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The Struggle for the Good Society: Rudolf Hilferding, Ludwig von Mises, and Walter Lippmann, and the Advent of Neoliberalism as Self-Criticism and Self-Defense of Liberal Governmental Style from 1896 to 1938

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ABSTRACT


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Despite the growing proliferation of literature on neoliberalism much of it has been used uncritically and asymmetrically across political divides that seek to confront the hegemony of the United States and Western capitalist nations in the latter half of the 20th century, or within the broader outlines of Foucauldian governmental style which focuses on governmental reasoning and institutions. This paper contends that neoliberalism actually is a much broader phenomenon resulting from the struggles and failures of historical liberalism and capitalism from the turn of the century and that the philosophical and ideological milieus of the late Hapsburg Empire and failures of democratic socialism as well as laissez-faire liberalism are important contributors to the advent of neoliberalism that have been largely overlooked. This paper turns away from the institutional level to look more closely at the interplay of individuals and their ideas and focuses on the Austro-Marxist Rudolf Hilferding, the Austrian economist Ludwig
von Mises, and American philosopher and journalist Walter Lippmann leading up to the Walter Lippmann Colloquium in Paris in 1938 wherein the term neoliberalism was first coined.
NEOLIBERALISM AS STRUGGLE FROM POLITICAL ECONOMY TO
POLITICAL ACTION

—Neoliberalism as Struggling Theory—

The term ‘neoliberalism’ is one which has become commonplace in modern sociology. Its applications have been numerous, ranging from social phenomena such as education systems to general political economic categorizations as a type of government, akin to democracy, or in other places as a rough substitution for modern, globalized capitalism itself. A more detailed exploration into the wide application of neoliberalism as a term in modern scholarship is presented by Boas and Gans-Morse (2009) who claim that from 2002-2004 as many as 76% of the articles which contained the term neoliberalism that they sampled did not bother to even define the term (p.6), though most often the term is associated with the study of political economy.¹ Though not explicitly the focus of this paper per se, Boas and Gans-Morse point out that neoliberalism itself has become a politically charged term and that clear conflicts of interest arise when it is introduced within an academic tradition, stating that its “negative normative valence and connotations of radicalism have produced asymmetric patterns of use across ideological divides” (ibid.:9).

¹ In another literature review by the authors they discovered that “[i]n a review of 148 articles on neoliberalism published in the top comparative politics, development, and Latin American studies journals between 1990 and 2004, we did not find a single article that focused on the definition and usage of neoliberalism, nor are we area of one published anywhere else” (Boas and Gans Morse 2009:2).
Boas and Gans-Morse (2009) and Hartwich (2009) discuss that the term neoliberalism has become so charged that few even use the term to describe themselves and that it is largely used as pejoratively; both papers also acknowledge the difficulty of challenging a consensus whose proponents do not even seem to exist. Boas and Gans-Morse note that neoliberalism presents a unique challenge in that the term is neither defined nor debated and that the problem is not that there are too many interpretations for the term, but rather that there are too few (ibid.: 20). They contend that “neoliberalism” has acquired merely a rhetorical value for social scientists, and it must gain a new, substantive meaning, though Boas and Gans-Morse argue that neoliberalism has been radicalized by historic practice of its advocates and that returning to its original, more moderate incarnation under the Freiburg school (e.g. Friedrich 1955) would not serve to facilitate future debate. It is at this point that this thesis diverges from Boas and Gans-Morse, for while their concern is how neoliberalism has changed its meaning throughout history and academic scholarship, analyzing the application of the term is not sufficient: we must understand the history of the term itself. Only by constructing an ideosociological history, a pre-neoliberal history of neoliberalism,2 can we clarify its path of

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2 Here it is important to clarify some terminological conventions which, though admittedly arbitrary, will be used in the effort to help clarify the development of neoliberalism, namely “pre”-neoliberal and “proto”-neoliberal. Pre-neoliberal is intended to designate those intellectuals whose work is contributory to the neoliberal program and in a very open sense is used to designate those who helped directly shape neoliberalism, in this case the Austro-Marxist and Austrian schools of economics by producing the original proto-neoliberals themselves or produced their cousins the democratic or market socialists who sought an alternative to pure state socialism or laissez faire liberalism. The Austrian and Austro-Marxist schools are both included because many of the later generations of the Austrian school, e.g. Röpke, Mises, and Hayek took classes with many of the leading socialists who would incorporate the marginal economic revolution, e.g. the social democrats of Hilferding, Bauer, Neurath, Schumpeter, etc. By contrast, while influential on Lippmann’s analyses, Lenin is not a “pre”-neoliberal because he hails from an entirely unique philosophical and economic-theoretic trajectory though he did incorporate some of Hilferding.
development: that neoliberalism did not emerge *sui generis* but that understanding its context is as important as understanding the product itself.

Before constructing an alternative historical narration to neoliberalism, first it is necessary to clear away space in the already clustered academic discourse, by admitting that—though informed by them—this perspective contrasts sharply from the pieces of Foucault (1994), Harvey (2005), and Mirowski and Plehwe (2009) on neoliberalism. While those works greatly diverge with each other, they all examine neoliberalism at an “institutional” level: that it is part of the liberal program of governmental style and the legitimization of the state around the economy (Foucault 1994: 106), that it is part of a project for the restoration of class power (Harvey 2005: 62, 68, 199), or that it is an increasingly expanding “thought collective” of interlocking institutions and persons interested in pursuing aggressive open market policies (Mirowski and Plehwe 2009: 4, 428).

One of the most important analyses of neoliberalism was given by Foucault at his 1979-1980 lectures at the Collège de France, captured in *The Birth of Biopolitics* (1994), wherein his genealogy of modern governmental style explores the attempts of the State to limit its own governmental reason within the horizon established by the techniques of political economy. This established a critical governmental reason wherein the “whole question of governmental reason will turn on not how to govern too much” (ibid. :13). Political economy established a “regime of truth” based in the market itself (ibid. :31-33).

The term “proto”-neoliberal is used to designate those thinkers who are in transition to neoliberalism itself, neoliberalism being narrowed down only to those who first attended the Walter Lippmann Colloquium and were present in the first creation of the term.
until the “liberal state” emerged as the coupling of the market as the site and basis of truth production and the arrangement of governmental reason on techniques of utility (i.e. maximization according to a set of principles, rather than on a founding ideology, such as distributive justice or the rights of man) (ibid. :61-64).

Neoliberalism occurred as an adaptation of liberalism and had two major avenues: the German variety which responded to the Weimar Republic, the 1929 worldwide depression, National Socialism, and post-war reconstruction, while the American vehicle was a reaction against the New Deal and against government intervention. In the German model “the economy, economic growth, produces sovereignty […] the economy produces legitimacy for the state that is its guarantor. In other words, the economy creates public law” (ibid. :84). Eventually, public law developed such that it became “an internal regulation of government rationality” and that “this limitation will then appear as one of the means, and maybe the fundamental means, of attaining precisely these objectives” (ibid. :10-11).

In other words, what was constructed as a way to limit the internal power of a state transformed from a method of strictly limitation to one of enabling its objectives. The tools used for the implementation of critical governmental reason are what constitutes political economy in Foucault’s model, wherein political economy seeks to discover “a certain naturalness specific to the practice of government itself” (ibid. :15). This naturalness helps government construct:

A particular type of discourse and a set of practices, a discourse that, on the one hand, constitutes these practices as a set bound together by an
intelligible connection and, on the other hand, legislates and can legislate on these practices in terms of true and false (ibid. :18).

Thus, to Foucault, political economy and the rationalization of government allow for not only the limitation of government, but also for the translation of truth into power and power into truth through governmental style. It is this “self-limitation of governmental reason” that is “called liberalism” (ibid. :20). Where this ties back into the neoliberal project is that Foucault argues that “the economy creates public law” and that this distinction is what produces neoliberalism from liberalism: that “economy produces legitimacy for the state and is its guarantor” (ibid. :84).

This “institutional” understanding of neoliberalism suggests that it has some underlying logic behind it, some rationality—unknown (unconscious) or known (self-disclosed)—or multiplicity of rationalities which give rise to a concrete form in socio-historical space. These perspectives tend to downplay that the actual idea content of neoliberalism, the becoming of its Idea, was a process of contention, and instead focus more on the historical actualization of that content through the execution of governmental reason by specific governmental policies and operations. Here, it is contended that the rethinking of neoliberalism as a struggling theory à la Žižek reveals its true nature as the attempt at the reconstruction of liberalism—a neo-liberalism—can be brought to light: i.e., “not only [a theory] of struggle, but [a theory] engaged in a struggle […] the relationship between theory and practice is properly dialectical, in other words, that of an irreducible tension […] at its most radical, theory is a theory of failed practice” (2008:3).
As such, the point where this analysis breaks off from Foucault is the role of political economy: to Foucault, political economy and the economy as foundation for public law is an appendage of a regime of governmentality and thus coterminous with the political, whilst this paper is concerned with the actual creation of the political as a nexus of individuals struggling within their ideological and sociohistorical environment to transition political economy into political action concerned with prescribing the appropriate boundaries of state, society, and economy, which Lippmann defined as the “Good Society” (Lippmann [1937]2005). Lippmann’s call for action ushered in a new era of increased political activism by pro-market and capitalist economics in the 20th century that was actually a resurgence of older classical economic positions which treated economics and politics as one subject concerned with morals, contrary to its artificial disjunction by 19th century historical political economy (Stimson and Milgate 2008; Becchio 2005; Hodgson 1996; Polanyi [1944] 2001; Smith [1904/1776]2003).

Stimson and Milgate (2008:498-500) catalogue the development of economic history in the 20th century as splitting into two general tracks: one was the adoption of Smith’s labor theory of value by Ricardo, Hodgkin, and Marx who asserted that the economic system was the basis for the state and consequently that economic and political

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3 The proper question is thus of historiography: the interest of this paper is not liberalism as genealogy of governmentality, but rather neoliberalism as shared biography—struggles and maturation—of the pre-neoliberals. It thus diverges from Foucault’s admitted selected history, that he is “skipping two centuries” because they are not relevant to his question, which is the understanding of governmentality and how it affected law and order, and eventually biopolitics (Foucault 2004: 78). While it is this “gap” in Foucault’s analysis that becomes a pivotal fulcrum for this analysis, this is a point of divergence rather than an attempt to “fill in” Foucault’s thesis.

4 Another point where this analysis is in common with Foucault is the creation of a “regime of truth” by the neoliberals at the Walter Lippmann Colloquium wherein they imposed normative relations, i.e. the “Good” Society upon liberal, market economics, expanding it to include larger social questions.
reform were coexisting. The other general vein was those economists who expanded upon the Benthamite calculus and individualism, arguing for the separation of economic and political spheres as much as possible, e.g. Mill, Walras, and Marshall. The former camp would largely inspire various reform and social democratic movements, the latter the “marginal” revolution, neoclassical economics, and Manchester liberalism. Both of these currents largely viewed “politics” as the scope and boundaries of state power respective to the society and the economy—if there were any—a definition which shall be appropriated for this discussion.

Lippmann’s call to political action effectively shifted the political economic discourse of liberal, pro-market and capitalist economics away from the artificial separation of economics and politics and laissez-faire toward a “reconstruction” of liberalism, which implied the end of laissez-faire (Lippmann [1937] 2005; Izzo and Izzo 1997). However, the neoliberals took a much broader scope of liberalism and historic political economic than Manchesterism and laissez-faire and by examining the problem at the “social” or “civilizational” level—as a combination of moral, political, and economic crises produced by advances in science and technology—the neoliberals were able to provide alternatives to state-centered solutions, which they feared led only to totalitarianism (Rüstow 1980[1950]; Hayek 2007[1944]; Röpke 1998/1990[1960]; Röpke 2009[1942]; Lippmann 1914; Lippmann 1913). Historical political economy of the late 19th century altogether failed to repair the immense human costs and miseries of the industrialization and the turn to modernity, both in laissez-faire liberalism as well as the embedded economy democratic socialist reform efforts. It was these two movements
together which established the complex dialogue of neoliberalism, particularly the Austro-Marxist social democrats and the Austrian schools.

However, while neoliberalism was necessitated by the failures of historic political economy, thought it was shaped by it, it cannot merely be said that it is the descendent of it, but that the birth of a theory is a struggle against such and a struggle for such: both for and against the conditions of its pregnancy, of becoming. The individual thinkers are of critical importance to the struggling theory of neoliberalism: to be born, it is necessary to have a mother, to struggle, one must have a struggler. In consequence, neoliberalism as nexus of theory and practice, and the necessity of individuals and understanding their intellectual struggles as microcosms of the greater struggle are co-extant with a pre-neoliberal history of neoliberalism as a struggling theory for and against the failed practice of historic political economy as the effort to identify and create the ideal “politics”, or relationship of state, society, and economy.

—History, the Terrain of Combat—

The turn of the century was highly problematic for the Western World, politically, ideologically, and economically. After the defeat of Napoleon, the West had enjoyed nearly one hundred years of peace under the Pax Britannica—a period also demarcated by liberal capitalism’s “spirit of progress, order, stability, and increasing prosperity” (Röpke 1942:3). However, the dominion of England was challenged from both within and without the liberal tradition by the maturation of the industrial might of the United States and the German Empire at the end of the nineteenth century. A recently unified Germany was vying for political and economic power on the world stage, paralleled by a
strange unity of socialism with authoritarianism in the “national liberalism” under Bismarck (Hayek 1944; Röpke 1942) which at best had uneasy ideological support of the German historical school of political economy (Caldwell 2004), and at worst—for the neoliberals—reification of the national liberal governmental style that laid the grounds for National Socialism (Mises 1978; Mises 1969).\(^5\)

The thought of the age was also in tumult: Wiley (1978) recounts the last quarter of the 19\(^{th}\) century as a time that was either a period of “increasing cultural pessimism or as a generation of optimistic materialism”, depending if one is describing the “avant-garde intelligentsia or the complacent middle classes” (9). Germany and Austria exhibited a unique milieu where the social sciences and philosophy were gradually breaking away with Hegel (Mises 1978:39; Wiley 1978) and diversifying, with the Austrian school drawing on the revival of Aristotelian and Kantianism thought at the time (Caldwell 2004; White 2003; Steele 1992; Diamond 1988; Blum 1985)\(^6\), the two

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\(^5\) Mises went so far as to disparage that “[t]he Historical School of Economic State Science did not produce a single thought. It did not write a single page in the history of science. For eighty years it served only to progandaize Nazism” (Mises 1969: 9).

\(^6\) The intersection of Aristotelianism and neo-Kantianism within the Austrian school literature is actually quite complex, many scholars noting that the older school under Menger was Aristotelian, whilst it was Mises who moved toward neo-Kantianism, adopting concepts of apriorism and value free science (White 2003; Diamond 1988), and that his relationship with Weber was quite significant in this turn (Caldwell 2004; Mises 1978). The “essentialism” of Menger and his Aristotelianism was quite significant for the methodological development of the Austrian school and its marginalism: Menger argued that “exact laws” of economics existed, and while Mises shifted toward a Kantian position, he echoed this sentiment with his apriorism, i.e. that human nature was fixed and that there were some previous elements to any action. While it cannot be explored in depth here, there is some evidence that Mises’ shift away from neo-Aristotelianism coincided with his move away from Böhm-Bawerk, who Diamond (1988) notes was the least interested in Aristotelian philosophy, thus leaving space for a break. Mises himself acknowledges a change in generations within the Austrian school (Mises 1978: 59-60).

Later thinkers, however, seem to have accepted the view that Kant is a deontologist (MacDonald and Beck-Dudley 1994; Kymlicka 1988; Ricoeur 1987; Rawls 1971; Ashby 1950), Later Austrians argued that a rigid a priori system cannot stand as a method for economic theory and note that Kantian deontology favors collective action over individualism and advocate for a turn to Aristotelianism or Randian
occasionally even connected together (Köhnke 1991:24-25), and were engaged in heavy
debates with Marxism, positivism, as well as German historicism (Caldwell 2004; Mises
1969). The particular variant of the “Austrian” school that will be discussed here is that
relative to Mises’ position wherein he explicitly converged with the liberal program
within Anglican thought (Stimson and Milgate 2008; Mises 1987; Mises 1969), contrary
to the liberalism of Germany which was more statist and authoritarian (Köhnke 1991).

Marxism itself was diversifying with the influence of empiricism à la Mach and
neo-Kantianism under Adler (Smaldone 1998; Wagner 1996; Bauer 1937; Adler 1925;
Adler 1914), though Vorländer and Bernstein were also socialists trying to move
socialism away from Marx’s inversion of Hegel (Wiley 1978). Even the very nature of
Marxism itself was in question: whether it was the foundation for a specific political
economic program or whether it was a template for critical political economic science
(21st Century Schools 2010; Smaldone 1998; Arestis and Malcolm Sawyer 1994; Held
1980). The Austro-Marxists would emerge from the Austrian Social Democratic
movement as a pragmatic and flexible variant of Marxism that favored parliamentarian
politics, empirical science, and working class unity first above all revolutionary actions or
explicit ideologies (Goodrich 2009; Leser 1979; Bauer [1927] 1978).

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objectivism as the philosophical foundation for economics (Zelmanovitz 2009). However, there is an
increasingly fertile track within philosophy that counters that Kant’s deontology is misunderstood or
overplayed (Walsh 2008; Ginsborg 1994; Korsgaard 1986; Davies 1895-1896) or that deontology and
teleology present a false dichotomy (Ginsborg 1994; Mac Donald and Beck-Dudley 1994; Ashby 1950).

Bernstein was a major revisionist within the socialist movement, seeking for ways to bring about a
democratic socialism more compatible with the bourgeois democracy present in Austria and Germany,
which he did by seeking to demonstrate that Marxist socialism was obsolete, using the slogan “Back to
Kant” in an article for the socialist paper Die Neue Zeit (Wiley 1978:175).
The completion of *Capital* had left as many questions and new avenues for exploration as it gave answers, and multiple, rival interpretations of Marxist economic theory arose, particularly concerning the nature of capitalistic crises (Milios 1994; Nove 1970) and varying Marxist interpretations of money (Evans 1997; Zoninsein 1990; Hilferding [1910] 1981). Marxism itself had become a battlefield with “revisionists” and “revolutionaries” arguing for more or less radical methodologies to enact the transition from capitalism to socialism, and whether socialism was a natural “evolution” from capitalism or required a “revolution” (Smaldone 1998; Darity and Horn 1985; James 1981). The Austro-Marxist school was from its very conception a pragmatic, political project focused on the formation and mobilization of a revolutionary working class consciousness (Goodrich 2009; Blum 1985; Hilferding [1910] 1981; Leser 1976) as well as a philosophical project in dialogue with Austrian economics, neoclassical economics, positivism, and Kantianism (Leser 1976; Nove 1970; Bauer [1927] 1978).

It is important to pause a moment to note the boundaries of neoclassical, marginalist, and Austrian economics. The last quarter of the 19th century saw a shift in mainstream political economic thinking which has been traditionally treated as a revolution that occurred independently and essentially simultaneously in the thought of

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8 Whether or not an Austro-Marxist “school” existed at all is something which is itself under debate, largely due to its prioritization of the political over a specific framework. While Smaldone (1988), Rabinbach (1983), Bottomore and Goode (1978), and Leser (1976) argue that it was a coherent program centered around a democratic socialism practice that sought an alternative to revisionism or bolshevism and the paper *Marx-Studien*. Blum (1985), however, challenges that the breakup of the group in the 1920s suggest that the only real linking thread to the group was their pragmatic commitment to socialist politics.

9 While this line of thought is only tangentially important to this paper, it is important to note here that “Austrian economics” is not necessarily a coherent or internally consisted paradigm and that the early Austrians often had difficulty articulating their position within the field of economics and to each other (Kirzner 1988; Lavoie 1985). As such, “Austrian” is used loosely and thematically here as the subjectivist marginal revolution particularly associated with Mises’ interpretation of Böhm-Bawerk, rather than as a coherent program.
Walras in Switzerland, Jevons in England, and Menger in Austria. Despite significant differences in how they conceived economics (Nachane 2008), the fathers of the “marginalist revolution” turned away from classical economics—which saw prices and value as “objective”, particular labor as the source of value—turning to “subjectivism”, i.e. that it was the individual who became the center of economic exchange and who determined value. This in turn led to economics of marginal units, i.e. one extra item, one extra person, one extra unit of time, etc., which occur on the individual, subjective level (Bockman 2012; Caldwell 2004).

While neoclassical economics and Menger’s descendents in the “Austrian” school both shared in the marginal-utility revolution, the main defining feature of the Austrian school was its emphasis on subjectivist philosophy (Boettke 2008; Concise Encyclopedia of Economics 2008; Caldwell 2004; White 2003; Kirzner 1988; Lavoie 1985), which led to suspicion or rejection of mathematical and formal models of marginal economic behavior (White 2003; Johnston 1972/1976). While later generations of Austrians would use mathematical models to varying degrees (Caldwell 2004; White 2003), they would largely remain critical of mathematical economics and the general equilibrium theory of the other marginalist schools (Mises 1978), especially Walras (White 2003). Instead, they preferred “causal-genetic” models of economic behavior (Caldwell 2004:22-23) that focused on general trends in economic behavior of individual agents in light of limited information and individual perceptions which established economics as a process of continuous disequilibrium (White 2003; Kirzner 1988;
Ekelund 1986; Lavoie 1985), rather than cleaner models of equilibrium employed by the other branches of the marginalist revolution.  

This distinction of emphasis on the “marginal” versus “subjective” is not simply academic, but is vital to understanding the rise of the Austrian school of economics and how it distinguished itself from neoclassical economics—a point which is subtle and difficult to grasp as even Kirzner, who studied under Mises, explains (1988:10)—and consequently how it was a product of determinant of its political and ideological milieu, particularly its interaction with empiricism, neo-Kantianism and the political situation of the late German and Hapsburg Empires. The subjective view of the marginal revolution that the Austrians and neoclassical school shared was the view of economics as a “value free” science typical to neo-Kantian or empiricist-positivist philosophy at the time (Köhne 1991) which prioritized individuals and their choices, whereas the Austrian school saw economics as a normative endeavor wherein the “goodness” of economic systems was evaluated by their ability to facilitate and promote economic behavior of individuals (Kirzner 1988).

As such the Austrian “method” is a “value free” process sandwiched by normative-subjective values and thus has always had political values bleed into its

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10 The topic of whether or not the Austrian subjectivist marginal school is “neoclassical” is up for debate, with various historians of economic thought arguing how and where the “Marginal Revolution” began, and whether or not it truly was an evolution at all of economic science, or merely economics adopting the latest mathematical models for itself. In particular the Austrians Kirzner (1988) and Lavoie (1985) contend that neoclassical economics was the position of Walras through the general equilibrium model and mathematical economics that was later formalized with the Anglo-American school of Jevons and Marshall. See (Bockman 2011; Stimson and Milgate 2008; Nanchane 2008; Caldwell 2004; Kirzner 1988; Lavoie 1985).

11 C.f. n.6 p.10 and n.66 p.64
economics, a position which only became clearer after the differentiation of the school from neoclassical economics during the socialist calculation debate; in the process of the formation of the neoliberal school, this political emphasis only became more explicit.\textsuperscript{12} Furthermore, the treatment of Menger, Böhm-Bawerk, Wieser, Mises, and Hayek as purely economists consequently has to be abandoned: they have always been varying degrees of politician economists.\textsuperscript{13}

Therefore, for the sake of this paper the term “neoclassical” refers to those models which are still part of the marginalist revolution but do not carry out the implications of “subjectivism” as far as the Austrian school—i.e. limited human information and general price instability which prevent equilibrium formation—and thus who are able to establish more rigorous and formalist mathematical models. The terms “subjectivist” and “psychological”\textsuperscript{14} will be used interchangeably to define the position of the Austrians whom Hilferding and the other Marxists held with such contempt for their breaking away with the labor theory of value and the prioritization of the individual over society, which they directly confronted (Hilferding [1904] 1949; Bauer [1927] 1978). The term “marginalism” will refer to all three variations of the Marginalist Revolution, though it should be noted that even within the various “schools” there is great diversity in the role allotted to mathematical models and to the meaning of “subjectivism”\textsuperscript{15}.

\textsuperscript{12} C.f. n. 18 p.18 and n.19 p.18  
\textsuperscript{13} C.f. n.66 p.64  
\textsuperscript{14} C.f. n.41 p.40  

\textsuperscript{15} Even within the Austrian school, argued here to be the most “subjective” of the marginalist schools, there is considerable variation in the term “subjective”, with there being significant breaks in Menger’s position with those of his descendents, particularly when Wieser and Böhm-Bawerk moved away from his
These delineations are critical for the understanding of the history of political economic thought in the last quarter of the 19th century through the Walter Lippmann Colloquium in 1938, for it set the rich and complex background that would frame the dialogue of Austro-Marxist and Austrian economics that would prove so vital to neoliberalism. Hilferding and the Austro-Marxists did not interact with marginalist economics wholesale, but Hilferding through his debates with the Austrian school would selectively appropriate various pieces from both neoclassical and subjectivist economics in an effort to re-articulate the Marxist labor theory of value through the language of what he perceived to be new advances both in Marxist self-understanding as well as a new phase of capitalist development. This dialogue would prepare the philosophical groundwork, the *internal ideational politics*, which coupled with external economic and political pressures, would foment the synthesis of the Colloquium in 1938 and establish the struggling theory of neoliberalism.

Therefore, in a very real way, it was as if virtually every intellectual and political achievement of the West was up for revision and debate, and if any general consensus could be claimed for the time, it was that Western civilization was in crisis—only reinforced by the First World War and the subsequent Great Depression—and that the political project of liberalism and its consequent economic theory of laissez-fare capitalism had failed (Hayek [1944] 2007; Izzo and Izzo [1938?] 1997; Lippmann [1937] 2005; Lippmann 1914; Lippmann 1913), a collapse that later thinkers, particularly the neoliberals, would claim was a crisis of the West itself (Wiley 1978:9; Röpke

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Aristotelian essentialism (White 2003) to apriorism that would later mature into Mises’ neo-Kantianism (Caldwell 2004; White 2003).
1998/1990[1960]); Polanyi [1944] 2001; Röpke [1942] 2009). Ortega y Gasset (1930) feared that society would fall to the “masses” of the proletariat, Mises ([1929] 1977) believed that “étatism”, or state intervention in the economy, was taking society in the wrong direction, and Röpke ([1942] 2009) and Hayek ([1944] 2007) believed that society had “lost its sense of proportion”, i.e. that men had grown too impatient with the promised liberal utopian project and turned to the false utopia of centralized planning. Socialists, social democrats, and Marxists were convinced that the liberal utopia had failed and had to be abandoned (Smaldone 1998; Smaldone 1988; Polanyi [1944] 2001; Hilferding 1910). All in all, the entire western world was encapsulated in the “splendor and misery” of industrial capitalism (Röpke 1942).

It was within this milieu that Walter Lippmann produced the master work the Good Society ([1937]2005), which eventually inspired the 1938 Walter Lippmann Colloquium in Paris, the birthplace of neoliberalism itself (Izzo and Izzo 1997). Lippmann challenged the popular trends toward collectivism and interventionism of his day, declaring that:

Their [the “collectivists’"] doctrine is that disorder and misery can be overcome only by more and more compulsory organization. Their promise is that through the power of the state men can be made happy […] for the premises of authoritarian collectivism have become the working beliefs […] not only of all the revolutionary regimes, but of nearly every effort which lays claim to being enlightened, humane, and progressive (pp.3–4).

To Lippmann (Lippmann [1937]2005; Izzo and Izzo 1997) it was clear that this new trend threatened to reverse the entire progress of western civilization, agreeing with Mises (1978: 67-68), Hayek, Rüstow, Röpke, and others that there had been a retraction
from the liberal faith and optimism in mankind and a retreat from freedom toward subjugation. Lippmann believed that the liberal project had liberated humanity from the threat of arbitrary power by “extricat[ing] conscience, intellect, labor, and personality from the bondage of prerogative, privilege, monopoly, authority” (5). While collective authoritarianism of the state was not new to history, Lippmann argued that modern technology gave the State greater coercive power that at any other time (Lippmann, op. cit.: 11).\(^\text{16}\) Lippmann, himself a socialist in his younger years before becoming dissatisfied with the movement sometime in the period from 1915 to 1920 (Riccio 1994; Steel 1980; Adams 1977; McNaught 1966), was highly influenced by the works of Austro-Marxist thinkers and the Austrian school of economics, particularly Ludwig von Mises, though to a lesser extent Rudolf Hilferding\(^\text{17}\).

In his exploration of the problematic of historic capitalism and in particular how “collectivism” grew from it, Lippmann heavily stresses Lenin’s “correction” of Marxism (Lipmann 1937:84-87;177-179;205-207), which itself was influenced by Hilferding’s magnum opus, *Finance Capital* (Lenin [1919] 2010; Zarembka 2003; Smaldone 1998; The Austro-Marxist Otto Bauer also reached the same conclusion, positing that it was the development of modern technology and weapons that enabled the rise of dictatorship, and fascism especially (Bauer [1938] 1978: 181-184).

\(^\text{16}\) Blum (1985) goes so far as to challenge the designation of Hilferding as an Austro-Marxist at all, noting that his roots were more closely tied toward Karl Kautsky, who was seen as a bastion of “orthodox” Marxism. However, while Kautsky saw Hilferding as his heir (Smaldone 1998), Hilferding adopted the Austro-Marxist position that socialism was an alternative to orthodox Marxism, revisionism or bolshevism (Smaldone 1998; Wager 1996; Bottomore and Goode 1978). Wagner (1996:86), however, suggests that Hilferding was not truly a “centrist” along the Marxist spectrum, but that he was moving toward the left politically and thus his mature position broke very strongly with Kautsky. Wagner (ibid.:11) also makes the case that Hilferding’s position as an Austro-Marxist has been overlooked and that contemporary understandings of him lack full comprehension of his development as a thinker. It is argued here, contra Blum (1985), that Hilferding truly was an Austro-Marxist, given that even while he was originally a “Kautskyist”, (Wagner 1996: 63-65), i.e. a German “orthodox” Marxist, his thought remained within the Austro-Marxian orbit.

