The European Heritage in Economics and the Social Sciences
Series Editor: Jürgen Georg Backhaus

Patricia Commun
Stefan Kolev *Editors*

Wilhelm Röpke (1899-1966)

A Liberal Political Economist and Conservative Social Philosopher

Springer

The European Heritage in Economics and the Social Sciences

Volume 20

Series editor

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The European heritage in economics and the social sciences is largely locked in languages other than English. Witness such classics as Storch's Cours d'Economie Politique, Wicksell's Finanztheoretische Untersuchungen and Geld, Zins und Güterpreise or Pareto's Trattato di Sociologia Generale. Since about 1937, partly caused by the forced exodus of many scholars from the German language countries and the international reactions to this event, English has become the undisputed primary language of economics and the social sciences. For about one generation, this language shift did not result in a loss of access to the European non-English sources. However, after foreign language requirements were dropped as entry pre-requisites for receiving the PhD at major research universities, the European heritage in economics and the social sciences has become largely inaccessible to the vast majority of practicing scholars.

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We welcome submissions that fit this bill in order to make the European heritage in economics and the social sciences available to the international research community of scholars in economics and the social sciences.

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Wilhelm Röpke as a Pragmatic Political Economist and Eclectic Social Philosopher: An Introduction

Patricia Commun and Stefan Kolev

Upon the 50th anniversary of the passing of Wilhelm Röpke (1899–1966), an international conference "Wilhelm Röpke: A liberal political economist and social philosopher in times of multiple European crises" was held in Geneva, Switzerland, on April 14–16, 2016. The conference was a special occasion for several reasons. It was hosted by the institution where Röpke spent the last three decades of his life, the Institut des Hautes Études Internationales (today Graduate Institute of International and Development Studies). Four other institutions from Switzerland, Germany, and France co-organized the conference: Liberal Institute (Zurich), Wilhelm Röpke Institute (Erfurt), Aktionsgemeinschaft Soziale Marktwirtschaft (Tübingen), and Centre AGORA at the University of Cergy-Pontoise. Above all, the format was particularly international and interdisciplinary: the presented papers were authored by scholars based in Argentina, Chile, France, Germany, Italy, the Netherlands, Switzerland, Turkey, the United Kingdom, and the United States. These scholars specialize in a variety of fields in the social sciences: economics, history, political science, sociology, cultural studies, and German literature. An additional highlight was the public lecture of Hernando de Soto, former student of Röpke and president of the Institute for Liberty and Democracy in Peru, who discussed Röpke's legacy today. Along with the commitment of the organizing institutions to continue communicating Röpkean messages to the general public, we perceive the conference as a clear indication of a renewed scholarly interest in Röpke's person and ideas.

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This volume includes 16 contributions based on the papers presented at the conference. As is easily discernible, the collection touches upon manifold questions in Röpke's œuvre, among others the various tensions which characterize his thought along several dimensions. Contrary to what one might expect from a volume of such an occasion, the collection is not hagiographical: while respectful to Röpke's person and his scholarly achievements, the aim of the volume is not to present him as an unprecedented hero of his age. This feature is a conscious demarcation from those strands of the literature on (neo-)liberalism which are either hagiographical—mostly produced by authors who are ideologically too close to the discussed authors, or one-sidedly hostile—mostly produced by authors who primarily express aggression or contempt for the discussed authors. In our view, the historical tasks of understanding neoliberalism require much more nuanced and balanced approaches than the ones mostly found in these strands of literature.

And these tasks are serious. While the literature on neoliberalism has become vast and extremely diverse, it suffers from a number of deficiencies. The question of what neoliberalism means—historically as well as for today's politico-economic discourse—has become one of the hot topics in Western democracies over the last decades. In large parts of the literature with a focus on current political developments, this almost mythical term has degenerated into a rather bizarre strawman that can be accused of all evils in global affairs since the "neoliberal revolutions" of the 1970s and 1980s. Other parts of the literature with a focus on the history of economic and political ideas have spent substantial energy in distilling what neoliberalism "really" meant to the generation in the 1930s and 1940s which used it as a self-description of their reformist agenda for twentieth-century liberalism. While this volume belongs rather to the latter type of literature, some qualifications are necessary. As the different contributions clearly show, the authors reach no consensus about the "real" content of historical neoliberalism. They also indicate that Röpke's generation was not enthusiastic about the term and that different scholars used the term with different connotations over the years. Given these impasses, this volume's overall attitude to the term "neoliberalism" can be described as procedural: instead of trying to delineate what neoliberalism meant in substantive terms and to demarcate its (rather vague and above all heterogeneous) boundaries, we suggest that the neoliberalism of the generation of the 1930s and 1940s was above all a sociological process, a discourse of a well-connected network of scholars who experienced the rise of dictatorship as a consequence of the collapse of the global economy, and who for decades on end debated what liberalism could and should mean in the twentieth century. Important to emphasize, this was just one of many neoliberalisms, since the history of liberal political economy consists of numerous generations of scholars who have always attempted to innovate upon the ideas of previous generations. In this interpretation, understanding the breadth and depth of twentieth-century neoliberalism can help also to dehomogenize earlier liberal discourses and above all to provide indications for what a new neoliberalism for the twenty-first century might look like.

1 Wilhelm Röpke: A European Public Economist

Born at the end of the nineteenth century, Wilhelm Röpke might be one of the most complex and paradoxical German liberal intellectuals in the tumultuous twentieth century. Although he never returned to Germany after having been forced to leave in 1933, Röpke is mostly referred to as a special advisor to and political commentator on Ludwig Erhard's Social Market Economy. He also became a political opinion maker in Switzerland, where he lived for almost 30 years from 1937 until his passing in 1966. To this day, scholars identify his liberal-conservative version of a decentralized market economy and society as an archetype of his beloved adopted homeland Switzerland. Not only did Röpke become a political and economic authority in both Switzerland and Germany, he also developed a wide international network in which he emerged as an influential intellectual, in the dual role of a liberal political economist and a conservative social philosopher. Röpke's prominence in several European countries can to some extent be compared to the role of Walter Lippmann in the American context, portrayed in the most recent Lippmann biography by Craufurd D. Goodwin as having been a "public economist."

The first section of the current volume offers new biographical insights and portrays Röpke as a truly multifaceted figure: one of the prominent German liberal economists in the 1920s, he gradually evolved in a hub of international influences, and in the course of the 1930s transformed into a social philosopher. The driving force behind this transformation was Röpke's realization that the toolbox of economics was not sufficient to explain the collapse of the Western civilization. This resulted in an anxiety to examine the social, ethical, and political preconditions and prerequisites of the free market economy.

As reconstructed by Antonio Masala and Özge Kama in their contribution *Between Two Continents: Wilhelm Röpke's Years in Istanbul*, Röpke was heavily involved in reflecting upon and influencing the economic and academic modernization of Turkey, the country which welcomed him when he fled the National Socialist dictatorship in 1933. Masala's and Kama's contribution explores several publications of Röpke in Turkish which have never been translated into other languages. This exile lasted for 4 years, during which he shared the lot of an émigré with numerous German scientists, among them the ordoliberal sociologist Alexander Rüstow. The Istanbul period and the intensification of the relationship to Rüstow certainly played a seminal role in Röpke's project of renewing liberalism.

Owing to the efforts of William Rappard, the cofounder of the Institut des Hautes Études Internationales (Graduate Institute of International Studies), Röpke could move to Geneva in 1937, a decisive moment for his reconnecting to Central Europe and for his further intellectual development. He "spent the greater part of his academically active life in Geneva, using the example of Switzerland as a blueprint for his social philosophy," as Andrea Franc formulates in her contribution *Wilhelm Röpke's Utopia and Swiss Reality: From Neoliberalism to Neoconservatism.* In the 1940s, Röpke played an important role in shaping a national exceptionalism in the course of the so-called Swiss spiritual defense, and ever since he has become a

political icon for liberal-conservative Swiss intellectuals and politicians, but his heritage has also been misinterpreted or even abused by some of his followers, as Franc's account indicates.

Through his intensive intellectual friendship with the eminent Italian liberal economist Luigi Einaudi, who became the second president of the Italian Republic from 1948 to 1955, Röpke came into contact with the debates within Italian liberalism and Italian politics. As delineated by Alberto Giordano in his contribution *The Making of the "Third Way": Wilhelm Röpke, Luigi Einaudi, and the Identity of Neoliberalism*, this friendship played a key role for the emergence of a European neoliberal identity. Both aimed at restoring a functioning free market economy embedded in an ethical-legal framework and at implementing the program of the "Third Way" between laissez-faire and collectivism, not only on the national level but also in the incipient process of European integration.

Defining a new liberalism was Röpke's main concern on the eve of WWII, as it was for all European neoliberals—even though within the group, subgroups were pejoratively called "paleoliberal," implying a limited willingness to criticize nineteenth-century liberalism. Reconstructing the colorful intellectual relationship of Röpke and Walter Eucken to the allegedly "paleoliberal" Ludwig von Mises from the 1920s to the 1960s, as presented by Stefan Kolev in his contribution *Paleo- and Neoliberals: Ludwig von Mises and the "Ordo-Interventionists"*, enables a deeper understanding of Röpke's and Eucken's complex relationship to the Austrian School. While presenting the decades of strained discussions within the Mises-Eucken-Röpke triangle, Kolev emphasizes the key importance of conceptual clarity and rhetorical sensitivity in politico-economic debates for today and tomorrow.

2 Röpke as a Pragmatic Political Economist

The second section of the volume focuses on Röpke's analysis of the Great Depression and the policy responses to it. His reflections were embedded not only in the contemporaneous debates on business cycle theory, but also in the context of policy consulting where he proposed pragmatic interventionist measures, also justifying them by using sociological considerations. Most commonly Röpke referred to Keynes and the Austrians, and his own positioning can be described as a tension between these two theoretical systems, but he was clearly also aware of other positions in the feverish debates of the time.

The first contribution, *The Moral Foundations of Society and Technological Progress of the Economy in the Work of Wilhelm Röpke* by Marcelo Resico and Stefano Solari, explores the still highly topical problem of "metastability" of markets and society as developed by Röpke. Röpke's critique of rationalization and massification can be seen as a general reflection upon the metastability of market society, as its order is permanently questioned and challenged by modern technology, division of labor, and economic development. Technology might be of benefit to the market as an enabling tool for the individual, but it has social and

political consequences that have to be managed. Morality might therefore play a key role vis-à-vis the problem of metastability.

The next three contributions, by Raphaël Fèvre, Patricia Commun, and Lachezar Grudev, respectively, focus on the theories and activities of Röpke as public economist during and after the Great Depression, especially on his business cycle theory and his pragmatic proposals to handle the problems of the severe crisis. Röpke's early work has often been classified as proto-Keynesian, which, according to Fèvre, is inappropriate. Fèvre describes in his contribution *Was Wilhelm Röpke Really a Proto-Keynesian?* how Röpke's attitude to Keynes evolved during the 1930s and 1940s and how the pronounced shift from proto-Keynesian positions to a sharply anti-Keynesian stance can be explained. Röpke's report on the debates within the famous Brauns Commission whose member he became in 1931, as analyzed by Commun, shows to what extent he was above all a pragmatic liberal. He therefore conceived a pragmatic business cycle policy to provide an adequate response to the dramatic crisis starting in 1930. Contrary to scholars who have claimed that Röpke did not develop a particular business cycle theory but only synthesized existent theories, Grudev shows in his contribution how Röpke did develop a rather specific theory of his own. Although he struggled to precisely demarcate primary and secondary depressions, Röpke's achievement is to have traced back the roots of the secondary depression to the primary depression, which in turn depends on the evolving boom period that has preceded it.

3 Röpke as an Eclectic Social Philosopher

The rise of dictatorship in Germany, and more generally the severe disruptions in European democracies, appalled Röpke to the utmost extent. He interpreted these events in similar ways as neoliberals such as Eucken and Hayek, not only linking them in various ways to the Great Depression but also going beyond this link. This is the reason why in the late 1930s, Röpke left the field of theoretical economics behind and, from the 1940s onward, focused primarily on the ethical and sociological preconditions and prerequisites of a stable society based on a free market economy. But was it really a new turn toward radical conservatism?

No, it was not. Jean Solchany, the author of the most recent Röpke biography, claims in his contribution *Wilhelm Röpke: Why He Was a Conservative* that Röpke did not develop into a conservative but that he always was and remained a genuine conservative. While Röpke was certainly shaped by the tragedies in German history and was embedded in the German "Zeitgeist," Solchany shows how he always distanced himself from German conservatism, especially from the ideas of the so-called Conservative Revolution. It was only in his period as émigré that he connected to international conservative networks and met with prominent American neoconservatives with whom he shared a number of political and economic positions.

And he was more than "just" a conservative. Alan S. Kahan argues in his contribution *From Basel to Brooklyn: Liberal Cultural Pessimism in Burckhardt, Röpke, and the American Neoconservatives* that Röpke shared with Burckhardt what Kahan calls an "anti-modernist liberal cultural pessimism." In that respect he was rather different from key American neoconservatives like Irving Kristol, whose conservatism according to Kahan can be more aptly described as "modernist liberal cultural pessimism." Kahan concludes that "optimism is not a requirement for liberalism," and thus for him Burckhardt, Röpke, and Kristol can all be considered liberal despite their common cultural pessimism.

As portrayed by Tim Petersen, Röpke's general relationship to conservatism—German and American—was a very complex one. Even though he developed a close friendship with a prominent Austrian-born "fusionist," William S. Schlamm, Röpke was not a proponent of the current within American conservativism called "fusionism." In Petersen's assessment, he was rather a proponent of traditionalist American conservatism, as embodied in the work of Russell Kirk to whom he developed an increasingly close relationship during the last decade of his life. At the same time, Röpke always emphasized his incompatibility with the German strand of ideas associated with the so-called Conservative Revolution.

Last but not least, Röpke was embedded in a German and European tradition of cultural pessimism, as reconstructed by Frans Willem Lantink in his contribution *Cultural Pessimism and Liberal Regeneration? Wilhelm Röpke as an Ideological In-Between in German Social Philosophy*. To Lantink, Röpke's war trilogy can be classified as a "rhapsodic" version of the "contemporary intellectual novel," as first cultivated by Oswald Spengler and Johan Huizinga. Röpke was a very eclectic, "active cultural pessimist" rather than "simply" a liberal conservative, as Lantink interprets him and embeds him in a network of contexts amid Hayek, Thomas Mann, as well as Theodor W. Adorno and Max Horkheimer.

4 To What Extent Can Röpke Still Be Considered a Liberal?

In a contribution entitled *Wilhelm Röpke on Liberalism, Culture, and Economic Development*, Nils Goldschmidt and Julian Dörr characterize Röpke's liberalism as humanist, anti-authoritarian, and universalist, and they also interpret his curious distinction between "fleeting" and "lasting" liberalism. Röpke appears as having been particularly sensitive to issues of culture, in the sense in which today's transition economics treats informal institutions, and as a precursor of today's cultural economics. At the same time, a tension becomes visible between his universalism and his pronounced skepticism toward non-Western cultures, as presented in the case study of his problematic attitude toward South African apartheid.

According to Henrique Schneider in his contribution *Skepticism about Markets and Optimism about Culture*, Röpke did not trust the market to be solid enough as a foundation of society, while he was (perhaps too) optimistic about the integrative properties of culture: even if he certainly advocated a free market economy, he trusted bourgeois culture more to prevent society from disintegrating. But what precisely is this bourgeois culture? Schneider provides a systematic exploration of what culture means in Röpke's works, with a special emphasis on Röpke's take on virtue ethics, making this concept of culture operational for further research.

Röpke's emphasis on the essential properties of constitutional and moral frameworks for economics and the social sciences, as well as his early formulations of self-interest as a key characteristic of politicians and bureaucrats especially in the context of the expansion of the welfare state, or of the rent-seeking behavior exercised by pressure groups in democratic societies, locates him in a certain proximity to James Buchanan's vision of politics. Gabriele Ciampini analyzes this proximity in his contribution *Democracy, Liberalism, and Moral Order in Wilhelm Röpke: A Comparison with James M. Buchanan*.

Last but not least, in his contribution *Wilhelm Röpke's Relevance in a Post-Totalitarian World*, Richard Ebeling portrays Röpke as a courageous liberal intellectual who decided to fight the totalitarian collectivisms of the twentieth century, phenomena that had become deadly threats to the liberal civilization of the West. Despite the breakdown of National Socialism and of communism, Röpke's warnings against inflation, centralization, and the continuous growth of the welfare state, as well as his warning against the dangers from religious fanaticism, are perceived by Ebeling as particularly topical dangers to freedom and stability of Western societies in the twenty-first century.

5 Röpke's Challenges

It would be presumptuous to present a synthesis of the highly detailed contributions in the volume. Instead, in the end of this introduction, we would like to delineate a list of challenges which are inherent in Röpke's legacy. He certainly raised many provocative questions about economy, society as well as their intricate interrelationships, and to some of these questions he could provide satisfactory answers. Clearly, Röpke underwent a significant evolution in the course of his career, which is hardly surprising given the tectonic movements that on several occasions shook the very foundations of the West during his lifetime. Before, during, and after the Great Depression, he advocated liberal therapies, although of his own making: even if "pure theory" might have suggested otherwise based on an analysis of the economic order, his politico-economic analysis let action appear as urgent and mandatory to stabilize the collapsing political order in Germany and beyond. In later decades, he moved away from studying the economic order, increasingly focusing on other societal orders which in his diagnosis were at least as crucial for attaining a "humane economy." In other words, a free economy in his view is certainly a necessary, but by

far not a sufficient condition for a free society— instead, other framework layers, especially bourgeois culture defined in terms of virtue ethics, are indispensable for the stability of a free society. What precisely these values are and how they can be sustained under the pluralistic conditions of modern societies poses a gigantic challenge to which Röpke could only partially provide answers.

Many of the contributions present Röpke as an eclectic thinker, one who on several occasions aimed at synthesizing different patterns of thought. Scholarly judgments vary about the success of these syntheses. His business cycle theory attempted to combine "the best of all worlds" in the theoretical systems of the time, above all of Keynes and the Austrians. Röpke's social philosophy attempted to combine liberal milestones like individualism and a focus on free markets with conservative ingredients like cultural pessimism and anti-modernism about society's evolution, resulting in a mélange which is called in the volume a "retro-utopia." He advocated a broader reform agenda for economy and society than most of his fellow neoliberals, but at the same time, he was less focused on the state as the primary promotor of necessary interventions, instead emphasizing more than others the crucial role of civil society for sustainably implementing the reform agenda. Röpke's terminology was often ahead of others, for example, in his usage of the term "spontaneous order" much earlier than Hayek, but at the same time, quite often he was much less precise and less coherent than the terminology of his fellow neoliberals. In contrast to these neoliberals, however, Röpke did not shy away from spending plenty of time and energy in his role as public intellectual, being in correspondence not only with the great minds of the day but also with normal citizens asking for his advice. He did not shun normativity, but his omnipresent usage of value judgments gives a very specific taste to his social philosophy, one that might—correctly or not—strike today's students of the social sciences as somewhat antiquated. And unlike some of his fellow neoliberals, Röpke did not stay purely abstract but was heavily involved in policy consulting and recurrently commented on issues of international political economy, for example, in applying his economics and social philosophy to the incipient process of European integration. Yet another challenging task would be to study today's fragile European Union, or the very recent stagnation in the process of globalization, from a Röpkean perspective.

Today Röpke commonly remains in the shadow of his fellow neoliberals, most notably Hayek, Mises, and Friedman. We hope that this collection of Röpke scholarship will provide some illuminating and provocative new insights for the historiography of the curious phenomenon "neoliberalism."

Part I
Wilhelm Röpke: New Biographical Insights

Between Two Continents: Wilhelm Röpke's Years in Istanbul

Antonio Masala and Özge Kama

1 Introduction: Atatürk's Modernization Project and Röpke's Activities at the University of Istanbul[1]

The Turkish state was born from the ashes of the old Ottoman Empire in 1923 under the leadership of Mustafa Kemal Atatürk. His aim was to modernize Turkish society following the example of Western countries by introducing revolutionary reforms such as a new alphabet consisting of Latin characters and new legal and educational systems. With these changes his primary objective was to create a national culture and transmit this culture to the entire population. University reform (Namal and Karakök 2011) was a crucial element in Atatürk's modernization project, and in a sense it was the apex of his cultural project, with the aim to educate a new élite and to create a modern bureaucracy who would carry out scientific and economic development (Reisman 2006, p. 2). In this titanic project of cultural transformation which extended well beyond the economy, education was perceived as the key instrument of social mobility.

The establishment of the new higher education system constituted a long process of change which started during the 1920s. Turkey had a close relationship with Germany, so the idea of developing a Humboldtian university system based on the

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combination of teaching and research became a natural choice (Tekeli 2010; Ege and Hagemann 2012). In the final stage of the reform process, the Darülfünun (the old tertiary education system) was abolished, and a new university system was established in its place. The University of Istanbul, reconstituted in August 1933, became the first new university in the country.

Albert Malche, a Swiss professor of pedagogy and a renowned expert on education systems, was appointed in January 1932 to reform the Turkish university system, and in the autumn of 1932, he was commissioned to recruit foreign academics to teach in the new system. Malche met with the pathologist Philipp Schwartz, who had fled Germany and had established in Zurich the "Notgemeinschaft deutscher Wissenschaftler im Ausland" (Emergency Committee for German Scholars Abroad), an organization which aimed to assist and support German academics forced to escape from the National Socialist regime. In July 1933 Malche and Schwartz met with the Turkish Minister of Education, Resit Galip, and convinced him that the employment of first-class foreign scholars such as the German refugees would help to create modern and successful universities. Schwartz proposed an instructor list of 30 scholars and, upon the final approval of Atatürk, the émigrés started signing their contracts (Seyhan 2005).

The tragic academic purge in Germany was an opportunity for Turkey to host prominent scholars and scientists from different disciplines, and in the course of a few years, around 300 professors and 50 technicians were employed in Turkish academia. Most of the academics were Germans (a popular joke at the time was to call the University of Istanbul the largest German university in the world), but there were also important scholars from other European countries. Foreign lecturers belonged to different disciplines: public health, engineering, legal and administrative issues, economics and finance, history, and philosophy (Reisman 2006, pp. 475–478). These academics had an immense importance for the modernization of Turkey. The main duty of foreign professors was to write textbooks for Turkish students and to instruct not only their students but also young scholars. In the following years, some of them also became consultants to the public authorities and played a seminal role in the development of the Turkish legal and economic systems.

In the early 1930s, Wilhelm Röpke was already a renowned professor at the University of Marburg. He was an outspoken opponent of the National Socialist movement from the very beginning and presciently made the decision to leave the country even before the first political purge which came into effect on April 7, 1933. Initially, he escaped to Amsterdam where he got in touch with Malche and Schwartz and decided to accept the position at the University of Istanbul. Without being sure if other options were available at that time for the brilliant young German economist, we can guess that the Turkish project to establish new academic institutions with the seminal role of educating élites and changing the culture of the country and its social structure was challenging for Röpke. Due to Röpke's efforts, a position was also offered to Alexander Rüstow, who would also play a key role in

the development of ordoliberalism. The two scholars had known each other for several years but were not yet close friends and had had some minor scientific disagreements in the past (Hennecke 2005, pp. 66–68). In Istanbul Röpke and Rüstow spent plenty of time together and their friendship continued well after Röpke's departure for Switzerland almost 4 years later in 1937, while Rüstow stayed in Istanbul for 16 years until 1949.

According to the memoirs of fellow émigré Fritz Neumark (1980, p. 45), Röpke and Rüstow lived on the same street in Moda, a part of the Asian neighborhood of Kadıköy, where a significant number of émigrés, including Neumark himself, settled down. Life in Istanbul was not easy for Röpke and his family (Röpke 1977; Hennecke 2005). Language was a great barrier to communicate with the locals, the libraries were extremely poorly equipped, and the presence of some German officers spying on the refugees created a climate of suspicion among the émigrés. Initially Röpke was convinced that the National Socialist regime would soon fall and that he would have the chance to return to Germany (Neumark 1980, p. 44). This belief makes it plausible to assume that from the beginning he considered his stay in Istanbul as temporary, but nevertheless made great efforts to improve the newly founded university.

Röpke arrived in Turkey in the autumn of 1933 and was appointed professor of political economy. Rüstow and two other German economists, Fritz Neumark and Gerhard Kessler, arrived with him. With the exception of Rüstow, who was assigned to the Faculty of Humanities, they were all members of the Faculty of Law. Upon the request of Neumark and Röpke, the Institute of Economics and Sociology (Iktisat ve Içtimaiyat Enstitusu) was created almost immediately within the Faculty of Law. The first director of the institute was Neumark, but in 1935 Röpke's name was mentioned as director. Röpke and Neumark aimed to create an autonomous Faculty of Economics, and owing to their efforts, it was finally founded in December 1936 at a point when Röpke was already ready to leave for Geneva. In 1934, while at the University of Istanbul, he founded the Library of Economics and Social Sciences, later renamed the Library of the Faculty of Economics.

Röpke was probably the most famous professor among the émigrés. At the time he was already an internationally renowned figure with strong links in the international scientific community. At the University of Istanbul, he played an important role and was appreciated by his colleagues not only as a prominent scientist but also as a kind person who was always open to discussions and generous in giving scientific suggestions (Neumark 1980). His courses in economics were highly popular, and he also wrote textbooks on economic theory and economic history for his students. For quite a while, these textbooks were the only ones available on these topics written in Turkish. Notwithstanding these facts, there have been surprisingly few attempts to understand his legacy and influence on Turkish academia and economic culture. In the literature on the Turkish university system, he is mentioned as an important scholar, but his role and ideas have never been analyzed

extensively. Also, the important books he wrote after his departure to Geneva were never translated into Turkish, and there is hardly any literature on him in Turkish.[2]

One reason for this neglected legacy could be that Röpke was, alongside Rüstow, one of the very few liberals in Istanbul's academic community. All other émigrés were strongly in favor of state intervention and most of them were socialists. In Turkey socialism was not popular at all, but strong government intervention for promoting economic development and pushing the modernization of the country nonetheless came close to a dogma in Turkish politics. The aim of the government was to create a "national economy" (Nationalökonomie, Milli Iktisat) by concentrating economic power in the hands of a new secularized post-Muslim élite, one more open to the issues of business and to the development of markets. Until the early 1930s, it was commonly assumed that this was possible in a liberal context (Boratav 2003), but this attitude changed with the Great Depression, and from that moment on, Turkish politics constantly evolved in the direction of stronger protectionism and state intervention in all economic sectors (Ege and Hagemann 2012, p. 949).

Röpke's liberal approach placed him in a marginal position. Even if he had stayed in Turkey for a longer period, it is difficult to imagine him as a member of the group of émigrés who became advisors to the government and the local authorities. This group played an important role in Turkish politics of the time, and among them were widely known names in the fields of jurisprudence and economy such as Ernst E. Hirsch, Gerhard Kessler, Alfred Isaac, Ernst Reuter, and especially Fritz Neumark, the professor of public finance to whom Turkey owes the introduction of its income tax in 1950. Most of Röpke's Turkish colleagues were also in favor of state interventionism and apparently Röpke was not very influential on them, including the young researchers who translated his works and his classes. Particularly interesting are the cases of Mehmet Muhlis Ete and Ömer Celal Sarc, who translated most of his works for publication and thus became very familiar with Röpke's thought. Both played an important role in the Turkish political and academic life of the postwar period, but we can only indirectly trace Röpke's impact on them.

Mehmet Muhlis Ete was a professor at the University of Istanbul and later pursued a successful political career. He was elected to parliament from the Democratic Party and was minister of economic affairs between May 1950 and March 1951, then minister of economy and trade until November 1952. During that period Turkish politics remained far from a true liberal economic approach, but in a sense the country's environment became more favorable for the private sector. Once the first Turkish private bank for investment was established with the aim of promoting private industries, foreign direct investments were supported by the government as well as local industries with increasing exports. By the Turkish standards of the time, Muhlis Ete could be considered a minister quite in favor of

[2]The only identifiable exception is a comparison between Röpke's and Keynes' systems of thought published by an economist working in the Agrarian Bank of Turkey (Belda 1969).

the market economy, but his policies nevertheless appear far from Röpke's positions.

Ömer Celal Sarc received his diploma and PhD from the University of Berlin where he was highly influenced by the ideas of Werner Sombart. Between 1949 and 1951, he was the rector of the University of Istanbul. Sarc's books covered the fields of economics and statistics. His positions fundamentally conflicted with those of Röpke, since Sarc claimed that government involvement in the economy is not an exception but a necessity and that the economy cannot be left to itself. His notion that the most important class in need of government protection was that of small farmers has a very different justification compared to Röpke's similar-sounding attitude to interventionism in agriculture, since in Sarc's case it is a consequence of his general support for political interventionism.

The overlooked legacy of Röpke in Turkey could therefore be at least partially explained by the strong preference for interventionism in his host country at the time. However, it is interesting to note how in his works during the Turkish years Röpke was not against interventionism in the case of a country in the situation of Turkey, and how he supported some actions of the government. In this respect his positions were not too far from the ideas of the few Turkish economists and intellectuals who at that time proclaimed themselves as liberals, such as Ibrahim Fazıl and Ahmet Ağaoğlu (Özavcı 2012, 2015), who were in favor of limited state intervention in the economy. In some respects those authors differed from Röpke. For example, they admired Roosevelt and his New Deal and were more inclined to support interventionism in several situations where Röpke saw no necessity for interventions. Nevertheless a comparison between their works and Röpke's positions as well as an attempt to track possible reciprocal influences and contacts among them could be promising.

In line with most liberals of the time with the exception of Ludwig von Mises (Jackson 2010), Röpke was also during his Istanbul years a strong opponent of the old laissez-faire philosophy and underscored the necessity of interventionism in some cases. For Röpke the Turkish economy was certainly one of the cases where interventionism was clearly necessary: while not directly helpful to explain his overlooked influence in Turkey, it is nonetheless relevant for understanding Röpke's ideas of that period. And even if Turkish scholarship's lack of interest in one of its most renowned guest professors is difficult to understand, also very few references by Röpke to Turkey can be identified, which makes his experience in Istanbul quite enigmatic.

Röpke moved to the Graduate Institute of International Studies in Geneva in the summer of 1937, and according to some witnesses, he often told his Swiss students that he had been deeply influenced by his experience in Turkey where he "was forced to realize that he was not only a German but before all a European and a product of Western civilization" (Overbeeck 1987, p. viii). Indeed it is difficult to imagine that Istanbul at the time would not be an interesting place for him. It was the former capital of the Ottoman Empire and had been in a deep crisis for a long time, while with Atatürk the city experienced a revival and came close to a laboratory for the "modernization" of Turkey's economy and society. Atatürk's

aim was to modernize the country by following the example of the Western civilization, a civilization that for Röpke was losing its genuine soul in that very period. Turkish society of the age could be characterized by the stark difference between the masses and a small élite as well as by the lack of middle bourgeois classes, a gap that Atatürk's project planned to fill with the new education system. Such a period of transformation was certainly of interest to Röpke.

In a sense it is possible that Röpke may have identified problems in Turkey similar to those he had analyzed in his home country, despite the huge differences between the two countries. Among these problems were the weakness of civil society accompanied by the lack of independence of economy and society from the state, the question of whether and how state-led economic development could bring about a strengthening of liberal democratic institutions, and the need for a modern élite and a modern bureaucracy in order to promote economic development and to make liberal democratic institutions more viable. Thus it is quite surprising that in the vast majority of Röpke's scientific output there are limited and only marginal references to Turkey and to his experiences in the country. This is probably also one of the reasons that we still lack a profound analysis about the importance of this period in Röpke's scientific evolution (with the partial exception of Daniel 1989 and Hennecke 2005), as well as a comprehensive reconstruction of his works in Turkish. Some of these works were published only in Turkish and never appeared in other languages. Therefore the first aim of this study is to review and analyze them.

2 Röpke's Textbooks in Turkish

The Istanbul period was highly productive for Röpke—he published important works and also envisioned what would become his famous war trilogy. As stipulated in the contract he signed with the University, he also prepared three textbooks for his students which were immediately translated into Turkish.

During his first academic year of 1933/1934, he wrote a textbook (Röpke 1934c) for his course in introduction to economics. The title of the book is *Iktisat Ilmi* (*Economic Science*); it consists of 150 pages and describes basic economic concepts. After a basic outline of the principles of economics and the common themes in economics, Röpke dedicates a chapter to entrepreneurs. In this chapter he defends entrepreneurs against the attacks of socialists and attempts to answer the questions of whether private entrepreneurs are more successful than the state, as well as whether the state can also behave as a successful entrepreneur. Whereas it is common to criticize capitalism for encouraging human beings to behave selfishly, Röpke shows how the entrepreneurs' aim is not necessarily to make more money but not to go bankrupt. The last chapter of the book is an analysis of the elasticity of supply and demand. The book contains some interesting remarks but is a very basic textbook written for first year students in the Faculty of Law, and it is not particularly illuminating for understanding Röpke's ideas and positions.

Two academic years later, Röpke prepared another textbook (Röpke 1936a) translated into Turkish under the title *Ekonomi ilminin tekâmül tarihi* (*Historical Development of Economic Science*). This textbook was prepared for his course in History of Economic Thought which he was teaching in the academic year of 1935/1936 at the Faculty of Law for third year students. This book has never been published in any other language and apparently the original German version is lost. Röpke was not particularly enthusiastic to teach that course, and he probably was not very satisfied with his textbook. Even though not exhaustive and sometimes not highly accurate, this work is interesting for several reasons, especially since it is the only comprehensive history of economics written by Röpke.

The first section is an introduction where Röpke stresses the importance of history for philosophy and economics. These two disciplines share common features, according to Röpke, since the problems that economics deals with are often similar to philosophical problems, while philosophy can be considered as the basis for economics. Many economic and philosophical problems are timeless, but we can understand them most properly in the context of history. In this sense it is crucial to analyze theories in a historical perspective based on different economic thinkers as we can thus grow and see further on their shoulders. Studying the history of economics makes us realize that most important thinkers were not professional economists but often practitioners like priests, doctors, or farmers, and this is attributable to economics being closely linked with every aspect of life. Everybody is involved in economic life, and everyone has an opinion about it. In Röpke's view, economics is a discipline based on scientific knowledge, a science that should not be abused for ideological aims—a bourgeois or a proletarian or a national science cannot exist, science is "simply" science. Although not referred to in the book, this idea was also shared by Atatürk, who located scientific progress at the core of development for the new country. Röpke also underlines that a similar view is needed for religion and art: they should be free to prosper and the importance of freedom should never be underestimated. In his view science and freedom are unfortunately losing their power and value at that time, resulting in a moral decline in Europe. He hopes that Turkey can find its own new identity and that it can indicate to a disoriented Europe the right path, thus showing how science should be developed and how its freedom should be protected.

The second section is entitled "Pioneers" and starts, as does every chapter of the book, with a general description of the topic where Röpke depicts the importance of rationalism in separating religion and science, order and god. The second part presents a general notion of mercantilism as the first fully elaborated doctrine of the economy, one relating the economy to politics and national interest. Modern economics started by opposing mercantilism in order to overcome that doctrine, and the idea of continuity and utility in every moment in the development of economics is a key point in the book. This chapter ends with an analysis of the physiocrats.

The third section is entitled "Classical School and Its Evolution." It starts with a general description of the Classical School and with a rejection of the socialist idea that the classical economists were promoting an economic theory only for the bourgeois class. The aim of the classical economists was instead to investigate how to increase the wealth of society, but compared to the socialists, they were in

a sense more conservative because of their opposition to revolutions and to disruptive changes in society. While members of the Classical School were aware of the importance of nations, they are not depicted by Röpke as narrow-minded nationalists. The book continues by examining the ideas of Adam Smith, Jean-Baptiste Say, David Ricardo, and Thomas Robert Malthus. Smith's notions of the free market, price mechanism, and division of labor are portrayed in a short and rather technical manner where Röpke identifies Smith's main achievement as having analyzed economic concepts in a systematic way. The chapter contains no information on Smith's philosophy and overall research project. He devotes even less space (around 4 pages) to Say. Röpke explains Say's theory and depicts it as very clear and simple. In contrast, abundant space is devoted to Ricardo (15 pages, as compared to six-and-a-half for Smith), an author who is portrayed as highly influential but often misinterpreted. Röpke investigates *On the Principles of Political Economy and Taxation* and emphasizes the importance of the theory of value. The problems of rent and capital interest are also delineated comprehensively, as well as Ricardo's notions of comparative advantage, trade, and exchange rate. Another author with plenty of assigned space is Malthus (14 pages). Röpke investigates Malthus' population problems in detail and attempts to explain the optimal rate of population growth. Finally he portrays the evolution of the Classical School, mentioning Senior, Cournot, and John Stuart Mill, the latter referred to only in two short paragraphs due to Röpke's assessment that there was hardly anything genuinely new in Mill's system.

The fourth section is dedicated to the "Critics and Opponents of the Classical School." The section starts with socialism which is considered unscientific due to its one-sided focus on the radical transformation of the world without having understood ("Erkennen") the mechanisms of the real world sufficiently profoundly. Röpke underlines that the idea of socialism is not new and that it can be traced back to antiquity. He emphasizes the importance of Henri de Saint-Simon's notions of industrial society. While a socialist, Saint-Simon's ideas of industrialism and credit banking for supporting industries constituted a notable contribution to the rise of capitalism, especially since major infrastructure projects and large corporations were established on the basis of his ideas. In Röpke's interpretation, Roosevelt's "New Deal" and the idea of technocracy could be seen as an extension of Saint-Simon's legacy. Moreover, the path of industrial nationalism that Turkey had chosen was also a branch of this same tree. The exposition continues with brief portrayals of Robert Owen, Charles Fourier, Marx, and Auguste Comte. Röpke describes how Marx's ideas depend philosophically on Saint-Simon and Comte, and economically on Ricardo's theory of value. Even if socialism should be considered bankrupt, it has the merit to have shown weaknesses of the Classical School and to have broadened the horizons of economic theory.

