refrain from any action that may directly or indirectly lead to a thwarting of this great aim* that had been so recently *discussed by the President*. In a likely jab at Currie, Harwood continued:

*I have often wondered, since the first investigation of this character, what the source of the investigation could have been, and have assumed that it was politically inspired by immediate subordinates of the President without his knowledge. In view of his own recent assertions, I cannot believe that he would authorize or permit such proceedings; therefore, until I receive definite evidence to the contrary, I shall assume that the position I have taken is in accord with the wishes of my Commander in Chief as well as the dictates of my own conscience.*

It was an effective rhetorical move that brought the ethical implications of the government's investigation into full view. Historians have since documented that similar persecutions of free speech and the free press were in fact a norm of the Roosevelt administration, including with likely acquiescence from the president. Still, Harwood provided a powerful reminder of the importance of the ideal that Roosevelt spoke of in his speech.

The Adjutant General's investigation reached an impasse in the following weeks as Harwood conveyed his position to the AIER staff, and announced his intention to hold firm against the censorious demand. Ferguson answered on behalf of the institute, noting that Harwood had left his directorship in their care during his military activation and withdrawn from its daily activities.

As Ferguson explained *We. . . suggest that, if the War Department desires to censor the Research Reports, it submit a statement of its wishes and the legal grounds therefor directly to the Faculty of the Institute rather than through an intermediary*, Harwood during his return to active duty, *who has neither personal responsibility nor authority with respect to the Research Reports.*

And with that, the War Department appears to have dropped its demands.

# How Will the New Tax Law Affect You and Your Charitable Giving?

Jeff Lydenberg

The new tax law became effective on January 1, 2018. Of the numerous changes, the two most directly affecting charitable gifts are:

- 1 The increase in the standard deduction (\$12,000 for singles, \$24,000 for married couples filing jointly); and
- 2 Elimination or restriction of numerous itemized deductions (though the charitable deduction remains intact).

Both of the above will increase the number of individuals claiming the standard deduction, and thus reduce the number of itemizers who can take an income tax charitable deduction. However, if you live in a state with high income and property taxes and you have a mortgage you could find that you still itemize.

Even if you won't itemize, here are some strategies to make lifetime gifts to charity and still receive tax benefits:

**Make gifts of appreciated property such as publicly traded securities to AIER.** Even if you don't itemize, you will still be able to avoid capital gains tax by making a gift of appreciated assets owned by you for at least one year.

**Make gifts to AIER using the charitable IRA rollover.** If you are over 70½ you can make a direct transfer from your traditional IRA or Roth IRA to charity of up to \$100,000. Such a transfer is not taxable and counts towards satisfying your required minimum distribution.

**Make larger gifts to AIER.** If your total non-charitable deductions are close to equaling the standard deduction, a larger charitable gift may increase your total deductions enough that it makes sense for you to itemize; the additional tax savings that itemizing offers may reduce the effective cost of your gift.

**Make a gift to AIER from all or a portion of what's left in your retirement plan.** Assets in your IRA, 401(k), or other qualified retirement plan may be subject to income tax when distributed to heirs. Making AIER a beneficiary of a portion or all of your retirement plan will avoid the income tax that might otherwise be due from your heirs. This is an extremely tax-efficient way for you to make gifts to AIER that costs your heirs less than giving other kinds of assets.

As with any change, you should contact your accountant or financial planner to understand how the new tax law will affect your individual tax situation.



SEE  
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TO GIVE  
TO AIER

## **Harwood Graduate Colloquium: Economic Freedom and Trade**

September 26-29  
Great Barrington, MA

AIER's third HGC of the year will be led by Gillian Foster and includes speakers Dierdre McCloskey, Dr. Russell Sobel, Phil Magness, and more. Discussions will be led on the history and measurement of economic freedom.

## **Frederic Bastiat: Storyteller and Theorist with Donald Boudreaux**

September 30  
Arlington, VA

Why is Frederic Bastiat one of history's most brilliant tellers of economic stories? Why does he deserve more recognition? AIER's Bastiat Society program in Washington, DC will host Donald Boudreaux, a Senior Fellow at AIER and the F.A. Hayek Program, for a discussion on Frederic Bastiat.

## **How Liberty Enriched the World, 1800 to the Present with Deirdre McCloskey**

October 1  
Great Barrington, MA

Join AIER's Bastiat Society program in Great Barrington for a talk with the well-known economist and historian Deirdre Nansen McCloskey, who will answer Adam Smith's question. She has discovered that the nature and causes of the wealth of nations depends on liberty—not on investment or exploitation or even science.

## **Screening of "Eva" with Ted Green**

October 20  
Indianapolis, IN

Eva Kor was well-known in Indiana as an Auschwitz survivor who went on a journey to forgiveness and healing. At this inspiring event, the Bastiat Society of Indianapolis and America's Future Foundation will screen her documentary, followed by a Q&A session and reception.

## **Creative Destruction, Entrepreneurship, & Discovery with Dr. Russell Sobel**

November 7  
Columbia, SC

What is the process of creative destruction and why is it important? How can economies best cope with it? Join AIER's Bastiat Society program in Columbia for a talk with Dr. Russell Sobel, Professor of Economics & Entrepreneurship at the Citadel.

For information about these events and more,  
visit **[AIER.org/Events](https://www.aier.org/Events)**.



Participants at AIER's third annual  
Sound Money Project meeting in August

# Discover the Benefits of Planned Giving

Many of AIER's supporters have discovered how giving to AIER through our planned giving programs supports AIER's mission and provides numerous benefits for them and their loved ones.



A good plan will provide for your family or loved ones, protect what you have worked so hard to acquire, and leave you feeling safe and secure.