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Throughout _The Good Society_, Lippmann marks his indebtedness to Mises for providing economic and philosophical views compatible for his own politics (Lippmann [1937] 2005). Thus, in a strange twist of history, the case can be made that the work which inspired the first meeting of the neoliberal cadre was itself the grandchild of both a Marxist work so important that it has been cited by some as a “Fourth Volume” of _Capital_ itself (Coakley 2000; Smaldone 1998:40; Arestis and Sawyer 1994; Zoninsein 1990) as well as one of the strongest critics of Marxism!

Lippmann, as the name of his work suggests, was not simply concerned with economic or technical questions, but rather political economy as a whole and he discusses many complex components of civilization: such phenomena as protection of it from legal coercion, rise of corporatism and concentration of market coercion, technology, fear of mass society, and fear of centralized planning and state power (Lippmann [1937] 2005). It is the broad nature of this problem—the resuscitation of western civilization and the potential reconstruction of liberalism—which allowed Lippmann to connect to and gather such a comprehensive group of intellectuals, but it was his call to political action, undoubtedly inspired by his socialist roots, rather than mere intellectual grandstanding, which inspired neoliberalism as a complex body of interdisciplinary thought which at times appears self-contradictory or opaque.18

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18 The Walter Lippmann Colloquium established various committees to research specific courses of political action that the neoliberals might take, including the establishment of the shortly-lived _International Center for the Renewal of Liberalism_ (Izzo and Izzo 1997).
Lippmann’s genius was that he was one of the first to arrive—and one of the first to effectively articulate—the conclusion that in the modern age the economy had been irreversibly “politicized” (Zmirak 2001:11), a point which the Marxist Hilferding himself had stressed (James 1981:868), and instill a sense of political urgency to what would eventually become the neoliberal cadre. As such, the transposition of the liberal and pro-market and pro-capitalist economists and philosophers from students of political economy to political actors was their absorption of political necessity as developed through the internal struggles of the Austrian and Austro-Marxist schools as well as their external struggles against each other as well as the greater socioeconomic context at the time. Rudolf Hilferding’s parliamentarian political practice and orthodox financial policy (Smaldone 1998; Gourevitch 1984) and his blending of Austrian, neoclassical, and Marxist economics reinforced each other, allowing for him to re-articulate Marxist critiques of capitalism back into the liberal tradition in a manner which was too poignant to ignore, and that this dialogue of Austrian economics and Austro-Marxism was a partial foundation of neoliberal maturation.

In brief, it was the social democrats, both the German and Austrian Social Democratic parties and the Austro-Marxists, as well as the Bolshevists under Lenin who combined economic theory and political praxis to redefine the boundaries of the state, society, and economy. This effectively “upped the ante”, forcing the pre- and proto-neoliberals to expand their theoretical horizon away from pure economics to include

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19 So much so that “Robbins and Hayek had come to regard Lippmann as their political messiah” as recounted in the new introduction to the *Good Society* (Lippmann [1937] 2005: xxx).
wider sociopolitical issues and ideologies. The neoliberals carried forward classical liberals’ suspicion of the state—the more extreme versions which Foucault describes as the “phobia of the state” (1994)—as well as their reluctance to totally abandon laissez-faire (Izzo and Izzo 1997; Mises 1978) to create a blueprint for a “Good Society”, which was a more expanded program than traditional classical liberal economics.

As such, following Lippmann’s lead, the older liberals were able to incorporate criticisms of the disembedded economic theory of Manchesterian capitalism (Becchio 2005; Polanyi [1944] 2001; Izzo and Izzo 1997) thus—if only unconsciously—transcending the state/market dichotomy described by Bockman (2011). The neoliberals shifted the debate from state/market to state/society to produce an alternative to the state-centered reform narratives of democratic and national socialists as well as to 19th century failed historic capitalism.

—Syncopation as Biography of Struggle—

The birth of neoliberalism as a struggling theory against the failed practices of historic political economy, particularly through the complex mixture of the Austrian and the Austro-Marxist schools is best described as a syncopation. In the art of music the technique of syncopation is used wherein one note—often the lead-off note of a particular musical phrase—is differentiated from the others in a very poignant matter, but in such a manner that it gives greater clarity and definition to a musical idea (Gatty 1912a; Gatty 1912b). So too, in thought it is often the case that at times an idea is more clearly understood by contrasting it with others, i.e. by trying to understand what the idea is not more than what it is, so as to contribute to the greater understanding of the unique idea as
well as the network within which it is embedded. In this thesis, Rudolf Hilferding serves as the lead-off syncopated note in the musical idea of neoliberalism: Hilferding, as the leading scholar of Austro-Marxism and theoretical opponent of capitalism and of liberalism, was denied entrance to the Colloquium although he had asked to participate in it (Mirrowski and Plehwe 2009: 47). That Hilferding was denied entrance to the Colloquium, which was the effective birth of the neoliberal cadre, on the grounds that he was a politician demands our immediate attention.

The leitmotif of syncopation will be present throughout three broad historical phases of the maturation of the neoliberal program. The first movement to be addressed is the complex Austrian and German milieu from 1896 to 1910 which saw the ascendance of the Austrian school of economics and liberal parliamentarianism as well as social democracy and Austro-Marxism at the expense of imperial politics and the German historical school. This era was effectively the golden era of Austro-Marxism when the school was most coherently held together before the militaristic and nationalistic divisions of World War I (Smaldone 1988; Bauer 1937). During this time period the Austro-Marxist group first formed and Hilferding’s syncopation is the most direct: his anti-critique of Böhm-Bawerk’s Karl Marx and the Close of His System (Hilferding [1904] 1920/1949) effectively transposed Marxism into a form more compatible with neoclassical economics (Michaeldis, Milios, and Vouldis 2007; Evans 1997; Zoninsein 1990; Darity and Horn 1985) which challenged the Austrian subjective marginal school on its own ground. His masterpiece Finance Capital impacted neoclassical economics,
Austrian economics, and socialist economics and shifted Marxism in both neo-Marxist\textsuperscript{20} (Zoninsein 1990; Sweezy 1972; Sweezy 1967) and post-Marxist\textsuperscript{21} directions (Daly 2004). The second movement to be addressed is from 1910 to 1929 wherein socialist vanguard parties secured social democracies throughout Europe, particularly the Soviet Union, Austria, and Germany. In this period the syncopation of Hilferding is more of a convergence with the neoliberals and how the unique political milieu of the late Hapsburg empire laid the foundations for liberalism, socialism, and nationalism in complex and volatile ways (Johnston 1972/1976). Many of the Austro-Marxists as well as the Austrian school economists were liberals originally sympathetic to socialism, and the Austro-Marxist social democrats supported parliamentary politics, either out of the genuine view that financial capital had truly transformed the political economy to allow socialism to be fully possible (Smaldone 1998; Wagner 1996; Smaldone 1988; Hilferding [1910] 1981; James 1981; Gates 1974) or that they had to shore up the failing Weimar republic against either Soviet or National Socialist totalitarianism (Smaldone 1998; Wager 1996; Smaldone 1988; Rabinbach 1983; Winkler 1990). It was the imperial-bureaucratic political traditions inherited from the Hapsburg dynasty that shaped the Austrian economists’ avoidance with state interventionism (Johnston 1972/1976:17) as

\textsuperscript{20} “Neo-Marxist” here is taken by the introduction of finance capital as a modern form of capital, a concept that draws upon neoclassical economic theories and thus makes Marxist more compatible with the neoclassical and Austrian schools as it de-emphasizes the theory of labor as value. Admittedly, the term is used rather liberally here: no exact boundary of Marxism vs. neo-Marxism is given, nor will the debate within Marxist scholarship as to whether or not “orthodox Marxism” correctly interpreted Marx will be addressed.

\textsuperscript{21} “Post-Marxist” here is meant to be a parity of the political and the economic within Marxist interpretation, particularly as advanced by the Austro-Marxists, Hilferding being influenced by the theoretical vision of Adler especially (Bottomore and Goode 1978). As above, the term will be used rather loosely, and no exact boundary of Marxism vs. post-Marxism will be given.
well as inspiring the Austro-Marxists’ view of the state as a neutral institution that could be colonized by workers in a liberal-socialist democratic state, rather than requiring outright and violent socialist revolution (Smaldone 1998, 1988).

During the 1920s, Mises was engaged with socialists in both political and economic debates, and the history of the socialist calculation debate is critical to the understanding of the neoliberal project. However, like Bockman (2011) argues, the socialist calculation debate in this paper takes a backseat to the greater political and theoretical currents going on at the time, Mises recollecting that one of his major political contributions was convincing the Austro-Marxist Bauer to turn away from Bolshevism (Mises 1978:77). Mises disagreed with both Bauer and Lenin’s understanding of economic and financial policy (Mises 1990[1920]:41-46)—which they largely inherited from Hilferding and the socialist calculation debate allowed for the clarification and maturation of the Austrian school, distinguishing itself from both neoclassical as well as socialist economics (Steele 1992; Kirzner 1988; Lavoie 1985).

Mises actually shared many commonalities with the Marxists: Lavoie (1985) notes that he was closer to Marx on several points than he was to neoclassical economics.\(^{22}\) By his own admission, Mises (1978) was a non-Marxist “statist”; Steele (1972) goes so far as to argue that Mises was also a material historicist and others have

\(^{22}\) One significant example of this was Mises’ decrying of “interventionism”, which to him was any interference with the pure private property order, even if in the attempt to secure it under a liberal program (Mises [1920] 1990). Mises’ argued that the core of the liberal political program was protection of this pure order and that all intervention was some combination of public and private property (ibid.:15-17). In this Mises notes that he is similar to the Marxists in that they too are against all interventionism, arguing that it is “bourgeois” though the Marxists want to totally dissolve private property for public property. As such, the Marxists and the position of Mises are similar in that both support a purist view of property and in this way their views support each other through the production of a dichotomy largely equivalent to the state/market axis discussed by Bockman (2011).
commented Mises’ position may be his own political view than his economic philosophy (Becchio 2005; Craver 1986), despite his claims to the contrary in his memoirs (Mises 1978). As such, while some political practices (e.g. parliamentarian democracy and orthodox fiscal policies) of Mises and the other Austrian school economists actually converged with the Austro-Marxists, the socialist calculation debate and the political milieu of the time demonstrate that this was more of necessity: they may have converged and grown together in letter, but certainly not in spirit.

Finally, the last movement will explore the final breakdown of social democracy and liberal democracy in Europe from 1929 to 1938 and the consequent rise of Soviet and National Socialist totalitarianism. This paper explores how Lippmann’s *Good Society* ([1937]2005) demonstrates the effect that Hilferding, vis à vis Lenin, had on the neoliberals and particularly how Hilferding and the other Austro-Marxists’ adoption of marginalist economics highlights some of the tensions within the neoliberal cadre. The text of the Colloquium as a transitional point and critique of liberalism as well as progenitor of neoliberalism (Foucault 1994:132) itself will tease out some of these apprehensions and demonstrate that the neoliberal cadre was far from a coherent group (Izzo and Izzo 1997), that the diverse methodological and ideological debates of the time created a diverse group of intellectuals which was not even able to fully agree on a name to describe itself (Mirrowski and Plehwe 2009:48). Lippmann himself was even willing to abandon liberalism as a historic ideology in order to preserve the progress of civilization that it had produced (Lippmann [1937]2005; Izzo and Izzo 1997).
One of the strongest tensions which will be examined in this group was the meaning of liberalism itself and its relationship to historic Manchesterian *laisser-faire*, *laisser-passé* economics (Izzo and Izzo 1997), with Mises himself acknowledging that a division existed within the group whether to prioritize private property capitalism or the free market as the proper economic complement to a liberal political system (Mises 1929: 17-20). Here, I shall argue the case for a rough parallel of the Austro-Marxists and the neoliberals, that, just as Blum (1985) suggest that it was more of a political imperative rather than an ideological one that held the Austro-Marxists together, it was the politics of the era that drove Lippmann, who stressed that “collectivism” had to be taken as actual historic practice, as *politics*, rather than as pure philosophy ([1937] 2005: 51).

—*When All the Dust Clears*—

In sum, the technique of syncopation takes on a triple significance: first, that Hilferding as a leading Marxist theorist as well statesman had a unique and involved history in the development of the modern understanding of capitalism through *contrast* to liberal thinkers. Second, that Hilferding’s *absence* indirectly shows the fragility of the early neoliberal movement and the respect they gave to Hilferding as an adversary. Finally, just as the syncopated note, in its unique way, remains within the piece, it is my wish to explore many of the similarities of Hilferding and the neoliberals.

This thesis is to demonstrates that neoliberalism is a struggling theory that cannot be encapsulated as a political or an economic movement, but that it is an overall reaction against the failures of historic capitalist-liberal practices, and that through understanding

\[23\text{ C.f. n.51 p.57.}\]
the personal growth and struggles of Hilferding, Mises, and Lippmann the complex nexus that is liberalism can be clarified. Neoliberalism reacted both against historic capitalist-liberalism, but also with and against other critiques of historic capitalist-liberalism; of these other critiques, the democratic socialism of Austro-Marxism was especially poignant in the refinement of neoliberalism and as the two entered into dialogue with each other they greatly converged in theory and in practice in contravention of contemporary totalitarian regimes. It is the hope that by turning attention to Hilferding as both a rival and ally of the neoliberal movement that modern academic sociological discourse will be expanded away from its emphasis on equating neoliberalism with the rise of American political economic hegemony post World War II (Harvey 2005; Treanor 2005; Martinez and Garcia 2000) and thus enrich discussion on different configurations of a market economy and “socialist” governmental styles in a post-Soviet world.
I. THE FORGOTTEN MARXIST: RUDOLF HILFERDING AND THE AUSTRIAN MILIEU

[1896-1910]

“In Austria the air was free from the specter of Hegelian dialectics” – Ludwig von Mises

“[It is] false to suppose […] that Marxism is simply identical with socialism24 […] but acceptance of the validity of Marxism, including a recognition of the necessity of socialism, is no more a matter of value judgment than it is a guide to practical action. – Rudolf Hilferding

In his biography of Hilferding, Smaldone recounts how Hilferding’s death in Gestapo captivity barely captured any international notice (Smaldone 1998:3), a strange fate for a man who at one point was hailed as both a top intellectual and politician within Marxist and socialist circles for nearly two decades (Smaldone 1998; Wagner 1996). Indeed, history has not been particularly kind to the Austro-Marxists who have been condemned as straying too far away from Marxism (Zoninsein 1990), too orthodox (Gates 1974), advocates of ambiguous and incoherent political practices (Goodrich 2009; Blum 1985; Leser 1976), and as responsible for the collapse of the Weimar Republic and the rise of National Socialism (James 1981; Bottomore and Goode 1978). Hilferding, as finance minister and adviser to several different cabinet coalitions, prominent politician,

24 Curiously, this line would be echoed by Mises, one of the strongest critics of both socialists and Marxists, differentiating Marxism from socialism in his discussion of the rise of National Socialism, making the case that anti-Marxists were not the same as anti-Marxists ([1929] 1977) and explaining that he himself was an anti-Marxist socialist.
and prominent party intellectual has received much of the blame for this (Winkler 1990; Gourevitch 1984; Breitman 1976; Gates 1974); indeed, he has the unique distinction of within one decade of his life being simultaneously exalted as a champion and master of Marxist theory and accused as a vanguard of the bourgeois classes!

The printing of Hilferding’s *Finance Capital* in 1910 was hailed by fellow Austro-Marxist Otto Bauer and German Marxist Karl Kautsky as a continuation of Marx’s *Capital* itself (Coakley 2000; Zoninsein 1990) and cemented his place as a leading socialist politician in the Second International (Smaldone 1998:40). But, by 1919 and the success of the Soviet revolution in Russia, Lenin denounced Hilferding as an “ideologically bankrupt leader of the Second International” and part of the “miserable petty-bourgeois, who were dependent on the philistine prejudices of the most backward part of the proletariat” (Smaldone 1998:81), and as an “ex-Marxist” (Coakley 2000). Stalin denounced the Austro-Marxists in 1913 as “fellow travelers of the bourgeoisie”, expelling them from the Second International (Johnston 1972/1976:99). Trotsky himself wrote the stinging criticism that Hilferding “remained a literary official in the service of the German party—and nothing more” and that his character was “furthest from that of a revolutionary” (Smaldone 1998:57). Thus, critics of Hilferding attacked both his theory as well as his practice.

Recent historians have been more kind to Hilferding, the Austro-Marxists, and the failed Austrian and German social democratic movements they led, arguing that they did the best they could to navigate the chaotic situation (Smaldone 1998; Wagner 1996). Indeed, much of the blame for the divisions within and the collapse of the social
democratic movement has been shifted to the communists who sought to undermine the German social democrats in Germany at every turn (Hilferding [1910] 1981:13), even choosing to work with the National Socialists over them. A defense of the German Marxists is even tentatively offered by Röpke, one of the founders of neoliberalism, who concedes that the only critics of National Socialism at the time were the Marxists though they mistakenly viewed it as another form of capitalism (Röpke 1935: 88).

What is it within Austro-Marxism that leads to such division in its scholarship: that it has been alternatively viewed as a bulwark against totalitarianism and also as harbinger of democracy, and as both the heir and destroyer of Marxism? What was the shift within Hilferding’s work that leads to such radical divisions within even Marxist and socialist circles, that brought him such exuberant praise and vicious condemnation, especially from Lenin who was himself highly influenced by his work? The answer is perhaps not so much that it was Hilferding himself who moved, but rather the greater political context in which he lived which altered: it was democratic socialism which shifted its position more so than Hilferding, who himself always tried to maintain a

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25 The Austro-Marxists are unique in the Marxist spectrum in that they did not believe that fascism as an extension of capitalism but as a product of the interaction of various economic classes with the state (Botz 1976; Bauer [1937] 1978). This came from the unique view of the Austro-Marxists of the state, which was not reducible to class and therefore to economic power, but was independent from the economy as a separate sphere of contention (Bottomore and Goode 1978; Breitman 1976; Hilfering [1940/1947] 2010, Hilferding [1910] 1981; Bauer [1937] 1978; Adler [1933] 1978), hence the “post-Marxist” label of Hilferding and the other Austro-Marxists (Daly 2004).

flexible and pragmatic politics. But to understand the turn in Marxist thinking that he and the other Austro-Marxists affected, first a brief understanding of the Viennese milieu is important. Why Vienna in the latter days of the Austria-Hungarian Empire? Who was Hilferding?

—*The Man and His Vienna*—

Rudolf Hilferding (1877-1941) was born and raised by a Polish bourgeois Jewish family that had immigrated to Vienna (Smaldone 1998) but considered themselves to be liberals and Germans (Wagner 1996). The Hapsburg Empire was clearly in decline: the nationalist fervor of the various ethnic groups collided (Mises 1978; Bottomore and Goode 1978) and the unwillingness of the Hapsburg dynasty to grant liberal concessions made the collapse appear all but inevitable (Mises ibid.). Vienna, a city that became symbolic for the entire Hapsburg empire was divided among itself along class and nationalist lines. Wagner (1996: 13-16) and Smaldone (1996:12-13) describe that the period as one of nationalist upheaval and growing anti-Semitism wherein old historic liberalism slowly collapsed in favor of Pan-Germanism and Christian socialism (Wiley 1978; Johnston 1972/1976); as a Jew, Hilferding had the choice of staying a liberal bourgeoisie, becoming a Zionist and escape into culture and art, or to become a social democrat. He chose the latter path, rejecting aesthetic escapism and, as he was not a religious thinker, he joined the social democratic movement as a young student at the age of 27.

Johnston (1972) makes the note that, paradoxically, the Austrian Social Democratic Party leader Viktor Adler, no relation to the Austro-Marxist philosopher Max Adler, and many of the middle-class party intellectuals were Jews known for their anti-Semitism (100).
of sixteen (Smaldone 1998) but still retained elements from his liberal childhood (Wagner 1996).

He attended the university of Vienna and studied under various influential economists, including the Austrians Eugen von Phillippovich and Wieser, who themselves were socially concerned liberals with some socialist leanings. He also studied under the leader of the Austrian marginalist school Böhm-Bawerk, who was hostile to socialism, as well as Carl Grünberg, the self-proclaimed leading Marxist professor of Europe, as well as Ernst Mach, a leading positivist philosopher (Smaldone 1998; Wagner 1996). Several other prominent intellectuals and economists attended the University of Vienna around the same time Hilferding and they often shared the same professors and classes: Mises, Max Weber, Otto Bauer, and Josef Schumpeter (Michaelides, Milios, and Vouldis 2007; Mises 1978). Several of these men were also present at the famous 1905 seminar held by Böhm-Bawerk where Bauer was the principle defender of Marxism and opponent of Böhm-Bawerk (Shulak and Unterköfler 2011; Michaudis, Milios, and Vouldis 2007; Caldwell 2004; Mises 1978).

The intellectual thought of Austria was largely dependent on German philosophers: Marxism in Austria was highly dependent on Karl Kautsky and his “orthodox” Marxism (Bottomore and Goode 1978), the German historical school

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In fact Kautsky was highly regarded as the “pope” of Marxism (Steele 1992) and heavily influenced an entire generation of social democrats, including those who would become communists and Bolsheviks. Hilferding immediately sought Kautsky’s approval for his first major intellectual work, his anticritique of Böhm-Bawerk and impressed Kautsky so much that he sought Hilferding as his heir (Smaldone 1998; Wagner 1996). Though Hilferding and Kautsky both saw themselves as “centrist” Marxists, Hilferding continued to gravitate toward the left in his politics and thought (Wagner 1996) whilst Kautsky became more interested in reformism later on (Steele 1992).
essentially dominated all thought in the social sciences, (Caldwell 2004; Mises 1978; Marxism 1969), though Mises acknowledges that the Marxists were critics of the historical school (1969:31-32). Much of continental philosophy was centered on neo-Kantianism (Köhnke 1991; Wiley 1978), though Köhnke recounts how even a single philosopher could be interpreted differently within different cultural-political milieus in the German-speaking world (Köhnke 1991) though Janik and Viegl (1998:116) dispute the importance of Kant within Austria.

However, the introduction of the German university system in the Hapsburg Empire established the professors of the universities as civil servants, which established the office of Privat-dozent, professors who would not receive a salary, but had to work for their own income, granting them freedom from pro-state bureaucracy (Mises 1969). At the same time, salaried professors were acknowledged as civil employees, facilitating transition from state civil employment to university employment, which allowed for some highly respected individuals who were not hardliner historicists such as Grünberg.

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29 Mises in his memoirs (1978) describes Grünberg as historicist, but elsewhere in the literature he is described as being the first official “professorial” Marxist (21st Century Schools 2010), with Mises even acknowledging that the Marxists were the opponents of the historical school, though more in detail of their political programs, rather than their greater political arcs (Mises 1969). Some have even suggested that Grünberg is the true father of Austro-Marxism, with many of the Austro-Marxists being his students (Bottomore and Goode 1978). Mises, however, has relative unclear boundaries of when étatism, interventionism, and socialism begin (Mises [1929] 1977 and Steele (1992) points out that his critiques have an over-simplified view of “socialism”, particularly equating Marxist socialism with all forms of public ownership of the means of production.

As such, Mises who was himself an historicist, has a tendency to consider all species of historicism, interventionism, and socialism as variations of a central theme. However, as Steele (1992) and Lavoie (1985) point out, there is much similarity in the position of Mises and Marx, with Mises himself being a historical materialist (Steele 1992). It was the Austro-Marxists, themselves descendents of Grünberg, who pointed out that Marxism as dogma could not be confused with “Marxism” as a technique of science based on historical materialism, demonstrating that the relationship of Marxism and historicism is much more complex than Mises and latter neoliberals (Hayek [1944] 2007; Röpke [1942] 2009;
Mach to gain positions. Even some of those relatively hostile to the German historical program could gain a position, as Böhm-Bawerk—who was respected as a finance minister, rather than as an academic economist (Shulak and Unterköfler 2011)—did (Mises 1978). The combination of these two factors established a university that was relatively free, contra the Prussian imperial academic system (Mises 1969).

As such, the unique political historical situation of Austria, along with its cultural diversity and the gradual opening up of its academic system brought together a complex conjunction of thinkers and that this mixing pot of many diverse philosophies brought the Austrian marginalist school, the positivist school, the historical school, Marxism, and neo-Kantianism all into intense debates with each other (Caldwell 2004; Steele 1992; Diamond 1988; Blum 1985; Mises 1969; Smaldone 1998; Wagner 1996; Bottomore and Goode 1978; Wiley 1978). Mises summed it up adequately, declaring how Austria, Vienna in particular, was “free from Hegelian dialectics” (1978:39). It was this loosening of the grip of Hegelianism that inspired a revolution within Marxist thought from without and from within as it collided with its milieu, particularly with the turn away from Hegelian absolute idealism and metaphysics (Wiley 1978). It was this shift in the thought of Marxism, coupled with the political explosion of the young democratic socialist movement that would allow a new young cadre of Marxists to rise and refashion Marxism in their image.

Lippmann [1937] 2005) admit to, and that their over-simplification was more politically than philosophically motivated.
—Rethinking Marx—

The times and tribulations of the first half of the twentieth century took their toll on Marxism and despite the rhetoric of “collectivism” employed by the liberal philosophers, the socialist movement was anything but unified (Smaldone 1998). The potential impact that the rising marginal school of economics had on Marx is disputed within the literature, but Hayek (1988) claims that Marx encountered the young school and that he was unable to reconcile his economic theories with it, and for this reason never completed *Capital* in his lifetime. There is some historical consensus that the publication of the third volume of *Capital* created more problems for Marxism than it solved, and that the advancements of marginalist economists even forced many Marxists to reevaluate the social labor theory of value and the theory of capitalist crises; money, in particular became a topic of much Marxist debate (Michaeldis, Milios, and Vouldis 2007; Evans 1997; Milios 1994).

The fissions within Marxism were as much about practice and politics as they were about the philosophical understanding of what “Marxism” meant: some revisionists, such as Bernstein argued for an end of class politics and reconciliation with the bourgeoisie30 (Smaldone 1998; Wagner 1996; Mises 1978; Wiley 1978; Bauer [1937] 1978; Adler [1933] 1978), whilst others remained Marxists for ethical reasons such as the

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30 Bernstein did not simply author an attack on Marxist political economic science, but rather he went so far as to attack Hegelianism and Marxism as a descendent of it (Smaldone 1998:18), seeking to reconcile Marxism with neo-Kantian thought (Wiley 1979:21-23). As such, Bernstein also challenged Marxism’s philosophical foundations and thus was part of the same milieu wherein the Austro-Marxists also turned away from Hegelianism in Marxism, but they did so with the intent of resuscitating Marxism and refashioning its revolutionary praxis, rather than trying to stifle the revolutionary spirit via reformism (Bottomore and Goode 1978).
Russian socialist Tugan-Baranovsky who saw that marginal-utility and labor-production economic theories were opposites, but not incompatible with each other (Nove 1970). The young core of Austro-Marxism in Karl Renner, Otto Bauer, Rudolf Hilferding, and Max Adler were influenced by the wide array of changes within Marxism, and consequently, Austro-Marxism from its inception was a political program committed to multidisciplinary study and pragmatism; the young trinity of Renner, Adler, and Hilferding, who later met in the formation of a Fabian circle Zukunft were committed to politics of democratic socialism, but also were against both Kautsky’s “orthodoxy” and Bernstein’s revisionism (Goodrich 2009; Bottomore and Goode 1978; Leser 1976).

Max Adler, as chief philosopher among the group, greatly influenced Hilferding (Bottomore and Goode 1978) and the other Austro-Marxists, particularly his neo-Kantian reworking of Marxism, which effectively replaced the broad “existential” lines within Kantian thought with “social” lines of Marxism, i.e. that man is primarily and ultimately a social animal and that all ethics and politics must be inscribed in this context. From this, Adler established a Marxist ethics of “socialized humanity” (Adler [1925]1978, [1914] 1978) which certainly impacted Hilferding’s elevation of the social and the political to more than mere reflections of the economy (Wagner 1996; Hilferding [1910] 1981, [1904] 1949; Sweezy 1949; Adler [1930]1978).

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31 The case that the Kantian Copernican revolution is a starting point in modern existentialism is a central thesis in Walsh (2008), who argues that everything that guided Kant and Kantian ethics began with an existential turn, i.e. that moral laws are laws of nature and exist prior to human existence. While not of immediate concern to political economy, this understanding of Kant clarifies some of the greater context which guided the development of Marx’s ethics and why Adler believed that Marxism and Kantianism were compatible with and reinforced each other. Adler’s attempts to reconcile teleology and causality in his own work are reminiscent of Kant and illuminate his views that both structure and human action were essential to the socialist program.
Adler’s philosophical inquiries into the relationship of Marxist with the general body of German philosophy and ideology had a sharp effect on revolutionary politics of the young Austro-Marxists such that placing Marxist foundations on Kantian thought allowed for parliamentary politics, if not bourgeois liberalism. Adler was a crucial thinker in the turn of the century Germany and Austrian socialist movements, wherein he demonstrating that Marxist socialism was compatible with and still viable in the era of neo-Kantianism where socialists either viewed neo-Kantian ethics as a Trojan horse of bourgeois liberalism or where socialists rejected Marxist foundations in favor of Kantian ethics (Wiley 1978:174-178).

Indeed, the efforts of Adler and like-minded socialists within the German Social Democratic Party, particularly the Marburg socialists, “created a foundation for evolutionary socialism and parliamentary democracy” in the hope that it would “bring middle-class philosophy to a comprehension of working class politics” which placed less emphasis on strictly dialectical thinking and more emphasis on socialist gradualism and evolutionism (Wiley 1978:174). Of particular significance was his “sociology of revolution” wherein he resolved that there was no antinomy of economic necessity and human will, such that

“Revolutionary praxis” is “[a] way of thinking which comprises the coincidence of the directly willed event with the simultaneous knowledge of its economic necessity. The Marxist as theorist does not stand in contradiction with the Marxist as politician [sic.]” (Adler [1928] 1978: 138).

Furthermore, to Adler the importance of Marxism as the sociology of revolution was distinguishing political from social revolutions and that the Marxist had had a critical role
in the will to revolution of a population, transforming political will into social reorganization of the means of production. As such, ideology and economics are complementary with each other: that the conditions must be right, but that these conditions may be created through a socialist party educating and directing the proletariat. He thus sought to avoid a violent revolution as well as bourgeois parliamentarianism through a strong Social Democratic party (Johnston 1972/1976:110-111).