Another chapter under this section is an analysis of the "Historical School and its Allies." After summarizing the common features of the School, the similarities of the Historical School and American institutionalism are laid out. Finally Röpke summarizes Friedrich List's ideas and devotes a paragraph to Gustav Schmoller. The last chapter is dedicated to the consequences of the famous "Methodenstreit."

In the same section, Röpke discusses some problems of economics as a discipline by investigating criticisms of the Classical School by the Historical School. If it is true that economic theory is in some circumstances "too abstract," this is sometimes necessary. There are always tensions between theory and reality because it is difficult and would take infinite time to fully comprehend reality. Theory and reality are different things, but it would be a mistake to keep a theory in the "laboratory": it is always necessary to explain why a theory does not work, and some of the explanations can be found by analyzing historical events. If a theory does not work, it does not mean that it is necessarily wrong—it may be that it does not work for some specific reasons. An economic theory should be like a map—it cannot show everything, such as problems in the street at a specific moment, but this does not mean that the map is wrong or useless per se. One has to understand how to use a theory and to be aware of its limits. Röpke attempts to show that a good economic theory cannot be the map of laissez-faire economics which shows you what is around, but also cannot be the map of socialism which tells you where you have to go. In this chapter he also emphasizes that it is wrong to assume that all classical economists were in favor of laissez-faire, that they were protectors of capitalism, and did not care about social and economic inequalities. Classic liberal economists wrote a multitude of books on monopolies, exploitation of resources, and inequalities in taxation, and they understood the need for regulations without always being against interventions. For Röpke, when an economist as a scientist attempts to construct a theory, he always aims for the greater good for society, not for an individual or a class. A theory has to balance individuals and society, and individuals should not be perceived as a tool or means because man is the measure of all things and all institutions. Even the state has to be understood by understanding the individuals of which it consists.

The fifth and last section is dedicated to "The Evolution of Modern Theory" and starts with a chapter on the marginalist revolution as a cornerstone for modern economic theory. After showing the importance of the concept of marginal utility, the rest of the section is devoted to the different national traditions in economics. First Röpke portrays the Austrian School, and particular attention is paid to Eugen von Böhm-Bawerk's theory of interest. Subsequently Röpke describes notions of Mises with particular attention to socialist calculation and the price mechanism. This chapter concludes with some criticism and arguments about how it might be possible to intervene in the economy for a fairer distribution of wealth. This intervention should not take place during the production process, but rather in the distribution process by higher taxation of affluent citizens and by redistributing these resources to the poor. The third chapter depicts the Anglo-American economists. Among the British economists, the most influential figure is Alfred Marshall as the bridge between classical and modern economics, but Röpke also appreciates Marshall's attention to history and morality. The American tradition, exemplified by Frank Knight and John Bates Clark, is depicted as more interested in issues such as entrepreneurs and entrepreneurial profit, showing how deeply rooted capitalism is in the history of the United States. The last chapter is dedicated to the Lausanne School and is an introduction to the ideas of Léon Walras, Maffeo Pantaleoni, and

Vilfredo Pareto. Pareto is considered particularly important, and Röpke diagnoses Pareto's turn to fascism as attributable to his disappointment with the capitalist practices of the Italian bourgeoisie.

The conclusion of the book contains remarks on schools and important economists in other countries like Norway, Denmark, the Netherlands, Portugal, Egypt (with Umberto Ricci teaching here and acquiring in 1943 an academic position in Istanbul due to Röpke's efforts), Japan, Chile, and Romania. Röpke suggests that Turkish scholars should study the economic situation of similar newly industrialized countries because of their comparable problems of development. The book ends with a reading list of recommendations in the form of a bibliography, giving students a list of the main literature in economics and inviting them to learn at least one foreign language in order to improve their economic knowledge.

This book contains several illuminating points. Among them are the strong nexus between history, philosophy, and economics, as well as the idea that economics has also improved due to certain traditions like socialism which in Röpke's view can be considered obsolete at his time. Also notable are his analysis of the tension between theory and reality in economics, as well as his metaphor of economic theory as a map giving fundamental information but unable to deliver a full and detailed description of all aspects of reality, a map which has to be updated according to the specific situation in the real world. Röpke's interest in the Austrian School, in Marshall, in American institutionalism, and in the Lausanne School is not surprising, and neither are his ideas about the possibility of the distribution of wealth or his concern about the importance of moral issues in the economic process. Even if this book cannot be considered an important work in history of economics, it certainly contains interesting perspectives and can help to better grasp Röpke's understanding of economics.

Probably the most widely known and influential book written by Röpke during his Istanbul years is *Die Lehre von der Wirtschaft*, published in 1937 by Julius Springer in Vienna. The book was so successful that it went through nine German editions, a French translation was published in 1940 which circulated among the resistance to the National Socialist occupation, and an English translation was published in 1963 under the title *Economics of the Free Society*. The preface to the English translation discloses that "the original draft was composed during a period of exile in Turkey in 1936" (Röpke 1963a, p. v). However, while the preface indicates that Röpke used it as a textbook for his students in Geneva, it does not mention that this book was originally prepared for his Turkish students of political economy, and that a Turkish translation under the title *Cemiyet Ekonomisi* (*Economics of Society*) (Röpke 1937) was published by the University of Istanbul's Faculty of Law in 1937, possibly even before its publication in German.

The Turkish edition, based on his teaching in the academic year of 1936/1937, appears to exactly match the first German edition and does not contain the last two chapters with their perspectives on Keynesian economics and on the "Third Way," as reprinted later in the English translation. *Die Lehre von der Wirtschaft* is a comprehensive book on economics and the functioning of the market. It describes the modern economic system as:

> an extraordinarily complex mechanism which functions without conscious central control by any agency whatever. It is a mechanism which really owes its continued functioning to a kind of anarchy. And yet even capitalism's severest critics must admit that all of its parts synchronize with amazing precision. Political anarchy leads invariably to chaos. But anarchy in economics, strangely, produces an opposite result: an orderly cosmos. (Röpke 1963a, p. 4)

The reference is to the notion of spontaneous order, and its meaning (the term "spontane Ordnung" is explicitly used in the first German edition) is very similar to the notion as used by the Austrian School. At the same time, however, some passages of the book read as a clear criticism of laissez-faire economics and a defense of political and legal activities for preserving liberty. Röpke insists that free markets require mutual trust, legal stability, ethical behavior, and "moral reserves" in order to work properly, and that these elements are not produced by the market itself.[3] This point, developed further in Röpke's future works, especially in *The Social Crisis of Our Time*, is a typical concern of Rüstow, so one could claim that his influence on Röpke is already visible in the academic year of 1936/1937. In later editions of the book, there are additional notes about articles on the topic, as well as references to Rüstow. Even though Rüstow's main works had yet to be published, he had already formulated these points clearly.

3 Röpke's Articles and Ideas About Turkey

In addition to the three textbooks, Röpke also published three articles translated into Turkish. Even if these works do not add substantially to our knowledge of Röpke's ideas, they are illuminating not only in order to better track his publications, but also to better understand his concerns during the Istanbul period, especially his understanding of his host country and the Turkish attempt at economic and social modernization.

Between April and June of 1934, the University of Istanbul organized a series of conferences, and the presented papers were published in a book edited by Röpke, entitled *Ekonominin Bugünkü Meseleleri* (*Economic Issues of Today*) (Röpke 1934a). This first publication in economics of the reformed University of Istanbul

[3] A particularly illuminating passage from the book reads as follows: "'Business' is a product of civilization and it cannot exist for long in the absence of a specific constellation of conditions, chiefly moral, which support our civilization. The economic ingredient in the constellation is, as we shall see, free competition. But free competition cannot function unless there is general acceptance of such norms of conduct as willingness to abide by the rules of the game and to respect the rights of others, to maintain professional integrity and professional pride, and to avoid deceit, corruption and manipulation of the power of the state for personal and selfish ends. The big question of our time is whether we have been so heedless and unsparing in the use of our moral reserves that it is no longer possible to renew these vital props of our economic system and whether it is yet possible to discover new sources of moral strength" (Röpke 1963a, pp. 24–25).

contains ten articles, six of them written by Turkish academics: Ibrahim Fazıl ("Political Economy and Protectionism"), Sarc ("Crises and Cycles"), Muhlis Ete ("Economic History of Turkey"), Ahmet Ali Özeken ("Problems of Monopolies and Capitalism"), and B.H. Şükrü ("Marxism"). The other four articles were contributed by émigrés: Rüstow ("Economic System and Economic Ideology"), Neumark ("The Population Problem"), Kessler ("Social Problems of Capitalism"), and Röpke himself.

Röpke's article, presented at a conference on May 30, 1934, is entitled "Foundations of the Market Economy and its Mechanism" ("Piyasa iktisadının kuruluşu ve mekanizması") (Röpke 1934b). The article is an overview of Röpke's ideas about economics and summarizes some of the main points later developed in his Turkish textbooks. The first point is that the aim of economics is to understand reality, and that in this sense it cannot scientifically claim that capitalism is better than socialism, but that it can evaluate which one is working more efficiently. Then he criticizes socialism for various reasons. Socialists accuse capitalism of its lack of efficiency due to rent payments, but in socialist systems, it is hardly possible to understand the problems related to scarcity and opportunity costs. Markets are particularly useful for deciding how much to consume or how much to produce according to prevailing prices. The supply and demand mechanism generates the most efficient economic outcome. Very much in line with Mises and the Austrians, Röpke emphasizes that it is the individual who decides in a market system, but that in a socialist system some individuals, especially politicians and bureaucrats, decide for everybody according to their own values or to what they think is necessary. The article proceeds with an analysis of interest rates, a notion we can hardly discard without hesitation as it is necessary to use capital efficiently over time.

Röpke clearly expounds his idea that if citizens are not satisfied with the distribution of income in their societies, the solution is not to change (or abolish) the market mechanism but rather to tax affluent citizens more in order to assist the less fortunate. It is not possible to put a limit on an individual's wealth because these individuals take a risk which in the market process always entails a risk of failure and bankruptcy. The superiority of the capitalist system is based on the principle that individuals have to bear the consequences of their own actions, positive or negative, a principle missing in the socialist system. The article proceeds with the problems of monopolies as barriers to competition and the necessity to fight them. Here Röpke, similar to Rüstow, speaks out in favor of a "strong state", since only a strong state can prevent the formation of monopolies.

Röpke defines the capitalist economic system as "anarchist," but this does not mean that it is chaotic and without rules. Millions of firms can interact through the market mechanism according to their own will, so the system needs freedom. Its functioning shows how freedom and rules can work together. When there are problems with capitalism as in the period of the Great Depression, this does not mean that the system has to be abolished and substituted with some form of socialism which would entail even larger problems. Röpke uses contemporaneous experience to show that countries like Australia, which kept the free market

economy, faced fewer problems than countries which adopted protectionism during the crisis and emphasizes that this should be a lesson for Turkey. Röpke's conclusion is that the government has to be a "referee" in the market game. In some limited cases, it can be an actor in the economy as well, but only an actor among the others in the market mechanism. The state can establish firms and act as an entrepreneur, but this should happen within the market mechanism in fair competition with other private producers: this is a central point of all his Turkish works.

One year later Röpke published an article in the first number of the newly established İstanbul Üniversitesi Hukuk Fakültesi Mecmuası (Journal of the Faculty of Law of the University of Istanbul) under the title "Iktisat Ilmi ve Iktisat Siyaseti" ("Economics and Political Economy") (Röpke 1935a) which contains a description of what economics is, again including criticisms of socialism, and how it contributes to the wealth of society, paralleling the content of Röpke's 1936 textbook on the history of economics. Particularly illuminating for this study is the conclusion, where Röpke presents a short but notable analysis of the Turkish situation. Röpke shares the observation that the Turkish economy shows how state corporations do not have to work against the market or as an alternative to the market, but rather as if they were corporations in a competitive system using the price mechanism. The alternatives in terms of economic systems are not only laissez-faire or socialism: according to Röpke, it is possible to find an alternative in-between, and this may in his view be the case for Turkey. In a newly established country like Turkey, it is obvious that without intervention the government cannot achieve important aims and promote economic development, but it is notable that it should intervene in an appropriate way, especially respecting the logic of the market.

In 1936 Röpke published another article in a volume edited by Fritz Neumark (1936) under the title "Şehir Amme İşletmeleri" ("Public Utilities") (Röpke 1936b). The article starts with a criticism of monopolies, identifying them as harmful and destructive to free market competition. Röpke restates his preference for small- and medium-sized enterprises. In his view it is government protectionism that is responsible for the growth of monopolies, but he also blames "American megalomania," the idea that big enterprises are good for the economy, a false notion which according to his diagnosis was also one of the reasons for the current depression. This point anticipates aspects of the "cult of the colossal" as developed by Röpke in the following years. In this article he also clarifies the exception that justifies monopolies by using the concept of "public utilities." Public utilities exist for satisfying some basic needs (electricity, water, public transportation, etc.), and there is no competition because of high infrastructure costs or inefficiencies. He envisions two ways to manage monopolies: they can be directly owned and managed by the state, or they can be privately owned but controlled by the state. In the second case, a balance is necessary between the fair price for the consumers and the profit for the private providers. A democratic system is indispensable, as only here these utilities can be managed for the good of the general population. Public utilities can be run efficiently when government realizes that they can be a crucial element for its legitimacy. At the end of the article, Röpke quotes as an

example of efficiency the railway system in Turkey which is promoting the credibility of the Atatürk government, a government that in Röpke's view yet again acts not against the market but within the logic of market competition.

Three other articles are also related to Turkey, albeit indirectly. One was published in the second volume of the Journal of the Faculty of Law of the University of Istanbul under the title "Altın Mikyası ve Aktif Konjonktur Siyasası" ("The Gold Standard and Business Cycle Policies") (Röpke 1935b) where he restates his positions on the gold standard already developed in previous works in German and English. Upon the initiative of the Faculty of Economics in 1939, the University of Istanbul started publishing another journal: Revue de la Faculté des Sciences Économiques de l'Université d'Istanbul. The journal published articles in different languages and also translated them into Turkish. Röpke remained in touch with his colleagues in Istanbul after leaving for Geneva, and some of his books were reviewed in this journal. He also published two articles in the Revue: "A Value Judgment on Value Judgments" (Röpke 1942c), shedding light on the scientific legitimacy of normativity in value judgments, positions expanded later in *Civitas Humana* and "The Industrialization of Agrarian Countries" (Röpke 1940), the latter hardly mentioned in the bibliographies of Röpke's works. With insignificant changes, this article constitutes Part V of the volume *International Economic Disintegration* (Röpke 1942a) and briefly refers to Turkey "under the Kemalist policy" as a good example of an industrializing country that also promotes improvements in agriculture.

International Economic Disintegration was written in Geneva, but the preface clarifies that the original idea of the study came from a conference organized in France in 1936 when Röpke was still a professor in Istanbul. In 1937 he managed to find financial support for that project, and it was owing to that support that he was able to obtain an academic position in Geneva. The book is particularly important for the development of Röpke's thought, but it is also of utmost importance for understanding his positions on Turkey since it contains his assessment of Mustafa Kemal Atatürk. In the epilogue of the book, entitled "The Age of Tyranny," as a comment on Élie Halévy's famous book, Röpke highlights the differences between tyranny and dictatorship. Tyranny as a characteristic of the collectivist state is based on a violent usurpation by a minority rising from the masses and directed by a charismatic leader. The tyrant considers the use of force and violence by his authoritarian government as a legitimate method of state organization, and as something not merely temporary but permanent. On this point there is a substantial difference from the notion of dictatorship which considers itself temporary and erected for a specific aim. What Röpke has in mind was the ancient Roman notion of dictatorship where a person assumes that position only because of extraordinary circumstances and only for a limited period. According to Röpke, Atatürk has to be classified in this category:

> Kemal Atatürk, for instance, was certainly a dictator in the sense of being the head of a state that he governed practically without opposition. However, it would be quite false and a grave injustice, alike to that great man and to the Turkey he created, to place him, as so many unreflecting journalists have done, among the modern usurpers risen from the masses.

> His historical role is much more that of the "Dictator" of ancient Rome, as opposed to the real tyrants, Sulla or Caesar, who, significantly enough, gave themselves the title of "Dictator Perpetuus". Thus, after Kemal's death, the direction of the state could indeed pass without any breach of continuity into the intelligent, moderate hands of Ismet Inönü. In the Turkey of Kemal there is no praetorian guard, no hierarchic, exclusive party alone allowed to bear arms and insolently identifying itself with the state. Neither is there any high-pitched self-advertisement, no striving after new ways of stimulating the masses so as to prevent their slipping back to the humdrum daily round, to the balanced, and normal, steady community life. This normal course of life is, indeed, rightly considered the gravest menace to a regime reposing on an ever intense excitement of the people's nerves, an excitement which, as Max Weber discerns with great clarity in the passage already quoted, is the outstanding characteristic of "charismatic" government. (Röpke 1942a, pp. 247–48)[4]

The idea of the possibility of a "positive," or at least acceptable, role for dictatorship as exemplified by Kemalism is quite surprising, and it clearly appears as an exception in Röpke's thought, as in the same book he strongly objects to dictatorships and all types of protectionism associated with dictatorships as capable of destroying the world economy and civilization (Commun 2014, p. 29). At the same time, we can assume Röpke's judgment was well considered: he knew the Turkish situation well since he had lived in Istanbul during the last years of Atatürk's life who passed away in 1938.

This assessment of the role of dictatorship has to be analyzed in the context of Röpke's reasoning on the relationship between democracy and liberalism. For Röpke, the germs of collectivism come from the idea of unrestricted democracy "not sufficiently counterbalanced by liberalism, a genuine aristocracy, or federalism," and he agreed with José Ortega y Gasset "that tyranny is the form of government in which the revolt of the masses against the moral and intellectual elite finds expression." This is why "the antithesis of tyranny is not democracy—a word that only indicates where power is vested—but the liberal principle which, now as always, imposes on every government, however it is constituted, the limits required by tolerance and respect for inalienable rights of the individual" (Röpke 1942a, p. 248). In this framework the case of Kemalist dictatorship, even though not completely developed, becomes even more interesting. It shows that Röpke concedes the possible utility of a dictatorship for a limited period and with the specific characteristics described above, especially in a socioeconomic context where the liberal principles which are indispensable for democracy are not yet developed and shared—a statement which appears as a clear endorsement of Atatürk's project of "modernization."

[4]Röpke's notion could certainly be endorsed by Atatürk who upon several occasions declared: "I am a dictator in order to prevent potential dictatorship in the future."

4 Conclusion: Economy and Society, A Turkish Laboratory?

International Economic Disintegration is also an important book for understanding the influence of Rüstow on Röpke's system of thought. The reciprocal influence of the two authors upon each other is of seminal importance, as has been acknowledged by Röpke himself (Röpke 1963b) and also by the secondary literature on Röpke (Johnson 1989; Sally 1998, p. 117; Zmirak 2001, pp. 101–103; Gregg 2010, p. 77). However, the outline of these influences could become even clearer.

We have seen that Röpke and Rüstow arrived in Istanbul in the same year, lived in the same street, and spent plenty of time together. Moreover, their intellectual collaboration continued well after Röpke's departure from Istanbul. From Rüstow he borrowed the expression "liberal intervention," and some passages of *Economics of the Free Society* prepared for his students in Istanbul reflected typical concerns of Rüstow. There is, however, another article by Rüstow basically unknown in the literature on ordoliberalism which shows that the influence of Rüstow on Röpke started at the beginning of their Istanbul period. The article is entitled "İktisat sistemi ve iktisat ideolojisi" ("Economic System and Economic Ideology") (Rüstow 1934) and was published in the abovementioned volume edited by Röpke (Röpke 1934a).

In the article Rüstow presents his ideas about the relationship between capitalism, ethics, and religion. Following the studies of Weber and Sombart, he considers religious elements of the utmost importance for analyzing capitalism. Religion is a fundamental moral system for human coexistence and for economic development. Capitalism inherited from religion a strong system of moral values, but it eroded this legacy: this became the source of its current crisis, also to be seen as a crisis of Christianity losing a sense of community. What is needed is to build the sense of community and liberal society which is only possible where the agricultural world is strong, still containing a sense of independence, responsibility, and values inherited from religion. Moreover, Rüstow vocally advocates a strong state never acting as an economic actor but always remaining impartial vis-à-vis its citizens who can realize their own aims independently.

Both the importance of agricultural communities able to find and preserve moral values, and of the strong state able to fight against monopolies and guarantee economic competition are also themes in Röpke's system, and it is illuminating to see them clearly developed by Rüstow as early as 1934. Rüstow also expounds some of these topics in the appendix to Röpke's *International Economic Disintegration* entitled "General Sociological Causes of the Economic Disintegration and Possibilities of Reconstruction" (Rüstow 1942), an article considered by secondary literature extremely important to understand the evolution of Röpke's ideas.[5] In that appendix

[5]In the introduction to *International Economic Disintegration* with its critique of nineteenth-century liberalism, Röpke explains that "the following pages are largely based on a memorandum which the author wrote together with Professor Alexander Rüstow (University of Istanbul) in the

Rüstow asserts that the mistake of the old liberalism was to believe that "the spread of the free economy would bring about positive ethical and sociological results as well as an improvement in moral standards, a humanization, and an integration of society. But competition as such, appealing as it does solely to selfishness as a motivating force, can neither improve the morals of individuals nor assist social integration; it is for this reason all the more dependent upon other ethical and sociological forces of coherence" outside the sphere of the market. But "liberalism overlooked the sociological necessity of searching outside the market for that integration which was lacking within it. Instead, it proclaimed that the competition should be applied as a universal principle even in non-economic fields, and as a consequence of this attitude, a progressive disintegration and atomization of the body politic set in as soon as the fund of the inherited integration had been spent" (Rüstow 1942, pp. 272–273). These ideas were further developed by Röpke, especially in *The Social Crisis of Our Time*, published the same year (Röpke 1942b).

It is also noteworthy that Röpke and Rüstow both participated in the Colloque Walter Lippmann, held in Paris in August 1938, and Rüstow quoted his contribution to the Colloque in the appendix of Röpke's book. In Paris, Röpke and Rüstow proposed very similar ideas, and the term "neoliberalism" was introduced for the first time in this context by Rüstow (Audier 2008). In his not always precise but certainly brilliant analysis of the Colloque Walter Lippmann, Michel Foucault underlines how Röpke and Rüstow's positions were extremely innovative for liberalism. In his view, it was their contribution that contemporary liberalism managed to recognize how competition is a principle that "morally and sociologically [. . .] dissolves more than it unifies [. . .] so, while establishing a policy such that competition can function economically, it is necessary to organize a political and moral framework" (Foucault 2008, pp. 242–243). According to Foucault, the real novelty of neoliberalism, particularly well represented by ordoliberalism, consists in the idea that government "has to intervene on society as such, in its fabric and depth," in order to construct a "social fabric" with moral values and entrepreneurial spirit and a society where free market and competition can be realized without the disintegration of morality. Strong government intervention is needed in order to strengthen society, and the outcome, in an apparent paradox, will also be the reduction of the role of politics in society.

The notion that government has to intervene by using the economy in order to change society is present in Röpke and Rüstow's works. It can be a "negative" intervention (like regulating monopolies) but also a "positive" one (like promoting small- and medium-sized enterprises and defending agriculture and small cities), and according to Röpke and Rüstow, at least some of these interventions were implemented in Turkey during Kemalism. That it is possible to use political power

summer of 1938" (Röpke 1942a, p. 1 fn. 2). And in his appendix Rüstow also delineates how he and Röpke "are in complete harmony in regard to fundamental concepts," and that while he "concentrated upon the sphere of sociology and the history of thought", Röpke "emphasized the economic aspects" (Rüstow 1942, p. 267).

to make society more favorable toward the market and freedom can be classified as revolutionary for the political theory of liberalism, and it is plausible to doubt its compatibility with the key tenets of classical liberalism (Masala 2012). In any case we can assert that the idea of using political power to promote liberalism, or at least the free market economy, was the most remarkable characteristic of liberal political experiences of the last century, observable not only in Germany after WWII but also in a very different context, during the project of "popular capitalism" under Margaret Thatcher (Masala 2014).

The possibility of using political interventionism to change the structure of society or to promote its maturation was also, as depicted at the beginning of this study, a key characteristic of Atatürk's modernization project. This project was certainly very different from the neoliberal experiences of the postwar period, and it was implemented in a different manner from what Röpke and Rüstow's political economies suggested. But there was the idea that a change in society was necessary, and the attempt to achieve this change through political and economic instruments was clearly discernible in Turkish politics of that time. Thus we can claim that for Röpke and Rüstow the "Turkish laboratory" probably constituted a fertile ground for developing their systems of thought.

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Wilhelm Röpke's Utopia and Swiss Reality: From Neoliberalism to Neoconservatism

Andrea Franc

1 Introduction[1]

Wilhelm Röpke lived in Switzerland for the greater part of his adult and academically active life, from 1937 to his death in 1966 (Solchany 2015; Hennecke 2005). However, he never managed to obtain citizenship and never really participated in domestic politics. For Röpke, Switzerland remained a place of exile and a distant utopia he used in most of his works to support his theory with a historical example. Despite or maybe because of that distance, he became mentor to a Swiss neoliberal network discernible from around 1942 onward (Franc 2016a). This network consisted mostly of Zurich-based young journalists and academics. Only two of them would later become internationally known, the notorious first secretary of the Mont Pèlerin Society (MPS), Albert Hunold (Phillips-Fein 2009; Hartwell 1995), and the monetarist Karl Brunner (Ritzmann 2002–2014; Brunner 1992). But many of the other members of the network were already or would become important public intellectuals on the national level in Switzerland (Jost 1998, pp. 196–197).

During the war, Röpke's social philosophy and his economic theory overlapped and were integrated in the so-called Swiss spiritual defense ("Geistige Landesverteidigung") (Mooser 1997). From the 1930s onward, Switzerland had started to develop a new form of cultural organic nationalism (Zimmer 2004). This nationalism, referred to during the war as spiritual defense, called upon the self-reliant hardworking people on family farms and in family businesses. It used the concepts of Swiss federalism and the semi-direct democratic system, as well as of a historical, organic liberalism inherent to the Swiss nation. According to the spiritual

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defense, liberalism did not have to be imposed in Switzerland, but had evolved in its history, culture, and habits. At the latest when Röpke published his *Die Gesellschaftskrisis der Gegenwart* in 1942, he won over Swiss hearts (Solchany 2015, pp. 37–48; Ruetz 2006). So during the war, Röpke's persona, his texts, and his lectures were of the utmost importance in enforcing the Swiss spiritual defense.

However, when by the early 1960s Röpke and Albert Hunold left the MPS, none of the numerous other Swiss members followed them. This fact hints at a change in Röpke's impact on the Swiss neoliberal network during his time in Switzerland. In 1964, soon after Röpke's and Hunold's exit from the MPS, the latter invited Röpke for a lecture cycle on Africa he organized at the Swiss Institute of International Studies in Zurich. Röpke was surprised to find the Neue Zürcher Zeitung, after two decades of absolute reverence, suddenly siding with the student protesters who tried to prevent his lecture in support of the apartheid regime in South Africa (Slobodian 2014). Furthermore, his youngest disciple Gerhard Winterberger would become one of the most influential functionaries in Swiss economic policy in the two decades following Röpke's death in 1966. Winterberger would blatantly abuse his teacher's name to support the massive agricultural protectionism Switzerland introduced in the 1970s and 1980s (Franc 2016b).

2 Wilhelm Röpke's Utopia

Wilhelm Röpke distinguished himself from the many other exiled intellectuals who had come to Switzerland after 1933. While most, among them Ludwig von Mises and Thomas Mann, had moved on to the United States by the summer of 1940, Röpke stayed behind. His position was dangerous and difficult, but also most decisive for the neoliberal movement in Switzerland. His host at the Graduate Institute of International Studies in Geneva, William Rappard, called for Swiss neutrality and cautious expression. Their relationship was strained (Monnier 1995, p. 517). Correspondence with Friedrich A. von Hayek in London and his friend Alexander Rüstow in Istanbul was slow and difficult (Hennecke 2005, p. 140). Incapable of restraining his urge to express himself, Röpke started to publish abundantly in various Swiss media. He had written his first article for the large Swiss liberal newspaper Neue Zürcher Zeitung (NZZ) in 1934 from Istanbul and by the beginning of the 1940s published regularly and at length in the NZZ (Maissen and Stamm 2005, p. 152). His exchanges with the editor-in-chief Willy Bretscher as well as other editors such as Hans Barth and Carlo Mötteli were so intensive that not only could Röpke be seen as part of the editing team of the NZZ during WWII, but he even enforced and steered the (neo-)liberal course of the newspaper from around 1942 onward (Hennecke 2005, p. 129). It was not until the 1950s that Röpke would slowly start trusting the German newspaper Frankfurter Allgemeine Zeitung (FAZ) and publish articles there (Hennecke 2005, p. 187).

Even though the NZZ, a daily newspaper, granted Röpke the freedom to publish articles of several pages in length, his potential was by far not tapped. In the summer of 1941, Röpke received a letter from Eugen Rentsch, a small Swiss publisher

situated in the village of Erlenbach close to Zurich (Eugen-Rentsch-Verlag 1960, p. 40). Rentsch had read Röpke in the NZZ and wrote him that he would be interested in publishing a longer version of his articles in the form of a book. Rentsch's letter came to Röpke as a gift from heaven. He was about to complete his book *Die Gesellschaftskrisis der Gegenwart* and had just received a negative answer from another publisher. The book was published by Eugen Rentsch in Erlenbach in 1942 and became an instant success in Switzerland, as well as in Germany and Austria where it was passed on secretly (Hennecke 2005, p. 139).

Nevertheless, Röpke's integration into domestic Swiss debates remained limited. For one, his request for naturalization was denied and he would remain a German citizen and merely a guest in Switzerland. Also, the contributions he published in the Swiss media and with Eugen Rentsch concerned general and international topics. When referring to Switzerland, Röpke stayed on the surface of his stylized and romantic model of a "country without industrial giants" (Röpke 1959, p. 486) which fits best the utopia of family farms and small businesses described in his trilogy (Röpke 1942, 1944, 1945).

Röpke's *Die Gesellschaftskrisis der Gegenwart* of 1942 was not only one of the earliest books of the neoliberal canon but was also a celebration of the Swiss political and economic system. This fact was acknowledged in the American Economic Review, one of the most prestigious economics journals:

> The well-organized society, the main features of which are outlined in Röpke's program of action, corresponds approximately to the political and economic system developed in Switzerland with its strong, independent and well educated peasantry, its stock of highly trained artisans and small merchants, its decentralized industry. This pattern is used for analyzing some important aspects of welfare policies, regulation of competition (including the fight against monopoly capitalism), and international organizations of trade. (Pribram 1944, p. 172)

Röpke not only strengthened the image of Swiss uniqueness domestically as a matter of spiritual defense during the war. He was also of utmost importance for Swiss business, which could not have had a better ambassador to the Allied forces.

3 Swiss Reality and Spiritual Defense

The NZZ, the publisher Eugen Rentsch, and later the Schweizer Monatshefte provided the publishing platform which made Wilhelm Röpke a well-known and well-respected public intellectual in Switzerland. Subtly, the Swiss weaved Röpke into their spiritual defense (Solchany 2015, pp. 37–48). Eugen Rentsch, for instance, had not been in any way a publisher of economic or liberal literature. Rather, he was an expert in the writings of Jeremias Gotthelf (1797–1854), a Protestant minister who had left a vast literary heritage of novels describing Swiss rural life. Rentsch was dedicated to editing Gotthelf's complete works, a task he started in 1911 and was finally completed by his son in 1966 (Eugen-Rentsch-Verlag 1960, pp. 59–83; Gotthelf 1922–1977). The rediscovery and

reediting of Gotthelf's work was an important contribution to the strengthening of Swiss cultural nationalism. His writings consolidated the figure of the poor, hardworking but self-reliant peasant in the self-conception of the Swiss nation. Gotthelf's figure of the peasant would provide Switzerland with a national unification symbol which combined the voluntaristic and the organic, soil, and blood-related aspect of Swiss nationalism. Also, the figure of the taciturn, hardworking peasant up in the mountains served well as a symbol of Swiss neutrality in the midst of the European power struggle. The figure of the Swiss peasant also provided common ground with the social philosophy of Wilhelm Röpke, who in his numerous writings would paint his ideal society of family farms and small businesses.

The spiritual defense of the prewar and war years brought Swiss intellectuals together in a search for a cultural and more organic nationalism. The founders of the monthly magazine Schweizer Monatshefte were among the early initiators of the spiritual defense. From 1921 onward they published articles on Swiss German dialects, customs, and authors like Jeremias Gotthelf, articles which described the everyday life of peasants and often used Swiss dialect in their German prose. The spiritual defense reinforced the feeble Swiss self-conception as a voluntaristic nation with cultural, historical, and organic arguments. Röpke contributed to the image of Switzerland as a nation of hardworking free peasants and craftsmen living reclusive and taciturn lives in the mountains (Winterberger 1965, p. 517). The neoliberal argument, particularly stressed by Friedrich A. von Hayek, that a functioning economic system had to grow and develop organically, building on the myriads of decisions by individuals, fell on fertile soil in Switzerland. Publishers like Eugen Rentsch and the authors of Schweizer Monatshefte had prepared the ground through their focus on Swiss peasant culture. The spiritual defense managed to craft the topos of peasant stubbornness of the nineteenth century into an organic and therefore intelligent individuality, the prerequisite for neoliberalism (Winterberger 1960, p. 458).

Having Röpke on board, Eugen Rentsch became the most important publisher of German neoliberal literature (Eugen-Rentsch-Verlag 1960, pp. 26–28). The books were smuggled into Germany and Austria, and after the war, Rentsch kept publishing neoliberal authors while the German publishing houses, destroyed in the war, were rebuilt. Rentsch published all of Röpke's books from 1942 onward. In 1945, as soon as Röpke's wife Eva had finished the translation, he published Hayek's *The Road to Serfdom* in German. He would also publish the books of Röpke's Zurich-based friends and MPS members Hans Barth, Richard Ottinger, and Carlo Mötteli, as well as the works of Röpke's friend Alexander Rüstow. But that would be after the war.

During the war, a "liberal turn" (Sprecher 2013, p. 77) in the Swiss intelligentsia is discernible around 1942. This is when Röpke's *Die Gesellschaftskrisis der Gegenwart* appeared, when Röpke started publishing in the hitherto anti-liberal Schweizer Monatshefte, and when Röpke got acquainted with Albert Hunold who would from then on become his right hand in building the administrative framework necessary for the formation of an international neoliberal movement. However, during the war years Röpke's Swiss friends were mainly concerned with strengthening the spiritual defense, that is, nationalism, in Switzerland. During the early war

years around 1940, Switzerland was torn apart internally and only by around 1942 did it rally around a unifying idea of its nation (Jost 1998, p. 145). But then it was still surrounded by National Socialist territory and under pressure from the Allied forces. In October 1943, the Allies set up a "black list" listing Swiss companies which they presumed were doing business with National Socialist Germany (Inglin 1991, pp. 172–181). Throughout WWII, Swiss business was under pressure from the Allies as much as from Germany.

While Röpke and his Swiss friends were busy depicting Switzerland as a small federalist nation literally minding its own *small* business, Hans Sulzer took action. Sulzer, an old friend of William Rappard, was one of the owners of the Sulzer family motor company and worked as a diplomat for Swiss business interests during the war. In 1943 he, together with a group of Swiss businessmen, established and financed the Swiss Institute of International Studies in Zurich (Longchamp and Steiner 2009, p. 77). The institute was academically attached to the University and the ETH, the Federal Polytechnic School, but financed by private business. The relationship between Switzerland and the Allied forces, particularly the United States, had hit rock bottom with the issuing of the "black list" in 1943, and the goal of the institute was to revive and propagate a positive Swiss foreign policy. After years of negotiation, the "black list" was an almost personal affront to Sulzer. Among the firms on the "black list" was Hans Sulzer's own family's motor company (Nerlich 2002–2014). But it was above all an affront to his small neutral Swiss nation which had never asked to become involved in yet another struggle between the surrounding European powers in the first place. Sulzer had tried to uphold ordinary private business: the Swiss called it the "courant normal," or daily business, of a small nation not at war in the midst of WWII going on around it. Sulzer had been using the neoliberal terminology of free trade, free currency, and the importance of private business for years in negotiations. To Sulzer, neoliberalism and free market terminology had a different ring to it. To Sulzer, the terminology meant a neutrality of business matters and the right not to choose sides. It seems that Röpke was not fully aware of how Swiss businessmen appropriated neoliberal terminology to suit their business interests with the Reich. But to Hans Sulzer, the survival of his nation and his personal identity as a business magnate and representative of the Swiss business community was at stake. Clearly, the Swiss-American relationship had to be rekindled and improved for business reasons. But there was more to the Swiss support of the neoliberal movement than simple business interests in the United States (Longchamp and Steiner 2009). The Swiss self-conception as a nation of free business or, rather, of a voluntaristic nation of self-reliant and self-governing peasants and businessmen was at stake internationally as much as domestically. In order to resume and continue the "courant normal," the Swiss group and their friends had to win over the Swiss people as much as the Allied forces. Röpke's texts in the Swiss media and his numerous lectures in Zurich strengthened the Swiss spiritual defense and at the same time rallied people to the neoliberal agenda. Switzerland, Röpke continued to preach, was the ideal country in his neoliberal view. To the Swiss, this meant that an eminent German scholar supported and valued their independence in the face of the imminent Reich across

the border as well as Allied "black list" threats. Röpke's neoliberalism translated into Swiss nationalism in the ears of his audience.

The neoliberal movement would not only suit Swiss business interests but actually reinstate the moral legitimacy of the "courant normal" of the war and put the Swiss way of life on a pedestal. *Die Gesellschaftskrisis der Gegenwart* as well as numerous other texts by Röpke confirmed and enforced Swiss nationalism in the way it had evolved since the early 1930s. All there was left to do for the Swiss group was to support the neoliberal movement in the person of Röpke and translate it onto the ordinary domestic level.