Certain plans allow you to guarantee income for up to three generations of beneficiaries, so you can put a plan in place for any of the important people, or even organizations, in your life.

In addition to supporting the mission of AIER, a planned gift can provide to you substantial tax advantages, especially on gifts of stock and real estate. The total income, estate, and capital gains tax savings and the probate-expense savings can come close to the amount of your planned gift. The benefits include:

- Income for Life**
- Income Tax Deductions**
- Reduced Capital Gains Taxes**
- Reduced Estate Tax**

In partnership with your advisor you can plan a gift that fits your needs. A planned gift makes it possible for you, your loved ones, and AIER to all benefit.

**Use our online calculator** to unlock new opportunities to help meet your financial goals and support AIER.

<http://plannedgiving.aier.org/calculator>

Interested in learning more?

**Contact Tim Rogers 888.528.1216 x3106**

# SUPPORT AIER

and help us teach Americans about the importance of sound money



*I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.*

—Arnold Van Den Berg, Longtime AIER Member

**AIER members understand the importance of AIER's mission and want others to understand too.**

Annual Sustaining Membership dues and donations to our programs help AIER provide the information, tools, and analysis that Americans need to make decisions to advance peace, prosperity, and human progress. We promote personal freedom, free enterprise, property rights,

limited government, and sound money. The people that value these principles the most are members of the American Institute for Economic Research. Donations to AIER are tax-deductible.

Please donate to AIER today to support our ongoing research into business cycle dynamics, inflation, and the role of government in the economy. Call us at 888-528-1216, visit [www.aier.org/donate](http://www.aier.org/donate), or mail in the coupon below.

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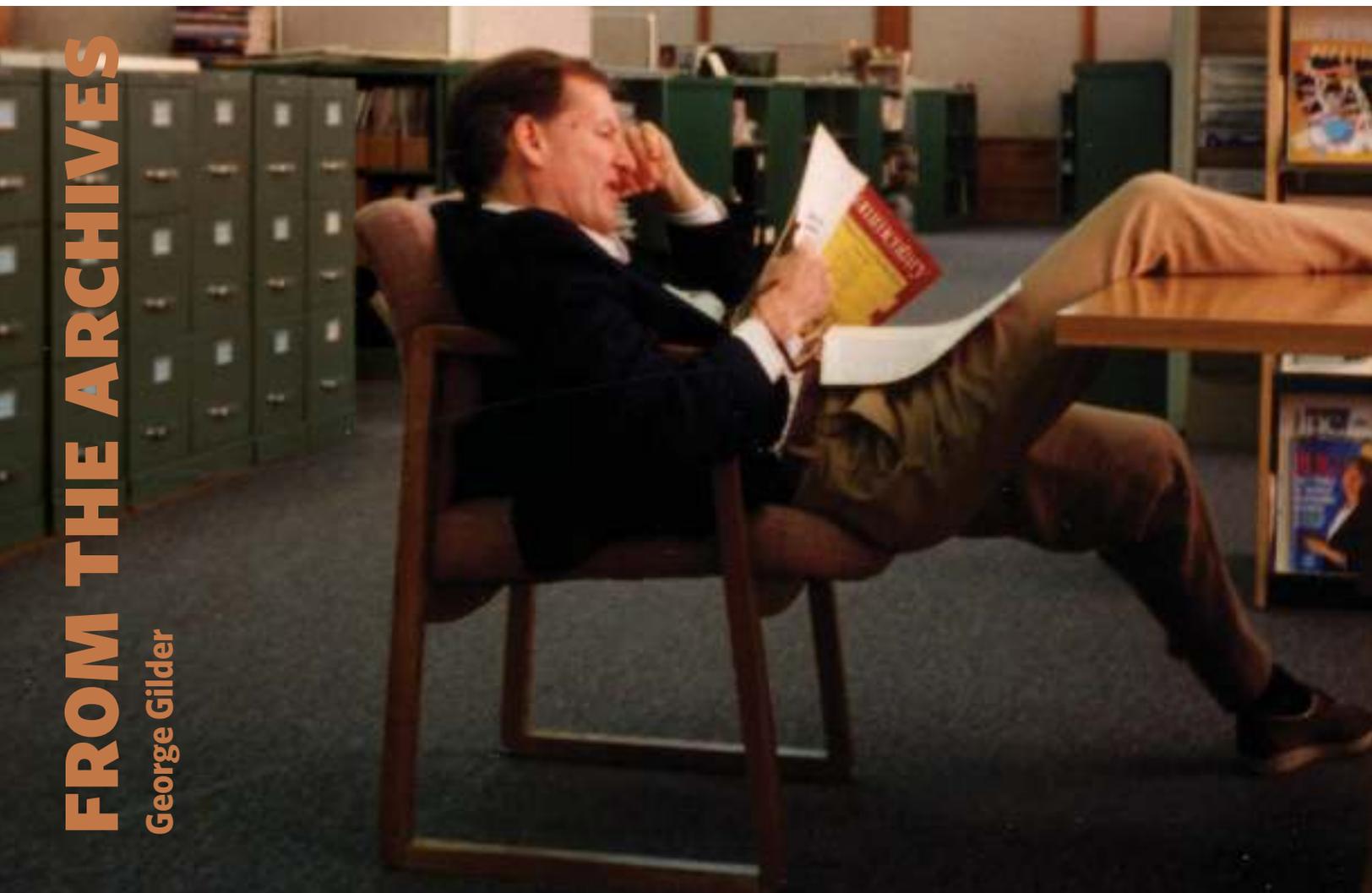
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# FROM THE ARCHIVES

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