At the same time, Adler also argued that the traditional understanding of base and superstructure within Marxist thought was misunderstood, making the case that the metaphor Marx and Engels used suggests that the base must be constructed with the future structure in mind, or that there must be parity of the economic-social structure with the ideological-political structure, if the latter is not to be more important, contra the orthodox strands of Marxism which placed too much emphasis on historical materialism (Adler [1930]1978). In particular, Adler was critical of Lenin and Kautsky, believing that when Marx discusses “materialism” he was referring to what became “positivism” so as to avoid the speculative or absolute idealism that emerged from Hegel (Johnston 1972/1976:110).

32 Steele (1992) has even gone to great lengths to argue that while historical materialism and Marxism are often thought to be the same—and indeed that Marx and Engels in their writings often do not bother to disconnect the two—the two are actually separate philosophies, and that other forms of historical materialism, e.g. Mises, can exist. Steele demonstrates that Marx’s argument for communism is actually partially a moral argument as well as a historical materialist argument, noting that Moore argued that capitalism will become socialism by historical materialism, but he does not use the same assumptions that the market is anarchistic and that planning is superior (Steele 1992: 39-43). The fact that Marx’s argument for communism was a moral one, rather than a scientific one, was not lost on either Böhm-Bawerk or Mises who sympathetically distinguished Marxism from socialism. c.f. n.39 p.40
The other major philosophical influences on Hilferding were his professors Carl Grünberg and Ernst Mach who were both influenced by positivism, but taking it in different directions: Grünberg disentangled historical from philosophical materialism and was also active in the worker’s movement, whilst Mach divorced the ethical strands of the nexus of positivism and neo-Kantianism to establish a foundation for critical science\(^\text{33}\) (Bottomore and Goode 1978: 15-16). Grünberg—who was also one of the founders and an important member of the Frankfurt school (Held 1980)—championed Marxism that was at its very core combative, that it had to enter into a debate with bourgeois economics and defeat it as a “better science” (Wagner 1996). Grünberg did not believe in meta-historical laws of motion, but that every historical period moved by unique historical laws that had to be discovered (21\(^{\text{st}}\) Century Schools; Held 1980), thus sharing the socio-historical relativism of Mach, but not the “evolutionary” emphasis of the latter (Smaldone 1998).

As such, to Hilferding, Marxism was more of an orientation to the world—a critical historic-materialist model for social science coupled with—and not a dogma to be followed, and, personally, Hilferding cited Marx’s own opposition to “the planting of a dogmatic flag”. Hilferding believed that “the effective power of Marx’s thought stemmed not from any particular claim that he had made, but from the spirit in which he had

\(^{33}\) While Mach himself was part of the general movement toward positivism at the time, he disconnected himself from neo-Kantianism out of disagreement that Kant’s a priori categories of thought and morality existed, instead believing in a relativity that was determined by socio-historical evolution (Smaldone 1998).
worked” (Smaldone 1998:17). This flexible perspective of Hilferding places him as a transitory thinker from the old “orthodox” school of Marxism toward neo-Marxist (Zoninsein 1990; Sweezy 1972) and post-Marxist (Daly 2004) positions, although political and economic circumstances would later force him into accepting “non-socialist” fiscal policies (Smaldone 1998; Winkler 1990; Gourevitch 1984; Breitman 1976; Gates 1974).

While Hilferding and the Austro-Marxists were strongly shaped by the philosophical currents of their time, Hilferding’s main interest was the study of economic phenomena, and his studies brought him into contact with a wide spectrum of economic thought, including marginalist economics, classical economics, and, of course, Marxist economics. However, just as the Austro-Marxists tried to take advantage of the same currents that informed the philosophical orientation of their enemies, many Marxists were interested in trying to reconcile their economic system with new advantages in economic theory, particularly in the resolution of the question of capitalist crises. The theory of the crises of capitalism is a central tenet in Marx’s theory, who argues that the anarchic nature of capitalist production will inevitably lead to collapses in the capitalist economy (Steele 1992), i.e. that crises themselves resulted from the contradiction of the social production of commodities and their private consumption (Smaldone 1998). However,

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34 Hilferding explicitly wrote:

“In his principle of value [Marx] thus grasps the factor by whose [...] organization and productive energy, social life is causally controlled. The fundamental economic idea is consequently identical with the fundamental idea of the materialist conception of history. Necessarily so, seeing that economic life is but part of historic life so that conformity to law in economists must be the same as conformity to law in history (Smaldone 1998:20).”
just how this occurs is not entirely clear in Marxist literature and in fact there is no single model of capitalist crises, but rather three models: that crises can occur due to over-accumulation of capital, under-consumption of capital, or the decline of profits (Milios 1994).

The view that the under-consumption of capital was the general view held by Kautsky (Milios 1994), but in his economic work Hilferding broke with his mentor, definitely following in Tugan-Baranovsky’s footsteps, especially his work on disproportionality of capital investment and distribution as the source of capitalist crises (Hilferding [1904] 1920/1949).\textsuperscript{35} Tugan-Baranovsky argued that neither over-accumulation of capital nor under-consumption of capital was truly possible, but merely that the market was continuously expanding and restructuring itself (Milios 1994; Nove 1970). In this, Tugan-Baranovsky was actually in agreement with Lenin and Moffat, positing that “that the logic of competition causes entrepreneurs to create excess capacity, and lack of information facilitates misinvestment” (Nove 1970: 250).

As such, Tugan-Baranovsky argued that capitalist crises occurred due to “disproportionalities” in capital investment and structuring and applied it directly to the Russian economic system, wherein much of the “bourgeois” sectors of the economy were actually artificial creations by the state, which had established large industries and

\textsuperscript{35} The view of disproportionate capital investment internationally as a cause for economic crises was echoed by the young Röpke, later one of the more influential members of the neoliberal program as well as one of the premier architects of the German economic miracle of the government under Erhard after the Second World War (Zmirak 2001; Foucault 1994; Röpke 1937, 1933). Röpke, similar to the social democrats and the Austro-Marxists, was trying to navigate a “third way” as an alternative to socialism or historic capitalism and accordingly was trying to evaluate and incorporate criticisms of capitalist economics into his theory which he describes as “market” economics but not capitalist economics (Röpke [1960] 1990/1998, [1942] 2009), further demonstrating the richness of the intersection of socialist and orthodox economics. For more on the Austrian socialist “third way” see Becchio (2005).
factories, rather than smaller craftsmen and merchants accumulating knowledge and capital to modernize (ibid.). Perhaps Tugan-Baranovsky’s most important contribution to Marxist theory was his redirection of Marxist economics, wherein he argued that marginal-utility and value-production theories, or that objective factors and subjective values could coexist, that the equilibrium price of goods is a function of cost and demand and that previous economic theories erred by treating labor and capital as independent variables (ibid.).

Hilferding followed Tugan-Baranovsky, believing that the uneven distribution of capital was the cause of capitalist crises, proposing a “two-sector model with the difference in organic composition of capital between sectors producing a time lag structure in production and capacity expansion” (Michaeldis, Milios, and Vouldis 2007) which creates unevenness in price structure, disrupting the smoothness of capital accumulation. He also followed in Tugan-Baranovsky’s footsteps by entering open dialogue with and adopting non-Marxist economic theories and principles. However, from this he turned to a new understanding of money and finance capital which moved him away from Tugan-Baranovsky, who did not concern himself much with monetary capital (Nove 1970). Hilferding believed, along with the Austrians, that understanding money was crucial to understanding the modern economy and its crises, though he significantly differed with the Austrians as well (Darity and Horn 1985; Hilferding [1910] 1981). Hilferding also borrowed from Tugan-Baranovsky’s view that the state

36 Particularly, Hilferding still believed that true economic value was derived from labor (Sweezy 1949) and that the modern economic system was a distortion of this, particular finance capital and other “fictitious” capitals (Hilferding [1910] 1981). He also still believed that crises were endogenous to the
could intervene within and direct the economy to modernize it, but he argued that the impetus for economic modernization within Germany and Austria was instead driven by the banks and the colonization of the economy by finance capital ([1910] 1981 James 1981; Sweezy 1949; Hilferding [1904] 1920/1949).

As such, Hilferding’s thought is a complex nexus informed by the political and philosophical practices of his peers, particularly Max Adler, and his mentors and predecessors in Kautsky, Mach, Tugan-Baranovsky, and Grünberg. To what extent any of these thinkers influenced Hilferding is, of course, up to debate, and interpretation and beyond the scope of this analysis. Wagner (1996) goes so far as to suggest that the same trajectory of Adler’s work—the reconstruction of Marxism as a critical science of society within a return to Kant—was also the same movement that Hilferding undertook, that Hilferding matured to a philosophical position of “transcendental materialism”, i.e. that he was trying to uphold the distinction of science and action and tried to find laws of social motion, but then he had to adjust social action to conform with these laws. Hilferding also distinguished liberalism from the bourgeoisie in his Kantian Marxism (Wagner 1996; Wiley 1978). 37

capitalist system due to the inherent anarchy of capitalist production (Steele 1992), and that while financial capital and cartelization could effectively “smooth out” some of the crises of capitalist production, it could not reduce them entirely, and even suggested that, contrary to orthodox economics at the time, capital allocation among sectors does not lead to stability but merely transmits these fluctuations around the economy (Michaeldis, Milios, and Vouldis 2007).

37 In particular, Hilferding distinguishes legal vs. economic equality, explaining that the bourgeoisie demand the former inscribed in man’s capacity as a free man to sell his labor, whilst the latter is demanded by the proletariat as the ability to control how said labor is directed (Sweezy 1949). As such, proletarian socialism and egalitarian democracy are not incompatible with each other, and several Marxists have described the dictatorship of the proletariat as the basis for a truly radical egalitarian social revolution (Žižek 2008; Bottomore and Goode 1978), though Steele (1992) counters that there can only be a negative
Grünberg and Mach gave Hilferding his turn to historicism and relativism that also allowed for political action, but Grünberg in particular stressed the importance of political activity within the worker movement, opening up a more defined space for action than Kautsky’s more stagnant materialist-evolutionary model (Gates 1974). Grünberg and his demand that Marxism was a science, not a dogma, inspired Hilferding to confront Austrian economics as a “bourgeois economic science” on its own terms. This, coupled with Tugan-Baranovsky’s work, inspired Hilferding to reconcile Marxism with marginalist economics, and it was Hilferding’s confrontation with Böhm-Bawerk that would reshape Marxist economics and influence the next quarter century of critical political economic thought.

—The Gauntlet is Thrown—

The labor theory of value, which had served as the core of Marxist economics, was regarded as the weakest point of Marxism by the second generation of the Austrian school under Böhm-Bawerk, who mounted the strongest challenge to the labor theory of value to date, with much of Mises’ (Steele 1992) and Hayek’s (1931a, 1931b) arguments simply taking Böhm-Bawerk’s work as correct and moving within the space he cleared.38 The gist of his argument was that the first and third volumes of Capital demonstrated that there was a fundamental contradiction at the heart of Marxism: that labor as the source of

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38 In particular, Lavoie (1985) stresses that Mises’ arguments against the labor theory of value in the later context of the socialist calculation debate are effectively an extension of Böhm-Bawerk’s, particularly that Marx’s system fails to account for the heterogeneity of both labor and capital, and the significance of this on productive processes.
all value in society conflicted with Marx’s view that the unique composition of capital per industry created different profit rates. Böhm-Bawerk argued that:

Either products do actually exchange in the long run in proportion to the labor attached to them—in which case an equalization of the gains of capital is impossible; or there is an equalization of the gains of capital—in which case it is impossible that products should continue to exchange in proportion to the labor attached to them (Böhm-Bawerk [1896] 1949: 28).

Böhm-Bawerk challenged that either goods sell at prices in direct proportion to their labor values and that in this case rates of profit will permanently differ based on the capital or labor intensity of the productive processor, or that rates of profits are equalized by competition and thus that prices never converge with labor values (Steele 1992: 138). In short, the equalization of profit rates from capital within the capitalist economy indicated that more than just labor, e.g. competition and scarcity, contributed to the production of value. Furthermore, he argued that the “laws of motion” Marxists deduced were simple reifications of the social system; thus Marxism was a tautology (Böhm-Bawerk [1896] 1949) Böhm-Bawerk asserted that the process of the adjustment of profits within a capitalist system can only occur through competition and that only in non-capitalist societies where the workers control their own means of production is price solely determined by value. Böhm-Bawerk also challenged that quantity of labor (and in the case of skilled or complex labor, labor-time) was only one determinant of the prices of production,

Böhm-Bawerk proposes that Marx erred in his theory, that his narrowing of the debate from “goods” (use-value) to “commodities” (exchange-value) was simply the
reification of his own philosophical assumption that labor itself creates value\textsuperscript{39}, and that Marx does not address or ignores that scarcity of natural resources create value in production that is not derived from labor (ibid. :70). Marx committed the same error was Smith and Ricardo by abstracting to a “natural” (i.e. “pre-capitalist”) state where labor was the sole source of value so as to not have historical data (which does not exist \textit{per definitionem} in the “natural” state) contradict their opinions (ibid. :78). Finally, Böhm-Bawerk concludes that Marx could no longer maintain that labor was the sole determinant of value after he began his third volume and that he was left with the option to either sacrifice the consistency of his system or its logic, and that Marx chose the former, seeking to mitigate its contradictions by exploring competition. However, Marx did his best to belittle or avoid competition and instead employed a static model wherein competition was merely the reference to the movements of supply and demand in the long run and that only in competition do prices reach their “true value” (ibid.)\textsuperscript{40}

\textsuperscript{39} Curiously enough, Böhm-Bawerk charges that Marx actually drew on the Aristotelian notion that “exchange cannot exist without equality, and equality cannot exist without commensurability” (Sweezy 1949:68), and thus that Marx was driven by his search for egalitarian politics, which blinded him from seeing the logic of his own argument through to the end. Böhm-Bawerk actually divorced Marxism from socialism, noting that while the two were related ethically, Marx’s error was the view that there was “equivalence” in exchange and for there to be equivalence some common denominator had to exist, which for Marx was labor (Wagner 1996: 29-31). The Austrians do not view that all economic exchanges are equivalent, instead viewing most economic transactions as continuous disequilibria (Lavoie 1985), which has the potential to create alienation and exploitation. Böhm-Bawerk argued against Marx’s assertion that exploitation was necessary or inherent to capitalism and that some kind of social system required to remove these effects ([1884] 1890).

As such, the relationship of Marx and the Austrian school is rather complex philosophically, given that Menger, the founder of the Austrian school, also drew on Aristotelian philosophy in his search for economics, but that he did so in an essentialist and formalist way rather than as a foundation for ethics, (White 2003; Diamond 1988) which was provided by subsequent generations of Austrian thinkers in the neo-Kantian milieu, e.g. Böhm-Bawerk, Wieser, and Mises (Shulak and Unterköfler 2011; Kirzner 1988; Ekelund 1986).

\textsuperscript{40} Much of Böhm-Bawerk’s criticism of Marx is clarified by Lavoie’s (1985) explanation that a major difference in socialist and Marxist economics, as variants of classical economics, and the Austrian school is
Böhm-Bawerk’s critique of Marxism has been widely respected historically and is at least partially responsible for the reformist divisions at the turn of the century, which sought to reconcile socialist with capitalist economics. In his introduction to Hilferding’s response, titled *Böhm-Bawerk’s Criticism of Marx*, Sweezy (1949) stresses the power of Böhm-Bawerk’s criticism: contemporary Marxists viewed it as the most significant attack on Marxist theory. One student of the history of the debates recounted in 1939 that:

Böhm-Bawerk anticipated nearly all the attacks on Marxism from the viewpoint of those who hold political economy to center on a subjective theory of value. On the whole, little has been added to his case by other critics; their important contributions are outside the theories he chose to contest (Sweezy 1949: x).

Böhm-Bawerk did not see a personal or political dimension to his critique of Marxism, rather he believed that new insights from marginal utility theory and other insights of his scholastic tradition necessarily demonstrated the inadequacies of *Capital* (Sweezy 1949). Caldwell (2004) argues that the debates against the German historical school, positivism, and Marxism were significant to the development of Austrian economics, but it is also apparent that Hilferding absorbed some elements of Austrianism in his thought and practice (Darity and Hon 1985; James 1981). Sweezy (1949: xxiii) notes that Hilferding’s response to Böhm-Bawerk was not so much a *defense* of *Capital* as an *attack* upon the...
argument of Böhm-Bawerk: while Hilferding himself believed that the Marxist tradition was superior to that of the “psychological” school of economics (Hilferding [1904] 1920/1949), that he chose to critique the critique rather than defend Capital itself implies that he already had his own unique perspective on Marxist theory.

Hilferding first engages Böhm-Bawerk on a philosophical level: his criticism of Marx is invalid, Hilferding argued, because the subjectivist school begins its focus from the point of the individual and the individual’s subjective understanding of value, whereas Marxism begins from the point of society (Hilferding [1904] 1920/1949). As society exists as a whole, it cannot actually exchange commodities in of itself, and thus the true basis of value in society is labor which is a reflection of social structure and relationships (ibid.). Economics must be a historical and a social science that concerns itself with when goods become commodities, i.e. when the economic system becomes a system based on exchange. Consequently, the purpose of Marxist economics is to

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Caldwell (2004) notes that the terms subjectivist and psychological were used interchangeably by Marxist critics of the Austrian school who were opposed to its emphasis on individualism. While neoclassical economics and the Austrian school both shared in the marginal-utility revolution, the main defining feature of the school was its emphasis on subjectivist philosophy (Caldwell 2004; White 2003; Kirzner 1988; Lavoie 1985). However, this was not entirely clear to the Austrians themselves at first, who simply assumed that contemporary neoclassical economists were just as subjective as they were (Lavoie 1985). The topic of whether or not the Austrian marginal subjective school is or is not “neoclassical” is up for debate, as Lavoie (1985) notes that Mises in particular had more similarities with Marxist and other “classical” economists than with his contemporaries, though they converged politically.

Hilferding and the Austro-Marxists followed in a tradition that was descendent of German idealism, either Hegelian or Kantian, which prioritized the social relationships above the individual, hence the primacy of the political in their work (Wager 1996; Bottomore and Goode 1978; Sweezy 1949) and thus would have been opponents to any kind of individualist or subjectivist economics, though in his reading of Tugan-Baranovsky and attendance of various lectures by Austrian school economists while at Vienna leaves the question if Hilferding actually approved of the mathematical methods of marginalist economics an open question; he certainly agreed with some of their conclusions and actively incorporated the advancements in “bourgeois economics” if only to critique it (Hilferding [1910] 1981). The question of whether or not “neo-Marxism” is compatible with neoclassical economics, e.g. the socialist calculation debate, is contested.
uncover the “laws” which govern the motion of capitalist society, i.e. how the exchange of labor value and commodities in society is produced by and reproduces the social relationships in that society (ibid.).

Fundamentally, Marxist economics is approaching the economy from a totally different angle from the Austrian subjectivist school, which from its very founding philosophy seeks out exact and a-historical laws of economics, whether under Menger’s Aristotelianism or Mises’ apriorism (White 2003). As such, Austrian economics and Marxist economics ultimately hailed from paradigms so divergent that if one attempted to transpose one into the other, a contradiction ultimately emerges (Lavoie 1985). Therefore, Böhm-Bawerk is asking the wrong question when he makes the argument that skilled labor cannot be understood as a single multiplication of unskilled labor, for it is the society which determines value, rather than pure economic processes. It was Böhm-Bawerk’s confusion of price with value, due to his Austrian economic theory that allowed him to mistakenly view Marxism as a contradiction (Hilferding [1904] 1920/1949).

In his criticism of Böhm-Bawerk, Hilferding repeatedly emphasizes the importance of social relationships, and while Hilferding thought he remained within the Marxist tradition (James 1981) and that he was merely expanding Marx’s work on monopolies (Arestis and Sawyer 1994; Hilferding [1910] 1981), he in fact diverged from Marx in the theory of money and competition (Zoninsein 1990). Hilferding took from

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42 Lavoie (1985) argues that this was one of the strongest elements in the complex and confusing “socialist calculation debates” that occurred in the 1920s. Neither party was able to fully understand each other, and as such the debate essentially was never completed, but merely faded into the background as more important political and economic concerns, e.g. fascism, emerged and that this impasse to a very real extent has defined the course of modern economics.
Austrian models of money, particularly Menger’s view of money as a socio-historical creation (1892), as well as Böhm-Bawerk and Mises’ understanding of capital as heterogeneous (Boettke 2008; Böhm-Bawerk ([1884]1890); Mises [1912] 1981). He was not unique in doing so—after Böhm-Bawerk’s thorough and significant critique of *Capital*, many Marxists and critical theorists such as Tugan-Baranovsky and the Austro-Marxists began to reexamine the exact role that the state had in driving the economy, challenging the orthodox position under Kautsky and German Marxism that the state and society were simply reflexes of the system of production, i.e. that the state could be an active force in the reshaping of the economy as well (Bottomore and Goode 1978; Nove 1970)\(^43\).

While contemporary Marxists have derided Hilferding and this movement as a step backward to classical economics (Zarembka 2003; Zoninsein 1990), Daly (2004) places Hilferding as key in the transition of orthodox Marxist thought to post-Marxism, particularly his emphasis that the economy as a self-enclosed historical product was insufficient, and that more emphasis was needed on the interrelation of contemporary political and economic practice (6). Hilferding hypothesized that the privileges created by monopolies granted some capitalists technical and productive superiority, which

\(^{43}\) This is, essentially, Foucault’s entire thesis in his lectures on neoliberalism as the political technology that enables the rise of biopolitics: that the government was not merely a reflex of the economic system, and while the possibilities of it were shaped by the material constraints of the time, they were also shaped by the ideological space as well, i.e. that it was the rise of political economy as a science that enabled the formation of governmental reason around the economic space (Foucault 1994). Foucault is thus a very real descendent of Adler’s position on ideology and his resolution of the antinomy of economic necessity and human will (Bottomore and Goode 1978; Wiley 1978). Coming full circle, Žižek (2008) remarks that Foucault himself had a turn toward Kantianism later in his work; consequently, it is not too unrealistic to trace a lineage of thought from Adler’s Marxian Kantianism as his basis of critical political economy—especially his work on history and ideology—and the mature oeuvre of Foucault.
granted monopoly over labor (Hilferding [1904] 1920/1949), and Hilferding and other Marxists believed increased tendencies toward monopoly and nationalism were connected to imperialism and militarization (Lenin [1919] 2010; Wagner 1996; Smaldone 1988; Hilferding [1910] 1981; Botz 1976). The Austro-Marxist Bauer ([1938]1978) and the neoliberal Röpke (1935) later even incorporated state interventionism and protectionism as vital to the rise of fascism.

While traditionally Marxism and the Austrian school have been contrasted as enemies, Lavoie (1985:47) suggests that monetary theory reveals the weakness of neoclassical economics and the strength of both Marxist and Austrian positions. Marx, like the Austrians, believed that distortions in the economy occurred due to money, i.e. that under systems of simple trade and barter price distortions were not really possible (Hayek 1932) and that the capacity of money to distort the economy was actually a significant point of departure of Mises and latter Austrians from Böhm-Bawerk and Menger. The position of “orthodox” Marxism post-Marx on money is unclear, e.g. Kautsky, believed that money was necessary but then argues against the idea of value (Steele 1992: 61).

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44 Hilferding went even to go so far as to proclaim that imperialism is the “vital lie” of a dying capitalism and the last ideology before socialism. It allowed for an alliance of aristocracy and the bourgeoisie against socialism (Wagner 1996: 75-76). This, in the end, allowed for reactionary forces to gain control over socialism, which the Austro-Marxists blamed for the rise of fascism (Bauer [1938] 1978).

45 Menger and Böhm-Bawerk argued that money was “neutral”, i.e. that all economic problems could be solved in an imaginary transaction without the use of money, wherein they had not broken with the “Robinson Crusoe” economics of Ricardo and Mill. Mises argued that in fact there were different kinds of money that had to be accounted for, particularly fiduciary credit, which allowed for distortions in circulation of goods due to interest and liquidity, which explain the business cycle (Mises 1978: 59-64). Today, the Austrians hold the position that money is “non-neutral”, i.e. that prices do not adjust uniformly throughout the economy and that poor governmental fiscal policies will unduly distort the market (Boettke 2008).
Even within Marxism itself the concept of labor vouchers as forms of money is debated, and while the final form of communism is to be stateless and moneyless, Marxists debate whether or not the state or money are required in various “phases” of communism (ibid.). Evans (1997) points out that in Marxism two theoretical descriptions of money exist: first, that money is a means of expressing value and that this is the basis for the second idea that money is the social means of validating private property (11). Hilferding exclusively focuses on the latter idea, particularly that money does not inherently contain value unto itself, but rather that its source of value is as a medium of exchange (Smaldone 1998:50; [1910] 1981).

Furthermore, Hilferding effectively stands the orthodox understanding of Marxism on its head: money is not merely given value from exchange, but it is additionally an extension of the state’s political power (James 1981: 151-154), a line that Menger himself had opened up in his 1892 paper on money. Menger (1892) believed that money itself was a social institution to ease the transfer of commodities, which he called “saleableness”, and that both the structure of the market, i.e. whether it was closer to a monopoly or to perfect competition, as well as “the number and nature of the limitations imposed politically and socially upon exchange and consumption with respect to the commodity in question” (246-247) effected the value of money. Menger firmly believed that money was a social, rather than a legal creation but that after it was created, it was the function of the state to stabilize the process of monetary exchange (ibid. :256). Menger, Böhm-Bawerk, and Mises were all respected ministers who argued for sound monetary and fiscal policies (Shulak and Unterköfler 2011; The Concise Encyclopedia of
Economics 2008; Diamond 1988; Mises 1978). The political importance of money as a non-neutral institution and the importance of sound monetary and fiscal policy is one of the hallmarks of later, contemporary Austrian thought, even to this day (Boettke 2008).

In his critique of Böhm-Bawerk, however, Hilferding also incorporates the Austrian insight of money into the price system:

For society is the only accountant competent to calculate the height of prices, and the method which society employs to this end is the method of competition […] it is society which first shows to what degree this concrete labor has actually collaborated in the formation of value, and fixes the price accordingly […] This is the conception in accordance with which the theory of value is regarded, not as a means “for detecting the law of motion of contemporary society” but as a means of securing a price list that shall be as stable and as just as possible (Hilferding [1904] 1920/1949:147).

In his response to Böhm-Bawerk, Hilferding thus steps beyond conventional Marxist understanding of money and value: value, as socially embedded, actually directs the price system through competition and this necessitates the importance of stability of the price system. Furthermore, Hilferding notes that the only mechanism truly capable of governing contemporary society is through the price system, and accordingly calls for stable monetary policy as an important part of any political economic program (Smaldone 1998; Wager 1996). Later in his role as finance minister during several socialist cabinets, his economic practice actually drifted somewhat toward an Austrian understanding of the importance of sound monetary policy (Boettke 2008; Röpke [1942] 2009; Mises 1978; Hayek 1931a; Hayek 1931b; Hayek 1932a; Hayek 1932b), particularly supporting
metallic money such as gold as a means of international payments (Evans 1997; Darity and Horn 1985; James 1981; Hilferding [1910] 1981).  

While much of Hilferding’s treatment of financial economics was shaped by the Austrian understanding of money, he had significant differences as well, also being profoundly shaped by the neoclassical conception of perfect competition, which moved him away from Marx’s theory of monopoly and competition. A significant part of Marx’s theory was his view that competition will eventually result in a trend toward monopolization and concentration (Steele 1992: 272-274), and Zoninsein (1990) claims that Hilferding’s whole shift into the exploration of “monopoly capitalism” was due to his replacing of what Marx meant by competition with the neoclassical definition. The Austrians and neoclassical economists believed that monopolies were an aberration to the market system caused by state intervention, e.g. price controls and protectionism, rather than pure economic mechanisms, and that these were the consequent source of all economic ills (Lippmann [1937] 2005; Izzo and Izzo 1997; Gerber 1994; Darity and Horn 1985; Mises [1929] 1977; Megay 1970).

While Hilferding adopted some portions of the Austrian school and neoclassical economics and their work on prices, money, and competition, he put a uniquely Marxist twist on them. Hilferding’s view was actually very similar to Schumpeter, that perfect competition itself was inherently unstable and that (Michaeldis, Milios, and Vouldis 2007) larger firms would be the only ones to survive. As such, he remained firmly within

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46 Not all socialists nor Marxists endorsed metallic money nor gold. Polanyi ([1944] 2001) claiming that because of its monetary policies Marxist socialism was doomed to fail just as historic liberalism was doomed to fail. Polanyi’s stark condemnation of Marxism reinforces Lavoie’s (1985) thesis of the similarity of the Austrian and Marxist positions.
the Marxist tradition, insisting that while money allocated labor among different branches of production, and thus served a similar to a price system, that was inherently more anarchic than a fully planned system would be more efficient (Hilferding [1910] 1981), and that money would not be necessary in a totally planned economy (Milios 1994).

As such, Hilferding still remained within the spirit of Marxism, if not its letter, believing in the same end goal of communism, though he believed that capitalism had entered into a new phase of development, which demanded alteration in Marxist thought, which he presented in his magnum opus *Finance Capital* (Hilferding [1910] 1981). This, too, would be influenced by the Austrian school, particular its view that capital was heterogeneous, for Hilferding too began to explore various new forms of capital that had emerged in the “new phase” of capitalist development. It was this reworking of Marxist economic theory through neoclassical definitions of competition and the Austrian theory of prices that would shape social democratic politics and revolutionary praxis for the next twenty years and prove a challenge so significant that the neoliberals seriously confronted several of its claims in their discourse at the Walter Lippmann Colloquium in Paris (Izzo and Izzo 1997).  