4 Serving the Neoconservatives

The Swiss Institute of International Studies in Zurich would become the stronghold of the Swiss spiritual defense in the guise of Swiss support for international neoliberalism. In 1950, Sulzer and his business circles financed an additional department in the Institute of Economics, and Röpke's right hand Albert Hunold found employment as head of that section. In the 1950s, Eugen Rentsch would publish a series of anthologies edited by Hunold for the Swiss Institute of International Studies in Zurich. The 15 volumes of anthologies "Sozialwissenschaftliche Studien" published by Rentsch between 1951 and 1971 comprised articles of the most prominent members of the MPS, as well as other internationally known intellectuals such as Hannah Arendt. Interestingly, however, Hunold also included neoconservatives such as the American authors Russell Kirk and Eric Voegelin. This illustrates how the intellectual group around Röpke in Switzerland functioned on its own and outside of the MPS.

Suffice to say that Röpke's insistence on inviting the prominent American neoconservative author Russell Kirk to the 10th MPS anniversary meeting in 1957 in the Swiss resort St. Moritz prompted Hayek's famous address "Why I am not a conservative" (Hayek 1960; Plickert 2008, pp. 309–311). Röpke stayed fond of Kirk despite Hayek's disapproval. Kirk and Voegelin would contribute to the series "Sozialwissenschaftliche Studien" in 1957 (Hunold et al. 1957) and 1959 (Hunold 1959), respectively. Also, Eugen Rentsch would publish the German translation of Kirk's main work *The Conservative Mind* in 1959 (Kirk and Meyer 1959). However, the conflict between Röpke and Hayek over Kirk is only one visible dot of the blurred line between neoliberalism and neoconservatism. Hayek was right to worry about an association with neoconservatism, as Swiss MPS members actually promoted a highly neoconservative agenda on the Swiss domestic level. Indeed, the Swiss MPS members appear as neoconservative free-riders on neoliberalism. They were perceived and respected by the public as neoliberals, but in fact promoted neoconservative policy-making (Franc 2016b).

During the war, the spiritual defense with the help of Röpke had created the image of Swiss uniqueness, the status quo of which had to be preserved at all costs. This approach made sense in the face of the threat of being invaded. But in the

postwar years, it translated into an attitude that reform of any kind was deemed unnecessary as Switzerland was supposed to be an organic liberal system anyway (Kappeler 2011, p. 73). However, this (neo-)conservative approach of preserving the status quo only developed slowly within the Swiss group as is visible in the sketch of a study group of 1943.[2] The authors, Albert Hunold, Carlo Mötteli, and Karl Brunner, clearly referred to Röpke. They actually intended to exclude members of interest groups and declared that their first priority was to investigate the Swiss agricultural organization. The texts of the early Swiss neoliberals therefore diverge fundamentally from the texts of the postwar years. In the 1950s and 1960s, Röpke's disciple Gerhard Winterberger in particular would in numerous publications defend agricultural protectionism as much as Swiss interest groups (Winterberger 1960, 1965). References to Röpke were nevertheless a continuum in all texts, despite their divergences.

5 Conclusion

Röpke definitely gave an international, academic, and official blessing to the spiritual defense. Without his work the idea of Swiss uniqueness would have been much less strongly advocated and adopted domestically. Röpke's often vague and theoretical thinking provided the academic background for a mind-set which seems to have strongly determined Swiss history not only during the war but for the entire second half of the twentieth century and into the present times. There are several features on which Swiss self-conception evolved during the decades after Röpke's death and for which Röpke provided the intellectual background. First of all, there is Röpke's caution against the unification of Europe, his emphasis on federalism, and an early small-scale philosophy which would in the 1970s be rediscovered by the left under the slogan "Small is Beautiful." The Swiss refusal to join the European unification project is backed by Röpke's influence. Of all MPS members, it was Röpke who was most in favor of forms of protecting family farms and therefore domestic agriculture. Sadly, Röpke may be intellectually placed at the origin of Swiss agricultural protectionism of the second half of the twentieth century, which has been the highest per capita worldwide for decades now. Also, compared to the other MPS members, Röpke was maybe the most conservative in cultural and social matters. Nevertheless Röpke seemed completely unaware that his Swiss friends—often MPS members themselves!—sometimes entirely deviated from the neoliberal agenda as represented by Röpke and promoted highly neoconservative domestic policies. Next to agricultural protectionism and military conscription, the most obvious deviation from the neoliberal agenda was the

[2]Hoover Institution Archives, Mont Pelerin Society Records, Meetings File, 1945–1990, Box 5, Folder 10: Zur Frage der Gründung einer sozialwissenschaftlichen Studiengemeinschaft, Zürich, 08.12.1943, by K. Brunner, A. Hunold, C. Mötteli.

defense of the typical Swiss "liberal corporatism" and the corresponding refusal to promote an antitrust law (Amonn 1959). Swiss MPS members openly admitted that the Swiss economy was entangled by countless influential interest groups and was highly cartelized due to a weak antitrust law. Still, Swiss MPS members simply brushed away such stains on the neoliberal fact sheet by referring to Swiss uniqueness (Winterberger 1961).

Gerhard Winterberger would be the one among Röpke's Swiss friends and students who would hold probably the most powerful and influential post in the making of Swiss economic policy: he would act as the director of the Swiss Business Federation from 1970 to 1987 (Franc 2002–2014). Three of his numerous articles in the Schweizer Monatshefte stand out which outline the political agenda that would be debated in Switzerland until today. In 1960 he appealed to Swiss uniqueness as a reason not to join the European unification process in "Schweizerische Eigenart und europäische Integration" (Winterberger 1960), then in 1965 he defended agricultural protectionism in "Umstrittene Agrarpolitik im Industriestaat" (Winterberger 1965), and much later, after his retirement, in 1989, he defended his lifetime dedication to special interest groups in "Legitime Interessenpolitik" (Winterberger 1989). The non-joining of the European project, the world's highest per capita subsidies for farmers, and the disentangling of the highly cartelized domestic economy would be the three important pillars of Swiss policy debate until this day. And until this day, Röpke's texts on Switzerland mark the blurred line between neoliberalism and neoconservatism. From Winterberger Röpke was, so to speak, passed on to probably the most prominent figure of Swiss politics of the last decades, the entrepreneur and politician Christoph Blocher. Blocher's party, the Swiss People's Party (SVP), was the only Swiss party consequently defending Swiss non-integration into the European unification. The party is the "farmers' party" and heavily relies on the corporate identity of rural Switzerland. On the occasion of the 40th anniversary of Röpke's passing, only Christoph Blocher, at the time federal council, held a commemorative speech. Like Winterberger before him, Blocher depicted Röpke as a "neoliberal" and implicitly defines himself as such: "I consider Wilhelm Röpke to be an important inspiration to solve economic problems of our time. He was what we today look down upon as 'neoliberal'. He saw in Switzerland an exception, like everything which has somehow worked out in history" (Blocher 2006). Depicting Switzerland as an exception ("Sonderfall") and as the ideal neoliberal nation has been Röpke's legacy to Switzerland.

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The Making of the "Third Way": Wilhelm Röpke, Luigi Einaudi, and the Identity of Neoliberalism

Alberto Giordano

1 Introduction: Röpke Strikes Back

The vast and diverse literature on neoliberalism proves the continuing scholarly fascination for this phenomenon. The onset of the worst economic crisis since 1929, along with the long series of political and financial blows suffered by the European Union, has led liberals and non-liberals alike to expand their knowledge not only about those economists, political scientists, philosophers, and public intellectuals who in the 1930s identified themselves as neoliberals (néo-libéraux), but also about subsequent developments and tangible expressions of neoliberal ideas—such as the ordoliberal school in Germany and its role in shaping the Social Market Economy.[1]

Even though they differed in some principles and solutions, neoliberals agreed on a number of theoretical and practical issues which were summarized by an early champion of the movement, Walter Lippmann. In his view, neoliberals agreed on the criticism of both "the cardinal fallacies of the nineteenth century liberalism" and "the premises of authoritarian collectivism" and, in so doing, recognized the existence of "a vast field of necessary reform" (Lippmann 1944 [1937], pp. 4, 184, 220) to restore a genuine market economy and build liberal institutions anew.

As Ben Jackson has pointed out, neoliberals of the time shared "a vision of the free society and a critique of the threat to freedom posed by the encroaching power

[1] In the vast literature on neoliberalism, a helpful collection includes Denord (2007), Mirowski and Plehwe (2009), Audier (2012), Burgin (2012), Kolev (2013), Schulz-Forberg and Olsen (2014). For ordoliberalism, see Peacock and Willgerodt (1989) and Commun (2016). For the Social Market Economy, see Nichols (1994) and Muresan (2014).

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of the state," but at the same time, they "sought to accommodate certain elements" of those actions that Alexander Rüstow labeled "liberal interventionism" (Rüstow 1982 [1932]) into "a full agenda of liberal reforms that would remake the prevailing economic disorder into the basis for a prosperous, harmonious, and free society" (Jackson 2010, pp. 132–134).[2] First and foremost, this mission was carried out in the late 1930s and the 1940s by Wilhelm Röpke, who throughout his experience in Geneva as a professor at the Graduate Institute of International Studies published some fundamental contributions where he outlined his proposal for a liberal "Third Way" whose goal was to overcome the "sterile alternative between laissez-faire and collectivism" (Röpke 1950 [1942a], p. 23). This approach soon became the common ground for many Western economists and political scientists.

Despite the renewed interest in Röpke's work,[3] the story of his intellectual partnerships still requires further analysis. It is not widely known that Röpke's efforts received the constant support and intellectual spurring-on by Luigi Einaudi (1874–1961), the most influential liberal economist in twentieth-century Italy. Both scholars shared a belief in the need to restore the true status of the free market economy which necessarily required what they called an "ethical-legal framework." Both attempted to keep alive the classical liberal flame in harsh times and hostile environments. Both were perfectly aware that the Great Crisis and the growth of totalitarian regimes posed a dramatic challenge to core liberal values and threatened the survival of Western civilization itself. Though at times they took different paths, their intellectual liaison and personal friendship were to last until Einaudi's death.

In an attempt to reassert neoliberalism's true identity, the paper examines this overlooked relationship, using both primary and secondary sources, focusing particularly on the 1940s when the intellectual exchange between the two scholars was at its most fruitful.

[2]The acceptance of this approach implies the recognition that "what was called 'neoliberalism' back in the 1930s does not correspond to the phenomenon that was labeled 'neoliberalism' in the 1970s, even though there may be some connections" (Audier 2012, p. 56). See also Kolev (2013, pp. 2–4).

[3]For wide-ranging inquiries in Röpke's economic and political liberalism, see Peukert (1992), Molina Cano (2001), Zmirak (2001), Hennecke (2005), Resico (2008), Gregg (2010), Solchany (2015). Following Foucault (2010 [1979]), Bonefeld (2012) and (2013) as well as Somma (2014) have assimilated Röpke to "mainstream" ordoliberals, convicting all of them for the naissance of authoritarian power-driven biopolitics. Among others, Goldschmidt and Rauchenschwandtner (2007) have attempted to rebut this narrative, while Mierzejewski (2006) has shed light on the nature of Röpke's connections to Ludwig Erhard and the Social Market Economy.

2 Two Economists, One Common Ground

In the 1930s, Röpke was a young, promising economist, while Einaudi was already a well-known intellectual and prominent liberal. The former decided to write a letter to his older colleague (dated July 30, 1934) asking him for copies of two of his papers, "Trincee economiche e corporativismo" (Einaudi 1933) and "La corporazione aperta" (Einaudi 1934), both published in La Riforma Sociale, the eclectic journal managed by Einaudi himself. He also informed Einaudi that "due to the political situation in Germany, I had to leave my tenure at the University of Marburg, and accept the invitation of the Turkish government to build anew and manage the department of Political Economy at the University of Istanbul."[4]

Subsequently Einaudi grew more and more interested in the works of his younger correspondent: in a review written in 1937, he warmly welcomed the publication of *Crises and Cycles* (Röpke 1936), describing it as "a really useful book for everyone interested in a good survey on the alternative, recent theories developed to find the causes of economic crises and cycles" (Einaudi 1937a, p. 286).[5] More specifically, Einaudi was enthusiastic about the definition of a "conformable intervention" laid down by Röpke in the last section of the book, where he described it as a "Third Way" between planning and laissez-faire:

> Planning in this sense must be distinguished from such kinds of intervention as are in accordance with the inner structure of our economic system (*conformable intervention*), which leave intact the market mechanism itself and attain their objective not by contravening the rules of this mechanism but by making use of them. [. . .] It is clear then that for trade-cycle policy the choice is not between *laissez-faire* and Planning but between *laissez-faire*, a conformable trade-cycle policy and Planning. (Röpke 1936, p. 195, emphasis in the original)

Even though Einaudi stressed that "the term 'conformable' does not have any ideological meaning, neither liberal, nor socialist, protectionist, communist or corporative" (Einaudi 1937a, p. 286),[6] it is clear that for Röpke—and for Einaudi—the conformable policy supplied a solid economic basis for a new and reformed liberalism, ready to dismiss both laissez-faire, definitely "impracticable since it is obvious that something has to be done to overcome this depression and to prevent the recurrence of another" (Röpke 1936, p. 195), and socialist planning that would lead to the frightening replacing of "the entire mechanism of the market economy by collectivist Office Economy", being "a sure way to compromise any success of an active policy in combating the depression" (Röpke 1936, p. 196).

[4] W. Röpke to L. Einaudi, July 30, 1934, in Einaudi-Röpke Letters (1934–1961), AFLE (Archive of the Fondazione Luigi Einaudi), Section 2, File "Röpke, Wilhelm." A brief account of Röpke's Turkish years is given by Solchany (2015, pp. 65–78). See also the chapter by Antonio Masala and Özge Kama in this volume.

[5] For Röpke's approach, see Resico (2009), Gregg (2010, pp. 94–116), and Commun (2014).

[6] If not otherwise stated, all translations of Einaudi's papers and letters into English are mine.

This approach was further developed in Röpke's next book, *Die Lehre von der Wirtschaft* (Röpke 1963 [1937]), where he stated that "the uncorrupted market economy is the functioning planned economy of those whose business it is; the collectivist economy is the non-functioning planned economy of those whose business it is not" and that "the job cannot be done by merely adopting a negative approach and abstaining from action, i.e., by a return to simple 'laissez-faire' methods." He added that "of much more significance in the shaping of a constructive policy are the abundant proofs that the structure of the market economy is not nearly as simple as its friends, as well as its enemies, have maintained" (Röpke 1963 [1937], pp. 240, 251). As Ralph Ancil has duly noted, even at this early stage of his career, Röpke "is actually as firmly and consistently opposed to this ideology [laissez-faire] as he is to socialism and yet he remained an ardent defender of liberty and the market economy" (Ancil 1999, p. 202).

It does not come as a surprise that Röpke mailed the book to Einaudi, who in the meantime was carrying on the famous debate with Benedetto Croce on the nature of economic freedom—the latter conceived the market economy as an instrumental addition, not always welcome or necessary, to moral and political liberalism, while Einaudi championed the unity of liberal thought (Croce and Einaudi 1988; Giordano 2006, pp. 147–166). Einaudi seemed to appreciate the gift, and some months later he sent Röpke a new monograph on public finance, "Miti e paradossi della giustizia tributaria" (Einaudi 1938), the receipt of which Röpke acknowledged with a letter.[7]

Both were invited by Louis Rougier to the Colloque Walter Lippmann in 1938, the celebrated birthplace of neoliberalism, and while Röpke was a participant, Einaudi did not attend (Audier 2008). No one, though, could deny the neoliberal flavor of Einaudi's inquiry on the nature and extent of liberal practices, which he saw as an antidote to the deadly choice between "communism and monopolistic capitalism," both systems being doomed to "flatten any action, decision and even the mind itself of man by destroying the joy of life, i.e. the joy of creating something, the joy of performing a duty, the disposition towards liberty, the desire of living a life in a society made up of individuals equally free to pursue each one's mission" (Einaudi 2011 [1937b], p. 110). In the meantime, opposing Croce's skepticism, he stressed that liberalism encompassed both economic and political freedom, given their common anthropological foundation:

> As a matter of fact, individuals, be it ruled or rulers, create with their own conduct freedom in every domain of life: politics, economy, religion, press, propaganda. If men are led by ideals of moral liberty, how can they build up economic structures that bind and enslave them, banning the chance to choose their own occupation, to satisfy their desires, to work on their own instead of relying on the benevolence of some representative of a hierarchical bureaucracy? (Einaudi 1973a [1941a], p. 303)

[7] "I have the great pleasure to acknowledge the receipt of a copy of your new book 'Miti e paradossi della giustizia tributaria', and to thank you wholeheartily for your great kindness. It promises most stimulating reading and most valuable instruction on several of the dark spots of Public Finance. [. . .] I trust that my little book on Elementary Economics will have reached you in safety, and I ask you to look on it as on a pedagogical experiment," W. Röpke to L. Einaudi, February 23, 1938, in Einaudi-Röpke Letters (1934–1961).

In 1942 Einaudi was delighted by the publication of Röpke's *Die Gesellschaftskrisis der Gegenwart*, a book that captured his attention. As mentioned above, the 1940s saw both the emergence of Röpke as a leading economist and social critic as well as his intense intercourse with Einaudi, an association that led them, as we shall see in the next paragraph, to follow "the way of reason in a time when navigation of the ship of state requires avoiding both the Scylla of collectivism, the hard rock of totalitarianism and the Charybdis of atomistic individualism that sucks us into the whirlpool of relativism and nihilism" (Campbell 1992, p. 49).

3 The Making of the "Third Way"

Immediately after its release, Röpke sent Einaudi a copy of *Die Gesellschaftskrisis der Gegenwart*. Einaudi promptly replied, thanking him and assuring him that even though he did not have much spare time for reading, he had read the introduction and "felt so interested that I do not doubt that I will go to the end as rapidly as the necessity of re-reading your German text [...] and my university lectures will permit me."[8] He promised to "write a review of the book in my Rivista di storia economica," which he did, and then went on to explain one of the reasons for his profound interest:

> I regret that—owing to postal regulations—I cannot send you a few abstracts of my essays which are related to problems that you discuss in your book. [...] I dwelt at length on the mistake of identifying liberalism with absence of the State. The new liberalism is a variety of State interventionism. I called it "juridical" interventionism as opposed to "administrative" interventionism [...] but it has many faces and your book, as I see it from the "Einleitung", throws a great light on it.[9]

Although Einaudi was referring to the kind of interventionism also endorsed by the ordoliberals, Rüstow included, one may wonder whether he had really grasped the true significance of Röpke's message. However, in order to understand the meaning of his portrayal of new liberalism in the sense of neoliberalism (not to be confused with Keynes and Beveridge's "new liberalism" that Einaudi and Röpke fiercely resisted), we should also consider a passage taken from a paper written in 1941:

> We may find, among contemporary economists, some of them living scattered in many countries around the world who, if a label, not unwelcomed at all, had to be attached to them, they would choose the one of "neo-liberals". They would deem rather annoying the designation of "classical liberals", in the sense of "anything goes", and welcome that of "neo-liberals" as the most likely to describe them as individuals wishing, in the economic milieu, to witness the most complete implementation of the premises of free market

[8] L. Einaudi to W. Röpke, April 29, 1942, in Einaudi-Röpke Letters (1934–1961). The Italian translation of the letter, the original (from which I quote) being in English, appeared in Giordano (2006, pp. 317–318).

[9] L. Einaudi to W. Röpke, April 29, 1942, in Einaudi-Röpke Letters (1934–1961).

> economy, surrounded by all the countless legal constraints that these premises entail. They would like to see these premises implemented not as a self-standing goal, nor as the end of human action, but as a "means" or "instrument" for an ever higher elevation of life, human creativity and therefore of freedom, without which any elevation or occupation is almost inconceivable. (Einaudi 1973a [1941b], p. 267)

Röpke would have endorsed this portrayal without any reservations. From the first pages of *Die Gesellschaftskrisis der Gegenwart*, he repeatedly told his readers that only a revised version of liberalism, his "Third Way," could cure "the convulsions of our civilization" (Röpke 1950 [1942a], p. 1), recently confirmed by the violent, though not unexpected, outbreak of WWII and the economic disintegration of the West.

However, "to Röpke's eyes, the crisis was not merely economic" (Solchany 2014, p. 100). Despite the economic causes he had identified, there was a fundamental element still to be added: the decline of liberal culture, inextricably linked to the decadence of those institutions that were meant to embody the values of traditional liberalism.[10] Einaudi had deplored this failure throughout his debates with Croce, criticizing also the defenders of fascist corporatism and even Keynes,[11] stating that liberals should try to reverse the trend toward non-liberal policies, reminding civil society "that freedom cannot live in an economic society in which there does not exist a varied and rich efflorescence of human lives animated by their own vitality, independent from each other, not serfs of a single will" (Einaudi 2006 [1931], p. 78).

Many other issues in the book confirmed a shared approach to these questions. For Röpke and for Einaudi, liberalism was the heir to a long intellectual tradition running from Aristotle to the philosophers of the eighteenth century, when "humanity, freedom, order, rational control of the instincts, balance, peace, progress" confirmed the freshness of the liberal revolution (Röpke 1950 [1942a], p. 54). And yet, from the same eighteenth century onward, great liberals—Adam Smith included, at least with his idea of the "invisible hand"—started to think of markets as self-regulating entities, so that policymakers had only "to remove obstacles from its path" (Röpke 1950 [1942a], p. 51).[12] Throughout the nineteenth century, a great number of liberal economists and social scientists championed "the automatic regulation of a competitive market" and rejected the significance of extra-economic premises:

> The glory of liberalism would indeed be unblemished if it had not also fallen victim to rationalism and thereby increasingly lost sight of the necessary sociological limits and conditions circumscribing a free market. It was seriously believed that a market economy

[10] Solchany (2014, p. 98) notes that "all the publications of Röpke from the late twenties to his death, and to a lesser extent the writings of many other neoliberal intellectuals, may be interpreted as a thought on the crisis of modern world and the ways to remedy it."

[11] For the long and complex debate between Einaudi and Keynes, see Forte (2016).

[12] As correctly stated in Bonefeld (2013), this view of Smith is rather misleading, more than ever in the light of recent studies on Smith, from Winch (1978) to Rothschild (2001). However, I consider unacceptable Bonefeld's attempt to depict Smith as the forerunner of the (hypothetical) kind of "authoritarian liberalism" that ordoliberals and Röpke would eventually endorse.

> based on competition represented a world of its own, an *ordre naturel* which had only to be freed from all interference in order to stand on its own feet. [. . .] Thus the market economy was endowed with sociological autonomy and the non-economic prerequisites and conditions that must be fulfilled if it is to function properly, were ignored. (Röpke 1950 [1942a], pp. 51–52, emphasis in the original)

On the contrary, Röpke maintained that "competition reduces the moral stamina and therefore requires moral reserves outside the market economy"; or, more precisely, "a market economy needs a firm moral, political and institutional framework" (Röpke 1950 [1942a], p. 52). He consequently argued that "what was in reality a highly fragile, artificial product of civilization was held to be a natural growth" in making a case against the offenses of "historical liberalism":

> Historical liberalism (particularly the nineteenth century brand) never understood that competition is a dispensation, by no means harmless from a moral and sociological point of view; it has to be kept within bounds and watched if it is not to poison the body politic. [. . .] It was for the same reason that economic liberalism, true to its rationalist origin, exhibited a supreme disregard for the organic and anthropological conditions which must limit the development of capitalist industrialism unless a wholly unnatural form of existence is to be forced upon men. This spirit of historical liberalism, so alien to everything vital, is responsible for our monstrous industrial areas and giant cities, and even for that perversion in economic development which condemns millions to a life of frustration and has, above all, turned the proletariat into a problem which goes far beyond material considerations. (Röpke 1950 [1942a], p. 52)

In doing so, he relied on the work of valuable liberal intellectuals who had been questioning the status of market economy. Röpke undeniably shared much of Louis Rougier's "libéralisme constructeur" (Denord 2001), a kind of liberalism which "does not allow the misuse of liberty to erase liberty itself" and "radically differs from Manchester-school liberalism, which cannot but be conservative or anarchical, and from socialist planning, that cannot but be arbitrary and tyrannical" (Rougier 1939, p. 88). He also drew from Walter Lippmann who deemed "nineteenth-century laissez-faire individualism [. . .] incapable of reconciling the modern economy with our cultural heritage" and condemned "later-day liberals like Herbert Spencer" for being "the apologists for miseries and injustices that were intolerable to the conscience" (Lippmann 1944 [1937], p IX, 182).[13]

But there can be no doubt that many of Röpke's deepest beliefs were inspired by his close friend Alexander Rüstow, whose liberal interventionism he endorsed and who finally denounced "the 'sociological blindness' [. . .] of liberal economics," "its blindness to the extreme importance of sociological needs and requirements which lay outside its sphere, as well as to its own sociological conditions," stating that "competition as such, appealing as it does solely to selfishness as a motivating force, can neither improve the morals of individuals nor assist social integration; it is for this reason all the more dependent upon other ethical and sociological forces of coherence" (Rüstow 1942, pp. 270–272).

[13]For Lippmann's economic liberalism, see Goodwin (2014, pp. 223–260).

Here we have the most important intellectual sources of Röpke's "economic humanism". As correctly noted by Audier (2012, p. 64), the "Third Way" program was based upon a "double refusal, on one side, of the liberal myth of the automatic regulation of markets; on the other, of any project of centralized economic planning"[14] to create a fresh approach to policymaking:

> We are thinking of an economic policy which is in one sense conservative and radical in another, equally definite sense: conservative in insisting on the preservation of continuity in cultural and economic development, making the defense of the basic values and principles of a free personality its highest, immutable aim—radical in its diagnosis of the disintegration of our "liberal" social and economic system, radical in its criticism of the errors of liberal philosophy and practice, radical in its lack of respect for moribund institutions, privileges, ideologies and dogmas, and finally, radical in its unorthodox choice of the means which today seem appropriate for the attainment of the permanent goal of every culture based on the freedom of the individual. The advocates of this program are as aware of the fundamental errors of nineteenth century liberalism as they are opposed to collectivism, however dressed up, and the political-cultural totalitarianism that inevitably goes with it—not only as an impracticable solution but also as one harmful to society. (Röpke 1950 [1942a], pp. 21–22)

This is nothing new at first sight: even Henry Simons in his *Positive Program for Laissez Faire* (Simons 1948 [1934], p. 41) advocated "an essential freedom of enterprise" together with "a sound, positive program of economic legislation."[15] In shaping his economic policy, however, Röpke identified "two groups of state intervention [. . .] for which we have suggested the terms 'compatible' and 'incompatible' interventions: i.e. those that are in harmony with an economic structure based on the market and those which are not," the former being "interventions which do not interfere with the price mechanism and the automatism of the market derived from it," the latter "interventions which paralyze the price mechanism and therefore force us to replace it by a planned (collectivist) order" (Röpke 1950 [1942a], p. 160). Compatible (synonymous: comformable) interventions stood out as the key tool for implementing the principles of the "Third Way":

> Economic liberty and competition are self-evident postulates where the arch-evils of collectivism and monopolism are involved, but they are only part of a many-sided and comprehensive general program. This program lays down the firm frame which will give the necessary support to the freedom of the market. Decentralization, promotion of smaller production and settlement units and of the sociologically healthy forms of life and work (after the model of the peasant and the artisan), legislation preventing the formation of

[14]Somewhat surprisingly, the rejection of collectivism and planning was grounded on ethical rather than economic reasons: "Let us glance back once more at the road of collectivism [. . .] its details are sufficiently known: abolition of freedom and of the sphere of private personality, extreme mechanization, rigid hierarchies and proletarisation, the kneading of society into a dough-like lump, unrelieved dependency of each on the dominant group with its arbitrary and changing plans and programs where man in his uniqueness and dignity means nothing, power and the bureaucratic machine everything. Human dignity, freedom and justice have completely vanished there and, to round off the picture, even material productivity leaves much to be desired" (Röpke 1950 [1942], p. 176).

[15]For Simons' economic liberalism, see De Long (1990) and Köhler and Kolev (2011).

> monopolies and financial concentration (company law, patent law, bankruptcy law, anti-trust laws etc.), strictest supervision of the market to safeguard fair play, development of new, non-proletarian forms of industry, reduction of all dimensions and conditions to the human mean ("à la taille de l'homme", as the Swiss poet Ramuz has put it so well); elimination of over complicated methods of organization, specialization and division of labor, promotion of a wide distribution of property wherever possible and by all possible means, sensible limitation of state intervention according to the rules of, and in keeping with, the market economy (compatible state interventions instead of incompatible interference à la planned economy), while care is exercised to reserve a sphere for the actual planned economy. (Röpke 1950 [1942a], pp. 178–179)

It has been claimed that Röpke sought to "sketch a program acting as a new pattern for economic policy" and denied the utopianism of the "necessity to break away from the alternative between laissez-faire and socialism" (Molina Cano 2001, p. 51). Some scholars emphasize the conservative flavor of his extensive but moderate series of reforms (Somma 2014, pp. 53–55), while others like Mierzejewski (2006, p. 277) rightly admit that "he was convinced that the market was not applicable to all spheres of life and that even where it was appropriate, it should be limited." What is missing, however, is the correct appreciation of his sociological and anthropological insights. According to Röpke, the economic policy of the "Third Way" is useless if not based on a persuasive analysis of individual conduct: the limits to market economy should be found in legislation as well as in human nature.

One of the few to grasp the topic was Einaudi who devoted to his friend's book a long and detailed review "Economy of competition and historical capitalism" (published in Italian and translated into English 12 years later as Einaudi 1954 [1942b]). Röpke, "having observed that liberalism and historical capitalism belong to the nineteenth century, for what is peculiar to it, is that of dissolving every sane and enduring social structure, comes to the conclusion that the economy of competition, his true ideal, must be carefully watched and limited and constrained on all sides if we want to save it from the torment of full competition, from continuous rivalry, from an unending struggle" (Einaudi 1954 [1942b], p. 27).

Generally speaking, Einaudi loved the book's property of being "written by an economist and thus has the value of being written by a man who has a profound knowledge of the problems which he is discussing," so that "when he criticizes the institutions of present day capitalistic society, monopolies, cartels, syndicates, patents, limited companies, machinism, proletarisation, drive for safe employment, the flight from the land, the concentration of men in great industrial cities, advertising, the levelling of the tastes of consumption and of habits, the inequalities of capital and income, then his is not the indignant declamation of a preacher of morals or the pseudo-scientific analysis of the Marxist who coldly announces the allegedly inevitable advent of collectivism. His is the convincing demonstration of the economist." Even so, "his vision is not of an economic, but of a human order. What should be perceived is not the economic, but above all, the moral aspect" (Einaudi 1954 [1942b], pp. 2, 4). This feature was equally noticed and appreciated by Hayek who acknowledged how "Röpke realized at an early stage, perhaps earlier than most of his contemporaries, that an economist who is nothing but an economist cannot be a good economist" (Hayek 1992, p. 195).

Einaudi's approval was also stirred by the recognition that "many of the various concepts I myself have had occasion to explain elsewhere appear, too, in this book, where they are derived from a systematic conception of present-day social maladies." More specifically, quite often he had revealed a "strong aversion against the levelling tendency, against equalization, against conformism, against feelings and ideas which seem to precipitate modern societies into the fatal abyss of communist forms of life, in which man is reduced to a wheel in a mechanism moved by something outside and above him" (Einaudi 1954 [1942b], pp. 5–6) and tried to ascertain the causes of these phenomena.

Like Röpke, Einaudi went back to the nineteenth century which was mistakenly identified with "the age of political liberalism and of free trade." On the contrary, it was the time of "'mass society'—meaning that the general levelling is a state of mind in addition to a material situation," ultimately triggering the "reduction of men to an unformed and confused mass of atoms [. . .] incapable of creating and giving an independent and autonomous life to the institutions of community life" (Einaudi 1954 [1942b], 7, 11). Historical liberalism, together with its most substantial incarnation, historical capitalism, concurred in creating the cultural and social environment that made leveling possible and ultimately victorious, mostly because of its failure to recall that markets were not automatically tuned and needed strict maintenance in order to be kept in function:

> Men of the past century assumed that it would be enough to let the opposed interests to interact so that the common good might rise from their contrast. No, this is not enough. If you give free play to the laissez-faire, laissez-passer attitude there will prevail the agreements and the machinations of the few against the many, of the rich against the poor, of the strong against the weak, of the clever men against innocent people. But this, a constructive criticism of historical liberalism, only imposes on us a return to the pure origins of the system of competition. This implies just as much, or perhaps, more intervention than any other economic system, an intervention destined to preserve the action of competition intact, which is the only true force enabling the observance of the common interest to flourish from this contrast of interests. (Einaudi 1954 [1942b], p. 19)

In this way, the first principle of Einaudi and Röpke's neoliberal "Third Way" is stated: competition had to be restored and, in the meantime, surrounded by a framework to set its perimeter. If "the plant of competition does not rise and grow by itself" since "it is not a century old tree, which a furious tempest cannot overthrow, but a little, delicate plant which must be lovingly defended against the maladies of egoism and of particular interests," then liberals cannot deny or forget "the decisive importance of an ethical-legal-institutional 'atmosphere' fitted to the principles of the same economy" (Einaudi 1954 [1942b], pp. 19, 20).

Secondly, the market economy must be limited and its limits should be found in human nature. Einaudi repeatedly praised Röpke for stressing the point in his book, adding that the principle of economic freedom itself, and the market economy as its current embodiment, could be saved "only by restricting the working of the competition of market and by creating territories in which it is not called on to work; for its action, if it is extended beyond a certain point, becomes dangerous to the social structure" (Einaudi 1954 [1942b], p. 20). The nature of this damage is made clear:

> People are not satisfied to persevere all their life in the incessant struggle of rivalry; men do not want to have to appeal to the consumer's vote in order to live. Many men, at least, have other ideals of life. [. . .] Not all men have the mind of the soldier or of the captain, disposed to obey and to struggle every day as long as life lasts. Great many, perhaps all, in certain moments of their life, feel the desire for repose, defense, refuge; they want to have an oasis where they can rest, they want for a moment to feel themselves defended by a trench from the permanent assault of competition, of rivalry, of struggle. [. . .] In view of human nature the economy of competition lives and lasts only if it is not universal, only if men can find some refuge for a considerable part of their activity, a trench against the permanent necessity for struggle and rivalry which competition imposes. The paradox of competition is that it does not survive its own exclusive domination. Woe to the day when it dominates, undisputed, in all moments and in all aspects of life! A rope breaks if it is stretched too far. A victim of the fever of struggle invokes an anchor of salvation, any anchor—even the collectivist one. He is content to lose any kind of liberty, to become the slave of the most terrible patron history has ever seen: the collective tyrant who has no name, who is all and nobody, and who crushes men to mere instruments of the myth called collective will. But they have been mere instruments before. Who are, in fact, the men who are reduced to executing the will of the blind force which they call competition, market or adequate prices? (Einaudi 1954 [1942b], p. 22)

Obviously, no compromises were expected with socialism and non-liberal interventionism, but each liberal should bear in mind that "the legislator must intervene" at once to restore the precious mechanism of competition *and* to make sure that individuals are not equalized, for example, by trying to reduce "inequality at the starting point" (Einaudi 1954 [1942b], p. 19).

As to practical remedies, Einaudi agreed with Röpke on the absolute necessity of both compatible interventions in order to ensure the best performance of market economy and minimize externalities and of the restoration, as far as possible, of sustainable social and economic habits. It has been noted, for more than one reason that "Einaudi and Röpke are both sympathetic to what might be called in Europe the 'peasant' way of life, which has nothing to do with medieval serfdom" (Campbell 1992, p. 46). The two were equally aware that society needed to "return to economically balanced forms of life and production which are natural and satisfying for men" and among the best was the spread of private property in order to shape an agricultural system "carried on by a free peasantry" (Röpke 1950 [1942a], p. 201). As Einaudi pointed out, "to possess and to cultivate the land is a way of life supposing an invincible aversion to economic calculation, which usually finds its expression in pounds, shillings and pence. This way of life makes the peasant and farmer different from other economic men and explains the impossibility of introducing from outside institutions and habits which conflict with the mind of a born peasant or farmer in a certain given place and time" (Einaudi 1954 [1942b], pp. 5–6). This inclination retained, in Röpke's words, an "inestimable sociological importance" that made "the maintenance and confirmation of the peasantry and of peasant agriculture, with the whole of its subtle economic, social and spiritual structure" crucial to avoid "the rape of irreplaceable natural reserves [whose] consequences are already making themselves felt in many instances and in an alarming manner" (Röpke 1950 [1942a], pp. 144, 202).

The reconstruction of an ideal milieu for human life should restore the inner constitution of the body politic as well, since "a healthy society, firmly resting on its own foundation, possesses a genuine 'structure' with many intermediate stages; it exhibits a necessarily 'hierarchical' composition (i.e. determined by the social importance of certain functions, services and leadership qualities), where each individual has the good fortune of knowing his position" (Röpke 1950 [1942a], p. 10). He primarily had in mind the traditional virtues of the middle class, a social aggregate made up of "the best types of peasants, artisans, small traders, small- and medium-sized businessmen in commerce and industry, members of the free professions and trusty officials and servants of the community," men and women who live "a life that gives them inward and, as much as possible, outward independence" (Röpke 1950 [1942a], p. 178). This independence would provide them with both material prosperity and great intellectual freedom, making them ready to rule society in time of need.

It is no surprise that Einaudi and Röpke reconsidered the works of the French sociologist Frédéric Le Play, who had identified those "'natural authorities', models of private life, who 'by the example of their family, their work, their scrupulous observation of the ten commandments, and of the habits of social peace, win the affection and the respect of all those around them and who thus allow good will and peace to prevail in the neighborhood'" with the "elected class" (Einaudi 1954 [1942b], 6, 7). And both Einaudi and Röpke "emphasized the duties and obligations of the élite, as well as rights" (Campbell 1992, p. 46).