47 It was Hilferding’s conjunction of neoclassical and marginalist economics that would make *Finance Capital* so penetrating and important. Caldwell (2004) and Foucault (1994) posit that the debates of the neoliberals with socialists, Marxists, and fascists—which the neoliberals broadly referred to as collectivists, statists, or interventionists—proved to be the “road to Damascus” necessary for their full maturation, and Kirzner (1988) and Lavoie (1985) describe the dialogue as allowing for increased self-understanding by both the Austrians and the socialists. Furthermore, Hilferding’s analysis reveals two tensions within the neoliberal cadre: that of competition and of markets and (Izzo and Izzo 1997). For more on the market vs. competition tension *c.f.* n.35 p.36, and n51 p.57.
—A New Era of Capitalism—

*Finance Capital* was hailed by Otto Bauer almost as the “Fourth Volume of *Capital*” wherein Marx’s predictions for the concentration of capital and the next stage in the development of capitalism had manifested historically, and Kautsky described it as a faithful continuation of *Capital* and the brilliant application of the Marxist method into areas beyond the original frame of Marxist analysis, or those that had not been analyzed fully or adequately (Hilferding [1910] 1981:1). Hilferding’s anti-critique of Böhm-Bawerk had inspired him to reinvent Marx’s theory of value as a “critical social theory”, which allowed the labor theory to discover the laws of capitalist motion as social, rather than natural laws (Wagner 1996: 28; 32). Hilferding admits that the defense of the labor theory of value was no longer essential to the labor movement, rather that all of the technical work was distracting from the political problems at hand (ibid. :37-39). It was therefore necessary to take Marxism in a new direction: he believed that the essence of capitalism was no longer simply capitalists vs. workers, but also had become capitalist vs. capitalist (Smaldone 1998:24). Therefore, a Marxist analysis focusing on the transformation in the nature of competition was critical to the understanding of the latest phase of capitalist development.

Hilferding declares that the latest phase of capitalism has produced a new form of capital, *finance capital*, which is the union of banking capital with industrial capital (Hilferding [1910] 1981) and that this has led to a rearrangement of the social relations of the capitalist system, which is so significant that no understanding of the modern economy is possible without an adequate understanding of finance capital (ibid. :21).
However, Hilferding uses the term somewhat ambiguously as either banks dominating industrial capital or as the transmutation of money capital into industrial capital (Wagner 1996: 80-82). Hilferding’s financial capital is the union of industrial capital with banking capital with the banks becoming the superior in the relationship (Arestis and Sawyer 1994; Lachmann 1944), and is the maturation of his divergence from Marx’s theory of money (Trevor 1997).

It is therefore no accident that Hilferding begins his treatise with a discussion of money, wherein he effectively continues from where he left off in his debate with Böhm-Bawerk, arguing that production may occur either privately or socially and that economics is exchange and is therefore concerned with the latter. Hilferding declares that the importance of “economics” is thus historically relative and unique to each society, wherein it is more important in societies that are based on private property, as it is only exchange that allows for the formation of society in such circumstances (Hilferding [1910] 1981: 27-30). The capitalist economy is therefore fundamentally primarily a commodity economy wherein everything is produced for the purpose of exchange, and that as commodity production becomes increasingly complex, the unit of exchange must become increasingly simple until only there becomes a universal mechanism of exchange: money. Money is therefore unique as a commodity and a crystallization of socially necessary labor time and agrees with Mach that it has effectively become the ego of society, wherein all other things are reduced and fetishized to it (ibid. :31). Money, as such, becomes a symbol of society itself (Smaldone 1998), and the state’s primary function becomes the guarantor of money (Hilferding, op. cit.)
However, money also has negative consequences: it separates use value from exchange value (ibid.). Hilferding also believes that the capitalist system is inherently the move toward the equalization of profit rates through monetary and industrial capital becoming the basis of society over labor, which conceals the inequality of labor (ibid.). As such, Hilferding is trying to reconcile Marxism with Böhm-Bawerk’s criticism through his wider lens of “Marxism”: that the theory of labor was no longer a fixed economic concept, but more of a general approach to economic history and that the process of equalization profit rates was the true drive of capitalism. However, while Hilferding shifts toward the Austrian position in his understanding of contemporary capitalism, this shift is only positive; normatively, Hilferding still endorses Marxism and labor as the source of value as how the world should be. Thus to understand capitalism, one must reconcile Marxist economics with “bourgeois” economics to understand the system it has created, but it must do so always with the aim of transforming the system to a system that is centered on society, humanity, and labor.48

Finance Capital, is first and foremost a political work, a work aimed at the successful transition of socialism into capitalism without a collapse of the system (Wagner 1996: 71-72), and Hilferding firmly believed that finance capital truly allowed for this transition. The core of Hilferding’s argument is that the nature of money capital

48 Röpke and Rüstow, two of the socialists turned neoliberals, and many of the other ordoliberals who followed Eucken and Freiburg were very sympathetic to Marxist and socialist criticisms of the capitalist system, arguing that the fundamentals of the market system were competition, whereas society thrives on unity and elimination of competition (Hartwich 2009; Boarman 2000; O’Leary 1979; Röpke [1942] 2009). As such, several of the neoliberals were concerned with the construction of liberalism and the construction of a good society, which extended far beyond the simple economic relations that Mises concerns himself with, and in their humanist critiques (Boarman 2000; Friedrich 1955) they share many points in commonality with socialists and Marxists.
itself had transformed with modern credit, which rises through the process of exchange itself (Hilferding, ibid. :64-66), which allows for an expansion of capital and the power of capital more quickly than metallic money would, and also free up idle capital (ibid. :68). Hilferding followed in the footsteps of Tugan-Baranovsky, who recognized that the very anarchic and competitive nature of the market caused entrepreneurs to create excess capacity for production, thus lack of information facilitates misinvestment of capital (Nove 1970:250). Due to the uncertainty of capitalism’s anarchic production, large portions of money or capital must be held in reserve in order to compensate for delays in commodity circulation: the transition of commodities for money could not always be instantaneous, but while a firm was waiting to receive payment for commodities, it still had to have some money capital left over as reserve (Hilferding [1910] 1981).

Hilferding would actually extend Tugan-Baranovsky (Sweezy 1967; Hilferding [1910] 1981) by incorporating Böhm-Bawerk’s economic work on the heterogeneity of capital (Böhm-Bawerk ([1884]1890)), which creates an uneven distribution of the spread of capital throughout various sectors in the economy, and that with time there were both qualitative and quantitative changes in the capital structure (Blumen 2007). Furthermore, the Austrians pointed out that the process of production itself also requires the use of capital as an intermediate good (Hayek 1931a; Hayek 1931b). The speculative nature of capitalism, which locks capital out of circulation as an emergency reserve, the usage of capital as an intermediate good, and the heterogeneous nature of capital combined to create economic crises that were due to disproportionality in the capital structure, and hence of prices (Michaeldis, Milios, and Vouldis 2007; James 1981). However,
Hilferding’s understanding of credit money transformed this whole argument, wherein banks, which did not possess the same problems of the circulation and production of their capital, were in a unique position to effectively smooth out capitalist crises by providing a more efficient reserve of money capital, freeing up capital and increasing circulation (Hilferding, [1910] 1981).

Banks therefore stabilized and expanded the amount of capital in circulation, activated idle capital, and due to the unique nature of banking capital they were able to absorb money and interest capital from all segments of society, further increasing the power of capitalists (ibid.), and were also able to reach across international borders. Along with the increasing power of banks and banking capital, Hilferding believed that the rise of modern corporations went beyond the original scope of Marx’s analysis (ibid.:114-116) and that stock capital is “fictitious capital” which does nothing other than increase the profits and power of their shareholders. Hilferding notes that corporations allow for a disproportionate expansion of the power of capitalists, for under a normal firm one would have to have complete ownership to exercise sovereignty over the capital, but under a corporate format one must only be a majority shareholder.

As such, stock capital allows for a maximization of external capital for the minimum of one’s own capital, which allows for interlocking corporate director boards. Banks, therefore, have greater security in corporate investments as they translate into stock, which grants ownership. Furthermore, given that corporations are legal entities and independent of the size of individual shares of capital that compose it, it is much easier for a corporation to expand than an individual enterprise. In its capacity to assemble
capital the corporation is thus similar to banks, only it employs fictitious capital vis à vis shares, rather than money capital (ibid.: 118-122).

In the modern era of capitalism banks were thus the driving force of the economy, and Hilferding argued that they would continue to accelerate the concentration of capital in an ever-decreasing number of persons through a process of cartelization (Smaldone 1998: 44). Cartelization also does not stop anarchy of production or stop crises, but rather shifts the burden of the crises on to smaller firms, which furthers cartelization as larger firms continuously absorb smaller firms until a giant grand cartel would form where a central bank would control the entire economy (Hilferding [1910] 1981). As such, Hilferding believed that the very nature of capitalism had changed: finance capital and shareholder anonymity had displaced the capitalist entrepreneur and the merging of banks with industrial capital had eliminated free competition through market organization (Botz 1976). Hilferding also believed that technology would allow for a new restructuring of capitalism wherein cartels could produce more profit and that capitalism would not fail due to the reduction of socially necessary labor time given the rise of machines (Michaeldis, Milios, and Vouldis 2007), thus breaking with Marx wherein labor was the sole source of value (Darity and Horn 1985).

Hilferding even broke with the Marxist view of crises, believing that perhaps a breakdown of capitalism was not inevitable, but that a general cartel would be able to remove the anarchy inherent in the capitalist system and that this would allow for a transition directly into socialism (Smaldone 1998; Wagner 1996; Hilferding [1910] 1981). Hilferding believed that cartelization of the banking industry effectively colonized
the state and produced imperialism\textsuperscript{49}, wherein the state would work to continuously increase the economic sphere of influence to facilitate further capital concentration and production (Smaldone 1988). However, Hilferding believed at the same time that the worker movement would not benefit from warfare, and thus sought how to organize “for the revolution” rather than organize “the revolution” (Smaldone 1998). There was thus a significant tension within Hilferding’s thought: that while he believed that there was an increasing tendency toward warfare due to finance capital, he believed that this was not necessary and instead support parliamentarian practices.

Hilferding’s politics were heavily influenced by his philosophical belief that capitalism would transition into socialism on its own, that the best course of action would be “an evolution”, rather than a revolution, and his unique mix of parliamentarian practice and his blending of Marxism with marginalist and Austrian economics attempted to establish a praxis that was neither orthodox nor bolshevist, that while the Austro-Marxists believed that it was important for them to create a working class identity (Smaldone 1998; Bottomore and Goode 1978), they did not want a total social revolution. Thus Hilferding and the Austro-Marxists walked a delicate tightrope that would be snapped by World War I when nationalism would divide the Austro-Marxists, the working class, and the social democracy movement itself with catastrophic consequences.

\textsuperscript{49} This line was a significant emphasis on Lenin’s own *Imperialism* ([1919] 2010), but Lenin took it further, reasoning that banks used financial capital to control industries through direct manipulation of credit and interest rates in addition to ownership of stock ventures (Lachmann 1944).
II. DAWN TO TWILIGHT: LUDWIG VON MISES AND CONTINENTAL LIBERAL DEMOCRACY

[1903—1929]

“I set out to be a reformer, but only became the historian of decline.” – Ludwig von Mises

“Political revolution does not abolish economic exploitation, but only makes it more palpable […] The victory of democracy inaugurates the struggle for socialism.” – Otto Bauer

Of all the traumatic events in Western history, few appear so tragically unavoidable as the outbreak of the Great War, which would prove the final twilight of the fading Ottoman, Russian, and Hapsburg Empires, the implosion of the German Reich, and ultimately be the precursor for the Great Depression and the most catastrophic event of the modern age: the Second World War and the Holocaust. When Mises describes himself as a “historian of decline” in his memoirs (1978: 115) he is not unique: there was a feeling of inevitability of the collapse of the Hapsburg Empire that largely paralyzed the political classes⁵⁰ (Mises ibid.; Bottomore and Goode 1978; Johnston 1972/1976), which

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⁵⁰ In his memoirs, Mises recounts how Menger became rather pessimistic about the future of western civilization, particularly the rise of Germany and claims that this feeling of pessimism was spread throughout the political and intellectual elite. Menger passed on this feeling to the Archduke Rudolf, whom he personally tutored, Mises alluding that this may have partly contributed to the latter’s eventual suicide (Mises 1978:34-35). Mises also argued that this pessimism was what helped contribute to the breakdown in
certainly contributed to the overall pessimism with civilization, the most extreme exponents being Schopenhauer and Wagner. Nationalist upheaval was also ripping throughout the Hapsburg Empire, with many of the Austrians fearing the rising power of Germany, leading many of the socialists and Austro-Marxists to ally with Mises and older bourgeois liberals in support of the state (Leser 1976).

The Austro-Marxists Bauer and Renner undertook Marxist theories to define the state as a historical phenomenon for the first time, with both of them eventually believing in a multi-nation state and argued for an Anschluss with Germany (Bottomore and Goode 1978:30-32; Johnston 1972/1976:103). It was the support for the war that would drive a wedge within the social democratic movement and destroy the worker movement internationally when worker fought against worker (Smaldone 1998, 1988; Wager 1996) such that the social democracy movement and the vanguard Austro-Marxist cadre were never to recover, opening the door wide to fascism (Bottomore and Goode 1978; Bauer [1937] 1978: 49).

Weber and his eventual death as well. Mises fervently rejected this pessimism, arguing that the democratic state was the best system and that one must never give up.

The influence that Schopenhauer and Wagner both had on their philosophical, political, and cultural currents at their time is quite astonishing, to the point where Wagnerian “cultural redemptionism” has been described by Janik (2001) as the most important figure in Vienna in the late 19th and early 20th centuries. The impact of Schopenhauer, particularly on neo-Kantian thought was also quite astounding (Kohnke 1991) and certainly contributed to the apathy and withdrawal from politics of the educated and bourgeois classes in the German-speaking world.

Mises later would blame the Great War on the “warmongering and nationalistic intellectuals”, particularly the Germans (978:65-66).

Foucault points out that there is either no theory of the state in Marxism, or at least a very weak and unclear one (1994) but goes on to say that a theory of governmentality, i.e. the principles for the organization and action of the state are more important than the actual architecture of the state itself and that this is what is critically lacking in socialism (91-93).
The First World War was significant for many of the neoliberals as well, with Röpke (Boarman 2000) first turning to socialism due to his belief that it was capitalism that had sparked the war, only to be disgusted with the rise of totalitarian regimes afterward and drift back to liberalism. Lippmann also experimented with socialism, progressivism, and liberalism and within the time period (Riccio 1994; Steel 1980; Adams 1977; McNaught 1966), before he eventually reached the conclusion that it was the entirety of Western society that had failed, both historic capitalism and liberalism as well as the socialist and interventionist attempts to reform it (Lippmann [1937]2005). The First World War and the events leading up to it demonstrate the truly rich and complex Austrian and German milieu at the time, where some of the anti-war Austro-Marxists and socialists such as Hilferding and Kautsky actually had more in common with Mises and the Austrian school liberals than they had with each other, or with the social democratic bolshevikists under Lenin, Trotsky and Stalin!  

Mises himself was originally a socialist and a historicist, though not a Marxist by his own admission (1978), and was part of the old Jewish intellectual bourgeois that

54 C.f. n.69 p.68 and 71 p.70.

55 Mises notes in his recollections that did not believe that economic theory was possible, only economic history and that he rejected Menger, the British economists, and the Lausanne school at first. He changed his mind when he encountered Max Weber and his subjectivism, which Weber employed in his new model of critical social science and the destruction of homo oeconomicus specifically. Mises would later break with Weber, though they kept in contact until Weber’s death (Mises 1978:120-124).

56 The uniqueness of Jewish intellectualism and its influence, particularly on the middle classes, is a subject of great interest throughout the history of social, economic, and political thought, within the German-speaking world. Several historians have attempted to examine how the unique nature of the Jewish culture and religion, even if they were not practicing, provided inspiration for innovative thinking and played a significant role in some of the scientific developments at the time, especially in the social sciences. In their histories of neo-Kantiansim Köhnke (199) and Wiley (1978) account for the changing role played by Jews in the German-speaking environment: that during “liberal periods” of the 1850s and 1870s Jewish academics were accepted in both German and Austrian universities, but various reactionary political movements brought with them surges of anti-Catholicism as well as eventual anti-Semitism, though the
spawned so many of the Austro-Marxists (Steele 1992; Smaldone 1998, 1988; Wagner 1996; Johnston 1972/1976) and, of course, Karl Marx himself (Steele 1992). What was it about the socio-ideological and political-historical environment of the late Hapsburg Empire and German Empires that brought about such a complex mixture of socialism, liberalism, and conservative politics? How did these currents shape the discourse that would allow for the rich cross-fertilization that is neoliberalism to occur?

To answer these questions it is necessary to examine more deeply into the late Hapsburg Empire at the time of the neo-Kantian, utilitarian, and positivist revolutions. Austria, at that time still largely dependent on the influence of German intellectuals, provided a unique political and cultural situation that allowed for new breakthroughs in scientific and social thought that would spawn the Austro-Marxists, the Austrian school, Freudian psychoanalysis, the Vienna Circle. This milieu would inspire similar, latter was stronger in Germany. Craver (1986:22-25) went so far as to posit that at least one third of the first quarter of the 20th century Viennese intelligentsia were Jews which only contributed to increasing frustration and anti-Semitism among ethnic Germans as the economy continued to decay; Hayek believed that Mises never received an official post due to the anti-Semitism of the time (Caldwell 2004; Craver 1986) though Craver believes that it may have been more on account of his personality.


Steele (1992:xv) constructs fascinating parallels in the lives of Marx and Mises, that both were Jewish economists who spoke German natively but lived the final 33 years of their lives in exile in the English speaking world, and had a growing circle of followers yet remained outside of mainstream economic thought at the time of their deaths. He also notes that both had a very aggressive writing style and had little patience or tolerance of their critics. While it is important to not read too much into these parallels in terms of substance, the roles that Marx and Mises both played as political economic revolutionaries with such similar biographical traits only gives further strength to the important and unique role played by Jewish intellectuals in the German speaking world in the 19th and 20th centuries.

Throughout the end of the 19th century and the early 20th century the stagnancy of the academies, largely due to the increasing conservatism of state educational bureaucracy, drove many of the intellectuals to form their own circles, regardless of their political or philosophical views, producing a diverse body of Fabian socialism, positivist philosophy, critical theory, psychoanalysis, and many, many other theories too many
hierarchical and anti-pluralist political practice in both the liberals and the socialists as well as shape their views of the state and classes and ultimately inform their responses to National Socialism and Bolshevism. Mises’ claim that he divorced his politics and his economic theory (1978) will also be challenged and, it will be asserted that the Austrian school has always had a history of political activity, but that Mises had to up his political efforts after the dramatic gains of democratic socialist movements in Germany, Austrian, and the Soviet Union. Mises, in his transition from non-Marxist socialist to vanguard of a new liberal praxis will prove to be a microcosm of the expanding political horizon of the neoliberals, setting the stage for the eventual Walter Lippmann Colloquium.

—Josephinist Bureaucracy, Neo-Kantianism, and the “State”—

After the final defeat of Napoleon in 1814 Europe enjoyed nearly a century of peace and tranquility, with most of its wars being internal struggles such as the unification of Germany, but the fervor of nationalism and republicanism unleashed by the Napoleonic wars still lingered. In accordance, many of the ancient regimes now faced internal, rather than external problems. Of these, the Hapsburg Empire was naturally no exception, and in his history of Austrian thought, Johnston explores how the policies of the Hapsburg dynasty were able to create a volatile balance of faith in natural order and human potential that would become a source for both conservatism and liberalism (Johnston 1972/1976: 17-18; 85-87). This trend would be passed on to both the Austro-

Marxists and the social democratic parties in Austria and Germany in their inflexible labor law that was too conservative\(^{59}\) in the eyes of many of their contemporary critics, particularly the bolshevists and the Austro-Marxist Adler (Smaldone 1998; Wagner 1996; Johnston 1972/1976; Bauer Adler [1933] 1978), as well as later scholars of Marxist history (Zoninsein 1990; Sweezy 1972).

The Hapsburg situation was unique in that their rulers had adopted models of enlightened absolutism from France and Prussia pre-1800, and that this expanded with an ever-increasing bureaucracy under Emperor Joseph II (Johnston 1972/1976:16) who continued and increased anticlerical and anti-Catholic policies, but displayed tolerance toward Jews.\(^{60}\) This form of expanded bureaucracy was coined “Josephism” and split into a conservative wing of administrators and a left wing of reformers who enacted a series of sweeping anti-Catholic religious, cultural, and philosophic initiatives; these two wings therefore converged in a cultural renaissance coupled with state repression, and were both dependent on the monarchy and the state (ibid.). This renaissance was short-lived, however, and the bourgeois—with the notable exception of the Jewish intellectuals—largely withdrew from politics into aestheticism, with the academic field of history being

\(^{59}\) It was not only the Marxists and socialists who saw the structure of the labor parties as detrimental and too rigid, but the neoliberals were critical of it as well, Hayek believing that National Socialism was a reactionary movement by the declining middle classes against the “labor aristocracy” of the industrial labor movement ([1944] :144). The fear of rigidity in the labor movement and how it could destroy the movement from within was not a new fear however, but had manifested earlier during Marx’s time from 1862-1870—before even the crystallization of the labor parties—wherein the non-Marxist and neo-Kantian socialist Friederich Albert Lange feared that Marxist socialist politics would favor the industrial proletariat over the rural proletariat and eventually breakdown the labor movement from within (Wiley 1978:91-95), fears that were realized during the collapse of social democracy in the 1930s and the rise of National Socialism.

\(^{60}\) C.f. n.56 pp. 59.
favored by the royal family in the academies, which only further led to intellectual stagnation dependent on apologism for the regime (ibid.).

Many of the Austrian school economists, unable to find advancement in the stagnant universities, settled as bureaucrat-aristocrats for the regime (Shulak and Unterköfler 2011; Johnston 1972/1976; Diamond 1988), suggesting, contrary to Mises’ personal claims otherwise (Mises 1978) that there was an interconnection of their economic philosophy and their political views. This is demonstrated in the important work of Menger on money (1892) wherein he posits that money is created by social processes throughout history rather than explicit political process, though nonetheless it is a *socially and politically sensitive* phenomenon and that, accordingly the state requires sound financial policies. For a time, Menger was a finance minister in the empire and was a known advocate of liberalism (Johnston 1972/1976:78). He was followed in the tradition of aristocrat-bureaucrat-economist by Böhm-Bawerk, Weiser, and Mises who all served as economic or financial ministers for the Hapsburg and later Austrian state in some capacity or another (Shulak and Unterköfler 2011; *Concise Encyclopedia of Economics* 2008; Diamond 1988; Mises 1978; Johnston 1972/1976).

The older Austrian school also had varying opinions on how much the state should intervene in the economy with Menger and Böhm-Bawerk traditionally being viewed as hostile to more interventionist states whereas Wieser, Mises, and Schumpeter were more supportive of the expanded role of the state (Johnston 1972/1976:87-88).
Schumpeter was an economist supportive of a “mixed” economy and thus in many ways closer to the position of Hilferding and the other Austro-Marxists, particularly his work on economic crises and imperialism (Michaelides, Milios, and Vouldis 2007; Bottomore and Goode 1978:35-36), making him a transitional figure in Austrian and socialist economics. Johnston (1972/1976) describes him as an apologist for the regime whereas Wieser was supportive of the regime as a cameralist and thus only in a broad sense opposed to the more narrow nationalism of Schumpeter (81-82). Mises would eventually confront Wieser on both political and economic-theoretic grounds, professing a species of the Austrian school that was closer to Manchester-style liberalism of Smith and Mill (Stimson and Milgate 2008; Izzo and Izzo 1997), that would lead to schisms within the Austrian school, with Mises’ having a very derogatory view of Wieser,

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61 The exact position of Schumpeter within the mode of Austrian economics is highly disputed and he is not included in the typical Austrian pantheon of Menger, Böhm-Bawerk, Mises, and Wieser. He was a collaborator of Bauer (Johnston 1972/1976:84) and Mises claims (1978:35-37) that neither Schumpeter nor Wieser were truly part of the Austrian school because the true strength of the Austrian school was its subjective understanding of economic action rather than equilibrium tendencies. One of the major trends in the Austrian tradition hails from the Menger—Böhm-Bawerk-Mises line, which sometimes adds Hayek to that tradition. This tension of Wieser and Mises was more pronounced than the tensions of Wieser and Böhm-Bawek with each other there is a division within the Austrian school which favors a modified general equilibrium model through Wieser and Hayek, though Hayek was also a student of Mises (Caldwell 2004; Bostaph 2003; Salerno 2002; Ekelund 1986) which became “neoclassical” vs. those who followed Mises and saw economics as a process of heterogenous capital and continuous disequilibrium (Kirzner 1988; Lavoie 1985). A notable exception to the view of Wieser as supporting a general equilibrium model is Caldwell (2004:n143) who is explicitly against Salerno.

For more on the “subjectivism” of the Austrian school c.f. n. 14 p.14; for more on the Austrian school as “neoclassical” debate c.f. n 10 p.13.

62 C.f. n.6, p. 10.
disparaging him as more from the Lausanne school of economics than a true member of
the Austrian school (Mises 1978:35-37).  

The economic-theoretic views of the Austrian school and how these intervened to
shape their politics can be made more clear by placing them within the greater
philosophical and political contexts of their time, particularly the revival of Aristotelian
and Kantian philosophy within the latter half of the 19th century (Köhnke 1991; Wiley
1978). Here, Mises’ neo-Kantianism (Zelmanovitz 2011; White 2003; Steel 1992;
Diamond 1988) is the key to his understanding of the state and politics, which in turn
clarifies Mises’ position as evoking a new generation in the Austrian school as well as
the entire neoliberal turn wherein Mises’ movement from neo-Kantian statist to champion
of laissez-faire liberal to reluctant architect of expanded governmental and social
preservation of the “good society” through economic policies and intervention is a
microcosm of neoliberalism itself.

In his historiography of the emergence of neo-Kantian thought, Köhnke (1991)
gives a quite detailed account of how it was a reaction to a multiplicity of political, social,
and economic changes in the Germanic world, particularly the emergence of the German

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63 Mises actually began his academic career studying law because he was not interested in political history
initially (1978:1-2) and converted to (capitalist) economics in 1903 upon reading Menger’s Principles of
Economics (1978:33) and would go on to state that Wieser never really understood subjectivism which was
the strength of the Austrian tradition.

64 While Mises connected the older Austrian of Menger and Böhm-Bawer to the tradition of Mills, he
recognized that they also erred in that they kept economics as too narrow of a field of science wherein he
argued that economics must be a holistic field of research (Mises 1978:55). This trend of a holistic
theoretical program based on subjectivity or psychology actually was an inheritance of the neo-Kantian
development (Köhnke 1991; Wiley 1978), which was hostile to positivism/empiricism/materialism
believing that they attributed to determinism against human freedom.

65 C.f. n. 6 p.10.
Empire, which created a sense of German identity and uniqueness contra the rest of the Western world, as well as tensions within the Hapsburg Empire and Switzerland as they resisted the pan-German pull of Prussia. While largely a Prussian-German movement in its early stages, the influence of German philosophy, particularly its political implications, propagated greatly throughout the German-speaking world with the Hapsburgs borrowing German academic models and institutions and there was much convergence of the Josephinist enlightened despotic state model (Johnston 1972/1976) and the authoritarian national-liberal bureaucracy under Bismarck (Köhne, op. cit.). The neo-Kantian movement had great involvement in the early positivist and empiricist movements which gave rise to “value-free” sciences (ibid.; Wiley 1978) as well as varieties of neo-idealism which sought to objectivize morality within the state (Köhne, op. cit.).

In a wider sense neo-Kantianism was thus complementary to the Josephinist state in that it contributed to both liberal as well as socialist politics with the liberals trying to “rescue rational and moral man from the impending shipwreck of classical liberalism” (Wiley 1987: 9-10) whilst socialists sought movement away from revolution to socialist parliamentarianism, which would later be inscribed within the Austrian social democratic movement, itself the ancestor of the Austro-Marxist political program, especially its

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66 One of these new “value-free” sciences were actually marginal economics including the subjective emphasis of Menger’s “essentialism”, though Aristotelian, was convergent with several “psychological” species of neo-Kantianism wherein understanding the human mind and experience was seen as opening up eternal or essential truths of human nature (Köhne 1991; Wiley 1978), and Wieser explicitly transformed Menger into this vein (White 2003). Thus, Menger—though he was certainly active politically as tutor to the crown prince—seemed to have had a more concerted disconnect of his economic methodology from his politics than subsequent generations of Mises and Böhm-Bawerk who defended the school (Shulak and Unterköfler 2011; Mises 1978) and Wieser, who worked institutional economics into the Austrian program (Ekelund 1986).
appropriation of a “Kantian” Marx. At the same time as power was being concentrated in the Germanic bureaucratic empires at the expense of local barons and the churches there was also a growing disparity economically and growing national and ethnic tensions which led to various political and economic crises throughout the 19th and early 20th centuries (Köhnke, ibid.). The neo-Kantian intellectuals and the bourgeoisie took a reactionary stance to these problems, adopting an anti-democratic liberal position (Wiley, op. cit.) that was supportive of the status quo and pretenses by the Germanic regimes at constitutional parliamentarian monarchism that eventually ended with political conformism or pessimistic apathy by the bourgeoisie (Köhnke 1991; Wiley 1978; Johnston 1972/1976).

This political and social tension of non-democratic, non-pluralist liberalism describes the political practices of both the Austrian school as well as the Austrian social democratic movement, which both contributed to neoliberalism and Austro-Marxism, with the former having have been described as anti-pluralist and authoritarian liberals (Harvey 2005; Martinez and Garcia 2000; Megay 1970). Johnston (1972/1976: 85-87) traces this same dissidence of the Josephinist state in the political practices of the Austrian school who saw themselves and their work as impartial and value-neutral and saw themselves as above class interests in their service to the state. Much of this was also due to the liberal humanism of the time largely empowered by neo-Kantian philosophy

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67 The attacks on the Austrian school as taking no interest in social or political responsibility were actually addressed very early on in the work of Böhm-Bawerk (Shulak and Unterköfler 2011) who—along with Wieser— was one of the first students of Menger and one of the early propagators of the “Austrian” school and took it upon himself to defend it.
that rationalism would eventually prevail (Johnston, op. cit.). The epitome of this was perhaps in the personal philosophy of Menger who Mises quotes: “There is only one sure method for the final victory of a scientific idea, namely by letting every contrary position run a free and full course” (1978:38).

This attitude would inform a political-intellectual almost-“laissez-faire” with Mises’ belief in the eventual triumph of his economic and political philosophy:

Society, i.e. the peaceful cooperation of men under the principle of the division of labor, can exist and work only if it adopts policies that economic analyses [Mises’ analyses] declare as fit for attaining the ends sought. The worst illusion of our age is the superstitious confidence placed in panaceas which—as the economists [Mises] have irrefutably demonstrated—are contrary to purpose.

Governments, political parties, pressure groups, and the bureaucrats of the educational hierarchy think they can avoid the inevitable consequences of unsuitable measures by boycotting and silencing the independent economists. But truth persists and works, even if nobody is there to utter it (Mises 1969:45).

This sense of correctness of the market capitalist system was not unique to Mises, but was propagated by many of his friends, acquaintances and students, many who later became fellow-travelers of neoliberalism (Mises 1978:105), though they all had varying senses of inevitability and urgency. The “crusader” feeling of the later works of the neoliberals, (Mises 1978, 1969, [1929] 1977, [1920] 1990; Lippmann [2005]1937; Röpke [1960] 1998/1990, [1942] 2009; Hayek 1988, [1944] 2007) what Foucault referred to as the “regime of truth” based in the market itself (1994:31-33) was instilled only when they had encountered the collapse of the Germanic national liberal aristocracy within the context of the decline of “liberal” in the West and the rise of totalitarianism. This “regime of truth” would later impel Mises and many of the liberals—albeit grudgingly—away
from their negative relationship to state politics, i.e. their traditional limitation of the state, to a conjunction of political economic practices designed to reinforce the state and society in the name of the market.

—The Priority of Pragmatic Politics: the Austro-Marxists and the “State”—

The mutually reinforcing nexus of neo-Kantianism as well as Josephinism had a great impact within the socialist and workers movement as well: the Austrian Social Democratic Workers Party under Viktor Adler was known for its elitism and for supporting the emperor Franz Josef (Johnston 1972/1976:101), traits they passed to their descendants the Austro-Marxists who have been criticized for their authoritarian-bureaucratic model of a party (Smaldone 1998; Wagner 1996). Critics of the Austro-Marxists claimed that they had more interest in retaining the “labor aristocracy” it had established for its members then initiating revolutionary action (Coakley 2000; Smaldone 1998: 36, 57, 81; Adler [1933] 1978), Trotsky harshly condemning that Hilferding “remained a literary official in the service of the German party—and nothing more” and that his character was “furthest from that of a revolutionary” (Smaldone 1998:57). Ironically, Hilferding, who actually had worked together with Trotsky and knew him personally, was also frustrated with the trend toward bureaucratic careerism rather than social activism latent within the Austrian and later German social democratic movements himself.
When Hilferding transferred from the more radical paper the *Die Neue Zeit*\(^{68}\) to the better-paying but less radical *Der Vorwärts* paper he complained about bureaucratic careerism within the movement rather than true commitment to political action (Wager 1996:60-62). Hilferding would later echo these complaints after the Social Democratic party took power in Germany after World War I, fearing that party bureaucracy would which only slowed its own revolutionary program by reducing its commitment to social democracy in favor of stability (Wagner 1996:120-130). Hilferding was even denounced later by his fellow Austro-Marxist Adler ([1933] 1978) as a revisionist for the very same criticisms he heaped upon others! As such, even within the social democratic movement there are varying degrees of commitment to “revolutionary” politics, with the Bolshevists claiming to be the most extreme who criticized the Austro-Marxists who criticized Hilferding and the Social Democratic Party leadership who in turn criticized other party bureaucrats and eventually even the working class itself for abandoning the movement (Smaldone 1998; Wagner 1996; Adler [1933] 1978).

It is clear that the scope of political action employed by the Austro-Marxists and their Social Democratic party was wider than either the revolutionary politics of the bolshevists or the orthodox Marxists under Kautsky as they tried to wrestle with both parliamentary democracy and socialism. While critics have denounced the position of the

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\(^{68}\) Much of Trostsky’s dissatisfaction with Hilferding may have been personal, however, rather than the stinging criticisms of Lenin which were more academic (*c.f.* n. 18 p.18). In his biography of Hilferding, Wager (1996:60-62) explains how Hilferding worked together with Trotsky and helped publish his and other Russian socialists in exile’s articles when he worked at the socialist paper *Die Neue Zeit*. However, Hilferding later decided to join the less radical but better paying paper *Der Vorwärts* after his marriage (Smaldone 1998; Wager 1996), angering Trotsky who viewed him as abandoning socialism for his career and monetary stability.

Of all the Austro-Marxists, Renner and Bauer were those most interested in questions concerning the state, though they both emphasized different aspects of the state and class power, both following Adler’s line of thought that the state was not reducible to classes and to economic interest and that political, economic, and social revolution could be distinguishable from each other. Renner explored constitutional and legal aspects within a Marxist framework which emphasized law as the proper activity of the state which would bring the state closer into contact with the economy (Bottomore and Goode 1978:26-29), whereas Bauer focused on the nation state within Marxist sociology as a historical phenomenon (ibid. :30-32). The views of the “nation” as a historic entity that was somehow above the interests of particular classes as well as the state as “rule of law were not too disparate from the neo-Kantian milieu of the time (Köhnke 1991) and facilitated the general Austro-Marxist view of the state à la Bauer: that within parliamentary democracy the capitalist class rules but does not govern, i.e. that it rules only the economy whereas the state is ruled by parties which then must fight amongst each other (Botz 1976).

The Austro-Marxists were therefore able to take Grünberg’s distaste for bureaucracy and dogmatism (21st Century Schools; Wagner 1996; Held 1980) and synthesize it within the neo-Kantian and Josephinist-liberal milieu to produce a commitment to pragmatic politics, worker party unity, “slow” revolution, and parliamentarianism. This view of “pragmatism” is an effective definition for both the political and philosophical arcs of the Austro-Marxist movement, which saw itself as “central” Marxism along the axis of reformism and revolution, though it worked with both (Goodrich 2009; Smaldone 1998, 1988), as well as when entering power Hilferding as finance minister would often take economic stances unappealing to other socialists in order to gain parliamentary support and to hold off fascist and reactionary advances (Smaldone 1998, 1988; Wager 1996; Gourevitch 1984; Gates 1974). Finally, the Austro-Marxists would do everything possible to hold together the work class movement (Goodrich 2009; Leser 1979; Bauer [1927] 1978), to such extent that Bauer believed that Austro-Marxism was the unity of the working class movement first and foremost (Bauer [1927] 1938).70 It is within this context that Hilferding must be seen as a politician first and theorist second (Smaldone 1998; Wagner 1996) and claims his place as Günberg’s

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70 Bauer also attributed the unity of the working class in Austria due to its unique national position as a weak country that was largely dependent on other nations, though Bauer believed that the Austrian Social Democratic Party was relatively immune from various dictatorial movements that would serve to split the working class (Bauer [1927] 1978), and Smaldone agrees that the socialist party in Austria was more unified because its working class was more unified (Smaldone 1998:17). A great irony of history is that Bauer had nationally supported the First World War, contra Hilferding and some of the other Austro-Marxists and joined in support of the government rather than risk the breakdown of the party, which effectively broke down the international worker movement and allowed for the rise of both fascism as well as Bolshevism. Thus in a very real sense it was Bauer’s own understanding of the role of the nation state and class that allowed for the very breakdown of the working class and the state which he believed himself to be championing.

The idea of the weakness of Austria is also discussed by Mises (1978:84-86) wherein Austria would often feign weakness to court the economic favor of the Allies (France, the United States, England) while at the same time trying to take advantage of these policies through protectionist policies.
heir-apparent when in *Finance Capital* he argues that Marxism has not made as significant contribution to pure economics because Marxists have not had enough time due to their priority of political commitments (Hilferding [1910] 1981).

Purportedly following a line of descent from Engels, the Austro-Marxists argued that the state\(^{71}\) would become totally neutral to class divisions after a balance of class power, which they believed had occurred after the First World War (Leser 1976) and they focused much of their efforts on trying to education and the masses and establish a working class consciousness to that end in their effort to organize for the revolution rather than organize the revolution (Smaldone 1998). Hilferding was actually brought from Germany to Austria to work under Kautsky and the German Social Democratic Party as an educator for the party school before he eventually became an editor for the party newspaper\(^{72}\) (Smaldone 1998; Wagner 1996). Hilferding’s first major political contribution was his work on the general strike wherein he sought to incorporate the general strike not as an extra-parliamentary tactic but as part of the socialist political parliamentary repertoire derived from the position of the working class in society. The strike should be used to uphold and protect the suffrage of the workers and the legality of the worker movement itself (Smaldone 1998: 25-26; Wagner 1996:53).

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\(^{71}\) The Austro-Marxist view of the state was a total divergence of the Marxist model which sees the state as only an instrument of class oppression and that it would no longer be required in a true communist society, wherein society itself would directly rule without need of classes or any other instruments of political administration. C.f. n37 p.38.

\(^{72}\) The Austro-Marxists played a critical role in the German Social Democratic Party, and Hilferding was crucial for the internal balance of power of the revisionists under Bernstein, the more orthodox camp under Kautsky, and the more revolutionary branch under Luxembourg. Despite his aloof manner, Hilferding was known as a talented public speaker and gifted intellectual and often served as a moderating influence among the various disparate parties through his commitment to pragmatic politics and parliamentarianism and his intellectual flexibility (Smaldone 1998; Wagner 1996).
Hilferding’s advocacy of the general strike was complementary to the Austro-Marxist view of parliamentary democracy, for while the capitalist classes govern but do not necessarily rule, the parliament was still an overall reflection of the capitalist structure itself (Wagner 1996:52). Hilferding recognized that parliamentary democracy had the potential to achieve parity of all class and social democracy, but did not guarantee this and that there was a growing paradox in Austria and Germany wherein there was both concentration of state and economic power as well as parliamentarianism which meant that whichever class or political party ruled had increased power (Hilferding 1905). Thus, it was possible for Social Democracy to be growing in numbers but actually be losing power based on coalitions of liberal or reactionary anti-proletarian parties and Hilferding consequently declared that the general strike must be used based on the political context specifically and that while it should always be used to retain the gains made by the worker movement, its exact use depended on the exact social context of the country. Due to the differing composition of political and class interests in Austria and Germany, there could be no single catch-all usage for the general strike (ibid.).

Hilferding’s position on the general strike was in effect a political compromise within and without the Social Democracy movement and demonstrates his commitment to socialist democracy as the voice of parliamentary politics on behalf of the international workers’ movement in addition to his view for pragmatic politics. Hilferding did not believe that the labor unions were acting as a cartel for labor as a commodity and that the labor movement could enter into the parliament and transform bourgeois parliamentarianism into social democratic parliamentarianism (James 1981). Within the
Social Democracy movement there was unease concerning the strike with revisionists fearing that overuse of the strike would break down any attempts at coalition-building, with the orthodox fearing that the usage of the general strike at the wrong time or too often would endanger the gradual transition from liberal capitalism to social democracy and thus should only be a defensive tactic, and the bolshevists and radicals who were willing to use the strike as a means of breaking down the capitalist social order to ignite the revolution (Smaldone 1998; Wagner 1996).

The themes of commitment to working class unity, social democratic parliamentarianism, the balance of class forces, gradualist economic and social revolution, and willingness to compromise would comprise the hallmark of Austro-Marxist politics and Hilferding’s role as a Social Democratic politician and in his multiple tenures as finance minister. Hilferding’s work on the general strike (1905) would be fully compatible with his work *Finance Capital* ([1910] 1981; Wagner 1996) wherein he wanted to extend Marxist economic analysis but was unwilling to develop it within an explicitly national context (Daly 2004)\(^7\). His adoption of marginalist, non-Marxists economics would actually converge with several of the “orthodox” economic policies of his time and would lead the Social Democratic party in several failed coalitions that tried to shore up failing democracy in Germany and Austria (Smaldone

\(^7\) One remarkable thing about Hilferding was his commitment to the international nature of the social democratic movement and that he extended Bauer’s belief in the unity of the working class movement above all else and applied this internationally. Hilferding in this was actually closer to Trotsky (Smaldone 1998:14) then to either Bauer or Lenin, who both advocated more of the state-socialist model, though Bauer had stronger nationalist tinges to it. Hilferding believed that imperialism and economic nationalism were directly disadvantageous to the working class and favored having better relations with the rest of Europe than banking on the success of the Soviet revolution spreading to other nations (James 1981). This view was consonant with the “slow revolution” of the Austro-Marxists and Kautsky.
1998; Wagner 1996; Breitman 1976) and he favored deflationary or at least anti-inflationary economic policies as well as supporting the gold standard\(^7\) (Darity and Horn 1985; Gourevitch 1984; Gates 1974).

Gates (1974) stresses that Austro-Marxism and its complicity with state power vis-à-vis Bauer’s view of the state and their “liberal” neo-Kantian Marxist social democratic parliamentarianism gave them an ambiguous relationship to state power, a position which would make “socialism” increasingly commonplace within the German environment. Mises would later lament that by 1900 most people in the German-speaking world were accepting of statist or interventionist policies and that Marxists styled themselves as democratic socialists whilst they actually promoted a program of compulsory “dictatorship of the proletariat” (Mises 1978).\(^7\) Mises also noted how socialism was not a homogenous group to begin with and that there were disputes of the “socialists of the chair” or the imperialist statist socialists and the social democrats throughout the latter quarter of the 19\(^{th}\) century as well, and that many of the National Socialists actually began as anti-Marxist socialists (Mises [1920] 1990:73-76, 107).

The most devastating effect of the First World War was the breakup of the working class (Bottomore and Goode 1978) and the consequent fragmentation of working class politics into Christian centrist socialism, National Socialism, democratic

\(^7\) Hilferding was expressly against the demand-stimulus models which were becoming more popular in Europe and the United States at the time as well as the United States’ abandonment of the gold standard (Gourevitch 1984). This actually brought Hilferding very close to the eventual neoliberals (Röpke 1937, 1933; Hayek 1932b, 1932c, 1931a) who supported sound monetary policy, particularly the gold standard and were very suspicious of doctrines of “forced savings” or increasing government expenditures, both which would impact the value of money and credit and subsequently the entire business cycle.

\(^7\) Marxists have argued that the term “dictatorship” of the proletariat gives an unfortunate sense of the term and that what is truly intended is that the elevation of the proletariat and the dissolution of classes in Marx’s writing implies an egalitarian democracy, even if through a violent revolution. C.f. n.37, pg. 38.
socialism, communism, and Bolshevism (Smaldone 1998; Wagner 1996; Bottomore and Goode 1978). Hayek, in his polemical *The Road to Serfdom* (2007 [1944]) makes the case that socialism is better at breaking down the old liberal order than defending against fascism and that the latter succeeded because all of the other species of socialism had become the norm (146). In a very real sense it was the simultaneous success and proliferation\(^{76}\) of the socialist movement and its readjustment for democratic politics (Mises 1978) which set up its own defeat: the working movement was simply too fragmented while the parties themselves were too embedded in the state as well as too structurally rigid to react in a timely manner to the National Socialist threat (Smaldone 1998; Gates 1974). Thus, the Austro-Marxists and the social democratic party were in a difficult relationship with state power with a party who’s from was too rigid to enact its own policies internally and externally strained by the need for compromise and pragmatism given the difficult situation of Germany at the time.

It is only with the ideological context of the fragmentation of the working movement internationally due to nationalism and ethnic politics during the first quarter of the 20\(^{th}\) century that the relationship of Austro-Marxism, social democracy, the Austrian school, liberalism, and neoclassical economics becomes clear. The neo-Kantian ideals of

\(^{76}\) Both Mises (1978, [1920] 1990) and Röpke (1935) concede that it was the success of the socialist movement which inadvertently allowed for the triumph of National Socialism wherein the social democrats became institutionalized in political power and were unable to keep up with the revolutionary demands on them. Röpke (1935) laments that the social democrats intellectually and ideologically prepared the way for fascism as well as structurally: the Nazis, who were out of power, were able to seize the revolutionary frustrations at the time and combine them with reactionary forces in their conquest of power. Here it must be cautioned that the liberals, largely under the influence, saw the world in the dichotomy of liberal free market capitalism or totalitarian socialism and thus that all “socialist” movements inevitably lead to totalitarianism whilst Smaldone (19980), Wagner (1996), Köhnke (1991), and Bottomore and Goode (1978) point out that this deterministic view of history is not only unfair to the social democrats and the Austro-Marxists, but ultimately a biased form of historiography.
value-neutral sciences as well as a state that was the epitome of ethics in the society and
thus was necessarily above politics and political colonization of the state by disparate
interest groups: the non-interventionist politics of the Austrian school as well as the
efforts of the Austro-Marxists to establish a working class political consciousness were
both due to their faith in human reason and natural order, which was personified in the
Josephinist state and pragmatic parliamentary politics.

—Against Bolshevism: Mises as a Politician Economist—

One of the most critical periods within history of economics in the 20th century is
the economic calculation debate, which is so rich and valuable because both “socialist”
and the Austrian-Mises’ sides of the debate have claimed victory for themselves
(Bockman 2011; Lavoie 1985), though Lavoie (1985) argues that this is due to both
sides’ misrepresenting each other’s ideas, thus leaving an unsatisfactory conclusion to the
debate. In her work on the socialist origins of neoclassical economics and consequently
of neoliberalism, Bockman (2011) posits that standard treatment of neoliberalism within
sociological of ideas and economic history has been to treatment the rise of neoliberals
from a dichotomous state/market axis, including the pivotal calculation debate. Bockman
(ibid.) notes that while neoliberalism may masquerade as embedded liberalism and
commitment to market fundamentalism, institutions such as the role of the state and fiscal
policy are always the objects of debate (8), which allows for some socialist regimes
seeking compatibility with neoclassical economics to seem almost neoliberal, especially
those pro-market socialists (9-11).

77 C.f. n. 38 p. 39, n.40 p.41, and n.42 p.43.
This view will largely follow in the space that Bockman has cleared: to the similarity of the political and philosophical positions of the Austrian economists, the Austro-Marxists, and democratic socialists in general we now add similarity in economic-theoretic view. The Austrian school proto-neoliberals\textsuperscript{78} Röpke, Hayek, Lippmann and Mises along with the democratic socialists Hilferding, Tugan-Baranovsky, Neurath, Lange, and Polyani, and the position of Austrian economists Schumpeter and Wieser—who are outside the proper “old school” aristocratic liberal politics of the anti-interventionist later Austrian school—were all seeking alternatives to a purely Marxist or a purely Manchestrian political economy. It is not within the intended scope of this paper to address which is the “correct” interpretation of the economics calculation debate or evaluate any of the disparate movements and hypothesis within the debate, but rather to place the debate within its greater context. The threat of Bolshevist dictatorship of the proletariat and “war communism”, Mises’ selective liberal vision, and the differentiation of the Austrian school from neoclassical economics are all entangled within the wider context of the socialist calculation debates and the overall effort to rebuild liberal parliamentary political economy during the 1920s; Mises’ debates expose the tensions that would eventually permeate the neoliberal synthesis at the Colloquium (Izzo and Izzo 1997).

Even within the social democratic program, Bolshevism was considered to be radical and the Austro-Marxists, revisionists, and orthodox Kautskyists were greatly afraid that it would break down working class attempts at unity by trying to force a

\textsuperscript{78} C.f. n. 2 p.4.
revolution (Smaldone 1998; Wagner 1996; Bottomore and Goode 1978; Bauer [1936] 1978). Kautsky, Hilferding, and others who took an evolutionary view saw that the transition to socialism from capitalism was already in progress and inevitable and thus that a revolutionary was unnecessary and might even delay progress whereas the revisionists such as Bernstein feared that it would jeopardize potential for working class and bourgeois party alliances (Smaldone 1998; Wagner 1996; Steele 1992). The Austro-Marxists largely agreed with Bauer that Bolshevism would attempt to re-establish a new dictatorship centered on the proletariat instead of the bourgeois and that this would destroy parliamentary democracy as well as attempts at socialism (Bauer [1936] 1978; James 1981; Bottomore and Goode 1978; Botz 1976; Leser 1976).

The division was so extreme that Leser (1976) claims that: “[t]he confrontation with bolshevism was thus no longer an exercise in Marxian interpretations, but a matter of immediate practical consequence” (139-140). A major point of division was the theoretical understanding of “imperialism” and “revolution”: Hilferding believed that the formation of the general cartel was gradually leading toward a single, unified economy in what he called “organized capitalism” (Smaldone 1998, Smaldone 1988; Wagner 1996; James 1981; Gates 1974) wherein there was increasing “concentration and bureaucratization in production, the organization of both labor and employers into interest groups, and by an activist state role in economic decisions” (Barkin 1975). While Hilferding ([1910] 1981) had originally believed that the hegemony of Finance Capital would facilitate the expansion of markets by stabilizing capital in the banks and allowing for easier expansion, but he had by the First World War amended his view and believed...
that the combination of the general bank cartel and parliamentary social democracy would prevent imperialism and conflict among the capitalist nations and prepare the way for socialism (James 1981).

Lenin’s opinion differed sharply from that of Hilferding and Bauer on imperialism and the role of finance capital, believing that finance capital was only a step toward the decay of capitalism and not toward possible stability and socialism (Wagner 1996; Lenin [1919] 2010). Lenin believed that it would break the social democratic movement into revolutionaries and reformists or opportunists and that the revolutionary movement required a conscious revolutionary party of intellectuals (Bottomore and Goode 1978: 33-35), which was contrary to the concerted efforts of Austro-Marxists to educate the working classes to facilitate the revolution à la Grünberg, rather than direct it themselves (Adler [1928] 1978; Smaldone 1998; Wagner 1996). The Austro-Marxists in general were also opposed to extra-parliamentary political tactics, particularly violent ones though it did support a policy of “defensive” violence though this was not clearly articulated and the confusion disarmed or disabled potential social democratic violent resistance of Nazi power (Bottomore and Goode 1978: 37-43). The practical and philosophy of politics and the economic theoretic disparity of the Austro-Marxists and the Bolsheviks eventually led to the total breakdown of the international socialist movement with the Austro-Marxists, German social democrats and Austrian social democrats separating from the Bolshevik program and the Communist International, leading to the formation of the “Second and a Half” International (Smaldone 1998; Wagner 1996).
The Austrian school of economics was also strongly involved in the anti-Bolshevist political, philosophical, and economic theoretic milieu in Austria and Germany, particularly under the neo-Kantian appropriation of Böhm-Bawerk and Menger under Mises, who studied at university with Bauer and participated with him in the famous Böhm-Bawerk seminar (Craver 1986; Mises 1978). Mises glowingly appraised Bauer, believing that he was one of the strongest thinkers at the seminar (Mises 1978:39-40), believing that Bauer had abandoned the theory of value after Böhm-Bawerk convinced him that it was no longer tenable, in marked contrast to Hilferding who had attempted to salvage the theory. Mises and Bauer would keep in contact throughout Mises’ tenure at the Vienna chamber of commerce from 1909 to 1938 wherein Mises claims that he waged a long and lonely struggle against the socialist and interventionist policies at the time (Mises 1978).

Mises believed that his personal efforts forestalled several economic disasters through his concerted efforts against the inflationist policies commonplace at the time as

79 Mises’ recollects that Bauer later confided to him that Hilferding did not truly understand the problem with the labor theory of value as presented by Böhm-Bawerk (Mises 1978:39-40). At this point it is cautiously noted that Mises’ disparaging recollection of Hilferding may have had more to do with a clash of political views or personalities than intellectual views: both Hilferding and Mises’ were known for their aloof personalities and tendency for self-aggrandizement (in his memories Mises’ refers to himself as the leading economist of Austria and personally responsible for defeating Bolshevism by convincing Bauer to turn against it). While Bauer did later heavily criticize Hilferding as a revisionist after the collapse of democracy in Austria and Germany, owing much to Hilferding’s treatment on the periphery of contemporary Austro-Marxist scholarship (Wagner 1996) he was also strongly influenced by Hilferding and praised Finance Capital highly at the time it was written.

Wagner (1996) goes on to defend Hilferding’s understanding of the “problem” (of the value theory of labor) by explaining that he was drawing on wider and sociological issues in his anti-critique rather than staying within the more narrow scope of the marginalist critique of Marx, which as a student of Tugan-Baranovsky he was partially in agreement. Hilferding, under the influence of Grünberg and Adler, argued that the Austrian critique of Marx was incorrect because it was based on subjectivist economics rather than economics based in social exchange and consequently that a true economics needed to be based on social laws—Hilferding makes no attempt to argue that Böhm-Bawerk’s answer to the problem he poses is wrong, but is rather arguing that he is asking the wrong question and trying to solve the wrong problem in the first place.
well as striving to maintain a balanced budget, but lamented that the collapse would be inevitable (ibid). Mises described his political work as the “economist” of Austria from 1918 to 1934 as consisting of four components: the prevention of Bolshevism, halting inflation, avoiding a banking crisis, and preventing a German takeover by Germany (ibid. :77). Mises recalled that he would largely keep up a pragmatic politics and that he made several political and economic compromises hoping to save up support for when a really critical decision came along. In this, Mises’ position as a financial minister in Austria is nearly identical to the position held by Hilferding throughout several of the Weimar cabinets.

Indeed, the sole difference of the two thinkers appears to be Mises’ claim that he always kept his political and scientific work separate, believing that “in science, compromises are treason to truth” whilst politics was always an exercise in compromise and, by continuation, the nature of science is an individual endeavor while politics is a sphere of collective action (ibid.). While Mises’ downplays the penetration of his own political leanings in his memoirs and is known for his appropriation of neo-Kantianism in his spirit of “methodological individualism” (Craver 1986), by his own admission he was politically involved in the turn against Bolshevism and claims that it was his discussions with Bauer which helped convince him, and by extension the entire social democratic party in Austria, to move against bolshevist style socialism (Mises op. cit. 77). The extent to which Mises’ political views directly shaped his economic thinking is up for debate and largely dependent on how favorable his relationship is with the author: one of Mises’ contemporary Austrian school economists at the University of Vienna, the hand-picked
heir of Weiser, Hans Mayer believed that Mises was distorting the views of the Austrian school and that marginalist economics did not support his political liberalism (Craver 1986: 10-11).\textsuperscript{80}

In her history of the emigration of the Austrian economists, Craver (1986) explores another side of Mises wherein those who attended the intellectual society colloquially known as the Mises Circle in Vienna recalled that Mises tried to facilitate discussion on a wide topic of issues ranging from economics to methodology of the social and historical sciences, and that he permitted a wide range of economic and political viewpoints to be discussed, rather than dominate with his own liberal views. Mises was also an influential political force within the government, helping set up jobs or contracts for friends with governmental or business associations, even including a socialist finance a publication of Soviet planning (ibid. :19). There seems to be two historical Mises within the literature, one that suggest he was a personally obnoxious and uncompromising liberal who was often lost friends and students because of his unwillingness to compromise\textsuperscript{81} (Caldwell 2004). Perhaps some light may be shed on this by Mises’ interpretation of Menger, Böhm-Bawerk, and Wieser, particularly his belief that he was the heir of the Austrian school (Mises 1978), i.e. that Wieser did not truly understand

\textsuperscript{80} Craver (1986) also notes that Mayer was a jealous and somewhat petty man who was known to be hostile to other economists in his own department and even some of his students and that he had some rivalry with Mises and would persecute his students. Given Mises’ own difficult personality (Caldwell 2004; Craver 1986) which alienated him from many of his own students, as well as Mayer’s position as Wieser’s heir apparent, Mayer’s account of Mises is not the most objective.

\textsuperscript{81} His relationship will Hayek is especially problematic, Caldwell (2004) noting in his biography of Hayek that Mises was so overbearing that Hayek waited until his mentor was dead before he made the effort to distance himself from him (143-145).
Menger and had taken him on the wrong track, and that he was correcting some of the errors as to the naturalness of money in Menger and Böhm-Bawerk.

Mises saw himself as returning to the “subjective” and individual-focused economics of Menger and his use of “value free” neo-Kantian social science reveals a unique methodology of the Austrian school wherein both “subjective” and “objective” valuation systems are used. The method begins with and acknowledges the subjective preferences of individuals and then tries to analyze them through a “value free” method with the explicit goal of finding or supporting a particular normative schemata, at least in the cases of Wieser and Röpke (Ekelund 1986; O’Leary 1979). The subjective-objective-subjective process of the Austrian school is in a very real sense recursive: if one begins with an explicit emphasis on the subjective, then carries it through a value free process one ultimately will reproduce that initial normative preference, or at least a result compatible with that preference. As such the origins of the contemporary libertarianism (Craver 1986; Ekelund 1986) of the Austrian school as well as its openness to socialist interpretation are both explained by the entwinement of its economic-theoretic roots in addition to the political practices of its first few generations: Menger, Böhm-Bawerk, and

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82 An interesting line of further inquiry would be to examine the position of Wieser vs. Mises and its implications on the Austrians school within the neo-Kantian milieu. Köhnke (1991) and Wiley (1978) describe how several of the neo-Kantian variants were “psychological” and focused on the role of the mind of the individual rather than his nature in determining his actions and ethics whereas others placed more emphasis on apriorism relevant to the nature of man. While the influence of Wieser on the Austrian paradigm is demonstrated by the former’s emphasis on the role of information and how it shapes the entrepreneur (Ekelund 1986), something which would be incorporated by Mises and Hayek in the socialist calculation debates, a fruitful discussion might be to explore the various philosophical shifts in the Austrian tradition from the essentialism of Menger, the psychological neo-Kantianism of Wieser, and the formalist neo-Kantian apriorism of Mises.

83 C.f. n. 63 and 64 p.63 and n. 66 pp. 64.

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Mises were older, aristocratic liberals and produced results consonant with liberalism whilst Wieser, Schumpeter, and the Austro-Marxists were able to support socialism.

As such, while not a politician in the traditional sense as working toward legislation and gathering electoral support as were the Austro-Marxists, Mises’ followed in the long line of aristocratic-technocratic liberalism common to the Austrian school and perhaps it is more accurate to describe Mises as political rather than a politician per se. Mises was certainly involved as finance minister as the “economist” of Austria and was very connected in the intellectual, governmental, and business communities in Vienna if not holding a purely academic position.

It was in this capacity of a politician economist that Mises perhaps had his greatest impact, influencing the greater intellectual environs around himself even if he was not in a position of institutionalized intellectual authority. Mises was an active member in the German Association for Sociology and was friends with Weber\(^{84}\), though he disagreed with the group politically and was disappointed in its understanding of economics but through it he did encounter several individuals who would later become his fellow neoliberals and attend the Walter Lippmann Colloquium, namely Röpke and Rüstow (Mises 1978:105). Mises’ work was not only scholarly, however, but directly influenced the political views of others, including Alfred Müller-Armack who, along with

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\(^{84}\) Mises’ relationship with Weber itself was very complicated intellectually, though Mises had great respect for his friend and contemporary even if he totally disagreed with his political views. Weber, according to Mises, is great for his contribution to the destruction of historicism, wherein he was unique in that he criticized the school internally rather than from the outside (Mises [1929]1977:102-104), and while Weber ultimately fell to the depression of being unable to reconcile questions of human freedom and determinism and saw the decline of the situation in Europe to be inevitable, Mises himself was greatly influenced by Weber’s “vale free” methodology (Mises 1978). For more on Weber’s influence in the Mises Circle and the Viennese milieu see Diamond (1988) and Craver (1986) and for more on the contradiction of freedom and determinism within Kantian and neo-Kantian thought see Kohnke (1991) and Wiley (1978).
Röpke was an advisor to the German chancellor Ludwig Erhard, Jacquess Rueff the monetary advisor to Charles de Gaulle and later Italian president Luigi Einaudi (Rothbard 1988: 67).