Nor is it unexpected that both scholars praised subsidiarity and federalism: as he had firsthand experience of the Swiss example,[16] Röpke championed "the greatest possible decentralization of government" together with "a limitation of government interference to those tasks where a maximum of unity can be expected," features also effective as an antidote to the dangers posed by "unlimited democracy," i.e., a democratic regime "not sufficiently balanced and diluted by 'nonpolitical spheres' [. . .] liberalism, federalism, self-administration and aristocratism" (Röpke 1950 [1942a], pp. 85, 89). In the end, within these precise limits lies "the true substance of the economy of competition and of political liberalism" (Einaudi 1954 [1942b], p. 22).

4 Neoliberalism as a Public Philosophy

Röpke, thrilled to see that Einaudi had not only praised his book but also shared his beliefs, professed in a very warm and heartfelt letter:

> How can I thank you for the wonderful essay of yours about my book? You should know that it is the best thing I've ever read on it, and the best I will ever read. It is crystal clear that we entirely agree not merely on the *raisonnement*, but mostly, and that is the best thing so far, on the *esprit*. I am truly impressed by your generosity and by the idea that even myself, the man

[16]For the impact of Swiss politics on his thought, see Zmirak (2001, pp. 25–66), as well as the chapter by Andrea Franc in this volume.

> born near the moorland of Lüneburg and the North Sea, in a place in the middle of nowhere, where "the rabbit and the fox say goodnight to each other" ["wo Hase und Fuchs sich Gute Nacht sagen"], may feel a special affinity with the life and soul of the Mediterranean world.[17]

He proved to be right. The special affinity did not stop there, as Einaudi returned to the issues which Röpke stimulated him to reconsider. First and foremost, Einaudi questioned even more acutely than before the legitimacy of certain institutions in the light of the concept of moral freedom, as he became increasingly convinced that "individuals choose one economic system over another because of the pursuit of their own moral advancement." This approach implied that most by-products of contemporary industrialism, such as the decadence of the countryside and the flight to urban communities with "giant skyscrapers, factories surrounded by poisoned smoke side by side with large apartment blocks" and other disturbing marks of a perverted modernity, were nothing more than a creation of men affected by "egoism, indifference and ignorance" and could be reversed by "conscious and enlightened men" with a strong desire to get rid of "privileges, monopolies, protectionism, giant skyscrapers and monstrous cities" (Einaudi 1942a, pp. 127, 130).

Röpke's influence was noticed by a close friend of Einaudi, the Kantian philosopher Gioele Solari, who addressed him a letter where he rejoiced for "seeing you play, at last, with ideals and surrender to their fascination. Röpke has done you a good service."[18] Einaudi himself, writing to his pupil Ernesto Rossi in early November 1943, confessed his sympathy for the fellow economist:

> I feel for him a great regard because: 1) he has acquired a sound expertise in economics; 2) he does not pretend to find merely economic solutions to economic problems as in the fashion of Keynes, the Cambridge School and the Anglo-American neo-communists belonging to the same school, who really believe, many of them being aged 16–28 and the older ones being merely bookish, that in a communist regime individuals would see their liberty of consumption, travel and work assured; 3) I agree most of the times, almost always indeed, with his solutions.[19]

By that time, however, Einaudi had to face a personal and political ordeal, being forced to leave Italy and flee to Switzerland with his wife to escape prosecution by the fascist authorities (Busino 1971, pp. 363–371; Faucci 1986, pp. 310–317). Old and sick, Einaudi was affected both physically and intellectually by the getaway, "through the Alps, on foot and by mule by the Col de la Fenêtre," as he told Röpke in a long letter written a couple of weeks after his arrival in late September.[20] At first confined to the Orphélinat camp, then hosted by his daughter-in-law in Basel, Einaudi was eventually given the opportunity to teach a course in social and economic policy at the Italian refugee university campuses in Geneva and

[17]W. Röpke to L. Einaudi, August 3, 1942, in Einaudi-Röpke Letters (1934–1961).

[18]G. Solari to L. Einaudi, June 27, 1943, in Einaudi-Solari Letters (1899–1952), AFLE, section 2, File "Solari, Gioele".

[19]L. Einaudi to E. Rossi, November 8, 1943, in Einaudi and Rossi (1988, p. 133).

[20]L. Einaudi to W. Röpke, October 9, 1943, in Einaudi-Röpke Letters (1934–1961).

Lausanne. There he also had the opportunity to visit Röpke, who had told him about the upcoming release of his *Civitas Humana*, which was intended to be "a kind of follow-up and addition to *Die Gesellschaftskrisis der Gegenwart*".[21]

The two friends met several times, as duly noted by Einaudi in his private diary (Einaudi 1997, pp. 71, 131, 188): aside from the most pressing political and military events of the day, the future of liberalism and the fate of European civilization were the main issues they focused on, aspects which Röpke developed at length in *Civitas Humana*. The book was meant to expand his ideas on the nature of the market economy and political liberty, showing how humanity could "exert itself to the full to put an end to a period of spiritual and moral confusion, oppression, exploitation and tyranny, mass civilization with its narcotics, of industrial monopoly and feudalism, of national decay through group anarchy, of the cult of the colossal, of pseudo-religious mass dogmas and ideologies, of nationalism, imperialism, biologism, capitalism, collectivism" (Röpke 1948 [1944], p XIV).

He reminded his readers that he championed "a free market economy as the basic framework of the economic order" which should not be confused "with the historical compound within the framework of which it has hitherto developed" and conceived the market as "an artistic construction and an artifice of civilization" (Röpke 1948 [1944], pp. 11, 13, 28). As a consequence, the market economy needed a sound foundation that could not be provided by pure economics:

> Market economy requires a firm framework which to be brief we will call the anthropo-sociological framework; if this frame were to break, then market economy would cease to be possible. In other words, market economy is not everything (Röpke 1948 [1944], p. 32).

Since "a satisfactory market economy capable of maintaining itself does not arise from our energetically doing nothing," he acknowledged the need to sketch "specific principles to denote that interventionism which has been described (A. Rüstow) as *liberal interventionism*," according to which one could "devise maxims of rational economic policy" (Röpke 1948 [1944], p. 28, emphasis in the original). As clarified by Kolev (2013, pp. 110–112) and Audier (2012, pp. 436–444), at this stage he had broader aspirations for his ideal state than most of his fellow ordoliberals, not to speak of Austrian classical liberals such as Mises and, at least to a certain extent, Hayek.[22] His approach may be summarized as in *Civitas Humana*:

I. The setting up of a system of genuine competition (an anti-monopoly policy)
II. Positive economic policy (anti-laissez-faire)
  1. Framework policy
  2. Market policy (liberal interventionism)
    (a) Adjusting contra preserving intervention
    (b) Conformable contra non-conformable intervention
III. Economic and social policy (balance, decentralisation, "economic humanism")
IV. Social policy

(Röpke 1948 [1944], p. 40)

[21] W. Röpke to L. Einaudi, October 12, 1943, in Einaudi-Röpke Letters (1934–1961).

[22] Röpke's connection to the Austrian School certainly deserves further research, see Ancil (1994), Wohlgemuth (2006), and Audier (2012, pp. 399–508).

However, in his view, even this kind of economic policy was not enough to guarantee the survival of a liberal society. Echoing a famous passage written by Einaudi almost 15 years earlier,[23] he maintained that though the market economy was "the necessary economic prerequisite of a society which is liberal and democratic in the political and cultural spheres of liberal and democratic society," there was another crucial prerequisite in the existence of certain social bodies like "the so called middle class which disposes of just that amount of property which assures a certain independence without degenerating into plutocracy and which is able upon this firm foundation to preserve spiritual and moral continuity" (Röpke 1948 [1944], pp. 13, 118). Together with "the principle of political decentralization," these were the pillars which shaped a free society and offered a number of good reasons to reject socialism and collectivism, since "collectivism implies insufferable state tyranny just because it lacks necessary omniscience and is utterly irreconcilable with a democratic and liberal structure of society" (Röpke 1948 [1944], pp. 20, 90).

Einaudi, who probably received the book in Basel[24] and discussed it with Röpke in Geneva, could not agree more on the subject, and in his "Lectures on Social Policy" delivered in Geneva and Lausanne throughout 1944, he devoted some memorable pages to ascertaining the limits of liberal interventionism so as to avoid crossing the "critical point" beyond which society would witness "the transition from living men to automata":

> Once again, by extending the programme beyond its own sphere—which is the public sphere—to that which by contrast properly belongs to the individual, the family, the social group, the neighborhood, the community, the voluntary association, the charitable educational institution, all of which are coordinated and interdependent yet each endowed with an independent life and with a will of its own, we have overstepped the critical point. We are faced not with a society of living men but with an aggregate of automata directed from the centre by a higher authority. (Einaudi 2014 [1944b], p. 44)

[23]Einaudi (2006 [1931], pp. 78–79): "Freedom of the spirit, freedom of thought, cannot exist where there is and must be but a single will, a single creed, a single ideology. [...] Freedom of thought is therefore necessarily associated with a certain dose of economic liberalism [...] The spirit, if it is free, creates a varied economy in which there is coexistence of private property and the property of groups, bodies, state administration; coexistence of classes of industrialists, tradesmen, farmers, professionals, artists, different from each other, all of them drawing the material means of life from their own sources, capable of living in poverty, if necessary, but without having to beg for alms from a single power, be it the state, a tyrant, a dominant class, or a priesthood intolerant of any but the orthodox faith. In the free or liberal society, the individual, the family, the class, the group, the business concern, the charitable foundation, the school, the artisans' or workers' league must receive the consecration of legality from a supreme organ, called the state; but they must feel and believe they are living, and effectively live, their own lives coordinated with the lives of others but not submerged in the life of the collectivity and not dependent on the tolerance of the organ representing the collectivity."

[24]W. Röpke to L. Einaudi, February 11, 1944, in Einaudi-Röpke Letters (1934–1961): "I am so happy to hear that you will come here to Geneva in March or April, so that we could talk a little longer than we did in my short visit to you in Basel. In the meantime, the publisher will send you a copy of *Civitas Humana* which could serve as a basis for discussion."

The market economy appeared to be the only remedy to cure the social illnesses of the time, collectivism included. Nevertheless, he was clear on the point that "the market cannot be left to itself," chiefly because of the likelihood that it "could be distorted by monopolies"—the remedy, then, had to be inspired by the approach which Röpke called "economic humanism":

> The little trenches that each producer digs around himself to protect himself against competitors are harmless; we can tolerate, indeed we are not displeased, that a kind shopkeeper, with good words, courteous smiles and cordial thanks, may exercise a kind of monopoly of customers, to the detriment of a grumpy and rude one. But we can prevent the real monopolists from raising prices, diminishing production and making fat profits. And we can and must make the market use its ability to regulate the production and distribution of wealth within certain limits, limits we consider fair and in conformity with our ideals of a society in which all men have a chance to develop their potential in the best way and in which excessive inequality of wealth and income do not exist—without arriving at absolute equality, compatible only with the life of the ant colony and the beehive, which for humans are called tyrannies, dictatorships, totalitarian regimes. We must therefore give ourselves good laws and institutions, create a good educational system that is accessible and suited to the various human capacities, and instill sound customs. We must therefore seek to be conscious human beings desirous of enlightenment and education, and we must, in a noble competition, set our sights high. The market, which is already an astonishing mechanism, giving its best results within the limits of existing institutions, customs and laws, can yield even more astonishing results if we succeed in perfecting and reforming the institutions, customs and laws within which it operates, in order to attain higher ideals. (Einaudi 2006 [1944b], p. 65)

But could national authorities deal with issues so huge as to frighten the boldest mind? Probably not. Both Einaudi and Röpke agreed on the absolute need for an international approach to economic problems, even though they differed as to their perspectives on the future global economy: while Röpke focused on the reconstruction of an international economic and monetary order (Gregg 2010, pp. 142–164), Einaudi emerged as one of the most eminent advocates of a European federation (Morelli 1990; Cressati 1992).

The two were equally aware that "alongside the tenacity with which people, small and large, yearn to conserve and perfect their own spiritual, cultural and political autonomy, we have the opposite tendency of the economy towards unity, not merely of large areas, but of the entire world" (Einaudi 2006 [1943], p. 245). A similar tension was identified by Röpke in his 1945 book *Internationale Ordnung* as the main spiritual factor that led to the outbreak of two world wars. His belief in a liberal international order matured in the dark trenches of WWI and "the pictures of those days [. . .] made him a fervent hater of war, of brutal and stupid national pride, of the greed for domination and of every collective outrage against ethics" (Röpke 1959a [1945], p. 3).

It has been pointed out quite correctly that "like many other young men of his generation, Röpke's experience of military service in WWI cannot be underestimated when attempting to comprehend the post-war direction of his thought" (Gregg 2010, p. 4). And even though he was so severe in his condemnation of historical capitalism, he did not stop praising the fact that at least until 1914 "the world-economy was basically a system of interdependence and intercommunication," a multilateral system

and "thanks to a really international monetary system (Gold standard) practically a global payments community," and that "the world-economy was a system of basic freedom not only in the international movement of goods, but also in the international movement of capital and human beings" (Röpke 1959a [1945], pp. 156–158).

A number of factors caused the decadence of the global economy in the first half of the twentieth century, among them the increase in state interventionism, the conflicts between nations for the acquisition and display of commodities, the demographic expansion experienced by most countries, and mounting nationalism. The rise of totalitarian states could be seen as the final step of a process whose cultural bases lie in the tendency of politicians and businessmen "to deny at times the supremely catastrophic character of war" (Röpke 1959a [1945], p. 26).

In the end Röpke, like Einaudi, was ready to admit that it all began because of the "governments of the states endowed with absolute sovereignty" (Einaudi 2006 [1943], p. 246). Correspondingly, the reestablishment of a global market economy featured as one of the main points in the "Third Way" program, in the sense of an international projection of the internal reform agenda. He stressed as vital "the existence of a firm political and moral framework of the international order" as a preliminary condition for any attempt to "return to a liberal and multilateral form of world trade, with tolerable tariffs, most-favored-nation clauses, the policy of the open door, the gold standard, and the elimination of closed compulsory blocks (with their machinery of exchange controls and clearing agreements)" (Röpke 1950 [1942a], pp. 238, 242).

But even though "a true world union, whose structure must be genuinely federal, i.e. composed of regional and continental sub groups" (Röpke 1950 [1942a], p. 242), initially seemed the best institutional tool to restore a satisfactory international market economy, Röpke soon became skeptical about the likelihood of the project. In later years, though welcoming the fact that "a greater measure of order, freedom and prosperity has come into the international economy of the free West," in his view the existence of communist states led by the Soviet Union posed the most severe threats to both global and regional stabilities. He also early on denounced "the muddles and the false roads of 'European economic integration,'" reviving a somewhat nostalgic portrayal of the old model (pre-WWI) of European integration, "an integration which required no plans, no planners, no bureaucracy, no conferences, no customs unions and no High Authorities" (Röpke 1959a [1945], pp. 225, 226).

Einaudi was no less aware of the formidable obstacles on the way to economic integration at both the continental and global levels. However, back in the 1940s, he realized that "in the conflict between technology, which is unifying the world economically, and the artifices with which governments are attempting to break up that unity, [the] victory will go to technology and not to artifice." If men wished "to safeguard the spiritual values of small national states," they should "resolutely recognize that small economic markets shut inside the political borders of individual states are an anachronism and must be abolished" (Einaudi 2006 [1943], pp. 246, 248)—the logical consequence of this state of affairs was the attempt to build a strong European federation, a goal he worked for throughout his life, with far greater intensity than his friend would ever show.

As Einaudi deeply disliked the idea of a simple league of nations (Einaudi 1920, pp. 143–168), he saw in "the transfer of powers of war and peace and the regulation of commerce, the railways, waterways, postal services etc. to the federation" (Einaudi 2006 [1943], p. 259) the only way forward for Europe. These powers had certainly to be limited and checked by a charter:

> From an economic point of view, European federation means the assignment to the federal authority of some economic tasks defined on an exclusive basis in the charter constituting the federation, defined, that is, in such a way that the federal authority has the power to attend only to the tasks included in the list, all other tasks not on the list remaining within the competence of the individual federated states. [...] Some of these tasks are of a technical nature and have already been internationalized, or where they have not, the absence of internationalization indicates, with the force of the intuitively obvious, how anachronistic is the persistence of individual sovereign states in the contemporary world. (Einaudi 2006 [1944b], pp. 250–251)

In the meantime, the charter should sanction "the assignment to the federation of the right to levy taxes," which, though controversial at the time, was deemed essential since "revenues from customs and excise taxes [...] no longer suffice today and there are no grounds for affirming that they must suffice in a future European federation" (Einaudi 2006 [1944b], pp. 254, 255). As for the political realm, Einaudi sketched a plan that followed the axioms of liberal constitutionalism: a two-house parliament and an executive body made up of "federal administrators [which] should resemble the members of the Swiss federal council," together with an independent and influential judiciary. Overall, European politics was meant to comprehend an "appropriate division of labour between the political leadership of the federation and the states" (Einaudi 2006 [1943], p. 259).

Despite the ups and downs of the European integration process, Einaudi remained a strong supporter of a more complex union, believing as always that "it is a trivial mistake to speak of the opportunity to begin with economics, which is misleadingly considered a much easier task than building a political union. Quite on the contrary, we have to begin with politics if we wish to enjoy the fruits of economic integration" (Einaudi 1956, p. 68). However, such a different view of these issues did not weaken the bonds of friendship and intellectual respect he felt for Röpke.

5 Conclusion: Röpke, Einaudi, and the Identity of Neoliberalism

In the aftermath of WWII, Einaudi helped to establish and nurture Röpke's popularity in Italy. He promoted the Italian translation of *Die Gesellschaftskrisis der Gegenwart* and followed its progress, helping Röpke in his collaboration with the

publisher, his (communist) son Giulio.[25] Moreover, Einaudi encouraged Röpke's participation in events such as a public conference in Rome on the collectivist menace in Europe on September 21, 1947.[26]

Einaudi was equally active in promoting Röpke's books and ideas among Italian liberals. His long review on *Die Gesellschaftskrisis der Gegenwart* was read, admired, and quoted by a great number of intellectuals, scholars, and journalists, making Einaudi and Röpke the two most distinguished heirs to the classical liberal tradition—notwithstanding their commitment to a profound and detailed reform of the status quo. The political theorist Panfilo Gentile, a libertarian socialist who reached the classical liberal shores in the 1930s owing to Einaudi (Giordano 2010), was one of the staunchest promoters of "the 'Third Way', the project of an economic democracy where, as far as possible, property and labour would be combined and civil society recreated on the basis of a large class composed by a great number of independent proprietors-employees" (Gentile 1945, pp. 8–9). Interestingly enough, in the 1950s, he still praised the "Third Way" as the best economic program available for Western liberals, tracing its origins to the reflections of a group of famous neoliberals:

> The point is that we need to safeguard and restore so far as possible that the "good society" described by Walter Lippmann in 1937 and refreshed in its essential features by Luigi Einaudi in his well-known *Lectures on Social Policy*. We have to fulfill the "Third Way" so successfully suggested by Wilhelm Röpke, coming along with such a new perspective to bring a complete implementation of economic and political programs. What is more, the "Third Way" will allow liberals to speak in terms of high moral values. (Gentile 1953, p. 1)

Gentile was not alone in his praise. Even the philosopher Carlo Antoni, despite his master Benedetto Croce's having labeled Röpke incoherent regardless of welcoming the "Third Way" approach (Croce 1945, pp. 195–198), realized owing to the German economist and to Einaudi's teachings that he could not accept Croce's belief that "liberalism in its moral and political features was not necessarily connected with the defense of market economy" (Antoni 1959, p. 160).[27] In addition, Röpke became very popular among left-wing liberals such as Mario Pannunzio, Leone Cattani, and Nicolò Carandini on one side and libertarians such as Bruno Leoni on the other.[28]

Both Antoni and Leoni joined Einaudi and Röpke in the Mont Pèlerin Society, even though Einaudi was not an active member in the way Röpke was until his

[25]Röpke requested his friend's assistance quite often: see, for example, W. Röpke to L. Einaudi, March 11, 1946, in Einaudi-Röpke Letters (1934–1961): "Could you please help me dealing with your son Giulio?"

[26]See the invitation card in Einaudi-Rinascita Liberale Letters (1946–1947), AFLE, section 2, File "Rinascita Liberale."

[27]For the active partnership of Antoni and Röpke inside and outside the Mont Pèlerin Society, see Audier (2012, pp. 258–262, 336–337).

[28]For the economic heritage of left-wing liberals and their Röpkean character, see Bonetti (2014, pp. 114–121). For Leoni's libertarian philosophy, see Masala (2003).

decision to leave following his famous falling-out with Hayek (Audier 2012, pp. 351–358).[29] Einaudi's less active participation in the society was also due to his increasing involvement in Italian public life, first as governor of the Bank of Italy and budget minister and finally as the first president of the Italian Republic elected by parliament (1948–1955). Undoubtedly, in the 1950s, their paths diverged, with Röpke plunged into his anti-communist and anti-welfare state mood, making him, as Jean Solchany recently called him, a true "intellectual of the cold war" (Solchany 2015, p. 31),[30] while Einaudi also sought to preserve a free market economy and oppose interventionism and communism, but sometimes following a rather different track, leading toward unorthodox outcomes—such as his "conservationist" approach to some environmental issues (Einaudi 1956, pp. 641–643; Einaudi 1987 [1961], pp. 106–108).

This leads to the final questions: what can the Röpke-Einaudi association, focusing primarily on the 1940s, tell about the nature of their liberal philosophy? And what about the nature of neoliberalism? The two have been described as "philosophers of the bourgeois order who have tried to keep their heart and their head together" (Campbell 1992, p. 49), a definition that holds a parcel of truth, but nevertheless is too narrow to be accepted. If it is true that in both Einaudi and Röpke we may detect some traces of the Anglo-American conservative tradition, from Burke to Chesterton (Kirk 1985 [1953]), and that Röpke gave more importance than fellow neoliberals did to "the inquiry of non-economic parameters for the functioning of modern societies," it still seems hard to label him "one of the most conservative supporters of the neo-liberal project" (Solchany 2015, p. 27).

We might concede this point if confined to the road taken by Röpke in the 1950s and 1960s,[31] even though it seems less convincing when applied to the liberal "Third Way" he worked on throughout the 1940s along with Einaudi. Their liberalism was "in one sense conservative, and radical in another, equally definite sense" (Röpke 1950 [1942a], p. 21), since it "involve[d] sophisticated analysis of human nature and the institutional settings that promote—or diminish—human flourishing, alongside careful study of the empirical realities in which humans live" (Gregg 2010, p. 12). If human flourishing is set as the main goal of a free society, as they do, then "liberal theory, institutions, and society embody—and

[29]In a letter dated September 18, 1961, Röpke confessed to Einaudi his disgust at the "intrigues inside our Mont Pèlerin Society," adding that he decided to quit even though "the Assembly has rejected my resignation," so he had to "reflect on the opportunity of coming back" (W. Röpke to L. Einaudi, September 18, 1961, in Einaudi-Röpke Letters [1934–1961]). More broadly on the history of the MPS, see Hartwell (1995) and Plickert (2008).

[30]For a detailed analysis of Röpke's anti-collectivist stand, see Solchany (2015, pp. 297–369).

[31]See, for example, Röpke (1959b, pp. 234–235): "If man is to be restored to the possibility of simple, natural happiness, it can only be done by putting him once more in a humanly tolerable existence, where, placed in the true community that begins with the family and living in harmony with nature, he can support himself with labor made purposeful by the institution of private property. The almost desperate character of this effort does not testify against its necessity if we wish to save our civilization."

depend upon—individual virtue" (Galston 1988, p. 1278), but individual virtue may be developed only within an appropriate institutional environment. Hence they emphasized checks and balances both on the exterior (constitutional, social, economic) and on the interior (ethical) levels, something that brings them very close to the old tradition of mixed government.[32]

Here, too, can one find the reason why Röpke and Einaudi focused on the interactions between ethics and economics and assigned a wider range of tasks to the state "than someone like Mises or other liberals of the late nineteenth and the early twentieth centuries ever did" (Audier 2012, p. 437). Even though some libertarian-leaning scholars suggest that this would imply the sacrifice of "a number of key elements of classical liberalism" (Masala 2012, p. 80), it should be noted that a similar approach was endorsed, among others, by Lippmann, Robbins, Rougier, Rüstow, and possibly Hayek, at least in some sections of *The Road to Serfdom* (Hayek 2006 [1944], pp. 33–44).[33] As Röpke once wrote, "a strong state is by no means one that meddles in everything and tries to monopolize all functions"—on the contrary, it is "a state which knows exactly where to draw the line between what does and what does not concern it, which prevails in the sphere assigned to it with the whole force of its authority, but refrains from all interference outside this sphere"—in the end, the classical liberal state "without which a genuine and real market economy cannot exist" (Röpke 1950 [1942a], p. 192).

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[32]For a brilliant exposition of the intellectual roots of the theory of mixed government, see Vile (1998, pp. 58–82).

[33]See Burgin (2012, pp. 87–122) and Jackson (2012). Burgin pertinently observes that "like Walter Lippmann's *Inquiry into the Principles of the Good Society* before the war, *The Road to Serfdom* was premised on a belief that one could engage in a vigorous critique of planning without rejecting government intervention altogether" (Burgin 2012, p. 90).

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Paleo- and Neoliberals: Ludwig von Mises and the "Ordo-interventionists"

Stefan Kolev

> *For most of what is reasonable and beneficial in present-day Germany's monetary and commercial policy credit is to be attributed to Röpke's influence. He—and the late Walter Eucken—are rightly thought of as the intellectual authors of Germany's economic resurrection.*
>
> Mises (1966, p. 200)

1 Introduction

The current essay aims to reconstruct the relationships within a prominent group of German-language liberal political economists and focuses on an underrepresented nexus in previous analyses: the link between Ludwig von Mises and the major representatives of ordoliberalism, Walter Eucken and Wilhelm Röpke, a group referred to by Mises as the "Ordo-interventionists." Other relevant scholars like Friedrich A. von Hayek and Alexander Rüstow are only included at intersections where they can be of instrumental value for portraying the Mises-Eucken-Röpke triangle. While the nexus between Mises and the ordoliberals has been studied before, large parts of the secondary literature suffer from a "hagiography" bias, and examples of this bias can also be found in the two recent biographies of Mises and Röpke, Hülsmann (2007) and Hennecke (2005), respectively. Both volumes share a common major strength: they present an astounding plenty of material, both from published works and from archival sources. However, the volumes also share a common weakness: the proximity between biographer and biographee is often too close, the result being heroic images which can be counterproductive for a sober analysis. While building on the source plenty in Hülsmann (2007) and Hennecke (2005), the current exposition aims to overcome this

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deficiency and to provide a new, especially a more nuanced reading of this relationship—following and expanding on the approaches contained in Barry (1989), Streit and Wohlgemuth (2000), Ebeling (2003), and Solchany (2015).

The narrative explores chronologically a sequence of five distinct phases in the interactions within the Mises-Eucken-Röpke triangle and aims at integrating two perspectives of analysis. On a first, sociology of science level, a complex picture of the biographical nexuses is drawn. On a second, substantive level, the first perspective is fortified by examining published works and correspondence, searching for the sources of the perennial conflict between Mises and the "Ordo-interventionists." It is important to underscore at the very beginning that none of this is intended to be a homogenization endeavor: such efforts appear neither feasible nor desirable, as clearly exemplified in the heated confrontation between Ancil (1994) and Pongracic (1997).

2 Conceptual Clarification: Demythifying "Neoliberalism"

Since some of the heat in the aforementioned debates has its roots in conceptual misunderstandings, this section explains the specific usage of the "liberalism" concepts in the current analysis, especially the meanwhile mythical term "neoliberalism." Neoliberalism has become a colorful and embattled term, with its connotations passing substantial transformations over the last decades (Boas and Gans-Morse 2009). In this analysis, its usage leans neither toward the original formulations when some authors self-identified with the term in the 1930s, nor does it take the later meaning used in an inflationary manner to condemn certain concrete policies in various countries from the 1970s onward. Instead, the German-language neoliberals are depicted here as a generation of scholars who lived in a very particular context and decided to fight very particular challenges in their efforts to restore liberalism, in line with Hayek's usage of "the new liberal school" in a piece dedicated to Mises' 70th birthday (Hayek 1951/1967, p. 196). As shown elsewhere, the quadrangle Mises-Hayek-Eucken-Röpke is a very helpful device to focus on the German-language section of this neoliberal generation, which of course included several other authors (Kolev 2013, pp. 2–4). Calling this group "neoliberal" with its high intensity of communication for decades on end is also operational for circumventing the (rather unfruitful) attempts to precisely delineate the borders of schools in economics (Blumenthal 2007, pp. 25–33)—and also for underscoring the common goal to restore liberalism and make it compatible with the challenges of the twentieth century, notwithstanding all substantial differences in the approaches to reach this common goal. This reading of neoliberalism contains the Austrians Mises and Hayek, as well as the ordoliberals Eucken and Röpke. Attaching the tag "neoliberal" to Mises is likely to appear counterintuitive compared to the usual boxes "classical liberal" or "libertarian" he is inserted into—but it is this very tagging which helps to clarify the specific usage of the term "neoliberal" in this exposition.

When tracking the history of the term, most narratives go back to the Colloque Walter Lippmann in 1938 where it was allegedly coined by the refomist-oriented part of the attendants who aimed at distancing themselves from nineteenth-century liberalism (Wegmann 2002, pp. 101–110; Plickert 2008, pp. 93–103; Burgin 2012, pp. 70–86; Goodwin 2014, pp. 233–260). Historically, however, this was just *one* neoliberalism. Google Ngram searches on "neoliberalism" as well as on "neoliberal/neo-liberal" show usage of the terms already in the nineteenth century. Particularly interesting is the peak observable in the late 1890s. When exploring JSTOR of this period, an intriguing exchange in the Economic Journal of 1898 is encountered between two prominent economists of the time, Maffeo Pantaleoni and Charles Gides. Pantaleoni's piece embedded the domain of economics within the field of economic sociology: he claimed that economic relationships were to be defined as peaceful and voluntary settlements of human coexistence mostly based on contracts, but nevertheless he left room for power relationships between strong and weak individuals or groups (Pantaleoni 1898, pp. 191–195). Gide focused on a particular aspect of Pantaleoni's analysis, the role of cooperatives as a form of cooperation vis-à-vis free competition, and called Pantaleoni's statements on the future of cooperatives "neoliberal." In Gide's assessment, Pantaleoni was restating arguments by earlier liberal economists in France who had been similarly skeptical about cooperatives and similarly optimistic about free competition as was Pantaleoni (Gide 1898, pp. 494–497). The "neo" in Gide's "neoliberal" pointed to Pantaleoni's allegedly intended revitalization of an old liberalism, including his supposed attempt to make old arguments more convincing by reformulating them—incidentally, a similar intention as the one attributed to Thorstein Veblen's describing his opponents as "neoclassical" in 1900.

This particular exchange is valuable for explaining the interpretation of "neoliberal" here. It shows that if we broadly subdivide the history of liberalism into *n* generations of thinkers, we are left with at least *n-1* neoliberalisms, i.e., attempts by later generations to restate with better methods and higher clarity what constitutes the core of a social order based on liberty. In addition, different reformulation attempts often took place in various languages. Furthermore, one generation could aim at reformulating different previous generations' formulations of liberalism. Finally, adding an individualistic perspective makes such a plot of tracking the history of the "neo" reformulations almost infinitely intricate, as different authors within the same generation could (and very often did) wage battles over their simultaneous reformulations. For example, David Hume and Adam Smith can be perceived as neoliberalisms vis-à-vis John Locke, while John Stuart Mill represents yet another neoliberalism vis-à-vis Locke, Hume, and Smith. This view is not only applicable to retrospective analyses: every new generation from today onward will also create new varieties of neoliberalisms. Thus the definition of the "neo" in neoliberalism employed here has a *procedural* core focusing on the practice of reformulation and avoids the unfruitful debates in the aforementioned literature of who "really" was neoliberal in *substantive* terms, as opposed to "paleoliberal," a label coined by Alexander Rüstow for liberals clinging to old formulations, especially targeting Mises (Hennecke 2000, p. 273).

In the terminology of Erwin Dekker's recent book, all protagonists discussed here from the "neoliberal" generation of the Colloque Walter Lippmann and of the early decades of the Mont Pèlerin Society were "students of civilization": they developed new approaches to the question how economy and society fit into their civilization, but also what their own role should be in preserving this embattled civilization (Dekker 2016). They all assessed the achievements of previous scholarly generations within the development of liberal thought in a different manner, and they all innovated with the hope of re-shifting the development of liberalism by correcting what they perceived as earlier deficiencies. Some saw the error of earlier times in not emphasizing consistently enough the principle of "laissez-faire", while others saw "laissez-faire" as meaningless, insufficient, or harmful. But all of them aimed at generating new theories and new methods, and successfully did so, thus becoming important new knots in the fabric of liberal thought and changing it indeed—as neoliberals, not as admirers of the wisdom of earlier ages, thus opposing the key connotation of the allegedly more precise term "classical liberal".

3 Decades of More Heat than Light in German-Language Neoliberalism

When a group of scholars interacted for decades, a closer look at their interpersonal relations seems promising and intriguing in itself. In addition, such a perspective provides indispensable context for a nuanced textual interpretation. So if the debate on the most suitable term for the historiographic process of economics is reduced to the distinction between "history of economics" and "history of economic thought" (Schabas 2002, pp. 211–212), this exposition sides with the broader term "history of economics": it aims at integrating the interpersonal and institutional relationships of the investigated authors with the analysis of their patterns of thought. Here the analysis follows Schumpeter's classical "sociology of economics" framework in Chap. 4 of his historical magnum opus (Schumpeter 1954/2006, pp. 31–45). Such a perspective lets the objects of study appear as complex personalities, ones whose interpersonal relationships can be just as helpful for understanding the lines and sources of conflict as can be the substantive core provided by textual exegesis.

3.1 Preanalytic Visions: With Blinders Early On?

Schumpeter's famous concept of a "preanalytic vision" with its postulate that "analytic effort is by necessity preceded by a preanalytic cognitive act that supplies the raw material for the analytic effort" (Schumpeter 1954/2006, p. 39) will serve as a starting point. By using Keynes' career as an illustration, Schumpeter characterized an author's preanalytic vision as a predisposition taken in an early stage of his

scientific socialization which could subsequently accompany him for decades. It could facilitate the scholar's perception of scientific phenomena, but it also had the potential to make him prone to ideological influences and to possibly lead to "passionate allegiance and passionate hatred" within the scientific community (Schumpeter 1954/2006, p. 40). And while it may not always be easy for the historian to distinguish between the preanalytic and the analytic part of an author's position, being aware of the existence of the former as a powerful source of shaping the latter appears as a useful heuristic.

What elements of preanalytic visions may play a role in the context of Mises and the ordoliberals? Let us focus on Mises first. The common narrative in his *Notes and Recollections* (written prior to 1940 and first published in 1978, Mises 1978/2013) and in *The Historical Setting of the Austrian School of Economics* (written in the late 1960s, Mises 1969/2013) is Mises' seemingly infinite contempt for the Historical School and the intellectual inferiority of its representatives. While "it is not the task and function of science to make value judgments" (Mises 1978/2013, p. 3), both historiographic pieces of 1969 and 1978 abound in Mises' judgments of the havoc which historicism wreaked on economics, attacking its scientific tenets as well as its representatives—by calling German economists as a whole "characterless simpletons" (Mises 1978/2013, p. 72) and by depicting some of the very prominent ones like Franz Oppenheimer as a "megalomaniacal monomaniac" or Karl Diehl as a "narrow-minded ignoramus" (Mises 1978/2013, p. 72). Regarding the scientific tenets, Mises objected to historicists' relativism, to their inability and unwillingness to engage in abstract theorizing, and to their proximity to the Prussian government's interventionist policies he referred to as "Royal Prussian Police-Science" (Mises 1978/2013, p. 73), and finally he accused historicists of having paved the road to National Socialism. Very few exceptions exist to his diagnosis that "the Historical School of Economic State Science did not produce a single thought" (Mises 1978/2013, pp. 6–7): Thünen, Gossen, Hermann, Mangoldt, Knies, and Max Weber.

For the corresponding preanalytic visions of Eucken and Röpke, the echoes of the "Methodenstreit" turn out to be similarly formative as in Mises' case. Both were raised in the climate of the "Youngest" Historical School (Rieter 1994/2002), its influence being stronger in Eucken's case. Eucken (1891–1950) was 8 years Röpke's senior and wrote both his 1914 dissertation as well as his 1921 habilitation largely in accordance with historicism (for a differentiated view on the degree of their historicist content, see Peukert 2000, pp. 97–98). Röpke's socialization took place after the end of the war, so that his dissertation and habilitation (both published in 1922) were less dominated by historicism, especially his habilitation focusing on business cycle phenomena (for a retrospective on his relationship to Eucken, see Röpke 1960). Nevertheless, given this socialization, both Eucken and Röpke clearly shaped a preanalytic vision against pure abstractness in theorizing, and in all their subsequent work, they struggled with what Eucken would later call "the great antinomy" between the "individual-historical approach" and the "general-theoretical approach." Early on, Eucken criticized in correspondence Mises and Hayek for producing "a purely constructive, freely floating theory" detached from and alien to empirical research (Eucken to Rüstow 27.3.1929), and when he later associated Menger with the

"general-theoretical approach," he accused him of having aggravated the deplorable "dualism" between the two approaches instead of reconciling them (Eucken 1940/1989, pp. 55–58). Röpke explicitly endorsed Eucken's view on the relationship of theory and history (Röpke 1937/1963, pp. 15–16). Their generally skeptical attitude to what they perceived as the pure abstractness in the Mengerian tradition further amplified during the Great Depression, again especially vis-à-vis Mises (and Hayek), when accusing them of not realizing how specific the concrete circumstances of time and space were and how naïve it was to stick to the Austrian Business Cycle Theory in times where the overall political order was about to collapse (Röpke 1931, p. 450; Röpke 1933b, pp. 428–433). By the time of the Colloque Walter Lippmann, this early uneasiness about the pure abstractness of the Austrian tradition had transformed into quasi-automatically viewing Mises as a dogmatic doctrinaire, one without any sensitivity regarding the problems of (in)applicability of his doctrines to the concrete circumstances of time and space.