Both Mises and Hilferding were finance ministers who supported parliamentary liberalism, were hostile to nationalism and militarism, especially of aggressive pan-Germanism, and were pragmatic, both agreeing to work with members whose ideas they did not agree with in order to keep their respective movements intact: Hilferding tried to work out compromises within the social democratic movement to keep the working class intact whilst Mises reached across the aisle to work with socialists and even some pro-sovietists in order to work out larger details on balanced fiscal policy. While the social democrats in Austria and Germany through Hilferding and the Austro-Marxists and the Austrian school led by Mises had sharp polemics of each other—e.g. when Mises believed that the politics of the Austrian Social Democratic Party itself largely contributed to class problems through their “economic terror” (1978:87-90)—but this did not prevent pragmatic politics, especially against the threat of nationalism, reactionary forces, and later totalitarianism. The unique nexus of Mises’ intellectual and political arguments were also successful in converting several Fabian socialists, Keynesian socialists, and progressives to the liberal market capitalist cause, respectively Hayek (Caldwell 2004), Röpke (Boarman 2000), and Lippmann (Lippmann [1937] 2005), despite Mises’ explicit hostility to those ideologies (1978: 150-152).

This demonstrating that Mises followed in the footsteps of the earlier Austrians under Böhm-Bawerk and Wieser who sought to integrate the Austrian school through
intellectual combat and struggle within the more traditional economic mainstream tradition but also without through battling against socialism, historicism and interventionism. Consequently, the purer and simplistic treatment of Mises as an uncompromising “libertarian” ideologically or pragmatically by either his supporters or his detractors is simply incorrect; Mises actually did much to contribute to the complex entwinement of liberalism and socialism of his time through political, economic-theoretic, as well as philosophical neo-Kantian apriorism and anti-historicism. This entwinement further clarifies the socialist calculation debate which has been pivotal in the formation of the Austrian school, market socialism, neoclassical economics, and later neoliberalism: wherein Mises’ reaction against soviet-style socialism and central planning is the mutual reinforcement of his political liberalism and his economic-theoretic views.

—Mises, Neoclassical Economics, and the Socialist Calculation Debate—

While there have several disparate interpretations and histories of the actual unfolding of the socialist calculation debate within the Western European milieu during the 1920s and 1930s with various sides alternatively claiming victory, there are several points of consensus: the socialist calculation debate shaped the Austrian school by allowing for Mises, Hayek, Robbins and others to realize the uniqueness of the Austrian tradition (Caldwell 2004; Bostaph 2003; Kirzner 1988; Lavoie 1985) and that Mises began the debate first by criticizing Neurath’s socialist model based on the war economy model he presented in his 1919 article (Bockman 2012; Becchio 2005; Bostaph 2003). In their histories of the socialist calculation debate, Becchio (2005), Bockman (2012, 2011),
and Steel (1992) present that there were a variety of “alternative” socialisms which were not necessarily centered around Marxism and that Neurath and Polanyi both were arguing for a “third way” toward socialism that was not the neo-Kantian reformation of Marxism with neoclassical economics under the Austro-Marxists, but was a combination of socialist principles with neoclassical economics. Neurath’s eventual model was a planned and an administrative economy centered on “calculation in kind” with the eventual goal of a totally “socialized” economy would no longer be required, whereas Polanyi believed in a market socialist model that would be centered around local, guild-style socialism (Becchio 2005).

Even Mises acknowledged the plurality of socialism ([1929]1977:73-75), distinguishing the difference of ètatism from social democracy wherein the latter was looking for egalitarianism income distribution versus the former was seeking to redistribute income along some state-centered system. Mises also differentiated Marxism from socialism (Mises [1929]1977:107), but Bockman (2011) and Steele (1992) both contend that Mises simplified socialism to social ownership of the means of production and that various market forms of socialism appeared which he did not properly address—a point made by Polanyi and Neurath in their defense of the possibility of socialist planning (Becchio 2005).

While Neurath was opposed to the soviet-style planning model because it did not have a mechanism on how to plan for the future, Mises, Bauer, and Kautsky all agreed that regardless of feasibility of economic planning to begin with, centering power into the state would only lead to oppression (Becchio 2005). Mises believed that economic
planning was impossible without individual ownership of the means of production (Steele 1992; Mises [1929] 1977, [1920] 1990) because only that would ensure that everyone was both producer and consumer and thus alleviate all forms of economic centered coercion (Becchio 2005) and building off the work of Menger and Böhm-Bawer (Menger 1892; Bohm-Bawerk [1896] 1949) argued that money was possible to allow for the economic system to reflect subjective value. Bauer and Kautsky, on the other hand, believed in moneyless economic calculation as the final goal of socialism but believed that this had to happen through an evolutionary process when the political and social conditions were right (Becchio 2005). Polanyi disagreed with Neurath’s top-down planning model as well as the concept of moneyless economy, believing that a socialist economy had to maximize production and maximize social rights in the sphere of distribution. His solution was thus a local, decentralized socialism rather than the free market without the state or the centrally administered economy (ibid.).

However, both Polanyi and Neurath believed in the usage of marginalist mathematical models of economic calculation for planning, the main difference of the two positions being that Polanyi believed that exchange was still necessary but that this did not have to be the free market and that the free market and the centrally administrative state both represented a false dichotomy. Furthermore, much of the debate of Mises and Polanyi and Neurath were their understanding of the science of “economics”: Neurath was influenced by the positivism of Mach against the essentialism (e.g. Aristotle and Kant) and the homo oeconomicus it provided for the Austrian school under Mises (ibid.). Polanyi’s entire thesis, which matured in his work the Great
*Transformation* ([1944] 2001) was that society had tried to protect itself from the free market running rampant under historic capitalism, which disconnected man from nature and split politics and economics into separate spheres, culminating in the First World War (Becchio 2005; Polanyi ibid.).

Neurath’s “solution” to the calculation problem and the nature of economics was to make economics part of a larger, positivist philosophy that had had all of its metaphysical components expunged, which he called sociology. He believed that Marx had demonstrated that there could be no longer a separation of history and economics, especially in Western Europe. Polanyi’s approach was a “substantivist” meaning of economics wherein he expanded on the British Economist and future proto-neoliberal Robbins’85 views of economic choices as the logic of rational actions that must be grounded on means and ends and the norms which guided decision-making and human behavior. Polanyi argued that either socialist-collectivist or liberal economics could sustain an equilibrium and saw himself as following in the footsteps of Menger who had consciously restricted formal economics to the modern (capitalist) exchange economy, thus separating the “science of economics” in Austrian tradition from economics *per se*. According to Polanyi, Menger’s own students had misunderstood the subtlety in Menger’s work because Menger himself did not realize its full significance (ibid.).

85 Robbins was a fellow-traveler of the Austrian school proto-neoliberals. An Englishman who had attended several of the lectures under the Austrian economists at Vienna and a participant in the various intellectual circles under Mises and Hayek and it was he who invited Hayek to the London School of Economics, largely to reinforce him in his battle with Keynes with whom he had a variety of politically and intellectual disagreements (Caldwell 2004; Craver 1986). Later, Robbins agreed with Hayek in support of Walter Lippmann and though he did not attend the Walter Lippmann Colloquium himself, some of his work is referred to (Izzo and Izzo 1997), though he was later a member of the Mont Pelèrin Society, the successor to the Walter Lippmann Colloquium, which has been largely hailed as the driving neoliberal institution (Mirowski and Plehwe 2009). For more on Robbins’ political praise of Lippmann *cf.* n.19, p. 18.
This narrative significantly differs from the “standard” view of the debate which has largely been that Neurath’s article on war economy and socialism along with the “success” of bolshevism in the Soviet Union prompted Mises’ response that socialization of the means of production, moneyless economy, and central planning were impossible due to the subjective, individual source of valuation and action and that private property and freedom of economic choice in a market were not only required normatively, but that economic calculation was totally impossible under socialism (Bockman 2011; Becchio 2005; Steele 1992; Kirzner 1988; Lavoie 1985). The critics of Mises’ position argued that he oversimplified privatization of the means of production as socialism, e.g. Polanyi and Neurath (Becchio 2005; Steele 1992), placed too much emphasis on the individual and the market over the needs of society, e.g. Polanyi, Neurath, the Austrian socialists, and the Austro-Marxists (Becchio 2005). Contemporary scholarship has given more weight to the alternative socialist market hybrid models of Polanyi, Neurath and others. Bockman (2011) and Steele (1992) have suggested that tools of neoclassical, marginal economic analysis could be used for effective government planning and intervention and that the work of neoclassical economists such as Barone86 from the Lusanne school and Wieser from the Austrian school itself made great strides toward neoclassical equilibrium theory.

86 The position of Barone within the whole tradition is somewhat tenuous, with Steele (1992) in particular contending that his work on general equilibrium models and analysis were made in the attempt to demonstrate that socialism was impossible, but that his methods have been misconstrued as trying to work out socialist planning. Barone, according to Steele, was trying to create a system of equations in order to solve an economic equilibrium in the Walrasian neoclassical variation but that his work was largely negative in that it was trying to demonstrate how an equilibrium could be disturbed and then to infer economic principles from that, i.e. that the equilibrium was not something that could be constructed, but something that could only be assumed for simplicity of economic modeling. The end result was that Barone demonstrated that perfect economic calculation is impossible in general and thus by continuation impossible under socialist models contingent upon general equilibria (Steele 1992: 82-83).
directly or indirectly contributing to the possibility of socialist calculation and therefore planning.

Hayek and Robbins then redefined the Misesian position to alternatively clarify that socialism was not impossible, but only incredibly difficult and likely impossible (Bockman 2011; Becchio 2005; Steele 1992; Kirzner 1988; Lavoie 1985), though Austrians have more recently declared that there was no “retreat” on the part of Mises and Hayek, only that the Austrians were clarifying their own position, having not been fully aware of how divergent they truly were from the remainder of mainstream neoclassical economics (Caldwell 2004; Kirzner 1988; Lavoie 1985). Regardless of how one interprets the “winner” or the “loser” of the debates, it is clear that there were a variety of socialist and liberal interpretations that all interacted with marginalist economics to varying degrees and Steele (1992) presents the case that Mises, Weber, and Brutzkus all stated the economic calculation problem dependent of each other and gives credibility to the view that extra-economic-theoretic views such as political and philosophical stances were a major determining factor to the development of neoclassical economics, socialist economics, the Austrian school and neoliberalism. The work of Bockman (2011) and Becchio (2005) suggest that these extra-economic-theoretic factors played a significant role, especially the questions of institutions, the limits of knowledge, and the question of human nature, themes discussed by Wieser, Mises, and Hayek (Ekelund 1986), which are still important within the Austrian school to this day (Boettke 2008).
These external pressures were so great that they would eventually force a split within marginalist economics, differentiating Mises’ Austrianism from that of other marginalist economics, including social democrats and Austro-Marxists. Due to his politics, Mises would abandon any form of intervention that he saw as compromising the liberal system which was explicitly a defense of the private property system\textsuperscript{87} (Mises 1929), establishing a dichotomy of socialism or capitalism, which has been historically dominant in the discourse (Bockman 2011). Hayek (1988, [1944] 2007) and to a lesser extent Röpke ([1960]1998/1990, [1942] 2009) and Rüstow ([1950] 1980) though the latter two had a more favorable opinion of “intervention” and would seek to use neoclassical economics and Austrian theory to find tools that allow the market, economy, and society to mutually reinforce each other (Foucault 1994; Gerber 1994; Friedrich 1955). Rüstow, Röpke, and Hayek would also not separate from neoclassical economics, unlike Mises who rejected neoclassical economics and general equilibrium model which could be used by socialists (Bockman 2011).

The reality of the collapsing economic and political situation in Western Europe combined with the mixing of neoclassical, marginalist economics and socialism served to strengthen the pre-neoliberals’ sense that that liberalism itself had become obsolete and that the very survival of the West was at stake. The German-speaking countries after the collapse of their imperial bureaucratic states and economic and military power were particularly plagued and the working class within these countries split into national socialists, Christian socialists, democratic socialists, Marxists and bolshevists, which only

\textsuperscript{87} C.f. 22 p.22.
increased the confusion of the situation. At the same time, there were multiple calls for a “third” option to either socialism or liberalism with the Austro-Marxists and social democrats alternatively trying to establish a state-centered parliamentary socialism, a socialist party dictatorship, or a market socialist system. Among the proto-neoliberals Röpke, Rüstow, Eucken and other “ordoliberals” sought for a way to reconstruct an “ordered” liberalism that would try to construct society and the market to reinforce each other and the liberal political system (Zmirak 2001; Foucault 1994; Gerber 1994; Friedrich 1955).

The proto-neoliberals would take in socialist critiques of Austrian economics, neoclassical economics, and historical liberalism in various ways: Mises and Hayek would largely rise to defend the property system and the liberal political order, while Rüstow, Röpke, Lippmann, Eucken and others would incorporate Polanyi and Neurath’s view of the embeddedness of the economic order within a greater social and political context and Lippmann even wondered if the whole “liberal” project had to be abandoned in order to secure the civilizational gains that had been made (Lippmann [1937]2005; Izzo and Izzo 1997). The tension within the neoliberal cadre on questions as to the nature of “liberalism” are thus explained by the complex synthesis of liberalism and socialism contemporary to the collapse of liberal democracy within central Europe in the 1920s and late 1930s.

The pre-neoliberals “road to Damascus” had its ultimate form in the rise of National Socialism which broke down and transformed socialist proletarian energy into a totalitarian state as well as national and military power that was the total antithesis of the
pragmatic and gradualist politics of both the liberals and the social democrats in Germany and Austria. Röpke fled Germany on the eve of Hitler’s rise to the Chancellorship, the Gestapo right on his heels Zmirak, joining the already-exiled Rüstow in Turkey before landing in Switzerland (2001). Mises, a Jew, fled to Switzerland and fearing an invasion eventually fled to the United States (Steel 1992; Craver 1986; Mises 1978); Hayek, who was at this time at the London School of Economics, wisely decided not to return to the continent (Craver 1986). Bauer, Hilferding, and the other Austro-Marxists scattered, Hilferding eventually settling in France where the Gestapo found him and he died in their captivity in 1938 (Smaldone 1998; Wagner 1996; Smaldone 1988).

The pre- and proto-neoliberals struggle with and against each other was personal and intellectual, political and philosophical. These complex political and economic discusses prompted Lippmann to write the *Good Society*, the masterpiece of political economy that would crystallize the shift from state/market questions to society/market questions within the neoliberal program at the Walter Lippmann Colloquium in Paris 1938, the birthplace of the term “neoliberal”.
III. AN AMERICAN IN PARIS: LIPPMANN, NEOLIBERALISM, AND THE GOOD SOCIETY

[1929-1938]

“What we are attempting is not to revive a theory but to discover the ideas which will allow the impulse toward freed and civilization to triumph over all the obstacles due to human nature, to historic circumstances, to the conditions of life on this earth.” – Walter Lippmann

“There is nothing in the basic principles of liberalism to make it a stationary creed; there are no hard-and-fast rules fixed once and for all […] Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez-faire.” — F. A. Hayek

“The attitude of the liberal toward society is like that of the gardener who tends a plan and, in order to create the conditions most favorable to its growth, must know as much as possible about its structure and the way it functions.” – F. A. Hayek

Walter Lippmann is one of the most enigmatic intellectuals in American history, his depth, clarity, and breadth of his thinking make him one of the most accessible of modern political philosophers, and he was criticized for simplifying too much in order to gain the attention of the public audience as he expounded on issues ranging from the intersection of journalism and politics to Cold War foreign policy to economics. Lippmann’s affair with political economy and political economic intellectual activism was only a transitional, if important, part of the maturation of his thinking: while Lippmann rubbed with both Hayek and Keynes personally (Riccio 1994; Steel 1980) and
was a great student of the Austrian school (Riccio 1994; Lippmann [1937] 2005) after the *Good Society* and the Walter Lippmann Colloquium the importance of political economy in his work diminished, as well as his involvement with neoliberalism. At this point, Lippmann seemed to convert to the general political economic embrasure of Keynesianism by liberalism (Riccio 1994) that provided mechanisms for capitalism to be refine through measures of control, rather than altogether abandoned, definitely appealing to Lippmann’s criticism of laissez-faire style historic liberalism (Riccio 1994; Steel 1980; Adams 1977; Lippmann [1937] 2005; Lippmann 1914; Lippmann 1913).

A common theme in intellectual biographies of Lippmann is the tension in his work of moral and political philosophy and his position as a journalist, so much as to describe him as a hybrid philosopher-journalist concerned with capturing and reflecting upon the concerns and needs of American society at the time. As such, Riccio (1994), Steel (1980), and Adams (1977) use Lippmann’s intellectual position as an excellent weather gage for the “liberalism” of his era: in his youth from 1910 to 1920 he was concerned with progressivism, socialism, and the power of science to plan and intervene in society and the economy, in the roaring ‘20s he was concerned with decadence and the sense of loss of morals and consequent drift in industrial society, in the 1930s he was uneasy and then later critical of the New Deal and the expanded executive powers of Roosevelt in light of the growing threat of war and totalitarianism. Following in a similar

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88 Lippmann was a member of the later Mont Pelerin Society since its formation in 1947, but was largely so in name only through Hayek. He ceased paying his dues to the society and left it in the early 1960s (Riccio 1999). The Mont Pelerin Society, while the main international body of neoliberal thought and the focus point of the transnational intellectual network, became very divisive for the neoliberals, especially after the rise of interests of American corporatism and business within the body (Mirowski and Plehwi 2009), which offended Mises, Röpke, Rüstow, and Lippmann, all of whom left the society in the 1950s and 1960s.
vein, for the purpose of this analysis Lippmann is seen as a proxy for the development of neoliberalism as the product of liberalism’s soul searching in the first quarter of the 20th century.

Lippmann as metaphor for the development of neoliberalism from the internal crisis of liberalism and the external political and economic pressures due to totalitarianism and economic problems is not mere happenstance: throughout his time Lippmann was known for constantly changing and re-evaluating his political positions, as well as following a broader approach to politics that was more interested in the what of politics than any particular group or ideology, i.e. to him politics was more of a method and he was certainly willing to alter his position and compromise as necessary (Riccio 1994). On the other hand, the magnitude and breadth of Lippmann’s political and intellectual connections is staggering: in addition to Hayek and Keynes he was an acquaintance of Sigmund Freud, Theodore Roosevelt, Woodrow Wilson, Franklin Delano Roosevelt, Harry Truman, Dwight D. Eisenhower, Richard Nixon, John F. Kennedy, Lyndon Johnson, the founders of British Fabian Socialism—Mr. and Mrs. Webbs, H.G. Wells, and D.H Cole— the American philosophers John Dewey and George Santayana, he worked for the Socialist mayor of the United States George R. Lunn, and met with Premier Khrushchev as well as Benito Mussolini, among others (Riccio 1994; Steel 1980; Adams 1977). The laundry list of politicians and intellectuals Lippmann associated with ideally placed him as a public intellectual within the halls of virtually every level of political or intellectual achievement in the West, and if not personally then through friends and connections he was able to move elsewhere.
It was this intellectual and political eclecticism—for which Lippmann was so often criticized in his lifetime and has been criticized for by scholars since—\(^{89}\)—that placed him in such a unique position as the unintentional architect of the Walter Lippmann Colloquium and the neoliberal consensus, which itself contains unresolved tensions. Indeed, Lippmann would have likely agreed with Minoo Masani (1985) that “[in] the Liberal’s mansion there are many chambers and there is room for everything”: that a neoliberal necessarily would have to contend with the entire rich history of liberalism, both its successes and its failures, its splendors and all its miseries, and that Lippmann was well-acquainted with the complex, amorphous history of liberalism (Riccio 1994). But before the claim that the *Good Society* as the impetus for neoliberalism as liberalisms external and internal struggle can be examined, it is first necessary to briefly grasp Lippmann’s own exodus from progressive socialism to his reworking of “liberalism”.

—*From Great Society to Good Society: Lippmann’s Intellectual Journey*

Lippmann is similar to Hilferding and Mises in that he was also raised in a non-religious Jewish, bourgeois liberal family, taking great pride in that he was an intellectual first and a Jew second (Riccio 1994), so much so that he took great measures to distance himself from the Jewish community and criticized it for its lack of assimilation (Riccio

\(^{89}\) Riccio (1994) and Adams (1977) paint very different pictures of Lippmann’s life, but both argue that his position was neither inconsistent nor erratic, but rather that he was trying to work out a tension of pragmatism and progressivism within the complex political tradition of liberalism. Throughout his intellectual life from his beginnings with Freud and Nietzsche to his conclusion with Burke, neo-Thomism, and pessimism, Lippmann was through and through a political and moral philosopher concerned with the issues and concerns of mankind in the modern era and sought to transform man’s self-understanding into guidelines on how to live a good life and form a good society. Riccio (1994) stresses the importance of politics and foreign affairs in Lippmann, focusing on how morality, national, and international politics were entwined, whilst Adams (1977) takes a more holistic approach to Lippmann as a neoplatonist searching for human identity and relationship to truth as the basis for Lippmann’s political economy and sociopolitical philosophy.
Lippmann’s family certainly lived the comfortable bourgeois lifestyle materially, culturally, and politically: his grandfather Harris Baum had fled Berlin in 1848 when the liberal uprising failed (Steel 1980) setting the milieu for family politics. Lippmann toured Europe in his youth with his wealthy family to view all the cultural and delights of the continent whilst hobnobbing with social and cultural elites (Riccio 1994; Steel 1980; Adams 1977).

At the age of seventeen he entered Harvard with the intent to become an art historian, but while he was there he became interested in socialism and social activism due to the urban poverty he saw around him—particularly the aftermath of a tragic fire in the neighboring city of Chelsea (Steel 1980)—the political indifference of the students at the university, and his general frustrations with society at the school and how he felt excluded by his peers, including anti-Semitic discrimination (Riccio 1994:2-6; Adams 1977: 19-21). He eventually founded the Socialist Club at Harvard, which was active in state and local politics (Adams 1977) and facilitated progressive and socialist speakers to give speeches and seminars at the university. Perhaps the most notable of these speakers

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90 In the literature there is significant interest in Lippmann’s aversion of to his outright rejection of his “Jewishness” and even defended the anti-Semitic policies of Harvard and other institutions wherein he argued that due to the non-assimilatory nature of Jews, too many of them would actually incentivize racial segregation (Steel 1980:193-196). Steel (1980:189-193) goes on to attempt a brief psychoanalysis of Lippmann and explains that his anti-Zionism and his belief that the “bad economic habits” of Jews contributed to anti-Semitism is a “typical” response to discrimination and was a form of self-rejection. This is somewhat ironic considering Lippmann’s own popularization of Sigmund Freud and psychoanalysis (Riccio 1994; Adams 1977; Rovere 1975; Lippmann 1913), which has now been turned on Lippmann.

While tangential to the role Lippmann played in neoliberalism per se, an exploration of Lippmann as a self-hating Jew may be fruitful for an explanation of his moral and political philosophy more generally, as it is in line with the importance of “non-Jewish” Jews in the development of the intellectual history in the West during the 19th and 20th centuries. There is a double layer of irony wherein Lippmann and other socialists, communists, and Marxists in the German-speaking countries were oftentimes pro-assimilation or self-hating Jews.

For more on the importance of “non-Jewish” Jew intellectuals and the entwinement of self-hating Jewish intellectuals with progressive social thought, C.f. n. 27 p. 26 and n. 56 p. 59.
was with notable Fabian and eventual co-founder of the London School of Economics Graham Wallas in 1910 (Adams 1977), though Lippmann himself was a reader and dabbler in Fabian socialism as early as 1908 (Steel 1980).

Lippmann joined the society because he approved of the political platforms of the Fabians which focused on a few elites and educating the masses and in the mastering of capitalism through science and reason rather than through total revolution of the system (Lippmann 1913; Riccio 1994). Lippmann’s status as a radical and a socialist has been criticized by Steel who notes that he was a progressive intellectual in his youth (1980:257) and Adams (1977) and Riccio (1994) point out that the intellectual milieu of the United States at the time was populated by both socialists and progressives, Adams making the case that Roosevelt’s progressivism was a reaction to socialism (2-6). As such, Lippmann, who was a supporter of Roosevelt, was not a “true” socialist, but rather he was attracted to the humane goals of socialism as a means to reform capitalist society through pragmatic means, and he was highly critical of utopian socialism and utopianism in general in his first major work *A Preface to Politics* (Lippmann 1913). In the work he was also critical of contemporary socialists at the time for their usage of class warfare.

91 Lippmann disagreed with contemporary liberal, socialist, and/or progressive thinkers of his time, arguing that rebellion was not an inevitable part of progress. He concludes *Drift and Mastery* by claiming that if we destroy the basis of authority then the process of change must become one of invention and deliberate experimenting, that we must not be so focused on removing tyrants as we are on governing ourselves, i.e. that an objective, central morality must be removed for an increase in personal responsibility or “mastery”. He notes that this process will not be easy and that we must have an experiential and pragmatic approach to revolution, rather than rely on some preconceived formula or dogma (Lippmann 1914).

92 Lippmann’s position as a pragmatic socialist more interested in reforming the system than outright overthrowing it was part of the larger debate within socialist politics at the time, and he undoubtedly aware of the positions of socialist parties in Germany under Kautsky who were largely reformists, which Bernstein had pointed out in making his case for revisionist socialism and Riccio makes the case of the similarity of Bernstein and Lippmann (Riccio 1994:10-12; 15-18). Indeed, Lippmann appears to have been
which he believed was more destructive than constructive and that socialists were political opportunists who lacked vision. As such, while a reader of Marx and the Fabian socialists, Lippmann was highly critical of them as well and was just as concerned with the methods they used then their vision or rhetoric: “[f]or [him], socialism was not what Marx said but rather what socialists actually did” (Riccio 1994:15).

Lippmann’s devotion to pragmatism and his hostility to utopianism he acquired from his year of study under the American pragmatist philosopher William James who also introduced the young Lippmann to humanistic psychology and A Preface to Politics is Lippmann’s own attempt at creating a “political psychology” to establish both a pragmatic and humanistic approach to politics (Lippmann 1913: 76-78). Lippmann also took up James’s “evolutionary naturalism” 93, believing that modern society had advanced in a matter that made it qualitatively distinct from any period of time (Adams

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93 There is a tension in Lippmann typical of those who are interested in socialism and progressivism as necessary and eventual products of history, for on one hand they believe that the process of socialism or progress is inevitable through some evolutionary means, yet on the other they have the desire to be part of the driving force in history. As Steele (1992) has pointed out, the same tension applies to Mises and the Austrian school, for while the Austrians believe that their political economy is the only one compatible with modernity, human nature, and freedom and therefore historically inevitable, they were also political agents in bringing about their system. Similar to both the Austrians and the Austro-Marxists, Lippmann and many of others who dabbled in progressivism or Fabianism struggled with methodology of reformist and revolutionary politics as much as with actually political ideology; Lippmann himself was partial to culture, advocating art and education as crucial for revolution (Adams 1977:17-19).
1977:29-30) and throughout his life his true opponents were always conservatives\textsuperscript{94}, especially those who sought to impose morality through law or political power (Riccio 1994: 6; Lippmann 1914; Lippmann 1913). Lippmann clearly expressed his sentiments in *A Preface to Politics*:

> Politics does not exist for the sake of demonstrating the superior righteousness of anybody. [...] In fact, before you can begin to think about politics at all you have to abandon the notion that there is a war between good men and bad men. This is one of the great American superstitions (Lippmann 1913:1).

Another important influence on Lippmann while at Harvard was the Spanish-American philosopher George Santayana who was well known as a Platonic and elitist philosopher who inspired Lippmann to search for higher ordering of reality. Undoubtedly, the distant and reserved Lippmann was attracted to Santayana’s intellectualism and elitism and his influence prevented the younger thinker from being totally converted to James’ pragmatism (Adams 1977). Lippmann’s pragmatic and eclectic approach to politics, the centrality of morality and the importance of human freedom, and his Neo-Platonic search for transcendentals morals and truth produce a tension in his oeuvre which is very Nietzschean: that he believes that there is a distinct human place in the universe and that this must be understood as the basis for morals and politics, yet at the same time there are

\textsuperscript{94} It is important to clarify here the term “conservative”, which Lippmann meant in a more literal sense than in taken in American political discourse, i.e. that he was opposed to those who he saw as trying to cling to the past against the trends of modernity, especially those who saw politics as a “morality play”, a “guerrilla war” that is more public drama than functioning (Lippmann 1913:2-3). Throughout his life Lippmann was not only a pragmatic and eclectic thinker, but he was uncomfortable with the reactionary movements of conservative politics in America, and thus while he considered himself a “conservative” toward the end of his life, he saw himself as conservative in the sense of classical liberalism in the footsteps of Burke (Riccio 1994).
practical limitations and constraints which limit that very search and expression both to one’s self and others.\(^{95}\)

Lippmann’s earlier works *A Preface to Politics* (1913) and *Drift and Mastery* (1914) express the need for politics to be divorced from tyrannical attempts at morality, the importance of understanding human nature and bringing it under control through rational economic planning and (Freudian) psychoanalysis, while his work *Public Opinion* (1922) relates his frustration with Progressivism’s “deification of the masses” (Riccio 1994:57-59). In *Public Opinion* Lippmann combined his psychological and humanistic basis for politics as well as his Neo-Platonism to contend that human thinking was not based on our “real” environment but rather “pseudo environments” mitigated by stereotypes and information which could be controlled or influenced and he questioned the real possibility of democracy in the modern era (Riccio ibid.). It was his Burkean style of elitist liberalism and his skepticism of pure democracy, as well as his Nietzschean turning of rationalism upon itself that would lead Lippmann to eventually abandon socialism altogether and would convince him that all majoritarian or “collectivist” politics were dangerous, bringing him to support constitutinalism to limit the powers of both ruler and ruled (ibid.).

The most profound intellectual influence on Lippmann, however, was Graham Wallas, who introduced Lippmann to the possibility of social reconstruction along empirical lines in a unification of ethics and politics to relieve social suffering (Adams 1977). From Wallas Lippmann acquired the concept of the “Great Society” which was

\(^{95}\) A position which has been referred to as “skeptical optimism” by Adams (1977:51-54).
too large for total comprehension by its inhabitants, that somehow technological and social progress in modernity had unleashed chaotic forces which had to be contended with, opening up new possibilities for politics and administrations yet at the same time leaving the door open for pessimism and skepticism about politics (Steel 1980). Some of these inevitable processes were the importance of the division of labor and the concentration of the economy and Lippmann believed that the modern corporation was here to stay and was hostile to William Jennings Bryan and Woodrow Wilson for trying to restore laissez-faire through anti-trust and anti-Big Business government policy (Adams op. cit.).

Lippmann was also skeptical of private property and he believed that the proper question was the use of property rather than its ownership. Furthermore, the advent of the modern stock company obscured and altered the overall meaning of property and in *A Preface to Politics* and *Drift and Mastery* he believed the position of labor contra ownership should be strengthened to make capitalism more humane (Adams 1977; Lippmann 1914; Lippmann 1913). Furthermore, he believed that both Big Business and the labor unions could be brought together in a positive way for democracy and that bringing the unions into the industrial order would help secure it, and to that end he advocated that the government should be involved in labor and business relations to secure the public interest, which was above all class or party interests (Riccio 1994: 33-36).

While he was initially opposed to Wilson, the events of World War I forced Lippmann to accept that American isolationism was no longer possible or profitable and
saw that the United States had closer ties to England, France, and Russia than to the Central Powers and that the country would accrue economic and strategic benefits if it helped shape the peace process (Adams 1977). Thus, he threw in his support behind Wilson, breaking with Theodore Roosevelt, even convincing the other editors at the *New Republic*, the progressive newspaper where he worked, to support Wilson as well. Lippmann later joined the war efforts in various advisory capacities ranging from working with the Secretary of War to help smooth out labor relations to facilitate the war effort, to working on information and propaganda, to working as part of a secretive scholar body known as the “Inquiry” which served President Wilson. His work brought him into contact with Assistant Secretary of Navy Franklin Delano Roosevelt and as part of the Inquiry he helped draft the Fourteen Points and was part of the United States’ delegation at the Treaty of Versailles (Adams 1977: 59-61).96

The conclusion of the First World War effectively broke much of Lippmann’s confidence in the West and led him to seriously question the possibility of democracy in the modern era. He was severely disappointed with the punitive Treaty of Versailles and believed that Wilson had betrayed his own Fourteen Points and the faith progressives placed in him for a successful worldwide liberal order (Steel 1980; Adams 1977; Rovere 1975). His own work on propaganda and information also decreased his faith in the democracy in modern society (Steel 1980). His pessimism blossomed in his two works *Public Opinion* (1922) and the *Phantom Public* (1925) wherein he criticized the

96 It is claimed in the Lippmann literature that as many of eight of the fourteen points were his handiwork, particularly the points were the substantive and pragmatic ones concerned with sovereign and national borders whilst Wilson’s points were the abstract ones concerning freedom and democracy (Rovere 1975).
“democratic fallacy”, arguing that it was not the source of power that was important, but rather its use (Steel ibid.). The 1920s were also a period of domestic and international social and political upheaval for the United States with the Sedition Acts and the Red Scare over communism, labor agitation, anarchist violence, and the Scopes trial, all of which further convinced Lippmann that the “masses” and the “public” were the source of potential tyranny and could not be trusted and he advocated that President Franklin Delano Roosevelt take more executive power because the legislative branch as representative of the people could not be trusted or was less-efficient (Steel 1980). 97

During the 1920s there was also a noted decline in progressivism in the wake of American prosperity and an increasing disinterest in politics, and Lippmann too turned toward the importance of recapturing morality in society in his *A Preface to Morals* (1929) (Steel ibid.). In his reflections, he saw war as part of the overall cheapening of life in the industrial age and that imperialism began as an economic drive but it was easily hijacked by other socio-political, religious, or ideological factors (Adams 1977). He viewed nationalism as psychological reaction driven by fear which had to be moderated by reason and education and, when necessary, strengthening the executive and the rule of law in times of crisis (Adams ibid).

However, Lippmann recognized this was a delicate balance and that while a strong executive was sometimes needed the executive could not surpass the rule of law or

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97 Critics of Lippmann have noticed a bias toward the executive branch and his admiration for “strong” and independent men throughout his oeuvre, praising Nietzsche and Theodore Roosevelt in his youth (Adams 1977:48-50), and Steel (1980) and Adams (1977) speculate that this was his effort to find Plato’s fabled “philosopher king”. Riccio (1994) gives Lippmann as more sympathetic viewing, noting that he always distinguished authority from authoritarianism and that he praised the American revolution for striking a proper balance of hierarchy and authority, and freedom (179-181).
constitutionalism, and while other progressives were praising Mussolini for his accomplishments, Lippmann, who actually met and spoke with him in person, was criticizing fascism and calling for increased United States’ intervention to support liberalism as a world political and moral order (Steel 1980). Lippmann’s vision of liberalism had moved away to a total rejection of laissez-faire and his views were vindicated by the Great Depression, which he saw as a consequence of poor governance and materialistic culture (Riccio 1994: 95-97), i.e. that it was a conjunction of cultural-moral, political, and socioeconomic factors. Adams contends that Lippmann distinguished “representation” from “governance” and that a strong executive was required as it was the executive branch that truly governed whilst the legislative branch “administered”. The purpose of the legislative branch was to aid and criticize the executive branch. Thus, for Lippmann, it was possible to have both a strong executive as well as a strong rule of law, and the core of his liberalism was that the consent of the public elected the government but that once elected the government should be allowed to do as it pleased, so long as it was within the bounds of law (Adams 1977:153-161).

During the 1930s Lippmann’s liberalism shifted from Manchesterian to Jeffersonian, i.e. that it was not the quantity but rather the quality of state power which was important, or that it was more important for the state to govern well regardless of the scope of its governance. In his works A New Social Order (1933), The Method of Freedom (1934), and The New Imperative he proposed that modern, complex society would require some form of central planning contra and he argued for a “free collectivism” with an interventionist state, declaring that “[all] rights are, no doubt,
ultimately a creation of the state and exist only where they are organized by the government” (Riccio 1990:98-104). Lippmann was convinced that modern political economy and failed historic capitalism had polarized the community into a body with nothing to lose, i.e. the proletarians, and a class of plutocrats who exploit the government for power and profit. His solution was an Aristotelian “middle class” society which would enrich the poor rather than take from the rich and that the free collectivist system would retain private property, which he believed was the basis of freedom. He argued that the government should neither regulate nor control the economy but rather “compensate” negative economic practices through devices such as central banks, long-range planning, taxation, public works, tariff rates, international finance (Kallen 1934).

Lippmann’s economic philosophy at this time were clearly affected by his friend Keynes whom he met while he was working on his economic theory on expanded public works and government intervention in the economy, and it was Keynes who convinced him to support Roosevelt and the New Deal (Steel 1980). However, while Lippmann had urged Roosevelt to take expanded powers to solve the political and economic crisis at the time, his meetings with Mussolini and experience with fascism in Europe made him cautious and by 1935 he was losing faith in the New Deal. Lippmann was more interested in the policies of the New Deal to secure stability than social reform and he was worried by what he saw as increasing opportunism by Roosevelt (Riccio 1994). He finally broke with Roosevelt over the president’s scheme to “pack the Supreme Court” with justices favoring his own political, social, and economic agenda, and Lippmann became one of Roosevelt’s strongest critics, though he clarified that he was
against executive overreach by the President rather than the New Deal specifically or Keynesianism generally (Riccio 1994: 204-205; Steel 1980; Adams 1977:141).

*The Good Society* ([1937] 2005) is Lippmann’s mature presentation of his own style of liberalism, though he calls into question Keynesianism as a species of collectivism in light of his breaking with Roosevelt and the growing threat of international fascism and war. *The Good Society* was recognized by critics and supports alike for its “schizoid” nature wherein its first half chronicles the failures of historical capitalism and liberalism whilst the second half attempts an “agenda of liberalism” that aims for its reconstruction (Soule 1938; Pinchot 1937/1938). Lippmann himself noted that his work suffered a “split personality” of both trying to implicate and condemn authoritarian and collectivist states while at the same time vindicating and endorsing a “reconstruction” of liberalism (Steel 1980:322). Adams (1977) comments that Lippmann had begun working on the book before Roosevelt began the New Deal in earnest and notes that the New Deal is not even frequently mentioned in the book and that it was

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98 There was also a personal frustration Lippmann had over the Roosevelt administration’s relationship with the press: not only did Lippmann believe that Roosevelt supported his domestic policies by “propaganda” similar to what had been used to abuse freedoms by authoritarian regimes and during the First World War (which Lippmann himself had contributed to) but the economic policies also favored cartels and large businesses. Worried about the independence of the press and the role of information of society, Lippmann had qualms with both the means and the ends of politics under Roosevelt (Riccio 1994: 105-108).

99 The New Deal and Roosevelt are mentioned together less than ten times in the [1937] 2005 edition of the *Good Society* and of those times Lippmann alternatively refers to specific pieces of it such as the National Recovery Act (118; 123; 139) and only twice is it compared with other species of collectivism as a more “gradual” version (124; 330); furthermore, he even cautions not to look at the ideas and aspirations of the New Deal as gradual collectivism, but rather the actual practices of its supporters and administrators (25). As such, Lippmann’s treatment of the New Deal is not even uniform, let alone a uniform criticism of the program. Furthermore, he is more interested in the letter of the law, particularly his qualms with the National Recovery Administration rather than Roosevelt’s philosophy for the country or Keynesianism generally.
only under the pressure of progressives and liberals dividing it from within and the external pressures of totalitarianism from without that spurred him to write (148-150).

It was this tension of the *Good Society* that would provide the impetus for the Walter Lippmann Colloquium: as both an attempt at self-defense and self-criticism of liberalism it provided the perfect grounding questions for liberal thinkers at the time. Lippmann believed that the genius of liberalism had been the establishment of a global economic Great Society that now had to be defended and he abandoned his previous beliefs in the inevitability of economic concentration in favor of the rule of law (ibid.). Lippmann asked: “What is the proper limitation of state power to create the best society?” and “What are the proper actions to establish said configuration?” This tension of *what is liberalism* and *how to reconstruct liberalism* are prevalent throughout both the *Good Society* and the Walter Lippmann Colloquium, but before this can be addressed, a brief summary of the *Good Society* is necessary.

—*The Good Society: A Tension of Two Questions*—

The *Good Society* was not recognized as particularly originally or imaginative at the time of its publication and in actuality it was part of a large literature by liberal, progressive, and socialist economists treating subjects widely ranging from finance capital and the decline of liberalism to the economic nationalization and central planning.\(^{100}\) Fellow liberal thinker Amos Pinchot compares *The Good Society* to Bertrand

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\(^{100}\) The years 1937 and 1938 were actually a prolific period for this type of political economic literature. In the magazine *Foreign Affairs* Robert Gale Woolbert surveyed several 1937 books on “international relations” (Woolbert 1937/1938): Albert Weisbord’s *The Conquest of Power: Liberalism, Anarchism, Syndicalism, Socialism, Fascism, Communism*, William Henry Chamberlin’s *Collectivism, A False Utopia*, S.E. Forman’s *A Good Word for Democracy*, Marie Collins Swabey’s *Theory of the Democratic State*,...
Russel’s *Freedom Versus Organization* (1934) and *Marxism Versus Socialism* by Vladamir Simkhovitch (1913) and argues that while it is not the most penetrating or original of the three, it is the most comprehensive and that the breadth of the *Good Society*, but that its scope as well as its haphazard construction may actually over-complicate the message Lippmann was presenting (Pinchot 1937/1938).

The strength of the book was recognized as trying to critically combine complex political and economic arguments into a way which could be accessible to the public and was successful in bringing together “older progressives” and laissez-faire liberals (Riccio 1990) through his balance of criticism of both pure laissez-faire and statist planning solutions. Other liberals or those more versed in political economy criticized the vagueness of Lippmann’s concept of “collectivism” (Riccio 1994; Ascoli 1938; Knight 1938; Soule 1938;) or that his political opinions go beyond his economics and that he links economic liberalism with political liberalism (Ascoli 1938; Knight 1938). Knight is supportive of Lippmann’s opinion and agrees with him that collectivism leads to dictatorship, but argues that Lippmann draws too much on Mises. Knight argues that Mises’ position is “indefensible” and that it is impossible to totally demonstrate what is


Chicago liberal economist, founding member of the Mont Pelerin Society, and member of the Chicago School of economics Frank H. Knight reviewed both Lippmann’s *The Good Society and Economic Planning and International Order* by British economist and neoliberal Lionnel Robbins (Knight 1938; Knight 1938b).
and what is not possible, and consequently that Lippmann’s reliance on Mises is detrimental to his argument (1938: 866-869).¹⁰¹

Ascoli (1938) criticizes that the book is too busy preaching to actually examine the material with sufficient criticism whilst Bowen (1938) disparages the book as a “would-be quixotic volume” focused on decrying a problem that does not exist in the way Lippmann presents it and does not clarify if his attacks on the “increasing political authority” of the state in the economy refers to the scope of the power of the state or the degree of arbitrariness of that power. Bowen also points out that he does not even mention the possibility of democratic socialism. Soule (1938) criticizes the author for never even having been to Russia and argues that planning and economic foresight may help the government and that “planning” and the market are not always at ends (261-262). Another point of contention with reviewers is that Lippmann’s “agenda” for the reconstruction of liberalism is too reliant on natural law (Ascoli 1938: 120; Knight 1938:870).¹⁰² On the other hand, Knight (1938) and McIlwain (1938) agree with Lippmann that the strength of liberalism is constitutionalism, with the latter arguing that he did not go far enough. McIlwain (ibid.) suggests that the gist of the Good Society is

¹⁰¹ While Knight is agreeing with Lippmann, he is careful to distinguish judgment from fact and that his and Lippmann’s beliefs that collectivism is either impossible or leads only to dictatorship are matters of the former rather than the latter. Lippmann is muddying facts with his opinions. In particular Knight states that:

[N]o one knows at all definitely what is politically possible. Real governments have on serious occasions and for various intervals actually operated in almost inconceivably divergent ways, and what a government “might” do is limited chiefly by the powers of creating fancy in the person drawing the picture (1938:869).

¹⁰² The connection of Lippmann and natural law is quite complicated with several commentators noting that he never completely clarified his position on natural law given his reluctance to ever fully endorse one political or ideological schema and Adams gives a more thorough discussion of how Lippmann’s turn to natural law has been received by critics (1977:173-176).
that authoritarianism comes from the false assumption that new technology requires an omnipotent state to control it, and that concentration is actually the result of extra-economic political or legal privilege.

The most relevant themes within the Good Society to the Walter Lippmann Colloquium and the genesis of the neoliberal governmental derive from the governance of the Great Society, i.e. the intersection of modern, complex society, human nature, and law. In his analysis Lippmann explored the failures of historic liberalism and capitalism but also Marx’s thesis about the inevitability of economic concentration. Ultimately, Lippmann rejected the thesis by Marxists, socialists, and other progressive thinkers that economic and political concentration was inevitable from the internal laws of economics and that therefore collectivism was not necessary and should be open to question and criticism, while at the same time holding that pure laissez-faire political economy was impossible. He was interested in the intersection of the constraints of both human society as well as the modern, Great Society in order to establish a society to maximize human freedom, the Good Society.

The introduction of the Good Society begins with an acknowledgement of the importance of Wallas’ Great Society followed by a lamentation of the “Dogma of the Age” wherein:

Everywhere the movements which bid for men’s allegiance are hostile to the movements in which men struggled to be free. The programs of reform are everywhere at odds with the liberal tradition. Men are asked to choose between security and liberty (Lippmann [1937] 2005: xliiv).

He proclaims that liberalism, the quest for human liberty, is besieged and that collectivists make the false promise that “through the power of the state men can be made
happy” (ibid. :3). He argues that there is greater potential for authoritative regulation of
the economy with modern technology (ibid. :11) and that many have been misled into
believing that governments require more political power because the modern economy is
becoming too large and chaotic to control. Lippmann directly challenges that

“[t]he concentration of control does not come from the mechanization of industry. It comes from the state […] and that without the privileges of the corporate form of economic organization and property tenure, the industrial system as we know it could not have developed and could not exist. […] [T]he cause is to be found not in the technic of production, but in the law” (ibid. 13).

He agrees with critics of capitalism that there is “evil” in corporate concentration, but he
counters that it is not a necessary evil (ibid. :15), and in an echo of Mises’ position he
argues that planning for the future is impossible because it cannot be known and
incorporated (ibid. :17). He further challenges that the potentiality of human control has
not changed all that much, that human beings are still flawed and limited and that while
technology creates more tools, it also creates more problems to solve (ibid. :16-17; 27),
that control is an illusion. He counters that as human affairs become more intricate, less
specific and more general governance is actually the correct governmental policy (ibid.
:35).103

Lippmann charges that the collectivists follow the exact approach and that their
eventual goal is totalitarianism (ibid. :52), which will eventually lead to destructive
contradictions104 unless they channel their energy into warfare (ibid. :67), echoing the

103 He goes so far as to propose that this is an essential principle of human civilization: that there is a
“maxim of human association that the complexity of policy, as distinguished from law, must be inversely
proportionate to the complexity of affairs” (Lippman [1937] 2005:35).

104 Lippmann argues that there is actually a paradox in Fascism, particularly in Nazism, wherein its
ideology and structure is hierarchical and gives great powers to the rulers while at the same time
position of Mises against Neurath’s “war communism” during the socialist calculation debate (Bockman 2012; Becchio 2005; Bostaph 2003). The fear of collectivism and a mass society leading to a society of perpetual warfare became ingrained into many of the neoliberals and the question was directly addressed at the Walter Lippmann Colloquium (Izzo and Izzo 1997).

Lippmann approached the possibility of communism and argued that it rested on the fallacy that the owner of property was necessarily the chief beneficiary of it (Lippmann [1937] 2005: 73). The problem with communism is that it cannot equalize both ability and opportunity (ibid. :77); as such, communism has no mechanism to avoid or reduce social conflict but only is able to enshrine a new ruling class wherein the “struggle for wealth is transmuted into a struggle for power” (ibid. :83). However, Lippmann’s analysis of the Soviet experiment with communism was much deeper than Misesian arguments against calculation or that communism is simply incompatible with human nature, but rather he gave a more thorough exploration of Lenin’s adjustment of Marxist dogma. He notes that Lenin began his revolution “by nationalizing the banks on the [Hilferding’s] theory that capitalist industry is itself controlled by the banks” (ibid. :85). He further comments that Lenin deviated because of the civil war in Russia and establishing a servile mass public and that its hierarchy in the social and political structure creates the same diversity that its doctrine and practices seek to eliminate (ibid. 60-63).

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105 Hayek’s *The Road to Serfdom* ([1944]2007) and Röpke’s *The Social Crisis of Our Time* ([1942] 2009) both take up the theme as well.

106 This fear has seeped into popular discourse as well, with Orwell’s iconic novel *1984* containing several totalitarian states existing in a perpetual state of warfare against each other.

107 Lippmann’s interest in the nationalization of banks as part of the socialist program may have been spurred by Mises’ investigation into the very same subject when he notes that this was the Austro-Marxist
that it is not Marxism theory that allowed for collectivism to flourish, but the war economy and that collectivism may only be established on a war economy, rather than evolve out of capitalism (ibid.).

Lippmann extended his argument from full-blown collectivism to “gradual collectivism” as was exhibited by the United States and other nations at the time as well, criticizing that it was not “an ordered scheme of social reconstruction. It is the polity of pressure groups (ibid. :112).” Like the Austro-Marxists and Mises, Lippmann believed that the actual understanding of economic history could not simply arbitrarily and uncritically divide society into the proletariat and the bourgeoisie classes\(^\text{108}\) (Wagner 1996; James 1981; Bottomore and Goode 1978; Mises 1978; Botz 1976; Gates 1974; Adler [1928] 1978; Hilferding [1910] 1981), but he differed from the Austro-Marxists and agreed with Mises that increasing interventionism on the part of the government would only empower special interest groups. As such, increasing economic interventionism on behalf of the population would only further special interests and arbitrariness of government action on behavior of those interest groups and in this way

\(^{108}\)While they recognized that class was an agent of historical conflict and socialist reform, Austro-Marxists saw class critically and that it had to be constructed through party education (Bottomore and Goode 1978) to the extent that Bauer saw working class unity as the main accomplishment of Austro-Marxism (Bauer [1927] 1978); Hilferding incorporated the views of Adler and Bauer on nationalism and the nature of the state and that political economy was not a mere reflection of economic and that democracy and liberalism could offer a way beyond dictatorship of one particular class (Wagner 1996; Smaldone 1998; Smaldone 1988; James 1981; Hilferding [1910]1981). Later, Hilferding and Adler felt betrayed by the working class movement (Smaldone 1998; Wagner 1996; Smaldone 1988; Adler [1933] 1978) and Hilferding thought that Marx’s entire model of history through economic and class development was incorrect.
was totally opposed to the historical development of liberal political economy (Lippmann [1937] 2005).\textsuperscript{109}

Like Mises and Hilferding, the \textit{Good Society} echoed concerns over economic protectionism, particularly that gradual collectivism meant “particular interests will be found advocating protection for themselves and free trade for those with whom they transact their affairs” (ibid.). Lippmann feared that there was very real opportunity for interest groups, as state-enshrined economic parties, to colonize the economy; this would create the false sensation that some are enriched by the state and would spiral into a cycle of parties collaborating with the state to take over the economy until the system became totalitarian. The struggle for power would continuously intensify as the stakes for control increased.

Echoing similar concerns of the Austro-Marxists and Mises, Lippmann feared that this expanding economic protectionism and interventionism would mix with nationalistic interests and lead to war among nations. Lippmann argued that the liberal dream of the 18\textsuperscript{th} century had been co-opted by the false dream of international socialism which actually only produced national socialisms competing with each other. The one way to reverse this trend was for men to become disinterested in fighting for political power internationally and nationally by decreasing the influence it had on their lives, that is, by reducing the stakes of the game (ibid.).

\textsuperscript{109} A common thread of the Austro-Marxists, Lippmann, and Mises was the commitment to democracy and the desire to avoid class warfare through some kind of generally liberal-parliamentary system. Lippmann and Mises believed that the socialist program would allow for special interests to have increasing hold on the government and that this would increase division in society (Mises 1978; Lippmann [1937] 2005).
Knight criticized the \textit{Good Society}'s conflagration of nationalism and collectivism as “brief, vague, and superficial” and criticized that this position as well as Lippmann’s opinion that monopoly was created by privilege more than economics demonstrated a bias where liberalism was the status quo (1938b). However, for the liberal economists, politicians, and businessmen who gathered at the Colloquium, liberalism was the status quo and while they had differing opinions amongst themselves concerning the details, the purpose of the colloquium was clear: Louis Rougier, the French philosopher who organized the event was unabashedly interested in “an international crusade in favor of constructive liberalism” (Mirowski and Plehwe 2009:47-48). While the \textit{Good Society} was the impetus for this liberal gathering, it was the second half of the work, the sections entitled the “Reconstruction of Liberalism” and the “Testament of Liberty” which spelled out Lippmann’s own position on liberalism and provided the meat of the Colloquium. For the purposes of this paper the “Reconstruction of Liberalism” is more relevant specifically to the neoliberal project as economists becoming galvanized with political action; the latter is Lippmann’s specific exploration of questions of law and human nature,\footnote{It is this part of the \textit{Good Society} received the most criticism, even from the sympathetic Knight who admits that Lippmann is putting too much faith in law and that he sees the legislative branch as acting more like the courts as subject to some kind of higher natural universal law and he does not give enough thought to the complex problem of administration in the modern age. Knight argues that the \textit{Good Society} is missing the point and that the source of the current crisis is the combination of loss of faith in the open market as well as conflict of international relations for resources as well as nationalism and political rivalry. Lippmann’s goal is unclear and is not coherent with extant constitutional or public law (Knight 1938b: 870).} which were addressed by some of the philosophers at the Colloquium.\footnote{These questions of human nature are important to the overall discussion of neoliberalism as more than political economy, but also as a project concerning the nature of science and human nature. Throughout the development of political and economic thought in the 19\textsuperscript{th} and 20\textsuperscript{th} centuries the questions of human nature, the nature of science and knowledge, and the possibilities of human government are always lurking under}
It is in the “Reconstruction of Liberalism” that the “Great Society” is fully and explicitly addressed wherein individuals are no longer self-sufficient, but instead are enraptured in a great interdependent world economy on an ever-increasing scale. The core of this revolution was the ever-increasing division of labor. Lippmann claims:

Only by recognizing the primacy of the division of labor in the modern economy can we, I believe, successfully distinguish between the truly progressive and counterfeit progressive phenomenon. (Lippmann, op. cit. 165)

For every great social change there is a period of “cultural lag” where men search for solutions from a paradigm that has not fully adapted or recognized these changes, and thus the nineteenth century was one of both progress and degradation at the same time, producing both great wealth as well as the proletariat (op. cit. 167). It was this confusion of the true heart of modernity as the division of labor and the market that led to the “collectivist counter-revolution” which was ultimately not progressive, but conservative, whilst the true “historic mission” of liberalism was to uncover the significance of this division of labor whilst what it left incomplete was to find and adapt law and public policy to the new mode of production. The very core of liberalism is the conviction that the division of labor cannot be regulated through coercion or authority and that the “true line of progress” is to maintain and improve the market (ibid. :174-175).

The true achievement of Adam Smith’s economic theory was the discovery of the division of labor, which was so significant that he could not fully grasp it or that “the division of labor is a more fundamental and enduring phenomenon than the laws of
property or the political institutions which existed in the nineteenth century (ibid.:177).

This confusion produced the false equivalent of the ownership of property and the system of economic production, establishing the “fallacy” of laissez-faire. The whole progress of liberalism was halted by this false assumption that there “was a realm of freedom in which the exchange economy operated and, apart from it, a realm of law where the state had jurisdiction” leaving the liberals as “uncritical defenders of the law […] and so the helpless apologists for all the abuses and miseries which accompanied it” (ibid.:191).

Furthermore, to support this system they established an economic science based on totally false assumptions such as the perfect mobility of labor and capital and that all men are born with equal opportunity and thus that there was always fair and perfect competition. The true scope of economics, rather, should be to examine how the legal, psychological, and social circumstances “obstructed and perverted the actual society” (ibid.:201). The actual state of political economic theory in the nineteenth and early twentieth centuries consisted of a two oppositional points, both of which were erroneous because they stemmed from the point of error of the priority of property: the laissez-faire system which led to a false science of economics that was apologist for the extant order or the collectivist critics of that system, who, taking a cue from Marx, took justified frustrations with the system and turned them into a reactionary movement that went against the history of liberalism and the progress of civilization into the Great Society.

In his “Agenda of Liberalism” Lippmann laid out several principles for the reconstruction of the liberal project and the correction of its own internal errors as well as its defense against reactionary forces which sought to dismantle it. He begins with a
Misesian-reminiscent\textsuperscript{112} thesis that the “inexorable law of modern society is the law of the industrial revolution, that nations must practice the division of labor in wide markets or sink into squalor and servitude” (ibid. :206), but continues that:

\begin{quote}
[T]here is no way of practicing the division of labor […] except in a social order which preserves and strives to perfect the freedom of the market. This is the inexorable law of the industrial revolution, and while men may disobey that law, the price of their disobedience in the frustration of all their hopes (ibid. :207).
\end{quote}

Here is the convergence of Lippmann with the socialist critiques of capitalism from Schumpeter to Hilferding to Polanyi that there is an extra-economic order required for the market to fully function and that these conditions as well as the market are both the products of the same division of labor which has shaped society overall, but he twists the critiques of liberalism and capitalism into ways to improve it. He asserts that:

\begin{quote}
[T]he liberals were right in their initial assumption that the abuses [of capitalism] were incidental rather than fundamental […] and that] a mode of production cannot be judged to be fundamentally just or unjust. […] Present-day men can reform the social order by changing the laws. But by political means they cannot revolutionize the mode of production (Lippmann [1937] 2005:209).
\end{quote}

Lippmann still held onto some of progressive and socialist roots however, declaring that the social and political system had to maintain and improve the quality of human life (ibid. :213) and he recognized that the limited-liability corporation has proved to be a great challenge to society, which has fundamentally altered the separation of ownership

\textsuperscript{112} The language that Lippmann employs is similar to Mises in that both men see themselves as crusaders to defend liberalism, which is not only correct and most compatible with human behavior, but without its presence the very existence of modern society is at stake. While the rhetoric of the two men may be similar in their sense of urgency and their commitment to liberalism, their visions of liberalism are quite different, with Mises himself falling into the same category of “latter-day liberals” who have been enchanted by the false lure of laissez-faire and the separation of the economy from the state and society in nineteenth and early twentieth century political economy.
of capital from its management and that capital has now become more mobile than labor which has detrimental effects on society. Almost taking a page directly from Hilferding’s *Finance Capital*, he asserts that if these giant corporations are allowed to continue unhindered, they would eventually become “in effect departments of the government” (ibid. :217). In concerns which echo some of the modern fails of the “too big to fail” phenomenon, Lippmann argues that modern stock corporations were instituted by the “maladjustment of law to the economy” and that a major task of liberalism is to renovate corporate law to “prevent business from becoming any bigger than it can become in the test of the market” (ibid. :218).

As such, Lippmann was calling for a liberal system that was directly active in the economy so as to develop laws to protect it from itself, essentially, in order to set the laws of the state as the boundaries of the market in order to protect the market from the state and vice versa. This position brings him closer to the positions of the ordoliberals Röpke and Rüstow at the conference than Hayek and Mises, the former two arguing for the priority of the market protected in a constitutional economy whereas the latter two argued more for the sanctity of property and the diminished scope of government intervention.  