3.2 *The Problem of Scientific Credit: The Senior and the Aspiring Disciples?*

As convincingly shown by Till Düppe and Roy Weintraub, the problem(s) of scientific credit are among the most complex and also most sensitive ones around scientific innovations, having the potential to create excitement, frustration, confrontation, and depression (Düppe and Weintraub 2014). And problems of credit did exist in the intricate interpersonal relations studied here.

Mises (1881–1973) was by far the doyen in the triangle studied here, being 10 years Eucken's and 18 years Röpke's (and Hayek's) senior. This difference was not simply of quantitative significance: rather, he was a scholar old enough to have experienced some of the masterminds of the age, scholars who had passed away before Eucken's and Röpke's scientific maturity, most significantly Menger, Böhm-Bawerk, and Max Weber—a fact that could grant Mises' positions extra authority on top of the age differential. In addition, Mises played a formative role for the other protagonists, especially with his *Socialism*, of whose 1922 first edition as *Gemeinwirtschaft* Hayek reported that it diverted many of his peers, among others Röpke, Lionel Robbins, and Bertil Ohlin, from socialism (Hayek 1992, p. 133). Despite criticism of Mises' "extreme and antiquated" liberalism, Eucken was laudable of the core argument against socialism in *Gemeinwirtschaft* (Dathe 2009, p. 6). Röpke also acknowledged the special role of *Gemeinwirtschaft* for his own development, and he reviewed it for Frankfurter Zeitung as early as 1922 (Hennecke 2005, p. 40).

However, it may be not as simple as that. Röpke's congratulatory address for Mises' 80th birthday, "Homage to a Master and a Friend" (Röpke 1961), is a brief and intriguing piece whose noteworthy title already contains the key ambiguity at place here: the will to show deference and simultaneously to claim equal footing as a peer. Röpke began "these lines of cordial allegiance and admiration" by calling

himself "disciple and friend" of Mises—and Röpke's command of English, by that time over 20 years amid the international atmosphere of Geneva, certainly justified the assumption that using the special term "disciple" was not arbitrary. In the text he underscored the specificity of its usage, claiming the "privilege of being, in a very special sense, the disciple of Ludwig Mises" (Röpke 1961, p. 5). Being president of the Mont Pèlerin Society at that moment, Röpke jocularly remarked of Mises' "sarcastic comments upon the unenlightened spirit of so many of its members, not necessarily excluding, I am afraid, its actual president," but then the deferential tone continued (Röpke 1961, p. 5). He expressed regret for never attending one of Mises' seminars in Vienna and acknowledged the impact of Mises' books on his development—interestingly enough, not just the widely known treatises on money and socialism, but also of Mises' 1919 book *Nation, State, and Economy* "which was in many ways the redeeming answer to the questions tormenting a young man who had just come back from the trenches" (Röpke 1961, p. 6). Röpke depicted next their first encounter ("with this author whom I had admired from afar") at the meeting of the Verein für Socialpolitik in Eisenach 1922, continuing with his "innumerable stays in Vienna" and delineating how their "friendship which has withstood the trial of time, of circumstances and of dissensions" had the chance to be "finally consolidated" during the joint Geneva years between 1937 and 1940, concluding with the memoir of their joint trip to Zurich to obtain Mises' US visa in May 1940 and of how during this trip "we tried to sum up philosophically the fundamental meaning of all this" happening in Europe around them (Röpke 1961, p. 6). The piece ended by stressing how this "extremely rare combination of the keenest intellect and the most admirable sharpness of mind with a most noble character" embodied in Mises "would have to be invented" if it did not exist (Röpke 1961, p. 7). To sum up, this very ambiguity of being simultaneously in a vertical relationship of superiority and in a horizontal relationship of friendship and collegiality (in addition, correspondence showed a feeling of friendship connecting the two families and also contained memories of mutual Geneva students well after Mises' departure to New York) would be characteristic for the four decades of their coexistence: from the early 1920s when all met at the Verein's meetings until Eucken's and Röpke's passings in 1950 and 1966.

3.2.1 Business Cycles in the 1920s

There were four key junctures where Eucken and Röpke met their "master and friend" and (potentially) collided with him: the meetings of the Verein für Socialpolitik until 1933, the debates around the Great Depression, the Colloque Walter Lippmann, and the joint years in the Mont Pèlerin Society. While the former two arenas had the rather narrow focus on business cycle theory and related policies, the latter two shared a broader perspective on political economy and social philosophy. It is beyond any doubt that Mises provided seminal impulses to all these fields, mostly precedent to the ordoliberal contributions, but it is astounding to observe how he was largely neglected in the references of the ordoliberal treatises.

In other words, the younger scholars were not generous in granting scientific credit in published work. The same was symmetrically true for Mises: for example, in his *Nationalökonomie*, published in 1940 in Geneva while being professor at the same institute as Röpke (at the very end of these years that Röpke claimed above to have "finally consolidated" their friendship), neither Röpke nor Eucken received a single reference.

When meeting each other in person, however, it was not so much a neglect which characterized the interactions but rather the tension of the "master and friend" kind. An interesting starting point for this perspective was the meeting of Verein für Socialpolitik in Zurich 1928 (records of the earlier meetings in Eisenach 1922, Stuttgart 1924, and Vienna 1926 do not contain exchange in public). Previously both Eucken and Röpke had published pieces which, while not entirely free of criticism, were highly laudatory of Mises' *Theory of Money and Credit* (the second German edition of *Theorie des Geldes und der Umlaufsmittel* was published in 1924): Eucken concluded his review of the book by stating that it "deserves an outstanding place in the recent German literature on monetary theory" (Eucken 1926, p. 653), while Röpke regretted how the book had been largely neglected in Germany even though "it would have deserved a much stronger echo" (Röpke 1926, p. 250). The third day in Zurich was dedicated to the topic "Credit and cycles," and Eucken gave a paper with this title which, after discarding other approaches, approvingly presented a nutshell version of Mises' monetary theory of the cycle. Eucken did not explicitly give credit to Mises, instead depicting the core ideas as being provided by "a number of outstanding scholars" (Eucken 1928/1929a, p. 292). Mises immediately opened the general debate with an extended comment, discussed conceptual and theoretical issues, and, what is particularly noteworthy, shared his observation of an "ever-increasing consensus of opinions" acknowledging the Austrian theory as the dominant explanation of the business cycle in the German-language scholarly community, also pointing to the presentation of "my student and friend Hayek" later during that day (Mises 1928/1929, p. 323). In his concluding remarks, Eucken expressed the uneasiness that his presentation had been largely ignored, and this time he explicitly referred to Mises but also to other authors like Schumpeter or Irving Fisher (Eucken 1928/1929b, p. 389).

This relative sense of harmony proved only of short duration and also rather confined to the domain of business cycle theory. The short-lived history of the "German Ricardians" in the late 1920s, an incipient group of young theorists of liberal and of socialist leanings who jointly aimed at overthrowing the still enduring dominance of the "ruins of the Historical School" (Rüstow to Eucken, 24.1.1927), was a case in point how the group failed precisely because of severe tensions between Eucken, Röpke, and Rüstow on the one side and Mises on the other. The tensions were based on a mix of personal incompatibilities and substantive divergences in the general notions of economic policy (Janssen 1998/2000, pp. 38–40, 2009, pp. 10–11; Köster, 2011, pp. 222–228), a mix which only few months after Zurich led to a sharp break between the young Germans and Mises. Age seemed to have mattered again: the split hit above all the relationship to Mises (and Schumpeter, belonging to the Mises generation), whereas all younger Austrians involved other than Oskar Morgenstern—among them Hayek, Haberler, and

Machlup—remained in the "tier 1" level of trust among the "German Ricardians" as seen by Eucken, Röpke, and Rüstow (Janssen 1998/2000, pp. 40–41, 2009, p. 12).

Röpke was not among the ones featured as speakers in the Zurich meeting records, and the records of the last two Verein meetings ahead of its 1936 self-liquidation, Königsberg 1930 and Dresden 1932, do not contain exchanges with Mises in public. Also Röpke was not as central to the "Ricardians" as were Rüstow and Eucken. But in the course of the Great Depression which was just about to unfold, the barely 30-year-old economist based at the University of Marburg (Schüller 2003) soon became a leading figure in the rebellion of "heretics" against the Viennese "orthodoxy" (Allgoewer 2009/2010, p. 148)—a rebellion which, along with the Keynesian avalanche, would let Mises' observation of having the dominant cycle theory in the German-language scholarly community appear as one of rather short validity.

3.2.2 Interventionism in the 1920s

Before plunging into the Great Depression, a digression about a key concept of the forthcoming interactions is in place: the debate about the concept of intervention and the theory of interventionism. As shown by Sanford Ikeda, Mises' 1929 essay collection *Critique of Interventionism* laid the foundations for the Austrian analysis of interventions, but it also bore ambiguities and carried some paradoxical characteristics (Ikeda 2015, pp. 396–401). This diagnosis is vindicated and amplified by Helmut Krebs and Maximilian Tarrach who have criticized Mises' theory of interventionism as being rather rudimentary, especially as compared to the profoundness of his theory of socialism (Krebs and Tarrach 2016, pp. 65–68). Less known today, Röpke formulated almost simultaneously, in 1929, his understanding of interventions and interventionism in an entry *State Interventionism* for a German encyclopedia of the social sciences, with reference to Mises' core paper in the interventionism collection (first published in 1926). When comparing the two expositions, a key difference and a central similarity can be distilled. The difference was the general willingness of the two authors to accept interventions: while both in principle discarded interventionism as a coherent system, Röpke showed more openness to explore cases where specific kinds of interventions could be helpful for the operation of the market process. His analysis was less clear-cut in comparison: while Mises distinguished two types of interventions, Röpke's taxonomy consisted of nine types, located both on the micro and on the macro level. The conclusions also differed: Mises ended with a sketch on how the battle against interventionism might still be won (Mises 1929/2011, pp. 30–31), while Röpke saw the defense of the market economy becoming more effective by discarding the idealization of the market process and by allowing for cases of its imperfection (Röpke 1929, pp. 881–882). While Mises' original paper of 1926 preceded Röpke's work and of course could not contain a reference to Röpke, Röpke did refer to Mises, and it reads as likely that his plea in the end against "dogmatic stubbornness" of defending the idealized market had Mises' stance as its target (Röpke 1929, p. 881). So much for the key difference,

but the two approaches also shared a central similarity: both neoliberals struggled with the complex question of what the essential characteristic of an intervention was and which state activity might be considered as necessary—questions that had obviously been answered only unsatisfactorily so far, so their theoretical innovations of the 1920s were required. While both Mises and Röpke saw price interventions as nonsensical and self-defeating because of the induced dynamics, compiling a clear-cut taxonomy for more complex state activity proved much more difficult. The sentence "Measures that are taken for the purpose of preserving and securing the private property order are not interventions in this sense" could be both Mises' and Röpke's, showing the core of the later ordoliberal program that the economic order in itself was not self-sustaining and had preconditions and prerequisites mandatory for ensuring its stability—but in this case the statement was made by Mises (Mises 1929/2011, p. 2). The struggle to discriminate necessary from harmful interventions and to lay out a full-fledged theory of interventionism can at this stage be assessed as only partially successful for both of them. But as will become clear later on, this vagueness did not hinder the term "interventionist" from becoming a key rhetorical device in the conflicts of the next decades—just as "dogmatic" and "doctrinaire" were used (as synonyms) by the other side.

3.2.3 Business Cycles in the 1930s

Mises' *Critique of Interventionism* and Röpke's *State Interventionism* were published on the immediate eve of the Great Depression and surfaced a new willingness of the young generation to be openly critical of their senior. The outbreak of the Depression provided an extensive arena to continue the debates on the role of the state in the market, this time in the context of the macroeconomic slump. Since several chapters in the current volume focus on business cycle issues in great detail, this section will only briefly touch upon the debates in the Mises-Eucken-Röpke triangle (for a more detailed exposition, see Kolev 2016, pp. 11–14).

During the years between Zurich in 1928 and the "annus horribilis" of 1933, the climate of the German-language academic debate changed significantly—in 1933 even Hayek remarked that while the Austrian Business Cycle Theory had satisfactory properties in explaining the upswing of the cycle, it was still not fully convincing in explaining the downswing (Hayek 1933, pp. 110–117). There was one person whose stance did not seem to change at all: Mises. Even in 1943, in complete disregard of all debates related to the Keynesian Revolution, he apodictically claimed that in the 31 years since the publication of his *Theory of Money and Credit*, "no tenable argument has been raised against the validity of what is commonly called the 'Austrian' theory of the trade cycle" (Mises 1943, p. 251). And in 1931 Mises depicted the Depression as being differently deep and long from regular crises simply because, unlike the case of regular crises, the interventionism in the preceding period had this time been directed not only at lowering the interest rates but also at meddling in the commodity prices and in the wages, in line with his theory of interventionism. He rejected "all attempts to overcome the crisis by

further interventionist measures" and proposed as "the *only* solution" to drop all interventionist measures (Mises 1931, pp. 33–34, emphasis in the original).

In the course of the Depression, this stance became increasingly unpopular in the academic debate, with Röpke as one of the central figures in this shift (Klausinger 1999, pp. 379–385, 2006, pp. 641–642). Röpke and Eucken chose different ways to engage in the Depression debates. While Eucken dropped allegiance to the Austrian Business Cycle Theory altogether and declared that a general dynamic theory of the cycle was impossible (Eucken 1933, p. 74), Röpke's notion of the "secondary depression" (Röpke 1931, pp. 450–453, 1933b, pp. 428–433, 1936, pp. 206–209) was a theoretical innovation which has been classified very differently in secondary literature and in the chapters in the current volume. The classifications of the "secondary depression" range from being an innovation within the Austrian Business Cycle Theory to being a major breakthrough of "proto-Keynesianism" (Klausinger 1999, pp. 386–394; Hennecke 2005, pp. 81–84; Huerta de Soto 2006, pp. 452–456; Allgoewer 2009/2010, pp. 143–148; Kolev 2013, p. 178–181; Magliulo 2016, pp. 32–44). A case in point for the direct debates during the severe years of the slump is a review by Röpke of Mises' 1931 piece discussed above. Polite in tone and granting Mises credit for his still at least partially applicable explanation of the crisis, a significant line of division came up already in the diagnosis of the crisis: Röpke disagreed with Mises' monocausal explanation of the crisis and with his attributing all its dynamics to phenomena exogenous to the market, all captured by the term "intervention" (Röpke 1933a, p. 274). While being in "perfect sympathy" with Mises that for the particular severity of the Depression the role of interventionism in the preceding boom had been of utmost importance, his sympathy "cools down by several degrees" when diagnosing the very particular point of time in 1932/1933, and when conceiving a suitable therapy for this particular moment (Röpke 1933a, p. 275). Elsewhere he used strongly disparaging terms like "business cycle policy nihilism" to depict the Mises-Hayek positions and aggressively asserted that "if, by sitting back and doing nothing, we leave the economic system slide down more and more by relying on the negative effects of the crisis, the moment will become ever closer in which, due to the indignation of the crisis victims and the increasing anti-capitalist mass sentiment, capitalism will become untenable, and with it liberalism—or the remnants which are still preserved—will vanish into the museum" (Röpke 1931, p. 450).

To sum up, while Mises remained perfectly loyal to the prescription of "pure theory" and was willing to put the aforementioned policy conclusion at the end of his analysis, Röpke showed willingness to trespass the borders of "pure theory" and to move into the realm of "political economy." His plea for "re-expanding" the economy was not only based on business cycle considerations but also on a stance which Eucken would later frame with the concept of the "interdependence of orders" (Eucken 1940/1989, pp. 298–299): what Röpke feared most was a scenario in which the crisis of the economic order persisted long enough, and the secondary depression spread and entrenched itself, so that the crisis of the *economic order* could generate repercussions for the *political order* powerful enough to undermine the very foundations of the political order—an argument which he assessed as

particularly plausible in the concrete circumstances of time and space, i.e., the weakened democracy of the Weimar Republic of the early 1930s (Gregg 2010, pp. 107–113). Given the curious exchange between Röpke and Hayek about the secondary depression (Kolev 2016, p. 16), it might well be that it was Hayek's retrospect on this particular point of divergence in the 1930s which led him to the praise of how Röpke had understood "early, probably earlier than most of our contemporaries, that an economist who is only an economist cannot be a good economist" (Hayek 1959, p. 26)—incidentally, one of the very first formulations of this Hayekian phrase widely known today.

3.3 The Problem of Confrontation by Default: The "Paleoliberal" Versus the "Neoliberals"?

After the "annus horribilis" of 1933 and the ensuing emigration intricacies, the encounters in person became less frequent. The arena reopened in 1938 at the Colloque Walter Lippmann and perpetuated itself at the meetings of the Mont Pèlerin Society after 1947—an arena combining debates on technical economics, political economy, and social philosophy. The phase of this section is distinct by the key new assumption that now the phase of juvenility was definitely over, giving place to scholarly maturity. Thus, age differentials might still have played a role, but their weight was significantly lower than when a scholar in his early 20s met one above 40, as was the case of Röpke and Mises in Eisenach 1922. Now that the "blinders" were firmly configured on both sides, the famous battles between Mises and factions of "pseudo-liberals" could begin—the most prominent two groups being the ordoliberals and the Chicago School representatives (for the latter, see Skousen 2005).

To set the scene for this phase, the heat involved can be clearly discerned in the following three passages:

> The German Ordo-Liberalism is different only in details from the Sozialpolitik of the Schmoller and Wagner school. After the episodes of Weimar radicalism and Nazi socialism, it is a return in principle to the Wohlfahrtsstaat of Bismarck and Posadovsky.
>
> Mises (1958/2007, p. 273)

> Mises and Hayek should be put into museum, conserved in formaldehyde, as the last samples of the otherwise extinct species of liberals who provoked the current catastrophe.
>
> Rüstow to Röpke (21.2.1941)

> Especially in this area [creating the conditions for effective competition, SK], already before the war a number of important studies were published in Germany, primarily owing to the impulses of Professor Walter Eucken in Freiburg i.B. and of Professor Franz Böhm, now in Frankfurt. [. . .] The problem of the "order of the economy" in the sense in which these scholars have addressed it and have attempted to sketch its solution is one of the most important tasks which the human mind can pose itself today, and the solution of which is of immense importance.
>
> Hayek (1947/2004, p. 170)

The polarity of mutual judgment contained in these statements is striking but also in line with the usual narrative of aggression and contempt dominating the irreconcilable relationships of Mises and the German "Ordo-interventionists" (Hennecke 2005, pp. 1–3; Hülsmann 2007, pp. 878–880). When having a closer look at the first two quotes, both of them prove to be factually wrong. The least thing Röpke could be accused of is sympathy for the welfare state (or of sympathy for Prussia, as symbolized here by Bismarck and the high Prussian official Arthur von Posadowsky-Wehner, Bismarck being Röpke's perennial culprit for what he called the tragedy of the German nation)—and even less so in 1958, the year of publication of his *Humane Economy*, whose centerpiece was a biting critique of various plans to establish or expand the welfare state. Equally biased and distorted was Rüstow's ad hominem accusation of Mises' and Hayek's responsibility for the crisis, as neither of them could be traced to have been of seminal importance for the course of practical economic policy during the Great Depression. In addition, it is intriguing to juxtapose Mises' and Hayek's diametrically different assessments of the ordoliberal research program and of the role of the ordoliberals: while Mises simply put them into the "German interventionists" box, Hayek of the 1930s and 1940s systematically searched proximity to Eucken, Röpke, and their associates, and started building his political economy and social philosophy on grounds very close to the realms explored by the ordoliberals (Kolev 2010, pp. 8–18, Kolev et al. 2014, pp. 1–4; Kolev 2015, pp. 432–436).

3.3.1 Colloque Walter Lippmann

The Colloque Walter Lippmann in Paris 1938 fell into a period when a number of representatives of the Eucken-Röpke-Hayek generation left their focus on technical economics aside and proceeded to the broader fields of political economy and social philosophy (Blümle and Goldschmidt 2006, pp. 547–557). Correspondingly, while covering topics of economics, the debates were dominated by discussions on the history and future of liberalism, as well as on liberal political economy (Wegmann 2002, pp. 101–110; Plickert 2008, pp. 93–103; Burgin 2012, pp. 70–86), also due to the interdisciplinary composition of the conferees (for embedding the Colloque into Walter Lippmann's personal evolution, see Goodwin 2014, pp. 233–260). The reasons for Eucken's absence are still to be explored in the ongoing processing of his archives, while it is noteworthy that Hayek's statements (made mostly in English) are hardly contained in the Record of the Sessions, as only contributions in German and French were protocoled.

The clashes between Mises and Röpke/Rüstow took place at four intersections: (1) concentration of industry as a result of endogenous market processes or as a result of interventions (Record of the Sessions 1938, pp. 24–29), (2) nationalism and the decline of liberalism (Record of the Sessions 1938, pp. 40–47), (3) liberalism's too narrow focus on the economic domain and the disregard of noneconomic factors of liberty as the culprit for liberalism's decline (Record of the Sessions 1938, pp. 55–66), and (4) necessity to formulate a new liberalism, with a special regard to interventionism (Record of the Sessions 1938, pp. 75–80). The tone was

polite, but the statements did not lack polemic components, especially in the exchange between Mises and Rüstow, a prime example being Rüstow's pun about the evolution of mass sentiment in the nineteenth and twentieth century: "If they have not listened to Moses and the prophets—Adam Smith and Ricardo—how will they believe Mr. von Mises?" (Record of the Sessions 1938, p. 66). The core difference can be summarized in a double-bifurcated question: first, whether every evil in the economic and social sphere is attributable to state intervention and, second, whether the answer to the problems of the time can be found in the termination of interventions (thus going back to the common image of liberalism in the nineteenth century), or in the introduction of new interventions (synonymously used here with the better-sounding term "reforms") to heal the evils in the economic and social sphere (thus proceeding to a new liberalism of the twentieth century). The answers given to this central question were not as clear-cut as it might appear at first glance, an ambiguity brought to light if one considers the topic of limited liability and Mises' positioning: to him, this institution was simply indispensable (Record of the Sessions 1938, p. 29). But is it as simple as that? Couldn't it equally be claimed that both the institution itself and the way it had been granted in earlier decades were results of preceding government interventions? Thus a consequently "non-interventionist" stance might also lead to the conclusion that such government interventions were to be perceived just as harmful as "any other" intervention. This ambiguity notwithstanding, the principal answers to the question on the necessity of new interventions/reforms broadly justified the loose characterization and grouping of the attendants into a "neoliberal"/more reformist and a "paleoliberal"/less reformist fraction. And it is likely that the exchange in Paris was a seminal experience for both sides, once again confirming their embittered attitude toward each other, leading to the statements about each other quoted above.

When in the concluding session the participants discussed establishing a new International Center of Studies for the Renewal of Liberalism, Lippmann proposed to focus this Center's agenda around the question "interventions, necessary or not?", and Mises immediately agreed: "There is no doubt that the principal problem to study is that of the possibilities and limits of interventionism. We need to prepare that conference by elaborating a report on the ways in which economists have until now envisaged the question" (Record of the Sessions 1938, p. 80). This is yet another instance that, in the sense explicated in Sect. 2, Mises was indeed a neoliberal—while not as reformist as Röpke, Eucken, and Rüstow and more willing to give credit to classical liberalism's theoretical achievements, he was a key innovator himself and also one willing to further explore potential innovations in discourse with others.

3.3.2 Mont Pèlerin Society

A multifaceted illustration of Mises' willingness to engage in discourse with the "Ordo-interventionists" (and other "pseudo-liberals") can be derived from the Mont Pèlerin Society's first two decades, years when the Society was heavily influenced by its German membership (Kolev et al. 2014). Until his sudden passing in 1950,

Eucken participated very actively in building up the Society: he was the only economist working in Germany to attend the first meeting in 1947 and left a long-lasting impression on some of the young American scholars (Stigler 1988, p. 146; Friedman and Friedman 1998, p. 160). Röpke was seminal for organizing the initiation of the Society and left a significant footprint during its formative decade, served as its second president 1961–1962, and eventually left the Society in the course of the ill-famed "Hunold Affair" (Burgin 2012, pp. 133–146)—a clash not covered here due to the only subordinate role which Mises played in it. The potential conflict lines with Mises surfaced already on the eve of the founding. In 1946, when informed of Hayek's plan about the envisaged academic society and especially about the proposed invitees to the Mont Pèlerin, Mises penned a memorandum which concluded with a clear rejection of Hayek's idea to create a broad platform for liberals (incidentally, the platform soon proved too narrow in the eyes of Karl Popper vis-à-vis his own plans to invite a broad anti-totalitarian collection of scholars): "The weak point in Professor Hayek's plan is that it relies upon the cooperation of many men who are known for their endorsement of interventionism" (Mises 1946/2009, p. 3). In the letter accompanying the memorandum sent to Hayek, Mises was more specific: "Above all I am concerned about Röpke's participation, who is an outright interventionist" (Mises to Hayek, 31.12.1946). The prediction for cloudy skies turned out partially correct. At the 1947 meeting, the famous "You are all a bunch of socialists!" scene took place at a session on taxation, and in a letter to Rüstow who was not able to attend, Röpke described Mises as "isolated in an almost tragicomical way" during the meeting, especially because of his unwillingness to accept the "primacy of our framework problems" (Röpke to Rüstow, 24.4.1947)—a type of problem whose discussions were highly characteristic for the debates of the age, also beyond the ordoliberal circles (Dekker 2017).

A case in point for the controversy over these "framework problems" was the second general meeting of the Society in July 1949 in Seelisberg, where Mises collided with Eucken and his Freiburg associate Leonhard Miksch (for Miksch's contributions to the research program of the Freiburg School, see Feld and Köhler 2015). The issue at stake was competition policy, especially the question if the competitive order was a framework necessarily imposed by government to preclude market power concentration, or whether government interventions were the only source of market power, a clash colorfully portrayed in Miksch's diary. When Mises accused Miksch of "totalitarian lines of thought" because he sought to solve problems of economic policy in general and of unemployment in particular on the level of the economic constitution/framework, Eucken and Mises entered a furious debate, depicted by Miksch as follows: "This led to a heated debate, in the course of which Mises exclaimed: 'What Adam Smith! I am liberalism.' If you ask me, his liberalism is a rather jaded Manchesterism that, its logical coherence notwithstanding, gives the impression of a crafty and biased ideology" (reproduced in Kolev et al. 2014, p. 21). The picture became more nuanced, however, when reading a few lines further in Miksch's account of their interaction: "After dinner, he had calmed down and told me amicably that we need not quarrel. I told him that I agreed and that I was fully aware of the respect I owed a man by far my elder

[20 years, SK], but that I must nevertheless draw attention to the fact that he had attacked me and not I him. As a matter of fact, views such as those from Mises can only be harmful and sap all action" (reproduced in Kolev et al. 2014, p. 35). In retrospect, Röpke depicted the Seelisberg clash between Eucken and Mises as one to "remain symbolic of the factional dispute within the liberal camp which would often recur in the Mont Pèlerin Society" (Röpke 1960, p. 11).

3.4 The Problem of Public Recognition: The Underdog and the Heroes?

With the foundation of the Federal Republic of Germany only a few weeks after the Seelisberg meeting, two key shifts with diametrically different impact took place. On the one hand, the unexpected passing of Eucken while lecturing at the London School of Economics in March 1950 (and of Miksch a few months later) deprived the incipient Freiburg School of two indispensable proponents in academia and the public arena, losses which would prove of seminal importance for its future evolution and losses which already at the time were assessed as hardly compensable: in the months after Eucken's passing, Hayek wrote to Ludwig Erhard how in his view Röpke's presence in Germany could only serve a partial substitute for Eucken (Hayek to Erhard, 30.6.1950). On the other hand and at the very same time, Erhard, who as a political entrepreneur was intellectually related to Eucken's circle as well as to Röpke and Rüstow, was widely perceived as a shooting star due to his successful policy agenda of the "Social Market Economy" igniting the "economic miracle." With him as a promotional vehicle, ordoliberalism gained in prestige in its three aforementioned varieties (the Freiburg School, the "sociological liberalism" of Röpke and Rüstow, as well as the Cologne strand around Alfred Müller-Armack) and would even be classified by Michel Foucault as being at the heart of the German "radically economic state," a term Foucault coined to portray an essential trait of the Federal Republic (Foucault 1979/2008, p. 86). In the context of this rising renown, the Walter Eucken Institut was founded 1954 in Freiburg by Eucken's family, friends, colleagues, and associates—with Erhard, Röpke, and Hayek among its founding members.

Mises, however, had only mixed feelings about the "economic miracle," and his attitude toward Erhard's policies seems adequately summarized as having identified yet another German interventionist. The accounts in the two biographies coincide on this point. When first requested in 1948 about his opinion of Erhard, Mises replied that he did not know him, other than that Erhard directed the Economic Advisory Board in Frankfurt—a commission which Mises depicted as "moderately interventionist." Still, at this point Mises allowed for the commission's opposition to the dominant ideas of the German political parties and of the British administration to be possibly attributable to "Erhard's uncompromising attitude and the persuasiveness of his exposition of the principles of true liberalism" (Hülsmann 2007, p. 875).

Knowledge of the commission's composition enables an easy guess as to who the "moderate interventionists" were: the Economic Advisory Board was dominated by Eucken, Miksch, and the group around them (Nicholls 1994, pp. 185–205; Klinckowstroem 2000, pp. 99–100; Glossner 2010, pp. 43–46). However, allowing for the possibility of Erhard to become a proponent of "true liberalism" proved to be short-lived: Mises was soon disappointed to realize that Erhard's intellectual background was based on the theories of Eucken, Röpke, and Müller-Armack (Hülsmann 2007, p. 878). When the Mont Pèlerin Society convened again in Seelisberg in 1953, Erhard had just triumphantly won the federal elections as a key figure in Adenauer's cabinet, and many members were excited to have him among them at the meeting—while Mises declined a meeting with this "compromising pseudo-liberal" (Hennecke 2005, p. 192).

In this context, a curious person emerged on the scene: Volkmar Muthesius. Presented as Mises' "closest German ally," he was suspected by Röpke of having advised Mises to avoid meeting Erhard (Hülsmann 2007, p. 880). It was in correspondence with Muthesius in 1955 that Mises used the terms "Ordo-interventionism"/"Ordo-interventionists" (Hülsmann 2007, pp. 880, 1007). The journal Monatsblätter für freiheitliche Wirtschaftspolitik established by Muthesius in 1955 succeeded already in its very first year to produce what has recently been called the "Muthesius controversy" (Nientiedt and Köhler 2017)—a rather unpleasant and heated affair when accounts were voiced in the journal about an alleged proximity of elements of ordoliberalism to the economics of National Socialism, the details of which will soon be published (see for a nutshell version Hülsmann 2007, pp. 1007–1008, fn. 36). Equally important for this phase, the Monatsblätter "fight an honorable rear-guard action" (Hülsmann 2007, p. 1007)—a characterization which, if discounted for its martial rhetoric, indeed captures well the spirit of the journal which reads as being one where "underdogs" fought the undeserved "heroes" of the day. A perennial target of Muthesius' team was Erhard's compromising nature, the pseudo-successes of the Social Market Economy and the harmful character of antitrust legislation—permanently opposing the Act against Restraints of Competition of 1957/1958, which the ordoliberals celebrated as a milestone success after a decade of controversy especially with the Federation of German Industry and despite the nature of compromise for some sections of the final version after multiple lines of conflict in the political arena (Nicholls 1994, pp. 329–337).

Four of Mises' contributions to the Monatsblätter are of particular interest here. "The Truth about Interventionism" (Mises 1957a) contained passages well-known from his 1920s interventionism essays and reads like a version of Mises (1958/2007) streamlined for usage in the German context, with an identical quotation as the one at the beginning of Sect. 3.3 but for one curious spelling difference: here "German ORDO-Liberalism" (Mises 1957a, p. 603) was now spelled in capital letters, in line with the official spelling of the ORDO Yearbook, the organ of Muthesius' opponents. Another curiosity in the Monatsblätter is a prepublication of Mises' contribution to a festschrift for Ludwig Erhard's 60th birthday which reads like an angry rebuke of egalitarianism equally prevalent in Western countries

and in world politics, not omitting a biting reference to Prussian economist Adolph Wagner and the way to National Socialism paved by his kind (Mises 1957b, p. 92). Two other Monatsblätter pieces of his directly relate to the final scene of this account, Mises' honorary doctorate at Freiburg 1964.

3.5 The Problem of Ceremonial Occasions: Genuine Reconciliation or Superficial Courtesy?

Advanced age often entails an increase of ceremonial occasions, taking the forms of congratulatory addresses, festschriften, or oral testimonials. The case was similar in the group studied here, not surprising given the scholarly socialization in the early twentieth-century Central European universities, institutions famous and sometimes notorious for their formal rituals. Such rituals are equally observable in the correspondence among the protagonists: not only were first names not permissible, they also continued until the very end—after decades of cooperation—to start letters in the style of "esteemed professor Mises," with "my dear Mises" being the warmest acceptable tone of informality (Margit von Mises, while addressing Röpke's wife as "dearest Eva," used the most formal possible "esteemed Herr Professor," without the surname—as was quasi-mandatory in Germany until 1968 for anyone who did not hold a PhD: Margit von Mises to Eva and Wilhelm Röpke, 7.10.1959; yet again in what she called a "fan letter" to Röpke, 19.10.1961). Specimens of ceremonial courtesies have already been discussed above: Röpke's address for Mises' 80th birthday (Röpke 1961), Hayek's address for Röpke's 60th birthday (Hayek 1959) and for Mises' 70th birthday (Hayek 1951/1967), as well as Mises' contribution to the festschrift for Erhard's 60th birthday (Mises 1957b) and his obituary for Röpke (Mises 1966). When using sources of this kind, certainly special attention and sensitivity are required (Backhouse 2007) since both their rhetoric and their content might have been "upgraded" for the occasion as compared to regular interactions, so a "discounting" of this ceremonial courtesy component might be necessary—although Mises' piece for the Erhard festschrift shows that such an "upgrade" of courtesy is not mandatory.

This final section presents the somewhat curious case of Mises' honorary doctorate which he received from the University of Freiburg in 1964 (for a more detailed exposition, see Kolev 2016, pp. 21–25). "Curious" is used here judiciously. It is striking how few of these recognitions such an internationally renowned scholar like Mises received during his long career. Apart from the special moment of becoming Distinguished Fellow of the American Economic Association in 1969 soon after the initiation of this distinction, Mises was awarded only three honorary doctorates, two of them in law: 1957 by Grove City College and 1963 by New York University (Moss 1976, pp. 118–122). So, strictly speaking, he received his single honorary doctorate in economics, of all places, from the University of Freiburg, on July 27, 1964, and, of all fields, in "economic state sciences."

When Hayek moved from Chicago to Freiburg in the spring of 1962, he not only honored Eucken's (and Miksch's) heritage in his inaugural lecture (Hayek 1962/1969, pp. 1–2) and became for many years the director (and later the lifelong honorary president) of the Walter Eucken Institut. In a parallel effort with a similarly speedy timing, in December 1963 he initiated a correspondence with the dean of his Faculty of Law and State Sciences (all related documents are retrieved from Universitätsarchiv Freiburg, Bestand B0110, Akte 51). The core of Hayek's initiative was immediately directed at convincing the dean of awarding Mises an honorary doctorate, extensively delineating Mises' merits already in the first letter (Hayek to Hesse, 22.12.1963). The three principal achievements listed were: 1) the 1912 habilitation, "in many respects still appearing modern," to have for the first time integrated a theory of money and credit into "the general economic theory of prices and markets"; 2) the 1920 article on socialist calculation and the ensuing 1922 *Gemeinwirtschaft* to have initiated "an international discussion lasting for many years," even receiving the recognition by one of his main opponents of having deserved "a statue in the marble halls of the future socialist planning board"; and 3) the 1940/1949 *Nationalökonomie/Human Action* to have presented, after numerous and highly controversial previous studies, "an extensively designed and comprehensive system of the theory of human action in society, which combines the main results of his life-time efforts"—and while the basic methodological tenets might be considered controversial, praxeology was to be "acknowledged as the culmination of a long and influential tradition" and to be granted the special merit of having "worked out in the clearest form the pure logic of choice." Curious for this analysis, Hayek inserted into his letter the statement: "Also those among the younger 'neoliberal' school who are not quite willing to follow him, can say that it was him whose critique awakened them from their 'dogmatic slumber' which had caused serious blindness vis-à-vis important problems."

In a handwritten reply of March 10, 1964, Mises expressed his gratitude to be granted an honorary doctorate "in economic state sciences" ("der wirtschaftlichen Staatswissenschaften"). Furthermore he declared to be especially flattered of being honored by this particular institution "since I well know what I owe to teachings who took their beginning at the University of Freiburg." In the unlikely event of expecting a reference to the ordoliberals (or, perhaps more likely, to Max Weber who had his first chair in Freiburg between 1894 and 1896), such expectations are disappointed: the only explicit mentioning of a name is that "also my first teacher of political economy, Eugen von Philippovich, taught there long"—still, the inclusion of "also" allows for some speculation who else might have been of importance to Mises. When in Freiburg, Mises delivered a talk on July 27, 1964, with the curious detail that the talk took place not at the university but—upon the special invitation of Eucken's widow Edith Eucken-Erdsiek (Eucken-Erdsiek to Mises, 12.3.1964)—at the Walter Eucken Institut, with a title which translates as "Ownership of the Means of Production in the Market Economy" (Walter Eucken Institut 1964, p. 8). Unlike many papers presented in the context of the institute, Mises' talk was not published in ORDO Yearbook but, reminding of the battlefield in Sect. 3.4, as two separate articles in Muthesius' Monatsblätter (Mises 1964, 1965).