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113 One of the founding tenets of the ordoliberal program and the consequent social market economy program it inspired is the “constitutional economy” conceived by Eucken, the father of the Freiburg school, effectively the last liberal bastion of liberal economics in Germany throughout the Nazi period (Foucault 1994; Friedrich 1955; Gerber 1994; Oliver 1960; Röpke 2009). Though Eucken himself was unable to attend the Colloquium because he could not get permission from the National Socialist regime to leave the nation (Mirowski and Plehwe 2009), his ideas of the importance of the state, economy, and society all reinforcing each other through a scheme of constitutional, public, and natural law were present in Röpke, Rüstow, and to a lesser extent Lippmann.
With his greater understanding of the Great Society and modernity, i.e. that the state and the market were not in opposition to each other, Lippmann went on to explore various types of investigation. One of the more unique of these dealt with that very issue of incorporation wherein he argued that incorporation itself was not evil but rather that the problem was that the scales of incorporation as privilege of the state were skewed in the favor of capital and businesses. Accordingly, he argued for a greater role of the state in incorporating and coordinating the rights of farmers, workingmen, and consumers (op. cit. :222). Lippmann’s vision of a liberalism was not one where labor and capital were opposed to each other, but rather one where the government, labor, society, and the economy could all work together; the “classical” neoliberalism that Lippmann and other neoliberals at the Walter Lippmann Colloquium has been largely forgotten (Boas and Gans-Morse 2009; Hartwich 2009), but there were voices among the ordoliberals and others who incorporated the critiques of socialists in a greater and more complex program than the later “market fundamentalism” criticized by Harvey (2005) and others.\(^\text{114}\)\(^\text{115}\)

Drawing on manifold perspectives influenced by Keynesianism, socialism, Marxism, progressivism, the Austrian school, as well as the Freiburg school ordoliberals Lippmann came up with a comprehensive program of reform that would charge the government with the responsibility to preserve the market as well as to educate the

\(^{114}\) Mirowski and Plehwe (2009) address this very shift in neoliberalism with the ascendancy of American business interests in the Mont Pelerin Society, the heir to Walter Lippmann Colloquium established after the defeat of the Axis Powers. During the Cold War setting the rising hegemony of American power and interests shifted the more expanded reach of the state and “interventionism” toward apologism for international corporate power and American political interests.

\(^{115}\) In his genealogy of neoliberalism Foucault addresses this very topic and concludes that neoliberalism as “positively liberalism” adopted at the Colloquium is very significant in that it signified an interventionist and active state in the economy, which differentiates it from classical liberalism as well as contemporary American-styled “anarcho-capitalism” (Foucault 1994:133).
populace and provide some social insurance mechanism. However, liberalism must never confuse forced equality through government action and control with equality of opportunity through equality before the law. Ultimately, liberalism must also stay within the bounds of the Great Society and human nature and as such it could never fully be planned—for a comprehensive plan would require human beings to be modified by some external characteristics forced upon them—but instead the liberal project must be one that is continuous and taken up by each generation (op. cit. :366). Liberalism would ultimately be victorious, for at its core it was founded upon the desire of men throughout history to be free (ibid. :388-389).

—The Walter Lippmann Colloquium: An Open Ended Consensus—

It was this belief in liberalism as the only political system compatible with human nature and freedom—and consequently that liberalism was the only basis for the Good Society—that became the binding core of the pre-neoliberals who met at the Walter Lippmann Colloquium just in the shadow of the Second World War. The conference is full of prophetic language full of fear for the future but also for the hope that the rescue of liberalism was not only imminent, but that it was necessary: that the neoliberals as crusaders would restore liberalism and make men free. This was the moral impetus which drove the formation of the Colloquium, which began as an almost spontaneous concurrence of twenty five scholars\(^{116}\) that would not have happened had the French

\(^{116}\) The cast of the conference contains several characters who have already made an appearance in this paper and who would go on to rise to importance in the German economic miracle of the 1950s, the Mont Pelèrin Society be involved in European and American political economic discussions for the first few decades of the Cold War. The whole cast is given by Izzo and Izzo (1998:6).
philosopher Louis Rougier not made such efforts to coordinate it (Hartwich 2009; Mirowski and Plehwe 2009:46-47).\textsuperscript{117}

For all the importance of the Colloquium as the birth of neoliberalism, it has largely been forgotten in the greater scheme of history and very likely would have faded into obscurity were it not for Foucault directly addressing it in his lectures on biopolitics (Foucault 1994). Even within his exhaustive biography, Steel (1980) places more emphasis on Lippmann affair, divorce, and remarriage in 1938 and barely even mentions the Colloquium at all!\textsuperscript{118} Much of this may focus on the prevalence of the Mont Pelèrin Society as the voice of the victorious Allied powers’ scheme of hegemonic political economy within the literature, e.g. Mirowski and Plehwe (2009) focus their work on the Society whereas in his criticism of neoliberalism Harvey (2005) addresses the Society but neither Lippmann nor the Colloquium make a single appearance.

However, a substantial part of the blame must be placed on the neoliberals themselves, who did not offer a unified or coherent term for what they were describing, and they were unable to even name the phenomenon amongst themselves (Mirowski and Plehwe 2009; Izzo and Izzo 1997; Foucault 1994) until Marlio offered up the terms

\textsuperscript{117} The story of the development of the Colloquium itself is quite unique, given that Lippmann did not even understand the purpose of the congress which he reluctantly agreed to. Lippmann was not interested in a full conference, but rather was more interested in promoting his book and it was only the intervention of Hayek and Mises that convinced Lippmann to attend the conference at all (Mirowski and Plehwe 2009:46-47).

\textsuperscript{118} In a work spanning 636 pages, only a sole paragraph is devoted to the Colloquium. That the seminal biographer of the man after whom the Colloquium was mentioned barely mentions it is evidence enough that it was viewed as important neither within Lippmann’s own personal life nor the intellectual milieu of his time.
“positive liberalism”, “social liberalism” or “neo-liberalism”, the latter which Hartwich (2009) asserts Rüstow developed and expressed as early as 1932. Even once neoliberalism was adopted there were those who were critical of the term “liberalism” for that term had become associated with Manchesterianism, which the Good Society had clearly demonstrated had to be abandoned (Izzo and Izzo 1997:24). Others were frustrated by the term “liberal” because it implied a more explicit political dimension to the project. The true dimension of neoliberalism was never explicitly completed and Rougier concluded the first day of the conference on a largely conciliatory note, defining liberalism specifically within the economic system as “the free play of prices” (Izzo and Izzo 1997:25).

On August 26th Rougier opened the Colloquium with a statement that drew upon the Good Society to establish the general program for the conference, concluding that socialism and fascism were actually two varieties of the same, flawed species and that liberalism was not reducible to laissez-faire, laisser-passer. As such:

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119 The language of these three alternatives is important as they are in opposition to the notion of liberalism as laissez-faire, which was generally rejected by the neoliberals throughout the sessions of the conference in favor of a system that was more involved and which accounted for a variety of extra-economic factors.

120 Hartwich’s paper is particularly important in this regard in that it presents a slightly alternative beginning point for the birth of neoliberalism, which he asserts began when Rüstow gave a speech titled “Free Economy, Strong State” at Germany’s leading economics association at Dresden in 1932. If Hartwich’s research is taken into account then it becomes clear that perhaps there is no single “origin” of neoliberalism but just as with neoclassical economics it may have occurred simultaneously in multiple places of correspondence along liberal and socialist political economies. As such, the Walter Lippmann Colloquium is not significant so much as the originary point of neoliberalism, but rather that it was the point where neoliberalism came to the surface of the self-understanding of the liberals, i.e. the point of the actualization of neoliberalism through the neoliberals themselves.

121 C.f. n.94 p.97.
The state cannot remain indifferent in the presence of the evils engendered by economic crises of great scope nor resist the claims of the masses who demand a minimum of fundamental security (ibid. 7).

In a tone reminiscent of Lippmann and Mises, Rougier posited that economic calculation was impossible without a market and that the command economy could only plan by purposely diverting wealth to extra-economic or less-productive ends which only serve to promote the interests of those in power. Planning would only decrease liberty and socialism and liberalism are oppositional to each other (Izzo and Izzo 1997:8). The other major point of the Good Society is that it demonstrates that economy can only function as embedded within a greater socio-political structure and that an International Research Center for the Renewal of Liberalism should be established to progressively search for new ways to continuously improve the social, political, and economic order. Rougier defends that “intervention” is neither good nor bad itself, but only those who use it or for the purposes for which it is used determine this (op. cit. :9-10). Lastly, a third virtue of the book is that it “puts economic problems back into their political, sociological, and psychological context” and that pure economics and homo economicus can only be the starting point of economics, but that these are theories which cannot totally account for the actual world and must be continuously updated and revised (ibid. :10-11). The two major questions that he posits for the Colloquium are: “Is the decline of liberalism endogenous to its own internal development and contradictions?” and “Can economic liberalism respond to the social demands of the modern age?” (ibid. :11-12).

Thus from the first Rougier is setting the discussion for more than simply pure economics or politics, but rather that the new liberal doctrine must serve the social needs
for society, for if it cannot address and serve those needs than it will have no ground for practical or political conclusions. Lippmann himself largely seconds this position in his own address to the conference, adding that liberalism must embrace freedom, which is beyond and dogmatic theories and that liberalism is not a finished historical process, but is constantly revising itself (ibid. :16). He continues that liberalism must be a holistic and eclectic union in order to confront the evils of totalitarianism and collectivism, that:

[In sum, all parties, all factions, all sects, all the interests whose antagonisms have raised the problems of the last two centuries are forced to recognize that if they find no common ground for defense against the totalitarian States’ will to domination, they will all be destroyed together. This ought to show them that the disputes and divisions that they have harbored for so long do not come from irreconcilable conflicts but from their intellectual inability to discover the principles of unity to cover up their apparent differences (ibid. :18).

The second day of the conference began with the discussion of whether or not the decline of liberalism was due to the tendency of businesses to concentrate into larger units and whether or not this concentration was due to judicial privileges (ibid. :26). Röpke asserts that part of this process is natural and that scale increases with technology but that part of this could also be driven by the state (op. cit. :27-28), and Mises largely agrees but narrows the state intervention to protectionism which has allowed for producers of natural resources to solidify into cartels. He extends this argument against intervention in general however and asserts that it is a contradiction for the state to intervene to prevent economic concentration when it itself has produced it. He also counters that technology is neutral and may provide means for or against economic cartelization, but it is legislation which shifts the balance (ibid. :28-29).
On this point a split within the participants occurs: not everyone is convinced of the power of the state’s influence, with French corporate managers Detoeuf and Marlio countering that the state is not necessarily even the central influence and that the state was forced to intervene to protect its population from the failures of Manchesterianism. Marlio furthers that he is not convinced by Lippmann’s arguments that concentration is on the whole problematic and claims that industrial concentration is generally beneficial for the economy, and it is only in the cases where it is created by privilege that it is bad (ibid. :29-32). Rüstow clarifies that how the state intervenes is as important as if it intervenes such that while there is an upper limit to concentration in terms of pure economics, legal privilege allow for those limits to be broken and that those in privileged positions within the state or the corporate structure would try to conceal their relationships. The problem thus cannot avoid the state which can alternatively neglect its duties to police the market or outright facilitate economic abuses (ibid. :32).

While they disagreed on the exact role of the state and its centrality in the development of modern corporate capitalism, the neoliberals converged again on the position of the state having created limited liability corporation in the first place, which has become indispensable for the modern economy could not exist without them: Mises acknowledges that not only did this allow for large companies to form, but also that it allowed for great modernizing enterprises such as the Suez canal (op. cit. :33). Overall,

122 It is significant to note the division among the neoliberals with the corporate managers and those involved with industry, e.g. Detoeuf defending industry as trying to protect itself from the state whereas those academic members of the congress were more likely to criticize or condemn the corporate practices. In his review of the Good Society Knight directly addresses this problem, noting that have incentive to colonize the government to protect themselves against anti-corporate policy. Thus, according to Knight, corporate concentration may occur either as a consequence of state action or as the efforts of business to defend themselves, or a combination of both (Knight 1938: 865-866).
the limited liability of corporations allows for more capital to be used than individuals owners would able to by pooling risk together, but that there is a disconnection of the ownership of the corporation’s capital, i.e. the shareholders, and those who exercise control of that capital, i.e. the corporate management, and that there is a disconnect where corporate management is inherently more risky and more flexible than the individual owners otherwise would be. The general conclusion is given by the French intellectual Mantoux who posits that corporate concentration cannot be said to be wholly an inevitable evolution, but rather is the product of inconsistent and incoherent state economic policy over time (ibid. :35).

At the Colloquium an entire session was devoted to the war economy and the young Austrian economist Stefan Possony presented his original research, arguing that the war economy boils down to two main problems: the question of raw materials, and the question of transforming the economy for war. He concludes that the liberal economy is the best economy for war because has an abundance of capital to divert to military processes, but in the end he falls back on the Austrian school’s position on calculation: since war itself cannot be planned it cannot be a model for planning the economy; war economy requires bureaucratic planning for what is ultimately unknown, and is always inferior to the liberal economy (ibid. :38). In their deliberations the neoliberals go further than Possony’s original line and declare that warfare is against the very principles of liberalism and that modern governments are forced with a choice of either warfare or prosperity and Mises concludes that the world has only two real options: international division of labor or preparation for war and that the totalitarians are not planning beyond
the war because their goal is for total hegemony (op. cit. :41-42). Possony concludes that the session with the claim that the war economy is inherently a contradiction: only a liberal economy can truly provide the abundance of resources necessary for war, but that state control of the economy necessary for war destroys wealth.

The third day of the congress explored the questions of economic nationalism and how liberalism could fulfill its social obligations, e.g. a minimum of security and if it should secure a minimum living income for its population. On this day the tensions in the Colloquium increased with a clear division separating Röpke, Rüstow, Condliffe and Lippmann from Mises, Rueff, and Hayek, though a third party of Detoeuf and Marlio emerges.¹²³ Röpke’s address to the conference contained his conviction that the problem of economics was irrelevant to nationality, geography, or ethnicity, but rather that its focus was on buying power (ibid. :46-47). In his mind it was the shift away from rural to industrial economy which destabilized the social arrangements and the buying power.

However, others were more convinced that Röpke was confusing the consequences of the decline of liberalism. Mises particularly countered that states only had problems with raw materials and monetary exchange when the government

¹²³ The division occurred roughly along the lines of those who called for an “interventionist” economy that intervened in ways to support an reinforce the free market (Ropke, Rustow, Condliffe, Lippmann, etc.), those who were distrustful of government intervention in the economy at all (Mises and Hayek), and those who were corporate managers who wanted a neoliberalism that was, if at least only passively, supportive of their corporate interests (Detoeuf and Marlio). This tripartite division is more subtle in the text of the Walter Lippmann Colloquium but it presents a tension which becomes more important in the further development of neoliberalism at the Mont Pelèrin Society, which Rüstow, Mises, Röpke, and Lippmann all eventually left, if for various reasons: Röpke and Rüstow left because they felt that the Mont Pelèrin Society was becoming an instrument for international corporate interests, particularly American interests, against labor movements under the sway of Friedman, Hayek, and the Chicago school. Mises hated any form of interventionism with a passion, even if it was to support and advance corporate rights and private property, and left the Society and this accord (Mirrowski and Plehwe 2009), though he also disparaged the ordoliberals as “ordo-interventionists” (Hartwich 2009:20).
interfered, i.e. that the market would adjust itself automatically to social changes and that shortages could only be the result of extra-economic factors. The Australian economist Condliffe, though not explicitly agreeing with Röpke’s exact claims, countered that the change in the economy system by the international division of labor had “profound repercussions on both the distribution of income and on unemployment”. He continued:

_Laissez-faire_ is a negative philosophy. It must be complemented by positive economic as well as political measures. […] In any case, the philosophy of liberalism must not be confused with a particular economic system such as the capitalism of the 19th century (op. cit. :50).

The French thinker Mantoux agreed with Röpke and Condliffe that the changes in historic capitalism and the socio-political system affected each other greatly, though he cautioned that intervention was not historically inevitable or necessary.

Now the 19th century was the period of greatest changes, of the most rapid economic progress that history has ever recorded; and at the same time it was the most liberal […] intervention may be the product of a certain policy, but it is in no way the inevitable product of economic evolution.

No doubt these changes in a completely free economic environment do not take place without being accompanied by great suffering, which today we would no longer tolerate; but it is our ideas that have changed, not the economic facts or the economic laws (ibid. :51).

Röpke concludes that:

Economic nationalism is a very complex phenomenon which generally accompanies political nationalism. Periods of economic integration coincide with periods of political and social integration. All examples prove that one cannot understand national integration and disintegration without considering all points of view, political social, etc…

[…] Economic nationalism must not then be treated as an autonomous phenomenon […] it is a phenomenon that has its roots in the fundamental changes our or whole economic and social structure. If we want to give satisfactory answer to the question of the causes of economic nationalism, research must be undertaken in every direction (ibid. 53).
The true division in the neoliberals revealed itself on August 29th, when the psychological, sociological, political, and ideological causes of the decline of liberalism were addressed. Rüstow’s address summarizes the definition of “liberalism” reached by the deliberation: that it is a system that is durable because it is stable in equilibrium, that it assures the greatest productivity and the highest standard of living, and that only liberalism is reconcilable with human liberty and dignity. He makes the case that the violent movement away from and hostility toward liberalism is the result of extra-economic factors, which he demands that the conference address. The proper question of liberalism must not be how to maximum economic benefits for the maximum number of people, but rather to shape society to ensure the best form of society possible.

Rüstow argues that the political and social revolutions of liberalism went too far and that in their overthrow of tyranny they sought to overthrow all forms of order and social organization. This increasing atomization of society was reflected in economic thought by the false idols of the independent and automatic market and *homo oeconomicus* which rewarded selfish and particular interests by claiming that they contributed to the general interest. The market then facilitated the dissolution of society and as such there is a sociological demand for “compensation” wherein the state and society must intervene to restrain the market from itself (ibid. 63-69). Purely economic solutions would only facilitate the crisis because it could not facilitate human integration:

In short, the great crisis in which we find ourselves today is not, in essence, an economic crisis but a general life crisis […] Its economic manifestations are only the secondary symptoms of a deeper disease of the body social […] But the fault does not go back to [liberalism’s] theory of market economic, which essentially was and is exactly to the contrary. Rather the fault goes back to the inadequacy of its sociological ideals […]
In the face of this state of affairs it is necessary to renew liberalism, to palliate its serious mistakes, to fill the tragic gaps which have led to its catastrophe. It is the great merit of Walter Lippmann to have justified this necessity and to have begun this work in his book (ibid. :68-69).

His position was supported by Polanyi, Rougier, and Marlio who together argued that the problem was more “deeper” than economic and that modern populations lived in a state of mental distress, confusion, and insecurity which the Marxists and critics of capitalism correctly pointed out. This state of distress only drove the masses into the arms of tyrants who promised them order and security (ibid. 69-73). Mises counters that the “only answer” which motivated the masse to join totalitarian dictatorship was their economic situation and that the Marxists and the anti-Marxists\textsuperscript{124} gained power only through promising economic improvement. Mises acknowledges that there are other non-economic causes for the discontent of modernity but he accuses Rüstow of “simple romantic prejudice” (ibid. :73).

In a line that is iconic within Walter Lippmann Colloquium literature (Hartwich 2009; Mirowski and Plehwe 2009), Rüstow clearly addresses the division among the neoliberals:

When all is considered, it is undeniable that there in our circle two different points of view are represented.

One side finds nothing essential to criticize in traditional liberalism as it was and as it is except, naturally, the adaptations and critical developments that go without saying. In their opinion, the responsibility for all the misfortunes is exclusively the fault of the opposing side, of those who, through stupidity or weakness or by a mixture of the two, either cannot or will not perceive and observe the salutary truths of liberalism.

\textsuperscript{124} Mises’ language is reminiscent of his treatment of Marxism and the National Socialists as anti-Marxists in his memoirs (Mises 1978:107).
We who are on the other side see the responsibility for the decline of liberalism in liberalism itself, and consequently we look for the way out in a fundamental renewal of liberalism (ibid. :75-76).

Rüstow then implies that it is not he that is the romantic, but Mises, noting that if liberalism was so unshakably correct that there would have be no need for the congress in the first place and that if the masses had ignored the voices of the “prophets” of old liberalism e.g. Smith and Ricardo, why should they believe Mises? He insists that the onus of the restoration of liberalism fell to the liberals who could no longer support a negative, passive philosophy (ibid. :76).

Though in less combative terms, Condliffe largely picks up where Rüstow left off:

Those who are here are convinced that liberal philosophy is best, but they cannot agree whether to limit themselves to defending a completed economics system. This system has produced certain advantages; but one cannot preserve a system which has brought about such evils as the London slums, the great financial conglomerates, etc. […] It will be necessary to reduce monopolies and to re-establish the equality of classes, especially in education.

As long as the public has the impression that the invisible hand which operates the system is the hand of individuals who are acting in their own interest, the system cannot be maintained. It is necessary to make the social role of the system clear and comprehensible to the masses (op. cit.76-77).

The rest of session that day involved discussions of how the roots of the crisis were the results of mass society and modernity and that a priori no political or economic system is more “rational” than any other, but that society must be cultivated to receive liberalism (ibid. :77-82). On the last day the conference discussion is led by Lippmann who presents an “agenda” for the reconstruction of liberalism and it is clear by this point that the conference had turned more or less against the positions of Mises and Hayek, and
Detoeuf: the latter two do not speak again for the remainder of the conference in a telling silence.

Lippmann’s agenda largely focuses on the conservation and protection of the free market price mechanism through a sound system of law and government economic policy. He also posits that governments should collect taxes as necessary to offset individual consumption and spending and focus on national defense, social insurance, social services, education, and scientific research (ibid. :81-82). The majority of the conference, including Rueff, generally accepts these positions, though there is some slight debating the more specific elements among themselves. During this discussion Mises is tellingly quiet and he does not speak again until the conference discusses the formation of the International Research Center for the Renewal of Liberalism wherein he concedes that the “principle problem to be examined will be that of the possibilities and limits of interventionism” (ibid. 93), though he offhandedly shifts some of the blame of the failures of liberalism to the failures of the League of Nations.

—The Walter Lippmann Colloquium: Agree to Disagree—

The neoliberal “consensus” was essentially an agreement to do more research into the nature of the problem through the International Research Center for the Renewal of Liberalism, a short-lived international institution that was to provide material for a second conference in 1939. Aside from a few meetings, the Center did not really establish itself: the outbreak of the Second World War made a second Colloquium impossible (Hartwich 2009; Mirowski and Plehwe 2009) and the German and Austrian neoliberals scattered across the globe to escape the Nazis. The actual dialogue of the Colloquium
demonstrates a transformation in many of the participants from political economists to politician economists: in the opening session they could only agree that liberalism was a historic economic configuration but by the final session they were debating the specifics of how the government should intervene in the economy via law, social insurance, and fiscal policy, how the masses could and should be educated to create a society compatible with liberalism, and what topics were appropriate for academic discussion and research.

Despite this, tensions were present throughout the Colloquium that were never particularly resolved: Hayek, Mises, and Detoeuf never really endorsed the model of greater interventionism by the state. Hayek only discussed questions of taxation and social insurance in very narrow and technical economic terms rather than as part of a greater scheme of philosophy of governance (Izzo and Izzo 1997: 61). Mises addressed the topic, albeit reluctantly, noting that the problem to be discussed was whether or not to intervene and what “intervention” truly was, rather than the question of how to intervene that interested Lippmann, Rüstow, Röpke, Condliffe, Rougier, and others.125

The neoliberalism which emerged was clearly shifted toward Rüstow and Lippmann contra Mises, which led to a focus on liberalism as a good society which encapsulated a strong state that protected the free market from itself, rather than Mises’ more narrow definitions of liberalism as the non-intervention of the state in private property (Izzo and Izzo 1997; Lippman [1937] 2005; Mises 1929). The concluding remark of Roguier demonstrates that the question of this new neoliberalism was far from

125 Mises’ view of intervention was considerably more narrow than that of the other neoliberals in the first place, defining it as “a limited order by a social authority forcing the owners of means of production and entrepreneurs to employ their means in a different manner than they otherwise would” (Mises 1929:20). As such, Mises’ loaded definition already contains the claim that intervention implies coercion.
settled, and he proposes that the next conference should discuss what forms of intervention were compatible with the market economy and the price mechanism as well how to properly construct the liberal state vs. a democratic state. While the neoliberals retained their faith in liberalism and the rule of law, at the end of the day they were unwilling to throw the fate of liberalism into the hands of mass democracy. In short, the neoliberals had largely abandoned Manchester liberalism for a Jeffersonian anti-pluralism (Megay 1970).
DIVERSITY THROUGH STRUGGLE: NEOLIBERALISM AS A MANSION WITH MANY ROOMS

The story of the Colloquium is essentially a transformation of economists and scientists into activists and provided the neoliberals both greater ideological clarity and self-understanding as well as political necessity that would galvanize the successor Mont Pelèrin Society. Of these transformations, perhaps the most telling was that of Lippmann’s own: he went into the conference believing that he would be promoting and discussing his book with a few private intellectuals and ended up as contributing to political economic architecture that would reshape the face of world for the next seventyfive years. The neoliberals’ struggles amongst themselves and their critics demonstrate that they internalized the criticisms of historic liberalism and capitalism, defending as well as transforming liberalism away from a purer laissez-faire system with a negative understanding of the role of the state to concerning itself with greater sociological, political, and psychological phenomena created by as well as contributing to political economy.

The neoliberals totally reversed the Marxist and socialist arguments of Hilferding, Lenin, and others that capitalist concentration was inevitable and would lead to self-destruction through warfare and then metamorphosis into socialism. Both the critics and the defenders of liberalism and capitalism converged in their belief that the problem would extend beyond the totalitarian regimes to eventually reshape the entirety of the
world stage: the Marxists and socialists believed the problems of historic liberal political economy would usher in an era of international socialism, the neoliberals believed that modernity would lead to an era of international division of labor and liberalism. The story has a complex cast of characters—Austro-Marxists, social democrats, socialists, Marxists, Bolshevists, Austrian school economists, neoclassical economists, classical liberals, and neoliberals—who all essentially wanted the same thing: to rescue mankind from the devastating consequences of the industrial revolution and modernity.

The triumvirate of protagonists in this work share curiously similar stories and struggles. They were all German or German-speaking Jews who were nonreligious intellectuals who suffered from alienation and anti-Semitism. They were all socialists in their youth that were uncomfortable with dogmatic and overly orthodox Marxism and historicism and were familiar with both capitalist and Marxist economics. All of them studied directly or indirectly with the Austrian school of economists and were acquainted with the 19th century German philosophical revolution, whether neo-Kantianism or the revival in interest in Greek philosophy. All of them favored a liberalism that was “aristocratic” and sought to reach across class or ideological divides through compromise and pragmatic politics. All of them were public intellectuals and educators and held governmental posts. All three of them were opposed to the First World War as well as nationalism. While they were selected for this paper due to their proximity to the Walter Lippmann Colloquium, the three of them did not stand alone: Hilferding and Lippmann were not particularly even known for their unique positions, but rather they moved within intellectual circles and simply articulated the milieu of their time. Finally, all three of
them were greatly interested and concerned with Lenin’s experiment in the Soviet Union and wrote about it directly.

The triumvirate of Hilferding, Mises, and Lippmann is unique in that it is a syncopation where the dissonance as much as the agreement of the three figures contributes to the overture of liberal political economy in the 20th century. Much of the recent literature on neoliberalism focuses on it as a coherent structure propagated through fixed institutions: think tanks, governments, state policy, universities, the Washington Consensus, etc. What the triple intellectual biography of Hilferding, Mises, and Lippmann has attempted to demonstrate is that the “consensus” of neoliberalism is as much a conjunction through disjunction than a set institution, program, network, or system and that is has been so since its very inception. This paper has intended to work within the more recent spaces of Bockman (2011), Boas and Gans-Morse (2009), Harwich (2009), and Mirowski and Plehwe (2009) that have looked more at the fragmentary nature of neoliberalism rather than the politically charged rhetoric of neoliberalism as an overture of market fundamentalism or American-centered neo-imperialism. Furthermore, the development of neoliberalism has been examined more at the individual level in order to grasp the complexity of the struggle of political economy in the 20th century, for only through the eyes of individuals can phenomena of ideology and political practice truly become intelligible: struggle is not of system to system or idea vs. idea, but rather individuals contra individuals.

A secondary purpose of this paper has been to shift the gaze of research of 20th century political economy away from the traditional centers of the First World War, the
Great Depression, National Socialism, the Second World War, the Cold War and Reaganomics in order to demonstrate that, while these events were of unmistakable critical importance they were the consequences of complex movements and the intersections of various debates over interventionism, Keynesianism, the nature of the state, orthodox fiscal policy, neo-Kantianism, Austro-Marxism, finance capital, nationalism, and social, ideological and political disruptions caused by the turn to modernity and industrial society. This paper agrees with Köhnke (1991) that the history of the 19th and 20th century in the German-speaking world is far more subtle and complicated than the collapse into totalitarianism and National Socialism; it also concurs with Smaldone (1988), Wagner (1996), and Bottomore and Goode (1978) that the Austro-Marxists and the Austrian school economics' debates within each other have been overlooked for the rise of National Socialism and totalitarianism. Finally, this paper agrees with Bockman (2011) that critical events in the discourse traditionally taken for granted, e.g. the socialist calculation debate, should be critically re-examined past the politically charged narrative of “us” vs “them” dichotomies propagated by the Soviet Union and the West during the Cold War: that there are always more than two options and that neoliberalism, neoclassical, and socialist economics have contributed to each other than through pure opposition.

In short, the focus of the literature has had a disproportionate shift to the period after the Second World War and the collapse of the Soviet Union/ rise of Reaganomics and there is much ground to still be explored, particularly from the last quarter of the 19th century until the Great Depression, which clarifies much of the current crises and
problems of international capitalist political economy. Scholarship needs to take a page from Lippmann’s playbook: he hypothesized that both the Marxists and the old school liberals put too much emphasis on the system of property and that their theories came up short when the political and economic crises of the 20th century emerged. In our own century the crises of international finance and global political economy as well as the abundance of successful alternative models of market socialism and welfare capitalism again demonstrate that we have constructed another false dichotomy: that of those for or against neoliberalism. Yet the literature on neoliberalism demonstrates that it is not as cohesive as its critics and its proponents claim that, like the liberalism that came before it is a house of many rooms where there may yet still be room for all.
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