1966 constituted the final scene of the interactions with Röpke's passing on February 12. On the one hand, given the ceremonial occasion, Mises penned the

obituary quoted at the very beginning of this essay, with high praise for Röpke and Eucken, referring to Röpke as having been "not only a great scholar, a successful teacher and a faithful friend, but first of all a fearless man who was never afraid to profess what he considered to be true and right." (Mises 1966, p. 200). Similar tones were expressed in earlier correspondence when crediting Röpke with "a decisive contribution" to the "awakening of the liberal spirit" in earlier decades (Mises to Röpke, 12.3.1956) or when referring to their "identical goals" while looking back on the preceding 50 years (Mises to Röpke, 27.10.1961). This was also a stance very much shared by Edith Eucken-Erdsiek when writing to Mises about the "identical goal" which "in the ultimate foundations" united Mises with her late husband and herself (Eucken-Erdsiek to Mises, 26.2.1951). Here she responded to a condolence letter in which Mises extolled Eucken for "his writings and his exemplary stance during the most difficult times" (Mises to Eucken-Erdsiek, 20.4.1950). On the other hand, in the very same year of the Röpke obituary, he published a passage in the third edition of *Human Action* how "the most recent variety of interventionism, the German 'soziale Marktwirtschaft'" was nothing else but the usual stance of "interventionist doctrinaires" (Mises 1949/1966, p. 723). Thus, the curtain fell in a rather characteristic manner. In his final statement, Mises' succeeded in combining "interventionism" and "doctrinaire," two of the key terms in the mutually aggressive rhetoric of the four preceding decades.

4 Conclusion

The exposition of these four decades easily invites the conclusion that the interactions between Mises and the ordoliberals shared Schumpeter's diagnosis of the "Methodenstreit" as being "a history of wasted energy" (Schumpeter 1954/2006, p. 782). And such a view is probably correct when asking whether the communication in the Mises-Eucken-Röpke triangle was fruitful for the protagonists themselves: apart from the important impulses Eucken and Röpke had received from Mises' treatises during their scholarly socialization, the decades of actual discourse proved rather sterile due to the overwhelming aggression and contempt which both sides kept displaying and which constantly overshadowed their exchanges.

In retrospect, however, exploring their discourse must not be futile. The four decades of interaction constitute a rather intriguing example of debates in the domain of political economy and can shed light on seminal issues often encountered when studying the debates in this domain. In the cases of the "Methodenstreit" and the socialist calculation debates, key protagonists frequently showed little willingness to "mine deeply enough" for reaching the core of the arguments at stake, thus implicitly leaving such "mining" for later generations of historians of economics. A similar pattern surfaces when portraying the debates of this exposition today by adding yet other five decades of hindsight since the end of the interactions in 1966: as described elsewhere in greater detail, several challenging problems and warnings for today's and tomorrow's politico-economic debates could be distilled and reconstructed from the Mises-Eucken-Röpke debates (Kolev 2016, pp. 27–31).

In recent decades political economy has experienced a remarkable comeback, not least owing to scholars like James M. Buchanan. A seminal player in this revival, Buchanan not only had profound interests in the history of economics but also explicitly acknowledged the numerous intellectual influences on his development. Interestingly, among the most highly appreciated figures, one encounters his own teacher Frank Knight, a founder of the "Old Chicago" School which Buchanan later characterized as being a close relative of the Freiburg School, as well as Ludwig von Mises, whose *Human Action* was of seminal impact for developing the Public Choice research program. In this vein, a statement of Buchanan reflecting on Hayek's research program well suits these concluding remarks: "The diverse approaches of the intersecting 'schools' must be the bases for conciliation, not conflict. We must marry the property-rights, law-and-economics, public-choice, Austrian subjectivist approaches" (Buchanan 1979, p. 7).

The cross-fertilization as envisaged by Buchanan is only possible if the potential candidates for such efforts are first analytically separated as clearly as possible. For deepening such inquiries by delving into the evolution of the research programs involved, history of economics can provide key insights and original impulses (for a recent set of studies on potential cross-fertilizations, see Zweynert et al. 2016). This has been one of the aims of this analysis, and the Mises-Eucken-Röpke triangle indeed constitutes a rather intriguing case of exploring how the respective research programs evolve, how and why they clash with each other, but also how these perennial frictions may be stimulating—if not to the protagonists of the time, they are certainly able to provoke today's historians and today's economists interested in further developing these and related research programs.

Let us conclude with a fictional punchline. One can encounter at least two stories about Mises and Röpke: one where both were caricatured in Henry Hazlitt's utopia *The Great Idea*, the other about their famous garden walk (Hennecke 2005, pp. 1–3). The latter, anecdotal oral history, is a perfect fit for a conclusion. Röpke depicted a walk with Mises in the early 1930s in a settlement of worker gardens in Rotterdam. At one point Mises exclaimed: "What an irrational way to produce vegetables!", while Röpke rejoined "But it may well be a highly rational way to produce happiness." The account of the four decades presented here was very much of this kind: an exchange of mutual misunderstandings, puns, sarcasms, and ridicules. It is clear that in the respective search for a better understanding of economic and social order, the other camp did play an important role—a productive or a destructive one, but hardly an irrelevant one. Still, the "mutual gains from trade" could have been much more significant. While Mises presents a more elaborate theory of market process dynamics, the ordoliberals focus on elaborating the statics which markets require in terms of a framework of prerequisites and preconditions. In the same vein, Mises' theory of the market process is a better perspective for times of steady economic development with open markets, while the ordoliberals focus on a political economy applicable to moments of transition where the issues of power and stability are of utmost relevance. Should today's and tomorrow's neoliberals be willing to learn from earlier neoliberals, it is not only substantive lessons provided by a textual perspective but also procedural lessons provided by the sociological prism—and here the Weberian plea for conceptual

clarity and the McCloskeyian plea for sensitivity to the power of rhetoric prove yet again to be indispensable starting points.

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Part II
Wilhelm Röpke as a Political Economist: Between Keynes and the Austrians

The Moral Foundations of Society and Technological Progress of the Economy in the Work of Wilhelm Röpke

Marcelo Resico and Stefano Solari

1 Introduction: The Social and Moral Roots of the Economy

Wilhelm Röpke's theorizing produced one of the most complex studies of feedbacks in socioeconomic systems, presenting a thorough account of the social dimension of the economy. In contrast to many other liberal theories, he adopted an integrated approach to analyze social, psychological, and moral aspects which affect and are affected by economic action, with the goal to study the stability of the economy in a systematic and comprehensive way. In Röpke's view, the ultimate ends of the economy are man and the achievement of a good life. He argued that "The vital things are those beyond supply and demand and the world of property" (Röpke 1958, p. 5). Nonetheless he considered that this end could be achieved only by some intermediate instrument, including the social dimension, which he called "social integration." In "International Economic Disintegration," he stated:

> Under the system of the competitive market economy, as well as under any other economic system, economic integration cannot, in the end, go further than the socio-political integration based on laws, institutions and psycho-moral forces. The latter is the indispensable condition of the former, whereas it is highly doubtful [. . .] that economic integration can be sufficiently relied upon to produce automatically the degree of socio-political integration it requires. (Röpke 1942a, p. 68)

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Röpke considered the moral foundations of society an important element to assure the viability of economic processes, particularly the correct functioning of the market. He conceived a specific morality of the market, one which included, along with the love for freedom and self-determination, the willingness to accept responsibility and the idea of duty and attachment. Röpke put great effort into analyzing the structural conditions which allow these virtues to produce an economy that does not contradict human nature. He consequently conceptualized a "metastability" of socioeconomic systems that is still undertheorized in contemporary social studies which neglect the moral dimension of society. As a matter of fact, neither mainstream nor heterodox economics adequately study the role of morality in assuring the expediency of economic organization and the feedback which the latter provides for social integration. Most economists still neglect the negative aspects of large organizations, of economic concentration, and of mass society, or focus only on partial aspects of these issues (e.g., social costs).

Röpke underlined the ethical dimension of the economy both on a substantial level and on a methodological level of inquiry. To him axiological relativism is a self-defeating concept, contradicting itself—since the condemnation of value judgments in science is itself a value judgment. Science in his view is inseparably attached to value judgments (Röpke 1942b, p. 2). Therefore, Röpke's effort was to master the ethical dimension in two ways:

1. By assuming it as a central element and a distinct, specific element of inquiry.
2. By assuming ethical non-neutrality in his account. The consequence is that his theorizing is ethical, and not normative, as some would say.[1]

The market is not an ethically neutral sphere (Röpke 1942a, p. 68): rather, it is a highly sensitive artifact of occidental civilization. Civilization is therefore the core element of his analysis. That means that economic phenomena are seen as rooted in education, tradition, religion, milieu, the structure of society, and the state. Röpke admitted his debt to the classical and Christian traditions (Röpke 1959, p. 5) and, critically, to "economism," which he considered a variety of social rationalism that perpetrates the "incorrigible mania of making the means the end" (Röpke 1958, p. 97).

One may therefore ask in which current of ethical thought we can classify his work. Even if there is no specific statement in his work as regards this aspect, we clearly distinguish a classical (Aristotelian) virtue ethics in his references and in the way he treats moral elements as requisite virtues (Röpke 1942b, p. 16, explicitly mentions Thomas Aquinas). Moreover, human flourishing is at the very center of all his work. The declination of this ethical stream is obviously influenced by a modern conceptual set and by an attempt to bridge different faiths in such a way that we may define him as "Erasmian." This current is evident in his continuous effort to relate his Protestant values to the Catholic social doctrine (Röpke 1947a, 1961a, b,

[1]The distinction positive-normative assumes its full meaning in a positivistic framework. Ethical theories presuppose a sense of what ought to be at the epistemological level, so that such a distinction falls away and they do not allow for a pure instrumental rationality.

see also the cited articles in newspapers). In his reasoning as an economist and social scientist, utilitarian arguments are distinguished from ethical arguments, and there is a clear hierarchy between the two in favor of the latter. Hence, "humanism" is an appropriate attribution to his approach, as he often remarked (Röpke 1950).

The description of human motivation and agency in Röpke is rather complex. As he dismisses utilitarianism and the superficial translation of any activity into monetary terms, the motivation of Röpke's agent is intrinsically determined by a set of noncomparable or at least hierarchically ordered ends (much as in Aristotelian theory):

> Man does not live by bread alone, and the materialistic conception of human convictions and ideas is certainly no longer in accordance with the opinion held by present-day sociologists. It is true that there is exploitation of ideologies. It is still more true, however, that the deepest strata in the human soul do not consist of economic interests, which set individuals, groups and classes against each other, but all sorts of sentiments, passions, fundamental desires and creeds, which, as anthropological constants, are common to all groups and classes, and more likely than not to prevail over economic interests and motives should they come into conflict with them. These are the instincts of social integration, patriotism, sense of solidarity and hatred, hunger for power and self-assertion, desire of "vital satisfaction," longing for the natural milieu, preference for peace and order, elementary sense for common justice, etc. Man is a crystal of which these sentiments, instincts and passions are the innumerable facets, some positive, some negative, some making for social integration and others for social disintegration, and which will sparkle depends on which sentiment is appealed to by the circumstances.
>
> It is only owing to these non-economic sentiments, and not to economic interests and competition, that any fairly integrated society is possible at all. It was the common and fatal error of the dominant social philosophies of the recent past, of the old-time Liberalism and of Marxism, that they were rather blind to this essential truth and laid too much emphasis on economic interests. (Röpke 1942a, pp. 93–94)

Similarly to other German neoliberals and contrary to a certain strand of liberalism which Röpke labels "liberal immanentism" (Röpke 1958, p. 126), his idea of the market does not endogenize all moral and sociological aspects functional in a virtuous unfolding of market interactions.[2] Social and moral prerequisites to a balanced market functioning are kept analytically separate from the unfolding of market interaction (supply and demand). In this way, he is able to hypothesize in realistic terms that the development of capitalism is not necessarily producing ideal states of the world. He argued that:

> self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms—all these are things which people possess before they go to market and compete with each other. These are the necessary supports which preserve both market and competition from degeneration. (Röpke 1958, p. 125)

[2]"Markets and competition are far from generating their moral prerequisites autonomously. This is the error of liberal immanentism. These prerequisites must be furnished from outside, and it is, on the contrary, the market and competition which constantly strain them, draw upon them, and consume them" (Röpke 1958, p. 126). See also Resico (2008) who discusses the consequences of this distinction throughout Röpke's economic thought.

The sources of this education are the family, the church, genuine communities, and tradition. Therefore, the market does not resolve all these problems, and some specific and continuous investment of one's effort has to be made to assure that market prerequisites are regenerated. Contrary to the general extrapolation of the internally contained logic of the neoclassical model of the market, "the ultimate conditions for the making of the economic process lie outside the strictly economic sphere" (Röpke 1942a, p. 69). As contracts are short-lived relations, they should be grounded on solid ethical bases that markets cannot assure or create in minimal part (e.g., educating for responsibility). Therefore, by keeping apart moral values and market functioning, Röpke was able to study social feedbacks and the conditions of viability of market economies.

2 The Economy as an Open System

In Röpke's view, the economy is an open system, and hence economic results are not internally determined by the strictly defined economic processes: rather, the latter depend on extra-economic factors. The viability of the whole society is not determined by the simple economic ability to produce goods to satisfy material human needs. Market equilibrium is not a sufficient condition for a good society, and markets left to themselves would not assure the long-term flourishing of an economy. Thus the sustainability of the socioeconomic system is determined by the ability to produce goods which are in accordance with human nature and favor human flourishing. Therefore, the human dimension is the real measure for economic prosperity.

The idea is therefore that human capital and social capital (Röpke did not use these terms) are not automatically reproduced and that these capitals should be a variable to be continuously cared for. One of the visible causes of the dissolution of the structure of society highlighted by Röpke is "brought about by the formation of the masses (Vermassung)" (Röpke 1942a, p. 239). This massification produces two effects:

1. Loss of social integration by the gradual atomization of society, individualization, and a diminished differentiation, which are destroying the vertical coherence of society. The emancipation from natural bonds and communities, the "uprooted"[3] character of modern urban existence, the changeability and anonymity in human interactions, and "nomadization" are specific phenomena of this loss of social integration. Moreover, the organization and regimentation produced by economic and social engineering cause a displacement of the spontaneous order of society.
2. Loss of vital satisfaction and worsening of work conditions of urban industrial existence.

[3]For the concept of "uprootedness," as used by Simone Weil, see Gambarotto and Solari (2015).

According to Röpke, we reach a metastability of a market society if one cares for the quality of society and avoids the dangerous forms of social disintegration. There should be a hierarchy in the organization of a society which assures that the moral values are not subordinated to technological arrangements. Both technological and economic arrangements must take into account the moral dimension of our life, assuring human dignity. This ethical arrangement acts as a "meta-evaluation" principle. It represents an imperative, which is nonetheless still endogenously determined as a kind of self-consciousness of the economic system, as no external alteration of the market process or modification of investment decisions are desirable. Therefore, technology has to remain an instrument and not a civilizing element.[4]

3 Social Integration and Economic Humanism

Röpke was aware that each system is exposed to degeneration. The task of structural policies of the "Third Way" (between savage liberalism and communism), more precisely named "economic humanism," is to take into account and develop the social prerequisites of markets, considering also some structural dimensions of markets themselves such as the size of businesses, the distribution of income, and the distribution of population (Röpke 1944a). This aspect neatly distinguishes Röpke's liberalism from more optimistic laissez-faire varieties of liberalism, and he was particularly willing to distance himself from old liberalism (a term which often remained unspecified).[5] In this sense, he argued that "traditional liberalism not only committed the error of ignoring the legal and institutional conditions of competition, but also of the overlooking its sociologically negative effects" (Röpke 1942a, p. 6).

Therefore, the adjustment of supply and demand via prices is not granted without the proper moral and social setting. Röpke also promoted an idea hostile to most liberal thinking when he argued that "it is hard to see how competition [. . .] can be capable of breeding social integration. Competition is a highly dangerous arrangement and one which must be balanced by the strongest of counter-forces from outside the economic

[4]Röpke used the terms "technology"/"technique" and "technological"/"technical" interchangeably. For the sake of consistency, the terms "technology" and "technological" are uniformly used in this paper.

[5]"The market, competition, and the play of supply and demand do not create these ethical reserves; they presuppose them and consume them. These reserves have to come from outside the market, and no textbook on economics can replace them. J.B. Say was mistaken in his youthful work *Olbie ou Essai sur les moyens de réformer les moeurs d'une nation,* a liberal utopian fantasy published in 1800, when he naïvely proposed to hand the citizens of his paradise 'un bon traité d'économie politique' as a 'premier livre de morale.' That valiant utilitarian Cobden also seems to have thought in all seriousness that free-trade theory was the best way to peace" (Röpke 1958, p. 125).

sphere" (Röpke 1942a, p. 71).[6] Remarkably, economic integration ultimately depends on social integration. Therefore, the model apparently consists of a one-way causation from ethics to economics via social integration as the crucial intermediate variable. Socio-political integration is created by a proper framework of institutions and a strong legal order. But underneath that, we find a code of moral norms and principles of behavior. The "atmosphere of mutual confidence, security and continuity" (Röpke 1942a, p. 72) is the fundamental element characterizing this set of favorable elements. Institutions reduce the enormous risks involved in the "high degree of dependence, which is inevitably connected with the division of labor" (Röpke 1942a, p. 72). Socio-political integration is a phenomenon which is possible within the borders of a well-organized community or state. It is difficult to provide that security beyond the state, although not impossible.[7] Hence, it is an important task of the state to develop the arrangements which allow civil society to flourish. Education is its most important task, especially the humanistic tradition linked to human dignity and the good life. There is, however, a limited extent accorded to the state to interfere with markets (except in some exceptional cases).

Markets themselves could have an ethical aspect as they educate to take responsibility and to properly make use of freedom. Ethical principles are reinforced in people interacting in markets. And Röpke also detected feedbacks from the economy to the core of society.

The ethics of markets is not assured in any case. Only specific market structures assure a good feedback for social integration. Röpke depicted a specific economic system where interactions between moral foundations of civil society and market structure enjoy some reciprocally reinforcing feedbacks. In this case, markets work well without the need of costly intervention.

4 Technology and Organization as a Source of Concern

Röpke's humanistic approach led him to express some serious concerns regarding a variety of features of modern economic development.[8] Some of these concerned technology and organization. His view cannot be discarded as simply conservative, and it is certainly not reactionary: his position is much more differentiated and is the

[6]Frank H. Knight's "The Ethics of Competition" (Knight 1935) is referenced in Röpke (1942a, p. 71, fn. 6).

[7]Röpke often cited international institutions representing the *secularized* version of the "Res Publica Christiana."

[8]He shared with Leopold Kohr the concern for what is too big (Kohr 1962). The two scholars, however, never referred to each other's publications. Röpke had always had this concern, as he reported in 1963: "As a young law student, I made my debut in an economics seminar with a thesis on the Taylor system, which I described as reprehensible and pernicious, if it brings in its train the danger of a possible increase in productivity having to be bought at the price of humiliating man in his work, of reducing him to a robot for whom fundamentally the only remaining link with his work is a more or less well filled pay packet" (Röpke 1963, p. 21).

result of the application of his model of socioeconomic interdependencies presented in the previous sections. He progressively refined the definition and specification of this problem in various publications.

An important reference to the difficult relationship between technology and socioeconomic development can be found in his essay *What's Wrong with the World* where he blamed the "excessive speed of rationalization and technical progress" (Röpke 1932, pp. 25–26). More specifically, he argued that "rationalization is decidedly welcome, but if its tempo is made too fast then the results may be incalculably disastrous" (Röpke 1932, pp. 25–26).

A few years later, in *Crises and Cycles* (Röpke 1936), he could be more systematic in analyzing the problems raised by the division of labor. This division is not an unproblematic change for society, and in *Crises and Cycles* he related this issue to his view of cycles. These cycles are not simply limited to monetary causes (as in Hayek) but include some deeper structural dynamics connected to the unfolding of the division of labor:

> The only way to understand the phenomena of economic fluctuations and disturbances, crises and unemployment, is to realize at the very outset that our present social order is an economic system based upon division of labor carried to its extreme limits. In any study of crises and cycles, it must be realized from the first that in such a vastly complicated, knife-edged economic organization as that of today held together by the bond of voluntary decisions, frictionless co-operation cannot be expected. (Röpke 1936, p. 70)

An essential feature of modern economic systems, as described in the first chapter of Adam Smith's *Wealth of Nations,* is the extended division of labor. However, Röpke was aware of the inner vulnerability and instability of the process of increasing the division of labor: "The susceptibility of the economic process to disturbances of equilibrium grows with the degree of division of labour, but so does the productivity of the economic process as a whole" (Röpke 1936, p. 71). Röpke presented the division of labor and monetary expansion as two elements that could bring disturbances to the complex functioning of the market economy:

> In addition to the division of labour, the pronounced and growing importance of the production of producers goods, and the special regulating principle of our economic system, there is the fact that our economy rests upon the use of money and credit, a further very serious source of trouble. (Röpke 1936, p. 76)

For these reasons the cycle is to be considered the typical form in which the growth of the capitalist economy takes place. Röpke also connected this increased division of labor with increased risk for individuals and with difficulties of economic integration. In this light, the crisis and the depression appear as "growing pains" of the economic system from which we cannot escape as long as economic development proceeds in jumps instead of moving in a smooth and even pattern. The history of crises and cycles teaches furthermore that the jumpy increases of investment characterizing every boom are usually connected with some definite technological progress:

> It seems as if our economic system reacts to the stimulus of some technical advance with the prompt and complete mobilization of all its inner forces in order to carry it out everywhere in the shortest possible time. But this acceleration and concentration has evidently to be brought at the expense of a disturbance of equilibrium which is slowly overcome in the time of depression. (Röpke 1936, p. 98)

Later, Röpke expressed a more general view of the division of labor in his textbook (Röpke 1937). In the third chapter, dedicated to the division of labor, he added a final paragraph on the dangers and limits of the division of labor. Problems are related to "the atrophy of certain of our vital functions" (Röpke 1937, p. 67). Mechanization, monotonous uniformity, social and spiritual centralization, and depersonalization tend to produce an unnatural setting for workers, leading to an impairment of important human faculties. These would damage workers' health and prevent a harmonious development of their body or spirit. The reduction of the human content of specialized work reduces the joy of work and the pride of craftsmanship. Röpke affirmed that "the problem of industrial labor can only be solved in the factory or not at all" (Röpke 1963, p. 22). These problems concern large establishments, and therefore small industry and decentralization are to be preferred to centralization and large organizations.[9] Nonetheless, Röpke was not against rationalization per se but rather against the wrong type of rationalization:

> We have by now already acquired the first essentials for a critical examination of rationalization, the aversion to which today overshoots the mark just as did its uncritical exaltation a few years ago... men have always striven to raise the productivity of their labor by means of tools, machinery, and the most efficient organization, because they have never been satisfied with the extent to which they have been supplied with goods. It was in this sense that we declared above that we cannot have too much but always only too little rationalization. (Röpke 1937, pp. 84–85)

Röpke proposed a general principle affirming that:

> the denser and the more complex the division of labour, the more difficult it will be to achieve harmonious coordination and the more widespread will be the reverberations of every disturbance of this complicated process. (Röpke 1937, p. 69)

He was also interested in the consequences of technological progress in specific sectors such as the industrial firm and agriculture. He worried that technology could alter modes of production compatible with the good life such as artisan work and peasant agriculture, modes which implied a whole vision of human life and a culture developed over time. In *International Economic Disintegration* (Röpke 1942a), he expressed his concerns for the way in which technological progress of agriculture took place. He argued that mechanizing agriculture and rationalizing peasant farming risk damaging agriculture's sociological structure (Röpke 1942a, p. 159), since the specific feature of peasant farming is a specific form of life and work. Besides improving economic performance, mechanization alters the form of life, threatening the long-term viability of that society. In connection to this aspect, Röpke uses a metaphor from his trip to the USA to study the agrarian economy: the "Dust Bowl" was caused by the deterioration of the soil due to producers not taking

[9] "If such a vital problem as that of industrial labour should be insolvable, if it seems impossible to ensure that under the modern conditions of highly mechanized production industrial labour will retain its dignity, meaning, formative influence and attraction, that would be basically a death sentence for our modern industrial society, whether it be capitalist or communist" (Röpke 1963, p. 21).

into account the biological equilibrium of nature. The same could happen to society if human capital and social capital were abused in a utilitarian tour de force where one is maximizing productivity in the short run and neglecting the conditions mentioned above: a process typical for massification (Röpke 1927, 1965).

In general, the view expressed by Röpke is that one may, or we do, observe that optimal solutions determined from a purely economic perspective are not necessarily optimal solutions from the sociological perspective, in connection with the human and moral dimension. This idea expands the "menschenwürdig" (humane) condition for the economic system set by Walter Eucken (1952).

The optimality of the sociological structure is defined in connection to human nature and to its moral dimension. The health of the sociological structure has priority over purely economic efficiency, as it assures society's integration, and therefore it represents the fundamental reference for the optimization of the technological structure. That is to say that the latter should be optimized within the viability boundary of the former, i.e., that one can even accept lower productivity to preserve the optimal social structure. Farmers strongly resist the deterioration of their activity before giving up and find a nonmaterial equivalent for their sacrifice of material well-being (Röpke 1942a, p. 160), testifying of the intrinsic value of their social arrangement, not of their rigidity.

The problem is how it is possible to discover the viability boundary of society. Röpke argued that "if the growth of technology and organization is to be a blessing instead of a curse, it must remain à la taille de l'homme" (Röpke 1942a, p. 228). The same principle is later applied to technological progress and to the pace of technological progress (reformulating the ideas expressed in Röpke 1932). More than the content of technology, what is inhuman today is the acceleration of the pace of technological progress, which is driven by monetary benefits and competitiveness and not in consideration of human needs.[10] This human size ("taille de l'homme") is therefore used as a measure of the impact of technology on society: "If technology and organization are allowed to grow beyond the human dimensions, the taille de l'homme, adverse consequences of various kinds will ensue, consequences affecting not only the factory itself but also possibly the entire society"

[10]The problem is that if new products appear so quickly that human demand cannot absorb them, there is an economic failure in the innovative products and marketing: "the negative dynamics is produced when the causality between finance and investment is reversed. When the capital markets are centred merely in short run economic return and in immediate utility, the ideas and applications for the real economy tend to fall to the background. The end of finance becomes immanent, without references to concrete benefits for the real economy where true applications are developed. We can argue that finance capital tries to become the generator of growth on its own virtue. When everything is focused on short turn utility, the innovations itself become artificial and unproductive. This becomes a reality when the ideas are turned into mere expediencies to apply for funding. Productivity and entrepreneur spirit fall to the background. At this moment the risk of disconnection between ideas and real economic needs become apparent. Then, when the investments, without real basis fail, the contagion effect begins. This herd behaviour is what finally produces the stock market panic. In the explanation of this phenomenon we find a strong endogenous element that involves a vicious circle effect" (Resico 2002, pp. 7–15).

(Röpke 1942a, p. 228). If technologies and organization develop in such a way to simply pursue the cheapest costs of production, some more expensive risks for society as a whole can emerge: "It would be naïve to believe that technical changes must invariably be for the better" (Röpke 1944b, p. 173). Mass production asks about the volume and permanence of production, and this risks further demanding some kind of intervention to avoid a crisis amplified by riskier situations produced by a higher division of labor. Services, on the contrary, are resistant to crisis and do not need increasing size.

Röpke returned to reflections on technology in Chap. 9 of *Maß und Mitte* (Röpke 1950). In this work, he proposed a more complex view of human nature, connecting technology and human motivation.[11] He also put forward some general thoughts concerning the consequences of the use of the atomic bomb, affirming that man has a fatal inclination to turn from "homo faber" to "homo latro" and that this is not helped but magnified by powerful instruments. He also remarks upon the dangerous relationship between modern technology and totalitarian states, advising the reader to read George Orwell's *1984* (Röpke 1950, p. 64).

Röpke adopted a dialectical style discussing two extreme positions, "technolatry" and "technophobia," providing his interpretation of the issue and proposing a solution to the problem. In shifting the discussion from the division of labor to technology, he may have been influenced by the philosophical debates of the time (from Oswald Spengler to Martin Heidegger), but he did not make reference to them. Instead, he referred to Francis Bacon and named him the father of "utilitarian technolatry" (Röpke 1950, p. 223), who nonetheless warned man about the use of technology in his *De Sapientia Veterum Liber* using the myth of Daedalus. Röpke's conclusion is that technology is instrumental knowledge and that its effects depend on the use we make of it. Therefore, some bounds have to be set on the use of technology.

Röpke considered different theoretical positions on the consequences of technological progress for the relationship between social and economic dimensions. He discussed the "theory of cultural lag" (the slow adjustment of institutions and education to new technologies), which may have been inspired by institutionalism (from Thorstein Veblen to Clarence Edwin Ayres),[12] and criticized it (Röpke 1950, p. 225). The idea of a clash of culture and progress is portrayed as conservative nonsense: they are not two sides of the same coin, but very much the same. If a contrast existed between the spiritual-moral foundation of society and its structure (including technology), that contrast would be sharp, and we would never know whether institutions could be improved or not. The mistake of technological optimists is to put the means of our lives beyond their legitimate ends (Röpke 1950, p. 226).

[11] Again he reaffirmed his method of analysis, arguing that the problems raised by the large firm, towns, industrial areas, and technology should not be studied in isolation (Röpke 1950, p. 220).

[12] Röpke did not supply any reference, but this position could be inspired by Clarence Edwin Ayres (Ayres 1944) or the earlier writings of Thorstein Veblen. It is not clear, however, if Röpke would advocate a social control on business, as did John Maurice Clark (1926).

Technological optimism is rooted in rationalism, an abstract and mistaken way of reasoning in the same way deterministic theories are mistaken.

Technological progress should be channeled in the right direction to be in harmony with the human order. In particular, technology should be rooted in the "Erdreich des Humanismus" (soil of humanism) (Röpke 1950, p. 227). It is not technology as such but the spirit in which we embed it that defines its results. Society is characterized by a natural order where technology is not an independent factor. Technology, therefore, should be shaped in a way that a humane economic order assures "Sinn und Würde" (meaning and dignity) to our lives (Röpke 1950, p. 229). Nor will that end be achieved without the help of technology. Technology at the service of man and of his existence is the technology whose end is not "speed, quantity, mechanics and the inebriation of modernity," but whose ends are the same as those of human existence: freedom, justice, harmony in human relationships, and the defense of the natural order. Röpke calls for "a humanistic technology instead of a Promethean-satanic one" (Röpke 1950, p. 229). Therefore, we should avoid developing a technology instrumental to centralization and massification, but rather develop an anthropologic-sociological value scale of inventions.

Technology has to be framed in a philosophy. There is a contrast between philosophers of culture and engineers. According to Röpke, the conjunction of "modern technology" and the "spirit of humanism" can assure a technology which preserves human dignity. However, the core sickness of our present Western social structure is a pathological process of concentration and massive expansion of towns or factories:

> The most important thing is a mentality which compensates for the specialization that is a necessary evil of our times [. . .] It is not important to have the formula for benzene in our heads. The important thing is rather to be able to place things in their right order and relationship within a broad intellectual ambit, to know where things belong and into what other configurations they must be fitted and arranged; what matters is that we should at least be able to surmise the paramount importance of other and higher things. (Röpke 1963, p. 24)

Mass production, mass management, and mass democracy create dependence and restricted spaces for man, resulting in a proletarianization of society, with a concentration of power in the hands of a few managers—a serious contemporary problem that Röpke was able to foresee.[13] However, technology has also helped small firms increase productivity, so that in giving up gigantic structures, we do not give up improvements in productivity. Röpke's general solution is always decentralization and decongestion of our economy and society (Röpke 1950, p. 235). Therefore, one should use technology to decentralize the economy instead of centralizing it. Finally, the task of a "social technology" is to lead each engineer

[13]"the *enterprise* is one of the structures that hold people, the environment for a typical human group of our times. For these people the enterprise helps, for instance, to satisfy what is one of man´s most important needs—*the need for a sound measure of integration*, the need for community [. . .] The most important thing of all is that the enterprise must really integrate and not disintegrate. It must bring people together, not separate them" (Röpke 1963, p. 2, emphasis in the original).

to study the social role of innovation. There is no reason why the engineer should not study the human factor together with the technological one, enabling him to test the consequences of technological progress for the stability of society.

Röpke referred to the right proportion of large and small firms in a good society as being similar to an ecological system. He argued that organization and regimentation induced by large concerns led to a displacement of spontaneous order. That obviously causes "existential problems" by altering the ecology of the production environment. The small firm represents a healthier environment, as technologies and the organization of labor cannot create a severely inhuman setting at this scale. He recorded the fact that large firms produced negative externalities for which the whole society pays (Röpke 1947b, 1948a) and introduced the notion of "economics of overhead costs" in the sense which Karl William Kapp would adopt (Kapp 1950). Röpke also argued that supporters of progress often tend to disregard social costs (Röpke 1950, p. 230). However, the similarities with Kapp end here, as for Kapp the responsibility lies in the profit motive of the business enterprise, while Röpke blames instead the rationalistic applications of technology and organization.

In this context, Röpke's dissent with the late work of Joseph Schumpeter is particularly interesting. In *Civitas Humana,* he attacks the "foundation of the strange eulogy of monopoly recently attempted by Schumpeter in his book *Capitalism, Socialism and Democracy*" (Röpke 1944b, p. 181):

> Schumpeter dismisses the problem of giant industrial concerns and monopoly with the highly questionable argument that mass production, the promotion of research, and the investment of monopoly profits raise the supply of goods. And to forget the losses due to the impairment of the higher purposes of life and society. (Röpke 1958, p. 107)

So Schumpeter was also accused of "economism," in which material gain obscures the danger of forfeiting liberty, variety, and justice. Therefore, the concentration of power grows as a consequence of misjudging the true scale of vital values.

This argument is expanded into an analysis of size, specialization, and centralization. Röpke used the latter concept in an original way, similar to Marx and Hilferding: he adopted it to point to the industrial structure of private firms and the structure of territory. There are huge social costs from centralization of economic activities (Röpke 1944b, p. 174), not only due to information problems but to the displacement of the natural decentralized decision-making synergy with social variables. Röpke underlined how productivity is not a consequence of mergers, still an important argument today. On the contrary, specialization and not size is the source of progress and productivity.

Decentralization of industry becomes in this way a key policy recommendation able to simultaneously preserve market dynamics and society's health. Society should pursue technologies favorable to decentralization, a pursuit also called the "restoration of property" reminiscent of typical US Republican rhetoric (Röpke 1944b, p. 174). The concentration of property as the means of production is the negation of property in its anthropological and social sense. On the contrary, it is healthy to have a broad middle class. The ideal solution is that each worker could be

a concrete owner of the means of production (Röpke 1946a, p. 9). The economic system should be reformed to reduce opportunities for accumulating large properties to the absolute minimum (Röpke 1944b, p. 157). Town and country planning would become an important tool for this end.

5 Conclusion: Valuable Reasons for Decentralization

Wilhelm Röpke's liberalism is based on an ethical view of society, and such non-utilitarian ethics plays a more pervasive role compared to other forms of liberalism. His perspective is that of humanism, and from there, he developed a man-centered model to study the economy. In this theoretical system, the human dimension is the measure applied to work out the real values of the economy. As a consequence, Röpke cannot be dismissed as a simple conservative, as his theorizing is a sophisticated attempt to take into account the complex interdependencies in our society. His interdisciplinary work has been able to point out many critical issues in common with heterodox-progressive scholars (Joseph Schumpeter, Karl William Kapp, Leopold Kohr, Ivan Illich, Amitai Etzioni and others), providing original and often more thorough answers compared to those of his colleagues. However, we can concede to his critics that his humanistic view of man is metaphysical and static. This led him to privilege what is known as our nature to what we would like man to be.

A peculiar consequence of his system of thought, compared to a more radical liberalism, is that economic development may bring some undesirable changes which can be problematic for social and economic integration. The disregard of social and moral conditions is not free of consequences: it necessarily implies a growth of disturbances to equilibrium, social unrest, and economic and political crisis. Social integration and all moral prerequisites for well-functioning markets are kept analytically separate from indicators of economic organization and performance. The priority of "economic humanism" is to assure the viability and quality of life over any technological or monetary consideration. Röpke's aim was to assess the relevance of metastability of the economic system, which positively affects the equilibrated unfolding of economic processes. His theorizing thus mastered the fundamental circularity of social and economic processes which standard politico-economic theories have difficulty modelling. In Röpke's ethical view, the two fundamental matching components are a competitive market and a healthy society, reciprocally reinforcing each other and obtaining a metastability of the system. But such feedbacks could assume disruptive tendencies if disregarding the centrality of the human condition in favor of purely technological variables and monetary gains. In particular, Röpke dismissed the view that institutions should adapt to technological progress.

In order to study these feedbacks, Röpke developed and used a wide array of concepts, from overhead costs to centralization, which later became prominent concepts in the critical theory of industrialized societies—unfortunately not often exploited by other liberal scholars. In this paper, we focused on the specific treatment of technology and economic organization as structural elements of the

economy affecting the quality of life and, finally, the metastability of society. Röpke provided good arguments, suggesting that one should be cautious of uncontrolled technological development. He warned of the dangers inherent in the division of labor, as he pointed to the inhumane conditions of working places in large organizations. He also severely criticized Joseph Schumpeter and questioned the efficiency of economic concentration and large-scale planning. Nonetheless, Röpke remained an economist favorable to technological progress, to a progress genuinely intended for the service of man. He put forward valuable reasons for both prudent individual decision-making and systematic public policies promoting decentralization, certain that they would increase the general well-being.

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Was Wilhelm Röpke Really a Proto-Keynesian?

Raphaël Fèvre

1 Introduction

Together with Wilhelm Lautenbach, Hans Neisser, and others, the "young" Wilhelm Röpke has been considered one of Keynes' German anticipators (Backhaus 1985, 1997; Hudson 1985; Klausinger 1999). This judgment is warranted by analytical and especially economic policy proximities—for instance, countercyclical stimulus policies like the credit-finance government investment program, in some respects anticipating Keynes' solutions in his *General Theory*.[1] Such a reading of Röpke is built on the evidence of some economic policy recommendations from the Brauns Commission ("Brauns-Kommission") he belonged to, which would ultimately be implemented by the National Socialist government in 1933 (Garvy 1975, p. 403; Tooze 2001, p. 170), as well as on evidence from his theoretical work, especially *Krise und Konjunktur* (Röpke 1932), later published in expanded form in English under the title *Crises and Cycles* (Röpke 1936a).[2]

However, (the "second") Röpke has been also recognized as a virulent anti-Keynesian, linking full-employment policies with high inflation and economic

[1] Within a broader perspective, the study directed by Peter E. Hall (1989) on *The Political Power of Economic Ideas: Keynesianism Across Nations* showed how Western countries' countercyclical fiscal policies combatting unemployment were developed primarily without any reference to Keynes. Franklin D. Roosevelt's New Deal is an obvious example, but other examples can be found in Sweden, France, and Italy (see also Bateman, 2006, pp. 283–286).

[2] Between 1932 and 1936, a series of publications—Röpke (1933, 1934, 1935a, 1936c, 1936d)—can be traced where he specified certain aspects of his business cycle theory.

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planning (Röpke 1942, pp. 171–173). As early as the outbreak of WWII, Röpke became increasingly critical of Keynes, even to the extent of finding similarities between National Socialist economic policies and Keynes' proposals. How can this apparent paradox be explained? The conventional reading suggests a "shift" from *proto-* to *anti*-Keynesianism. Lionel Robbins may have been the first to popularize this reading: "I find myself in the reverse position to Professor Roepke, who was Keynesian, and is so no longer. There was a time when I thought Keynesian stabilisation schemes utterly reprehensible, but I have gradually been forced to believe that these ideas were not so wrong" (Robbins quoted in Howson 2011, p. 663).[3] The present paper proposes another narrative, contending that Röpke's positioning was in fact less the story of a shift than of an intensification of some guiding principles he followed throughout his entire work.

Having left Germany after Hitler's election in 1933, Röpke published *Crises and Cycles* (1936a). In this book, "the author's ambitions went towards a well-reasoned synthesis rather than towards bold originality" (Röpke 1936, p. vi). It is nevertheless a thorough study in economic analysis, combining history of economic thought, business cycle theory, and economic policy advice. What interest can this book hold for us apart from its novelty? This paper shows how in this book Röpke remained in dialogue with contemporary economic studies, including Keynes' and Hayek's. Here we are less interested in the validity of the analytical apparatus employed or in giving a complete and comprehensive presentation of Röpke's analysis (Magliulo 2016; Olsen 2015) than in gathering insights necessary to evaluate Röpke's conceptual relation to Keynes. Moreover, Röpke's broad conception of capitalism and of the social crisis also clarifies his conception of liberalism and helps appreciate his positioning vis-à-vis Keynes.

The argument is structured as follows: first, some space is devoted to explaining Röpke's conception of the model of the business cycle which he coined as a monetary over-investment theory (Sect. 2). Having briefly shown how this conception derives from a synthesis of Austrian (Hayek) and Keynesian models, the policy conclusions Röpke advocated are presented (Sect. 3). Finally, it is emphasized that some of Röpke's sociological stances, preeminent in his later work, are connected to his reflections on the business cycle and as such can be found in the very same writings (Sect. 4). Finally, in the concluding remarks the article discusses in what respects Röpke can be legitimately characterized as a Keynesian.

2 Röpke's Explanation of the Business Cycle

Röpke devoted the first three chapters of his *Crises and Cycles* to introductory remarks on the general purpose of the book (Chap. 1), conceptual definitions of the trade cycle (Chap. 2), and finally a brief history of earlier theories (Chap. 3).

[3]For a recent account, see Hagemann (2013, pp. 45–47).

He initiated a discussion about contemporary approaches to the Great Depression of 1929 in Chap. 4, entitled "The Causes of Crises and Cycles" (Röpke 1936a, pp. 61–137), followed by the final Chap. 5 on the matter of trade cycle policy (Röpke 1936a, pp. 138–220).

Having discussed and partly rejected the overproduction and underconsumption approaches, Röpke spent some time discussing psychological factors: while "mass feelings and opinions" are key to grasping the trend of the business cycle, in his view they nevertheless should not be overvalued (Röpke 1936a, p. 93).[4] Röpke's real contribution – "the theoretical heart of the book, the pages (97–119)" (Robertson 1936, p. 477) – focused on the saving-investment link, which plays a major part in the explanation both of the boom and the crisis.

Röpke's strategy was to build his theory on "a common core of knowledge" (Röpke 1936a, p. 97). In this way "it should be possible to effect a reconciliation which would be something more than a weak compromise" and "the most satisfactory solution of the whole problem will be found in a judicious combination of all that is essentially sound on both sides" (Röpke 1933, p. 438). As such, Röpke's monetary over-investment theory is built upon an intricate mixture of the "principle of acceleration" or "mechanism of intensification,"[5] together with Austrian and Keynesian lines.

In a nutshell, Röpke's reading can be summarized by describing Hayek's theory, in the form presented in Hayek (1931),[6] as better suited to account for the driving force of the boom period, but of little help in understanding (contemporary) depressions, while the exact opposite is true of Keynes' theory. Following this line, Magliulo explained that "Röpke attempted a synthesis, positing that a recession due to over-investment can degenerate, as in 1929, into a depression caused by over-saving," or in other words "a normal (Hayekian) [. . .] can degenerate [...] into an abnormal (Keynesian) depression" (Magliulo 2016, pp. 32, 36). This is only partly true because Röpke attempted this synthesis from the very beginning of his explanation and also merged Hayek and Keynes for his explanation of the primary recession, as I will endeavor to explain.

[4] If Röpke "cannot help feeling deep sympathy with the general trend of ideas of the psychological school" of which Arthur C. Pigou is the main exponent (Röpke 1936a, p. 97), he rejected it as a proper explanation of the business cycle on the basis of two interrelated arguments. First, psychological factors do not concern the ultimate causes of the ups and downs of the cycle but constitute mere adjunction to oscillations. Second, the ultimate causes are to be found in fluctuations in "real facts of economic life" (such as the value of money, costs or prices, income structure, etc.) and the "real task consists in showing how these psychological events connect up as a whole" (Röpke 1936a, p. 96).

[5] Röpke (1936c, p. 325) gave credit especially to John M. Clark (1917) for having developed this concept.

[6] For the controversy between Hayek, Sraffa, and Keynes following the publication of *Prices and Production*, see Kurz (2000).

Responding to Howard S. Ellis' critique in his review of *Crises and Cycles* (Ellis 1936), Röpke gave the main arguments of his theory:

> I lay stress on the fact that, mainly according to the acceleration principle, every sudden and voluminous change of the stream of production in favour of the production of capital goods will and must be a disturbing factor of the first magnitude, no matter how this change is brought about. *Monetary*, because our economic system is so constructed that, owing to the relative stability of voluntary savings, an abrupt and voluminous rise of investments, which surpasses the adaptive power of the economic system (over-investment), is hardly conceivable without the additional financing facilities provided by periodic credit expansion. (Röpke 1937, p. 108, emphasis in the original)

In order to explain Röpke's theory, let us start from an equilibrium situation which he defines thus:

> If the proportions between the production of capital goods and the production of consumers' goods correspond to the proportions in which the public saves and spends its income respectively, then the economic system is in a state of equilibrium. (Röpke 1936a, p. 101)

Following to some extent the Austrian Business Cycle Theory (Hayek himself referring to Mises and Böhm-Bawerk), Röpke explained the boom period by pointing to "the rise in the supply of capital [...] via increased savings and, above all, via additional credits" (Röpke 1936a, p. 101). As long as capital investment is growing at a uniform rate, the boom continues driven by its own momentum (the acceleration principle mentioned above):

> The increase in investment then goes on rising by its own force, since the expansion of capital investment brings more and more new orders to the capital-goods industries. The scale of investment grows, and so long as the rate at which it grows remains constant, or even increases, the boom has the power to last. Eventually, however, the moment must come when investment is not suddenly broken off [altogether], but ceases to grow at the previous rate. [...] At this point the boom must come to an end since shrinkage of the capital-goods industries is unavoidable. (Röpke 1936a, p. 102)

For Hayek, the boom ends with an increasing shortage of capital that cannot keep up with capital demand, financed by credit expansion. However, for Röpke, crisis (downturn of the cycle) is related to disappointed expectations regarding anticipated sales because income and consumption fail to follow the increase at the same rate, and not to misguided investment à la Hayek, where the interest rate is the critical concept: "To be more explicit, we must say that, in Dr. v. Hayek's view, the real source of trouble is not too much investment, but too little voluntary saving" (Röpke 1936a, p. 110). For both of them, the higher the level of investment is driven, the greater the crisis.

Regarding the acceleration principle as a "crucial cyclical mechanism" (Klausinger 1999, p. 382), Röpke stresses that by encouraging and making new investments profitable, a sudden excess in real investment occurs with "a disproportionate growth both of fixed capital and of working capital" (Röpke 1936c, p. 326). The problem lies in the stagnant level of income and consumption (demand), which does not increase along with capital. In that sense, "it is the steep rise of the absolute amount of investments which matters, not the fact that

our economic system must rely on credit expansion to make this rise possible" (Röpke 1936a, p. 110). The break with the Hayekian analysis is obvious, but what about the Keynesian side?

In the Keynesian analysis, depression is caused by a relative disproportion between the rate of investment and the rate of saving. As shown above, Röpke's analysis focuses mainly on the "absolute rise of investments no matter whether financed by voluntary or forced savings" (Röpke 1936a, p. 109). In Röpke's interpretation, Keynes (like Hayek) fails to take into account the acceleration principle, and by doing so he "is evidently inclined to deny the necessity of a painful process of readjustment brought about by the crisis": this appears as "the weakest point" of Keynes' theory from Röpke's perspective, while "the cumulative process of depression [. . .] can indeed be no better stated" (Röpke 1936a, p. 109).

But Röpke's explanation of the cycle does not stop here. Indeed, the special case of the 1930s, with prolonged unemployment, calls for an answer: beyond the Austrian understanding of classical, or primary, depression, there is room for a "special theory of the depression" (Röpke 1936a, p. 135), which Röpke called "secondary depression." This is the subject of the following section.

3 Secondary Depression and Its Solutions: Röpke's Praise for Liberal Interventionism

Röpke was by no means the only exponent of the secondary depression theory, which gained much ground during Lionel Robbins' LSE seminars (Olsen 2015, p. 218), but he developed perhaps "the most concise analysis" (Hudson 1985, pp. 45–47). For instance, Schumpeter made a similar distinction (between normal vs. abnormal depression). But in contrast to Röpke, his distrust of governmental expertise led him to praise "political stoicism" (Olsen 2015, p. 219) as the best solution either way. From Röpke's point of view, a passive political attitude can also be found in Hayek or Mises:

> Its members do not deny that the crisis is characterised by a terrific process of contraction, very complicated in nature, and they may even go reluctantly so far as to apply the term "deflation" to this process. But they warn us that the phenomenon of deflation owes its origin to random and independent causes and they do not regard it as the unavoidable manifestation of liquidation and readjustment. They beg us to rely on the well-founded hope that even this crisis will at the proper time give way, more or less spontaneously, to a new period of recovery, and that this will occur when the situation is ripe, i.e. when the crisis has fulfilled its purgatory mission and universal confidence has once again been restored. (Röpke 1933, p. 429)

From a conventional perspective, Röpke did not deny the soundness of such an approach. In order to reach a new equilibrium position, every depression has to readjust through liquidation. But at some point, the depression can enter a new

phase, disconnected from its former causes which lie in the intensity of the boom period:

> Up to this point the theory of the first school is valid. But the deflation connected with the secondary crisis is quite different in nature. Its raison d'être lies no longer in the impossible situation created by the preceding boom. It results from a set of causes, which only came into being as a result, and during the course, of the secondary crisis. (Röpke 1933, p. 435)

On entering a new kind of depression in which the deflationary intensity is far in excess of the previous level of the previous overcapitalization boom period, the principal consequence is a deflationary spiral of prices (Haberler 1943, p. 65). Once identified that the contemporary world crisis was a matter of a secondary depression, the passive Hayek-Schumpeter approach proved ineffective and even dangerous. At this point, "there is no reason, however, why the governments could not reverse their economic policy so as to lend support to the natural gravitation towards competition instead of working against it" (Röpke 1936a, p. 9). Röpke concludes that "a Keynesian situation of oversaving is created, which calls for and legitimises expansionist policies" (Magliulo 2016, p. 37).

Robertson (1936, p. 476) did not get Röpke's central message wrong when he wrote that "he remains an uncompromising Liberal," both regarding business cycle principles and at the policy level:

> The essence of the *technique of the policy of expansion* conceived in a manner explained in the last paragraph consists in offsetting deflation with re-expansion in a way which anxiously avoids interfering with the process of the market economy. No uniform prescription can be given to achieve this end. The technique of expansion must be adapted to the special circumstances of each country, without any dogmatic views on the invariable merits of this or that method. (Röpke 1936a, p. 198, emphasis in the original)

But Röpke did specify his thought and promoted a method that he coined as initial ignition ("Initialzündung"). This kind of policy technique later came to be considered the policy of "pump priming" (Hudson 1985, p. 50), by which the state should act "as a pioneer" in order to make up for the (lost) confidence of the private sector, and especially the critical level of investment which, even with almost zero interest rates, are not maintained by entrepreneurs. Again the role of psychological and behavioral factors surfaces here (Haberler 1943, p. 162), such as confidence during cyclical fluctuations:

> If private initiative does not respond sufficiently to the incentives offered to it, so that the effect of "ignition" fails to appear, there is no other way than to complement this policy by public initiative in enlarging the volume of credit and demand. If the private entrepreneurs do not make use of the new credit facilities, in other words, if private borrowers are not to be found in a sufficiently large number, then the State must step in as an extensive borrower in order to make credit expansion really effective and thus to help drag the market economy out of its present deadlock. Or to use expressions employed earlier in this book: the public sector of the national economy has to be enlarged to make up for the contraction of the private sector and to start a process leading to the re-expansion of the latter. (Röpke 1936a, p. 199)

Röpke indicated two ways of making this initial ignition: first, with "a regular budget deficit, by the abolition or lowering of taxes or by raising expenditure or by

both," and, second, "to finance public works." The former strategy was used in 1932 with Chancellor von Papen's tax remission policy ("Steuergutscheine"),[7] while the latter was used by the Roosevelt Administration. The government must in any case take steps toward recovery, and Röpke recalled his own experience on the Brauns Commission in the early 1930s:

> They [the members of the Brauns Commission] were fairly conservative in their general attitude, but starting from considerations very much akin to those worked out by Mr. Keynes in England at about the same time, they became more and more dissatisfied with the restrictionist theory, and more and more convinced that the crisis had reached a phase where something could be cautiously done to shorten the road to recovery, without generating a relapse for the worse and without jeopardising the stability of the mark. The Committee clearly realised that, in accordance with all experience and with all theoretical reasoning, recovery must necessarily take the course of credit expansion, which for preference would be utilised for financing new investments. The national economy was pictured as lying in a kind of torpor, from which it might well be aroused by some initial impulse administered by the State, the famous "Initialzündung" (initial ignition), a term for which the present writer must reluctantly confess his paternity. (Röpke 1933, p. 430)

At that time, Hayek himself wrote an article aiming to dissuade Röpke from starting credit expansion, "not yet at least," as the Brauns Commission report recommended doing. This article was not (and still has not been) published but only sent to Röpke. Hayek insisted: "if the political situation is so serious that continuing unemployment would lead to a political revolution, please, do not publish my article." Röpke decided not to publish Hayek's article (this episode is related in Magliulo (2016, p. 42)).

Building on the last two sections, how can we qualify Röpke's thought on business cycle theory and policy vis-à-vis Keynes'?

Röpke incorporated Keynes' analysis on both the theoretical and the policy levels. Consistent with this statement is Röpke's "extremely sympathetic review of Keynes' Treatise" (Hudson 1985, p. 41, fn. 31). Keynes continued to express his approval of stimulation of investment (with a low interest rate, public works, public investment, etc.) throughout the 1930s, and as early as his *The Great Slump of 1930* (see Magliulo 2016, p. 33). But the Keynes of the *Treatise on Money* (1930) did not exactly coincide with the Keynes of the "somewhat comprehensive socialization of investment" (Keynes 1936, p. 378) claimed in the *General Theory*, and this divergence should not be underestimated, as Röpke showed staunch rejection of

[7]Röpke gave a good explanation of that plan in his "Trends in German Business Cycle Policy": "What in effect the plan amounted to was that the most burdensome taxes (business taxes, turnover tax, etc.), while not actually abolished, were transformed into liquid assets. The whole system was rather complicated, but its meaning can be summed up by saying that in the place of certain taxes, a forced loan was instituted, the titles to which, thanks to the collaboration of the banking system, could be sold or employed as collateral. In other words, a certain amount of taxes were virtually abolished, but the financial burden of this abolition was temporarily shifted from the state to the banking system, which would expand credit to the corresponding extent. This assumed that business men would employ their *Steuergutscheine*, not for paying off or consolidating old debts—improving their own liquidity, as it were—but for making new investments in working or in fixed capital" (Röpke 1933, p. 432, emphasis in the original).

the latter. As a matter of fact, Röpke's distrust of Keynes' views began in the mid-1930s: ample evidence of this change of opinion can be retrieved from Röpke's private correspondence with Lionel Robbins, in which expressions such as "to denounce the spirit of irresponsibility which Keynes' article betrays" and the "last book of Keynes seems to me little short of satanic" (Röpke 1935b, 1936b) surface. The final section will help to clarify the meaning of Röpke's harsh statements.

4 From *Krise* to *Gesellschaftskrisis*

At the end of the introduction to *Crises and Cycles*, Röpke insisted on what would be his main program as early as the outbreak of WWII:

> The world is today living from a moral (and intellectual) capital accumulated during the Liberal epoch, and is consuming it rapidly, but the increasing difficulties of the new methods in international economic policies give a foretaste of that to which the world is rapidly coming. So a planned world economy is no real alternative at all, the only alternatives being the return to a Liberal world economy or complete chaos. (Röpke 1936a, p. 12)

Two years before Hayek's *The Road to Serfdom* (Hayek 1944), the publication of *Die Gesellschaftskrisis der Gegenwart* (Röpke 1942) seemed to mark a real "turning point" in Röpke's career (Solchany 2015, pp. 508–509). The program presented there extends beyond the scope of pure economics and embraces political and social philosophy, as well as sociology. More precisely, his program can be qualified as a dynamic socioeconomic philosophy (Commun 2014; Fèvre 2015), in which he intended to identify the spiritual and moral foundations needed for a properly functioning market economy. However, at the same time he was interested in the (mainly harmful) effects of this economic system (rationalization, bureaucratization, centralization, mechanization, intensive division of labor, etc.) on the day-to-day life of individuals and communities.

Of course, he did not abruptly arrive at the fundamentals of his program when he faced exile and WWII. They had constituted for him a constant object of inquiry, and led Röpke to a severe condemnation of capitalism, but he was equally anxious to stress that socialism was in no way a workable alternative: "the ultimate origin of the economic disturbances of the present system lies in facts which distinguish capitalism from precapitalism, not capitalism from socialism" (Röpke 1936c, p. 324). More than economic stability in itself, Röpke was concerned with the overall social order, in line with business cycle theorists like Lowe, Hayek, and Eucken (Blümle and Goldschmidt 2006).

From 1932 (*Krise und Konjunktur*) up to 1936 (*Crises and Cycles*), Röpke developed his lines of criticism on a number of fronts: against neo-Marxist and imperialist economic theory (Röpke 1933, 1934), against Fascist corporatist tendencies (Röpke 1935a), and against romantic or rationalist socialism (Röpke 1936c, 1936d). He was putting forward the same argument in various different ways: the

end of the economic crisis lies in the way we build new moral and spiritual foundations in order to "morally reconcile the masses" (Röpke 1936d, p. 1307) with a liberal market economy:

> We must make up our minds either to join the enemy and to make his cause our own or to resist him by investigating all the moral and intellectual forces that are still left. We must recognize that the case of Liberalism and Capitalism is lost strategically even where it is still undefeated tactically. (Röpke 1935a, p. 85)

Did Röpke consider Keynes part of this "We"? This is a complicated question. At the time, Keynes was not mentioned as a direct threat to liberal principles. One thing is certain: Röpke intended to make it perfectly clear that his liberal interventionism was to be radically differentiated from any other kind of interventionism in the market process.

Two main aspects constitute a dividing line between Keynes and Röpke: first, the vision of a national economy vis-à-vis internal trade and, second, the conception of an international monetary order.

Röpke fought for free trade against what he called "neo-mercantilist," "autarkistic and heavily interventionist" policies (Röpke 1936a, p. 207). Particularly striking was the way he underlined a link between levels of political intervention in the economic sphere and the integration of national economies into international trade. This was precisely what he was worried about, promoting active public policies of "initial ignition" did not mean embracing interventionism in general but only as an indispensable temporary measure:

> The whole philosophy of expansion is based on the assumption that a country embarking on such a policy does not at the same time try to transform its economic system on autarkistic or socialistic lines. These would completely destroy the framework of economic reactions on which the philosophy of expansion is based. (Röpke 1933, p. 441)

Röpke and Keynes shared a fundamental concern for the international monetary order: both saw the stability of money as something fundamental for the overall economic process. But they nevertheless mapped out drastically divergent ways to reach this objective. In a nutshell, Keynes was trying to get rid of the "auri sacra fames," considering gold as a "barbarian relic" (Dostaler and Maris 2009). In contrast, Röpke, like the ordoliberals Walter Eucken and Friedrich A. Lutz, fully supported a return to the gold standard system, which he deemed vital for political stability and what he called the morality of exchanges. In this respect, Roosevelt received severe criticism:

> Besides confusing re-expansion with reflation, the Roosevelt Administration made the second mistake of pursuing this wrong goal by an equally wrong means, i.e., by abandoning the Gold Standard and depreciating the dollar, without going far, at first, in real expansion. (Röpke 1936a, p. 205)

Finally, *Crises and Cycles* also constituted the last of Röpke's studies in which he endeavored to combine specific economic knowledge with a more general discourse, including philosophical and sociological considerations. Röpke's Turkish period (1933–1937) functioned as a transitional phase during which the young German economist took on the figure of the general liberal intellectual,

completed with the publication of *Die Gesellschaftskrisis der Gegenwart* (1942). Nevertheless, between his *Krise* of 1932 and his *Gesellschaftskrisis* of 1942, some points of continuity remained. However, beyond the merely economic argumentation of *Crises and Cycles*, sociological considerations were associated with the economic analysis of the crisis.

5 Conclusion

As a theorist, Röpke never completed a comprehensive theory of the business cycle (Peukert 1992, pp. 684–687), and his contribution appeared modest in comparison to the works of Keynes, Hayek, and others. This opinion emerges from contemporary reviews of Röpke's *Crises and Cycles*. For instance, James Meade in the Economic Journal offered a somewhat ambivalent appraisal of Röpke's work, speaking of "a first survey for the student of the history of cycles" with "serious defects" (Meade 1936, p. 694) including, in particular, a lack of conceptual clarity, as Keith Tribe (1995, pp. 205–206) underlined. Dennis H. Robertson (1936, p. 478) appeared more favorable in Economica, presenting *Crises and Cycles* as "not only a compact and useful survey of a wide field, but a sincere and courageous contribution to constructive thought." In any case, Röpke's book was soon eclipsed by Haberler's massive survey of business cycle theories *Prosperity and Depression* (1943) under the auspices of the League of Nations (which also commissioned Röpke's own opus).[8] It is true that "Röpke's eloquence is not altogether without cost; it springs from a certainty which often borders upon dogmatism" (Ellis 1936, p. 764),[9] but one cannot fail to perceive that "he gained his unique insights by choosing not an eclectic but a synthetic approach to the business cycle" (Olsen 2015, p. 222).

To sum up Röpke's economic policy retrospectively, it can be qualified as synthetic in following a countercyclical line: in the boom or (first) depression period, authorities should maintain high interest rates and wait for the equilibrium to be restored. But as soon as crisis reaches certain intensity, recognized by the symptom of a "prolonged high rate of unemployment," authorities have the responsibility to take over in the private sector and to encourage recovery with public investment as "pump priming." In this respect, Röpke does not appear so far from the "conventional wisdom" of contemporary central banks. This article endeavored to qualify the classical narrative that described Röpke's political and analytical economic conceptions as following a shift from proto-Keynesianism to

[8]For the search for consensus in the business cycle theory in the 1930s, see Boianovsky and Trautwein (2006).

[9]See also Ellis (1938).

ordoliberalism, i.e., a shift from a discretionary policy to a rule-based policy (Kolev 2010, p. 15). In sum, the following arguments have been developed here:

1. With regard to his theoretical work, Röpke can be qualified as closer to the Keynes of the *Treatise* (1930) than to the Keynes of the *General Theory* (1936). Thus, the prefix "proto-" is not appropriate.
2. Röpke's general conception of business cycle theory is built on a broad synthesis, so why emphasize the Keynesian aspects rather than, for instance, the Hayekian traits? Röpke's position is all the more difficult to pin down because he himself is often unclear in his exposition.
3. Röpke's analyses of secondary depression lead him to consider it a special case that calls for an expansionary policy but only as an "initial ignition." Is this a distinctly Keynesian idea? Is this not a fallback on Friedman's well-known later observation that "in one sense, we are all Keynesians now; in another, nobody is any longer a Keynesian"?
4. Röpke's position on the moral foundation of liberalism, as well as his political appreciation of international trade and monetary order, are in stark conflict with Keynes' standards.

Beyond the search for appropriate epithets, research on Röpke's thought and on ordoliberalism might greatly benefit from a more systematic, analytical comparison with Keynesianism (and especially Keynes' own ideas). In the interwar and post-WWII context, such a link can shed new light on the intellectual history of economic policy, without necessarily ending up telling stories about archenemies—the kind of antagonism to which Röpke himself, probably too eagerly, actively contributed.

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Wilhelm Röpke's Report on the Brauns Commission: Advocating a Pragmatic Business Cycle Policy

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1 Introduction

Wilhelm Röpke was nominated by his Social Democrat colleague Eduard Heimann to become a member of the Brauns Commission. The commission was assigned, at the personal request of Chancellor Heinrich Brüning, to propose appropriate solutions to stop the dramatic rise in German unemployment in 1931. Departing from the standard solutions suggested by the chancellery, the recommendations made in the second report of the Brauns Commission published May 1, 1931, drew heavy criticism for supporting a countercyclical policy, i.e., a job-creation program. Therefore, the young Röpke, who later published thorough analyses of crises and cycles (Röpke 1932, 1936), has been classified by some scholars as a "proto-Keynesian," among other German proto-Keynesians and Social Democrat economists such as Wilhelm Lautenbach and Hans Neisser (Bombach 1976; Backhaus 1985; Klausinger 1999).

However, by analyzing the report which Röpke wrote on the discussions within the Brauns Commission (Röpke 1931), the large extent to which he referred to the ongoing German discussions about the crisis of capitalism and about business cycle analysis becomes visible. In this respect, Röpke should also be compared with the proponents of the discussion about capitalism and with the first German advocates of a business cycle theory and cycle analysis. Moreover, a careful reading of Röpke's report on the general German discussion and on the discussion within the commission allows to better understand Röpke's pragmatism in what he conceived as a "pragmatic business cycle policy."

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To better understand what Röpke meant by "pragmatic business cycle policy" ("praktische Konjunkturpolitik"), a flashback to German economists' and politicians' discussions about the principles of economic policies and on the economic crisis after WWI is necessary (Sect. 2). The historical and political context of the Brauns Commission highlighted by Röpke in his comments (Röpke 1931) helps to better understand to what extent the first report of the commission considerably amended the chancellery's proposals and moved toward a "pragmatic business cycle policy" (Sect. 3). Departing from specific governmental requests, and mainly under Röpke's influence, in its second report, the commission put forward new proposals in terms of countercyclical fiscal policy. These unconventional proposals provoked protests by German bankers and coincided with the dramatic bank bankruptcies during the summer of 1931 (Sect. 4).

2 German Economists' and Politicians' Reactions to the Economic and Financial Crisis in the 1920s

A couple of months after Heinrich Brüning came to power in March 1930, a commission of experts was appointed to tackle the record-breaking unemployment crisis that culminated in 1931 with nearly six million unemployed. No economist of the dominant Historical School was appointed to the commission, even though since the late nineteenth century the Historical School had been playing an important role as advisor on economic policies, helping to hold to a reformist course.

The younger Historical School was the dominant school in the German social sciences, and Gustav Schmoller, president of the Verein für Socialpolitik from 1890 to 1917, was its intellectual leader. The Verein, founded in 1873, had been conceived as a reformist political force, between the liberals from the Economist Congress who fought for free trade and a free market economy, and the revolutionary socialists. The younger Historical School and its leader Schmoller favored reforming the capitalist system which was harshly criticized since the beginning of the nineteenth century. According to Schmoller, and later Adolph Wagner, social reformism was the only way to prevent capitalism from degenerating into socialism. Social reformism was clearly linked with compilations of either very specific or very large economic studies. Socioeconomic surveys conducted by the Verein produced empirical evidence and often determined the introduction of social measures favoring certain groups of the population.

However, the never-ending economic, financial, and monetary crisis which started right after WWI largely discredited this reformism based on empirical evidence and therefore called for a political and methodological revolution. A methodological revolution had obviously already been achieved by Carl Menger's methodological individualism. However, it did not seem to bring effective solutions to the series of economic, financial, and monetary crises Germany had to cope with from 1918 on. Joseph Schumpeter's "liquidation theory" was not compatible with any state intervention either and therefore did not recommend any particular

economic policy (Köster 2011, pp. 225–232). The theoretical discussion of business cycles as developed by Emil Lederer (Diebolt 2009, pp. 339–355) did not depart from the stance of equilibrium and therefore was not compatible with the emphasis on statistics developed in the USA. Quantitative economic research on cycles was conceived in the USA and inspired the German Institute for Business Cycle Research ("Institut für Konjunkturforschung"), founded by Ernst Wagemann in 1925 in Berlin. He tried to develop forecasting tools which ended up not being very helpful, as they completely failed to comprehend the magnitude and the consequences of the new economic crisis which hit Germany in 1931 (Commun 2016, pp. 40–45; Solchany 2015, pp. 180–184).

Despite record inflation starting right after WWI, hardly any German economists in the 1920s had put the analyses of the time-related causes of this tremendous financial and monetary crisis on their agenda. Politicians blamed exchange rates and the imbalance in the balance of payments for the hyperinflation crisis (Eucken 1923; Folz 1970). Structural long-term analysis of crisis as a consequence of monopolistic capitalism had been advanced by Karl Marx and was partly adopted and reinterpreted by Schumpeter in his deterministic analysis of capitalism as evolving toward socialism (Eucken 1932, pp. 297–321; Shionoya 2000, pp. 19–20). Schumpeter's analysis of the crisis as a temporary natural brake in the context of a long-term balance did not recommend any mitigating economic policy either.

As economic debates did not seem to bring any pragmatic, concrete solutions to the increasingly severe German economic and financial crisis, these debates were very much in disrepute in the public opinion, considered as useless theoretical quarrels (Commun 2016, p. 35). Germany did not need a new economic theory but rather a proper economic policy and a new political economy. This was exactly the position of a new group of young liberals who would come to be known as ordoliberals.

In the early and mid-1920s, a small group of young economists revolted against the methodological and ideological domination of the Historical School and Schmoller. Their leader was Alexander Rüstow, followed by Walter Eucken and Wilhelm Röpke, who was the youngest (Köster 2011, pp. 225–242). Although they were quite critical of the inductive methodology of the Historical School, the three of them did not fully identify with the methodological revolt against Schmoller advanced by Carl Menger (Louzek 2011). They were trying to find their own way, both scientifically and politically, not between capitalism and socialism but between the Austrian School and the Historical School. The first group of three future ordoliberals named themselves "young Ricardians" ("junge Ricardianer") and intended to keep away from the "Third Way" of reformism taken by the Verein. The "young Ricardians" wanted to return to the Classical School and to support hypothetico-deductive reasoning and free trade based on comparative advantage but without openly saying so. However, they very soon became critical of hypothetico-deductive reasoning.

Although the first attempt of the young Ricardians occupied the political terrain of the "Third Way" as an alternative to capitalism and socialism, Rüstow finally had to admit that the reconciliation between liberals and socialists he had originally

aimed at could not be achieved. Eduard Heimann was a socialist, an early member of this circle of "young Ricardians" and met Röpke there. A few of years later, Heimann nominated Röpke as one of the members of the Brauns Commission.

3 The Brauns Commission

The head of the commission, Heinrich Brauns, embodied the glorious age of social policy of the Weimar Republic of the mid-1920s. Brauns had been the labor minister of the German Reich from 1920 to 1928 and was a member of the Catholic Center Party ("Zentrum"). He could therefore be considered the main author of the Catholic social policy of the Weimar Republic, introducing laws regulating working hours and creating representation for workers within companies. Legislation in 1923 and 1927 established relief for those out of work. The Unemployment Insurance Law of 1927 required workers and employees to make contributions to a national scheme for unemployment welfare. Other reforms provided benefits and assistance to war veterans, wives, dependents of the war dead, single mothers, and the disabled. Germany built up the most developed welfare state in the world. However, Germany was also the country most heavily affected by the worldwide economic crisis and suffered from a very high unemployment rate (Berringer 1999, p. 241).

As a consequence of the new welfare state, high unemployment was not only a serious social problem to be addressed but also a heavy financial burden on German companies and public authorities, municipalities in particular (Berringer 1999, p. 239). In addition to these serious domestic issues, the German government could not afford any financial instability as it was put on a tight leash by the Allies, who paid special attention to the payment of war reparations and repayment of debts from the 1920s owed to US companies.

Finally, the main issue was a social and a financial one in a very special emergency situation. As Chancellor Brüning lost support from every party except for the Center Party, he clearly intended to govern by decrees and therefore bypass the parliament and the social representatives in order to implement an unpopular policy of tight credit and the rollback of all wage and salary increases. The Chancellor saw in the appointment of a commission of experts headed by a former Social Democrat labor minister a way of coping with a dramatic yet inextricable situation. His subsequent presidential decrees were hardly related to the Brauns Commission's recommendations and looked more like a last attempt to avoid state bankruptcy, as former Finance Minister Count Krosigk put it (Krosigk 1975, p. 102).

3.1 The Appointment of the Experts and Their Assignment

The so-called "Professors' Commission" had 5 professors among its 11 members: Wilhelm Röpke; Eduard Heimann, an advocate of the so-called religious socialism of Paul Tillich; Hermann Dersch, a professor of German labor law and employed by the Labor Ministry; Wilhelm Polligkeit; and Friedrich Zahn (Röpke 1931, p. 424).

However, even if considered by public opinion as a "Professors' Commission," it was primarily a commission of experts, as it consisted mostly of civil servants having solid experience either in social policy or in German labor law. Two former ministers were also in this commission: Heinrich Brauns, who was member of the Catholic Center Party, and Bernhard Dernburg, a leading German industrialist who co-founded the liberal German Democratic Party (DDP) and had been the finance minister under Chancellor Scheidemann in 1919. Other members were Wilhelm Engler, the head of the Regional Unemployment Agency in Hesse; Hans Frick, a member of the Brüning cabinet; Antonie Hopmann, director of the Catholic Women's Organization ("Katholischer Frauenbund"); and Friedrich Zahn, head of the Bavarian Department of Statistics. The members were all appointed on January 12, 1931 (Borchardt 1989).

The first session took place on February 2, 1931. The experts had very little time to provide recommendations for concrete solutions to reduce the record-breaking unemployment rate. However, they were not requested to find radical solutions to the problem on their own but had to focus on preselected popular solutions that had been imagined and proposed by some social partners and actors in civil society (Röpke 1931, pp. 424–428). As the unemployment rate reached a record-breaking 16 percent, German public authorities ran out of liquidity. The problem was therefore a double one: to reduce the number of unemployed without drawing excessively from the severely jeopardized unemployment insurance, which would entail financial support from the state, and not to endanger the already rather precarious situation of the public finances. The only emergency solution, upon which trade unions and conservative parties had agreed, was to develop part-time work and job sharing and to crack down on "double-income earners." Somehow the commission had to give the social conservative package its experts' blessing (Röpke 1931, pp. 428–430).

As Röpke wrote in his own report on the discussions in the Brauns Commission (Röpke 1931), one can see to what extent he tried to introduce his colleagues to more liberal economic thinking and less radical and general state interventionism. He and Eduard Heimann, who left the commission after the first session, were the only professors with an appropriate theoretical economic background. He therefore did his best to recommend the experts against simplistic, purely political, and, in the long term, economically inefficient proposals. Overall, he kept pushing his colleagues to think harder about economics and the general causes and consequences of unemployment.

He rejected two main theories about crisis and depression which were popular in the German debate at that time. First, like Walter Eucken, he considered the

analysis of the crisis as a crisis of capitalism to be a politically inefficient explanation, and he did not like Schumpeter's deterministic explanation of capitalism's transformation into socialism either. Second, Röpke did not agree with the business cycle theory as proposed by Emil Lederer, who considered the downturn and the recession as consequences of underconsumption, as Malthus and Sismondi had argued before him. Lederer's underconsumption theory recommended "demand creation supported by public authorities" which Röpke definitely rejected as it was a first step toward a planned economy (Röpke 1931, pp. 428–429).

Röpke also used some historical and geographical background to the theoretical background of business cycle theories. He kept pointing out that the crisis was a general depression which not only affected Germany but all industrialized countries, including England and the USA (Röpke 1931, pp. 443–444). According to Röpke, the depression which had severely damaged the German economy was the most serious economic crisis ever, affecting all developed economies and jeopardizing the capitalist system. In this respect, Röpke referred to the contemporary political discussion about capitalism launched by the conservative critique (Sontheimer 1962, pp. 34–45). However, Röpke was far from condemning the whole capitalist system as the German conservatives did.

Even if he started considering it a general crisis affecting every area of economic, political, social, and moral life, Röpke was not at all on the same conservative, National Socialist track as Othmar Spann. Röpke's participation in the Brauns Commission marked a turning point from his considerations as an economist to his future evolution toward sociology (Röpke 1942). However, he was in no way part of the German anti-capitalist and anti-liberal "Zeitgeist" (Sontheimer 1962, pp. 34–35; Janssen 1998, pp. 79–86) which considered proponents of free trade and economic liberalism suspicious as possible anti-German traitors.

Röpke was aware of the needs and goals of the German government in its request to the commission and was not alarmed by its taking on what might have been a proper role of the parliament ("Reichstagsersatz") (Röpke 1931, p. 424). The commission experienced the shift from representative democracy to an authoritarian presidential system mitigated by a small measure of direct democracy. The experts of the Brauns Commission were responsible for considering all the reform proposals coming from civil society that were sent to it. The commission's experts were obviously not able to consider the thousands of proposals that had been made by ordinary citizens who wanted to make a contribution to a new economic policy. Röpke complained a lot about this parody of democracy and understood the criticism of citizens about a missing link: why should the commission make proposals to reduce unemployment before having analyzed the causes of unemployment? Another problem of the commission was its composition, as hardly any member was aware of the financial and economic dimension of the unemployment issue.

Last but not least, the expectations of the citizens were very high in terms of immediate political action in the form of ambitious interventionist economic policy, which the commission obviously did not intend to suggest. Röpke judged that all

the spectacular measures proposed to fight against unemployment were illusions and made matters even worse.

3.2 *Measures Against Double-Income Earners*

Concentrating on pushing "double-income earners" out of the labor market was, according to Röpke and to the majority of the experts on the commission, not a good idea. First of all, the definition of "double-income earners" was a confusing one. Who could be considered a "double-income earner"? Should a couple or a single person who had to work low-paying part-time jobs or received small pensions and had to combine several sources of income then be considered bad citizens when they were just trying to live independently? Should they be the victims of social envy and jealousy based on a misguided conception of work according to which it should be something to be equally shared rather than a virtuous occupation (Röpke 1931, p. 440)?

A couple with two incomes would be considered a double-income earner, and the married woman would then have to leave her job. Röpke and a majority of experts considered that this was a bad idea for women and for the job market. One might consider the housemaids who would be dismissed as well in the case of a woman who would lose her job, and women's right to work, which had been established in the Weimar Constitution (Röpke 1931, p. 441). For that constitutional reason, the commission, with Röpke's strong support, reduced the scope of the double-income situation to female public servants who could live on their husband's wage. In the case of leaving their job, they should get proper financial compensation. These financial considerations might have considerably reduced the number of female civil servants who then lost their jobs. Other cases of double-income earners were not considered by the commission. The attempts to take conservative and popular points of view about job sharing and pushing women out of the labor market were not successful. The careful decisions of the commission considerably reduced the number of jobs affected compared to that larger but relatively insignificant number which would have been by more drastic measures (originally 280,000 jobs, see Röpke 1931, p. 439).

According to Röpke, other considerations about reductions in working hours and job sharing which had been suggested by the trade unions all went in the wrong direction of more state bureaucracy (Röpke 1931, p. 434). The job market was not static or a cake that had to be shared. It had to be developed, not organized or disorganized by a central state power. Moreover, the downturn and crisis were not due to overproduction, as erroneously assumed by the trade unions, but, according to Röpke, partly due to far too high wages (Röpke 1931, p. 429).

The experts eventually reduced the scope of their work again: no central decision should be taken by the state, only limited to certain industrial sectors and in agreement with employers. Those industries where shift work was prevalent could hardly be put on the list (Röpke 1931, p. 435). The commission tried to

avoid any bureaucratic decision which was technically and economically unrealistic and would have damaged industries without creating jobs. Referring to the ongoing discussion on unemployment solutions in the newspapers, Röpke mentioned as a compromise a proposal that had been made by an employer: industries whose workers worked more than 44 hours per week should then pay more unemployment insurance contributions, while those contributions should be lowered for all other industries whose workers worked less than 44 hours per week. This proposal was not adopted but nonetheless shows how pragmatic Röpke could be when thinking about measures that could be taken to fight against unemployment. He was in favor of a general wage reduction.

4 Job-Creation Programs and Countercyclical Policies

In its second report due in May 1931, the Commission had to concentrate on a job-creation program ("Arbeitsbeschaffungsmaßnahmen"). On the one hand, the government had run out of liquidity and was being watched by the Allies and therefore had very little room for maneuver. However, if job creation through state action meant more taxes, i.e., more pressure on and loss of purchasing power for the workforce or less financial resources for investments, it would be completely useless. It would just be a reallocation of a fixed purchasing power. Any plan where employers were requested to pay for public debts would be unacceptable (Röpke 1931, p. 442). These possible measures were just consequences of an erroneous underconsumption theory, such as that developed by Malthus and Sismondi and adopted by Emil Lederer (Röpke 1931, p. 443; Diebolt 2009, pp. 348–350).

On the one hand, Röpke intended to come back to Cassel's theory of economic cycles through variation in production of fixed capital (Röpke 1931, p. 443). On the other hand, he agreed with Keynes' *A Treatise on Money*, considering that economic cycles might be due to variations in investments in capital goods. According to Röpke, extending the phase of economic boom in order to avoid a severe downturn was not a good idea either. Röpke was more in favor of a countercyclical policy to avoid too large an economic boom. He was not in favor of artificially boosting demand to solve a problem of "underconsumption."

By integrating the legacy of the Historical School, Röpke eventually completed his incidental proto-Keynesian explanation of the causes of the depression with specific historical and geographical aspects. He emphasized that it was preceded by overinvestment in the 1920s (Röpke 1931, pp. 453–454). Due to the reconstruction phase after WWI, capital markets worldwide had been heavily interested in the German recovery and therefore overinvested in Germany. Due to the destruction of the labor force and of production equipment, there also was a strong rationalization of production and therefore overinvestment in capital goods industries. After the American meltdown of 1929–1930, foreign, i.e., American, portfolio investments were brutally withdrawn on a large scale. German banks had made a serious mistake by reallocating foreign short-term loans to long-term domestic loans, so they

could then not catch up with more domestic loans as the economy entered a severe crisis. Röpke insisted that "a banking system that depends on a multi-billion short-term foreign debt cannot function properly" (Röpke 1931, p. 454). The increase in interest rates worsened the downturn and did not even attract foreign capital as expected and did not stop capital flight, as the director of the Reichsbank, Hans Luther, was unable to fulfill the political preconditions for getting emergency credits from the Bank of England or the Banque de France. Shortly after the decrees issued by the government in June, three big German banks, among them, the Danatbank and the Dresdner Bank, filed bankruptcy (Köhler 1974). Any plan for a larger stimulus package became unworkable.

According to Röpke and to a majority in the commission, Germany had to create conditions for new investment and bolster investor confidence both domestically and internationally. More money for investment was needed and had to come as long-term capital from foreign investors. Raising taxes and prices was not at all a good idea, at least within the context of the international trade system. Germany was under ongoing control of the Allies who did not want to see Germany return to inflation and the resultant inability to pay the still-owed war reparations (which had been rescheduled in 1929 owing to the Young Plan). Growth was only possible within the system of international trade and not in a strictly national frame, as supposed by all state recovery programs (Röpke 1931, p. 447). The money had to come from investors and to go to investors in order to restore confidence and create jobs. The self-cleaning process as assumed by Schumpeter's "liquidation theory" did not occur. There was need for a liberal interventionism, but there was no need for a state recovery program.

With the worsening of the crisis, Röpke came to more reconciliatory ideas of "initial ignition" ("Initialzündung"). In very special occasions, like this very severe downturn, one could accept that a stimulus package could be implemented to stimulate demand, but only briefly to give an example and create the political and psychological conditions for investor confidence, not to replace a nonexistent private demand with state demand or to replace market forces but to encourage them. This was called "pragmatic business cycle policy" ("praktische Konjunkturpolitik") but was more political than economic. Referring to the psychological and political aspects of a proper cyclical policy, Röpke condemned the politics of excessive savings conducted by the Brüning government which did not restore general confidence and discouraged everybody.

Under Röpke's influence, the Brauns Commission limited authoritarian restrictive measures on the job market and refused to endorse major public investments financed by inflation or by forcing private companies to buy government debt. The stimulus policies which Röpke advocated concerned packages limited in time and only meant to restore confidence in the market. They had nothing to do with the planned infrastructure works that were later implemented by the National Socialist regime. Röpke did not subscribe to Schumpeter's "liquidation theory" either, according to which the depression should be left to work itself out on its own. Instead, he argued that the problem consisted in identifying the right phases between liquidation and adjustment. State intervention should only be done in the phase of adjustment. Nor did he believe in the "underconsumption theory" of

Malthus and Sismondi, an ancestor of Keynesian state interventionism aimed at boosting demand. The crisis, as explained in his books (Röpke 1932, 1936), was not a consequence of overinvestment, as Emil Lederer assumed, but of a serious misallocation of capital. Röpke, like later ordoliberals, thought that investing in heavy industry was not the right choice. Instead, he considered the consumer goods industry to be the motor of recovery and growth. This point of view would later be at the core of Ludwig Erhard's liberal economic program which he implemented with astounding success from 1948 onward.

Finally, for Röpke it is not just the economy that counts: other factors such as political and cultural factors also play a major role in the turnaround from an economic crisis. It is possible to transform a mere regular cyclical downturn into a much more severe crisis if bad policies are implemented or if a flawed mindset wins over the population (e.g., demanding more public expenses and higher salaries). Conversely, the solution which Röpke and the Brauns Commission recommended to tackle the crisis of the 1930s was a mixture of foreign long-term credit and budgetary orthodoxy in order to restore investor confidence. Afterwards the state might be in a position to speed up recovery through public investments. This should then be considered merely as an exceptional interventionism needed to tackle an exceptional crisis (as Keynes might have agreed with), just as, according to Röpke, the USA did to fight against unemployment from 1892 to 1895. It should not degenerate into a systematic state interventionism to counter every normal cyclical economic downturn and should remain at all times subject to strict budgetary orthodoxy, the necessary basis for investor confidence.

5 Conclusion

The hopes to gain more long-term credits from foreign investors faltered after the Reichsbank did not receive help from the Bank of England or from the Banque de France, as its president Hans Luther could not satisfy political conditions put forward by the French and English central banks. The Creditanstalt in Vienna and the Danatbank, the second largest German bank, filed bankruptcy, in May and July 1931, respectively. This was the start of a general panic as investors hurried to withdraw short-term deposits which had been invested by German banks in long-term investments. The Reichsbank itself was in danger of bankruptcy as well. This was the impetus for a terrible political backlash which directly led to a nationalist explosion and to the alliance of the conservative right with the National Socialists. Hjalmar Schacht sided with Hitler and advocated a return to protectionism and to economic autarky. In May 1932, Rüstow and his friends Eucken and Röpke made a desperate attempt to save economic liberalism by founding the German Association for Free Market Economic Policies ("Deutscher Bund für freie Wirtschaftspolitik"), but it was all in vain. The German state ended up adopting Keynesian policies, albeit under the rule of the National Socialists. This inspired Röpke and Eucken to argue that every directive state-driven economic policy, such as Keynesian state recovery programs, would necessarily lead to political dictatorship. According to

Röpke, the only desirable kind of state intervention was a very limited one, in very exceptional circumstances, a so-called pragmatic business cycle policy.

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The Secondary Depression: An Integral Part of Wilhelm Röpke's Business Cycle Theory

Lachezar Grudev

1 Introduction

During the global financial crisis, the advanced economies experienced a huge contraction of investments. The bulk of this slump has been constituted by a reduction of investments in the private residential (housing) and nonresidential (business) sector. It was precisely investments in these sectors that marked the boom during the pre-financial crisis period. According to forecasts, a complete recovery is still not visible in the near future (IMF 2015, 2016). In addition, the financial crisis has had negative effects on the ability of Southern European governments to cope with increasing debts, which reached tremendous levels as a result of the European governments' responses to the crisis. This contributed to the outbreak of the sovereign debt crisis in the Eurozone, endangering the stability of Southern European economies (e.g., ECB 2009; Haugh et al. 2009). These crises raise many questions—not only regarding their causes but also with respect to the appropriateness of governments' reactions to them (e.g., Rajan 2010).

In order to understand when government interventions are able to "cure" crises and depressions, there must be a theoretical analysis of what happens during these processes or, in other words, a theory of economic contraction (Hayek 1932, 1933). Such a theory was considered obsolete after the WWII—particularly in the 1950s and 1960s. The main explanation for this, formulated by the neoclassical synthesis which was the leading paradigm in economic science then, was that monetary and fiscal policy could play a stabilizing role so that economic downturns would be prevented (e.g., Landmann 2007). Despite the fact that many theoretical

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streams appeared afterward and were critical of the neoclassical synthesis, economic theory still credited government policy—particularly monetary policy—with the capacity to stabilize the economy (e.g., Clarida et al. 1999). A confirming example was the Great Moderation (1984–2007) period, praised for its low volatility in real output and the inflation rate. One of the explanations for the low volatility was that monetary policy played a pivotal role in stabilizing the macroeconomic process (Romer and Romer 2002; Bernanke 2012).

Nonetheless, the last financial and ensuing sovereign debt crises can be regarded as a proof that economic policy failed to achieve the stabilizing role—not only in preventing but also in overcoming these challenges (e.g., Taylor 2012). In order to understand when the "medicine" works, we should understand the reasons for the "illness" as well as its course. This makes it necessary to revitalize and expand those theories that concentrate not only on the processes and course of depressions, but also on their causes. In this sense, the question of whether economic policy is able to prevent or even overcome crises and depressions at all can be answered.

The theoretical analyses of the mechanics of economic crises that were considered the results of preceding booms were a leading paradigm in the business cycle theories in the first three decades of the twentieth century. The Great Depression was considered the practical test regarding their validity. This period caused the crystallization of two prevailing views on the meaning of depression: on the one hand, the view of the Austrian School around Friedrich A. von Hayek (1899–1992) and Ludwig von Mises (1881–1973) and, on the other, the opposing view of John Maynard Keynes (1883–1946) (Hansen and Tout 1933). Their different interpretations of the depression provided different theoretical foundations regarding the necessity of government intervention. In those times when the depression reached its most severe period, the Austrians did not change their opinion that the depression was a cleansing or readjustment process from the imbalances that occurred during the preceding boom. Consequently, they rejected any government intervention, arguing it would prolong the painful process. In contrast, Keynes suggested that this economic contraction had entered a severe stage where government should reestablish confidence in society by acting as investor and borrower (Haberler 1937/1946; Hansen and Tout 1933). In those times of despair, Keynes' ideas were celebrated as the necessary medicine against depression, whereas the Austrians had to leave the battlefield in defeat (e.g., Streissler 1969/1970).

Nonetheless, not all the members of the Austrian School rejected the view of the destructive nature of depressions and hence the need for government intervention. Among them, Wilhelm Röpke was a proponent of the idea that depressions cannot always perform a readjustment function. Röpke recognized relatively early that crisis and depression could turn out to be economically senseless, as described by Keynes (Haberler 1937/1946; Ebeling 1979/2000). In this vein, Röpke was one of the German proto-Keynesian economists who distinguished between two phases of depressions. He recognized the existence of primary depression—with its readjustment function—and simultaneously a secondary depression as a destructive

and economically senseless period that should be forcefully counteracted with fiscal and monetary policy (Klausinger 1999).[1]

Röpke was one of the most prominent business cycle theorists in the German-speaking area during the interwar period. He started his career early after publishing his habilitation *Die Konjunktur* (1922) at the age of 23. However, Röpke's writings in this realm of economic theory—particularly his works during the interwar period—have mostly been ignored (Klausinger 1999). Precisely the importance and topicality of these writings will be revisited here, by discussing Röpke's theoretical considerations of the secondary depression with the purpose of answering the question of when the mechanics of the preceding primary depression can give rise to the existence of a secondary one. The reason for considering the primary depression is Röpke's statement that "under certain circumstances [. . .] [the primary depression, LG] loses more and more its function of readjustment and degenerates into a *secondary depression*" (Röpke 1936a, p. 119, emphasis in the original). In addition, the primary depression is in turn an immediate result of the boom period (Röpke 1933d). This paper explores the question whether the boom is able to cause such a primary depression that is liable for the existence of such "circumstances." In this sense, the paper can be regarded as a further step toward the currently necessary theory of economic contraction.

The paper is structured as follows: Sect. 2 will review Röpke's business cycle writings; Sect. 3 will discuss the destructive nature of the secondary depression; Sect. 4 will concentrate on Röpke's concept of equilibrium, its distortion, and dynamic of disequilibrium in his business cycle theories; Sect. 5 will discuss the impact of the boom on the primary depression; and Sect. 6 will present the conclusions.

2 Röpke's Business Cycle Legacy

2.1 The Secondary Depression: Röpke's Innovative Contribution

At a conference of the Friedrich List-Gesellschaft in September 1931 (Borchardt and Schötz 1991), Röpke presented the view that the world economy was experiencing a kind of depression which had nothing to do with the economically necessary depression in Hayek's and Mises' works. Although Röpke agreed with them that a depression could generally have an important readjustment function, he claimed that the world had left this state of depression and was now entering the phase of a secondary depression. Due to its senseless and destructive nature, Röpke

[1]The German proto-Keynesian economists formulated different views on the primary depression, but all shared the same opinion that government interventions in this phase would prolong the process of contraction (Klausinger 1999, p. 382).

recommended an expansionary credit policy with the aim of overcoming it (Borchardt and Schötz 1991). A few days later, amidst one of the most severe banking crises, Röpke published "Geldtheorie und Weltkrise" (Röpke 1931b), a paper whose explanation of the reasons for economic fluctuations was based on the theoretical approach of Keynes' *A Treatise on Money* (Keynes 1930). In this piece, perceivable also as a positive review of Keynes' book, Röpke used the opportunity to popularize the idea of the secondary depression and the necessity of active fiscal and monetary policy to counteract it (e.g., Landmann 1981). In *Krise und Konjunktur* (Röpke 1932), Röpke elaborated on the idea of secondary depression and at the same time integrated it into his theoretical considerations regarding business cycles.

In the subsequent pieces "Reflation oder Reexpansion" (Röpke 1933b), "Die sekundäre Krise und ihre Überwindung" (Röpke 1933d), and "Trends in German Business Cycle Policy" (Röpke 1933c), Röpke expanded the theoretical analysis regarding secondary depression and elaborated on the measures necessary for overcoming it. In "Die säkulare Bedeutung der Weltkrisis" (Röpke 1933a), he not only discussed the depression in technical terms but also emphasized its dangerous influence on the attitude of the masses toward the current economic system. In this vein, Röpke warned readers of the new, emerging nationalist movements in which the masses saw salvation from the depression. The book *Crises and Cycles* (Röpke 1936a) can be considered a culmination of the theory of secondary depression in which Röpke dedicated a whole chapter to its mechanics. In all the aforementioned publications, the explanation of the secondary depression remains under the influence of Keynes' *A Treatise on Money*. This was clearly stated by Röpke: "The treatment given in this paragraph owes much to this great work [*A Treatise on Money*, LG]" (Röpke 1936a, p. 133).

2.2 The Theory of the Boom: Röpke's Quest for Identity

Whereas Röpke demonstrated a relative consistency in his views with respect to the theory of depressions, his theories of the boom period experienced a tremendous development. This paper distinguishes between four main periods in Röpke's theories of the upswing in his interwar writings, which could be an expression of his attitude toward the Austrians and Keynes:

1. The first period was marked by the habilitation *Die Konjunktur* published in 1922. Röpke underscored that the exchange economy is vulnerable to disequilibrium. Based on the arguments of Böhm-Bawerk, Cassel, Menger, and Spiethoff, Röpke postulated that the intensity of production of the various commodities is defined by the volatility in the demand for them. Röpke stated that volatility in the demand for capital goods was stronger than that for consumer goods, which explained the higher fluctuation in the production of capital goods. Afterward, Röpke described the fluctuation in the production of

capital goods as the cornerstone of business cycle theories (Röpke 1936a, p. 97). In "Konjunkturtheorie und Konjunkturpolitik" (Röpke 1925), Röpke confirmed the ideas developed in *Die Konjunktur*. Additionally, he recognized the relevance of money and credit in explaining economic fluctuations by defining them as a condition (but not a cause) for their occurrence.

2. The second period was covered by the papers "Kredit und Konjunktur" (Röpke 1926) and "Die Theorie der Kapitalbildung" (Röpke 1929). Here, Röpke introduced the importance of the discrepancy between the money interest rate and the natural interest rate for explaining business cycles. This belongs to the Austrian period of Röpke (see also Hayek 1929/1976, p. 58).[2] Here Röpke emphasized that lowering the money interest rate below the natural interest rate and increasing the credit supply were the only reasons for the start of the boom and hence for the occurrence of disequilibrium. Consequently, a crisis is an inevitable consequence that should restore equilibrium.
3. The Great Depression and the publication of Keynes' *A Treatise on Money* not only influenced Röpke's views about the depression but also his theory of the boom period. The paper "Geldtheorie und Weltkrise" (Röpke 1931b) and the subsequent book *Krise und Konjunktur* (Röpke 1932) mark the third period of Röpke's views on the boom. He remained convinced of the importance of the impact of the discrepancy between the natural and money interest rates on capital and consumer goods industries. However, he elaborated on the mechanics of the boom in Keynesian style by using the saving-investment approach.
4. The publication of the paper "Socialism, Planning, and the Business Cycle" (Röpke 1936b) followed by the book *Crises and Cycles* (Röpke 1936a) marked the fourth period of Röpke's views on the boom. In this period, Röpke distanced himself from Keynes and Hayek. Even a difference between the descriptions of the process of the upswing in *Krise und Konjunktur* and *Crises and Cycles* can be noticed. Whereas Röpke used the saving-investment approach in *Krise und Konjunktur*, he not only dismissed but also criticized it in *Crises and Cycles*. This could be considered the beginning of Röpke's critique of Keynes' theoretical views.[3]

[2]Hayek underlined that Mises developed and even improved the Wicksellian theory by analyzing how a discrepancy between the money interest rate and natural rate of interest had an impact on consumer goods prices and the prices of capital goods (Hayek 1931/1935, pp. 25–26). Furthermore, Hayek emphasized that in "Kredit und Konjunktur" Röpke formulated similar views to those of Mises (Hayek 1929/1976, p. 58).

[3]Such criticisms were also made by other German proto-Keynesians—particularly after Keynes gained huge popularity. A possible explanation is a certain disappointment with Keynes due to his lack of attention to those economists who made his views popular in German literature. In the case of Röpke, this disappointment can be regarded as justified since he published "Trends in German Business Cycle Policy" (Röpke 1933c) in the Economic Journal, whose editor was Keynes (Landmann 1981). In "Trends in German Business Cycle Policy," Röpke stressed the importance of Keynes' theoretical considerations in formulating the measures proposed by the Brauns Commission to the German government with the purpose of overcoming the depression.

Regarding the formation of Röpke's fourth period, which can be considered as Röpke's emancipation period, this paper offers two hypotheses. The first hypothesis is that the ideas developed by Hansen and Tout (1933) had huge impact on Röpke's explanation of the reasons for economic fluctuations. Röpke stressed only that "Dr. von Hayek's theory has been criticized on rather similar lines by Alvin H. Hansen and Herbert Tout [. . .] The views of these authors seem to coincide particularly closely with the views of the present writer" (Röpke 1936a, p. 111). The second hypothesis is related to Röpke's use of the acceleration principle for explaining the mechanics of the boom. According to Boianovsky (2005), Roy F. Harrod—who also made use of the acceleration principle in his book *The Trade Cycle* (Harrod 1936)—became aware of its importance by reading the first draft of Haberler's *Prosperity and Depression*, an unpublished manuscript with the title "Systematic Analysis of the Theories of the Business Cycle" (Haberler 1934; Boianovsky 2005, p. 10). The draft of Part II of Haberler's book "Synthetic Exposition of the Nature and Causes of the Business Cycle" was very well familiar to Röpke who was invited to Geneva with other economists to discuss it (Boianovsky and Trautwein 2006, pp. 62–73). The discussions took place few months before publishing "Socialism, Planning, and the Business Cycle" which marked the start of Röpke's fourth period. Hence, it is highly probable that Röpke read the first draft of Haberler's book. This could have convinced Röpke to stress the importance of the acceleration principle and to use this principle to criticize Keynes—he stressed that Keynes' reluctance to use the acceleration principle for explaining the mechanism of the boom was the main reason for his unwillingness to recognize the existence of a primary depression (Röpke 1936a, p. 109).

Having discussed the main ideas and thoughts which can be distilled from Röpke's business cycle writings, the next chapters will make the first step toward connecting them.

3 The Secondary Depression

3.1 The Process

In his early writings, Röpke referred to depressions as readjustment processes. This concept was introduced for the first time in the paper "Kredit und Konjunktur" (Röpke 1926). The main purpose of this readjustment processes was to restore the equilibrium disturbed by an incompatible-for-the-community increase in accumulation of capital (Röpke 1926, p. 262) or (in later works) rise of investments (Röpke 1936a, pp. 108–109) during the boom period. In his early and later works, Röpke emphasized that this process of disturbance caused relative inflation. Depressions

Additionally, at the very beginning of his exile, Röpke visited Hayek in London in June 1933 and also met Keynes there (Hennecke 2005, pp. 93–94).

had to restore the once disturbed equilibrium and correct the inflation occurred. This restoration process took the form of a decline in production of those industries that had caused the overinvestment during the boom (Röpke 1931b, p. 1746, 1936b, p. 333). In analogous manner, this correction process was accompanied by falling prices which had to be considered a necessary reaction to the relative inflation that occurred during the boom. Röpke rejected any government intervention aimed at stopping this process, as it would cause the prolongation of the painful process (Röpke 1933d, 1936b).

If the depression did not succeed in restoring equilibrium, it could cause new disequilibrium and degenerate into a secondary depression. According to Röpke, "no cut-and-dried answer" could be given to the question when the secondary depression starts and the primary one ends. However, he emphasized that there were "broad principles" which would indicate the onset of the secondary depression: "The simplest is the mere elapse of time after which it may be reasonably expected that the primary depression has fulfilled its purging mission," and he continued: "More conclusive is the symptom of persistent mass unemployment, which may be taken as an indication that the primary depression has quite outgrown the dimensions imposed by its function of readjustment, and most conclusive of all will be the fact that the depression has also engulfed the industries producing consumption goods" (Röpke 1936a, pp. 129–130).

The comparison between the merits of Keynes' theory of the depression and Hayek's theory of the boom remains the central point of *Crises and Cycles*, contained in statements such as "While in the case of Keynes the analysis of the upswing is much weaker than that of the depression, just the opposite may be said of Hayek's theory" (Röpke 1936b, p. 334), or that the course of the secondary depression "can indeed be no better stated than in the terms of the saving-investment approach elaborated by him [Keynes, LG]" (Röpke 1936a, p. 109). According to the saving-investment approach, the secondary depression is characterized by a higher rate of saving than investment. Röpke tried to combine two different theoretical doctrines: he adopted Hayek's views to formulate the primary depression that took the form of the reducing of capitalistic production, and he used Keynes' considerations to explain the secondary depression by describing the process via the saving-investment method. Furthermore, Röpke accepted Keynes' idea of the importance of the kind of savings (Röpke 1936a, p. 123, 1931b, p. 1742).[4] In this manner, Röpke explained why savings do not automatically transform into investments during the secondary depression. He referred to the Keynesian terms "bearishness" and "liquidity preference" of the public—meaning the public prefers liquidity and security over profit (Röpke 1932, pp. 90–91, 1936a, p. 123). This can be observed, on the one hand, by the behavior of enterprises that hold money and stay liquid, so they do not use these funds for new investments or even for a replacement demand. Röpke accentuated that this was an immediate

[4]"Keynes succeeds in making clearer than others have done the part played by hoarding in the business cycle. The decision of a saver to save is not enough. It is necessary for him also to decide the form which his savings shall take" (Hansen and Tout 1933, p. 127).

consequence of a crisis of confidence, a result of the recurrent losses which the entrepreneurs had been suffering, and the reason for their unwillingness to undertake new investments.[5] On the other hand, private households also suffered from a crisis of confidence, expressed in the willingness to "sterilize" their funds in banking accounts instead of investing them by buying securities (Röpke 1936a, p. 123).[6]

This bearishness of the public, in turn, could have negative effects on the money and credit system. These negative effects would find an expression by ruining the financial status of the banks. According to Röpke, the effects would not only be on the debit (or asset) side of banks' balance sheets but also on the credit (or liability) side. The asset side was negatively affected since the repayment of many credits was interrupted and the value of the securities held by the banks also decreased, both because of the reduced profits of the enterprises. On the other hand, the credit side of the banks' balance sheets also suffered from the crisis of confidence due to the "immobility of the banks' accounts" which was an immediate result of the aforementioned bearishness (Röpke 1936a, p. 122). Furthermore, the crisis of confidence caused the public to withdraw its money from the banks and hold cash which exacerbated the problem of hoarding.

As a result, this kind of saving taking place during the secondary depression had nothing to do with the saving typical in normal times. In this vein, Röpke even characterized this saving as "downright destructive" and the process of saving as "positively harmful for the economic welfare" (Röpke 1936a, p. 123). The destructive character worked in a twofold manner. On the one hand, saving means per definition that less than the total income is devoted to consumption—any increase in savings should cause a decline in the part of income devoted to consumption, thereby shrinking the demand for consumer goods. On the other hand, the increased savings do not take the form of demand for capital goods, as it happens in normal times. On the contrary, savings take the form of hoarding, which is a result of the crisis of confidence.[7] The result is a general decline in overall demand (Röpke 1936a, p. 122).

Röpke stressed that the decline in total demand was the "prime mover" or the "causa movens" of the secondary depression. This decline in demand gave rise to a further decline in production and hence in income, thereby causing further

[5]Psychological factors such as absence of confidence (pessimism) or state of confidence (optimism) played a pivotal role in the theories of A. C. Pigou. His views may have influenced Keynes who emphasized their importance for explaining investment behavior (Haberler 1937/1946, p. 143).

[6]According to Richard von Strigl (1891–1942), another member of the Austrian School whose views on the depression were similar to those of Keynes (Röpke 1936a, p. 109), increased liquidity in enterprises and banks was expressed in the low money market interest rates. By contrast, the interest rate in the capital markets surged to unprecedentedly high levels. The outflow of funds from the capital market to the money market was explained by distrust and pessimism (Haberler 1937/1946, p. 60).

[7]Röpke described this in one sentence: "[. . .] money is withheld from expenditure on consumption goods, without any compensation for this non-consumption taking place in the form of investments in capital goods" (Röpke 1936a, pp. 123–124).

shrinkage in demand. This made the investment rate converge to zero, causing the exacerbation of disharmony between saving and investment rates. Röpke stated that the disharmony between the saving and investment rates was a direct result of "the disastrous *destruction of that harmony between the process of the formation of incomes and the process of the utilization of incomes*" (Röpke 1936a, p. 122, emphasis in the original). This disharmony would be overcome only if the investment rate rose to match the savings rate or if the savings rate decreased until it reached the level of the investment rate. Both will be discussed in the next section.

3.2 Lower Turning Point or the Necessity for Government Intervention

3.2.1 The Increase in the Investment Rate

An increase in investment can happen only under two conditions: restoring the incentives to entrepreneurs to invest, and the willingness of banks to expand credit in the economy. Röpke pointed out that both of these conditions must be fulfilled to achieve recovery. If one of the conditions was absent, then the desired effect would fail. On the one hand, if there was only an expansion of credit in the economy, then a situation similar to the famous liquidity trap in Keynes's sense would occur (Allgoewer 2009/2010). He used the US economy as an example in which interest rates approached zero, but entrepreneurs were not willing to undertake new investments. Röpke pointed out that the elasticity of the demand for credit tended to become virtually zero (Röpke 1936a, p. 125). On the other hand, if there were enterprises willing to start new investments, but they were faced with the reluctance of commercial banks to provide long-term credit, then the recovery would also fail: the reason is that the enterprises would be unwilling to invest longer-term if they feared being unable to refinance their credits at a future point in time.

Röpke emphasized that longer-term investment is exactly the prerequisite for recovery. Hence, the main condition for recovery is reviving security markets and, in particular, the stock market. This market represents an important funding source for enterprises and a necessary condition for banks to turn their securities into cash and an important funding source for commercial banks. However, reviving the security and stock markets is related to restoring confidence in the economy (Röpke 1936a, pp. 125–126).[8]

[8]On similar lines, Strigl explained the mechanics of the depression. According to him, any breakdown of the boom would lead to a process of hoarding and become the reason for deflation. In this environment of pessimism and uncertainty, private enterprises would not be willing to carry out new investment (Haberler 1937/1946, p. 60; Strigl 1934, pp. 214–220). Like Röpke, Strigl stressed that long-term investment on the one hand and the willingness of the banks to lend for a long period on the other were necessary conditions for reviving the economy (Strigl 1934, p. 217).

3.2.2 The Increase in the Rate of Savings

If the rate of investment does not increase to the rate of saving, then an "automatic safety brake" will be engaged. This implies that the rate of saving would decline to the rate of investment until the equilibrium is restored. However, Röpke warned that such a development would create huge pressure on the stability of society. This would happen either through impoverishment of the people since savings would be consumed, or due to the impossibility of the state to cover any increase in the budget deficit by reducing expenditures or raising taxes, something which could be done at the cost of a revolution. Röpke warned that if no actions were taken, the economic crisis would turn into "a real crisis of our entire economic and social system" (Röpke 1936a, p. 129). He discussed the depression not only in technical terms but also warned against the developments that would unfold if no measures were taken against combating it (Röpke 1931c, p. 450). Röpke made this clear in the following statement: "Even if we do nothing, the natural course of things will bring about its own solution though in the cruel way [. . .]—with several thousands more having recourse to the gas-hose, several hundreds more being killed in civil warfare, and (consequent on the general destitution and exasperation) with the hysteria of the masses and their leaders increasing to such a degree as to shake State and society to their foundations" (Röpke 1936a, p. 129). As a result, Röpke defended the need for government intervention to stop this destructive process.

Having discussed and analyzed the process of the secondary depression and its negative social effects, the question arises under which circumstances such a disastrous process can occur. In this sense, Röpke gave a hint that "The primary depression [. . .] may be followed by a secondary depression whose real causes are to be sought in the circumstance that an independent and economically purposeless secondary deflation develops out of the unavoidable deflation of the primary depression" (Röpke 1936a, pp. 135–136). Furthermore, the primary depression was an immediate result of the preceding boom. Therefore, the next chapter will describe Röpke's views on the boom, with the goal of answering the question when the boom can be succeeded by such a depression that has the tendency to converge into a secondary one. In other words, this paper primarily elaborates on Röpke's formulation: "The rising curve of investment during the boom has its counterpart in the falling curve of the depression, and the more steeply inclined upwards is the first the more sharply does the second tend to slope downwards" (Röpke 1936a, p. 97).

4 The Instability of Economic Systems: Fundamental for the Recurrent Booms

4.1 Equilibrium and Capital Accumulation

As discussed above, Röpke characterized the primary depression as a process that had to restore the equilibrium in the economy. If the primary depression did not succeed in readjusting the balance in economy, it would transform into secondary one which represented a process moving away from the equilibrium. Hence, the notion of equilibrium played an enormous role in Röpke's business cycle theory, which makes it necessary to explain how Röpke defined equilibrium and what factors caused its distortion.

According to Röpke, a community devotes one part of its total income to consumption and another to savings (defined also as capital accumulation). In a similar way, the community divides total production into production of consumer and capital goods. Röpke emphasized that the state of equilibrium in an economy was expressed by the correspondence between the composition of the total income and total production of the community. In other words, the proportion according to which the community devotes part of its income to direct consumption and to savings should be the same as that to which the community divides its total production into production of consumer and capital goods. This explains the harmony between the process of income formation and the process of income utilization (Röpke 1929, p. 7, 1936a, p. 122).

In cases where the community wants to increase its production of capital goods, it should restrict its current consumption. This gives rise to a change in the composition of production. This change is expressed in the expansion of the production of capital (or future) goods at the cost of the production of consumption (or present) goods. In other words, accumulation expands at the cost of the consumption of the community. Röpke underlined that any sudden and substantial increase in accumulation would cause a disturbance of the state of equilibrium (Röpke 1926, 1929, 1931a, 1936a). However, he warned the reader that not every kind of capital accumulation gave rise to the sudden increase in the accumulation of the economy that upset the balance. He distinguished between two kinds of capital accumulation: voluntary and forced. Voluntary capital accumulation could be divided into savings of private households and the increasing entrepreneurial capital expressed by reinvesting surpluses in capital goods. On the other hand, forced capital accumulation took place by taxation and forced monetary accumulation, the latter taking the form of credit expansion (Röpke 1929, 1931a).

Röpke postulated that the saving of private households took the form of laying aside part of the income in bank accounts or buying securities like bonds and stocks. In this way, households financed enterprise and indirectly created a demand for capital goods (Röpke 1936a). The amount of savings and hence the volume of demand for capital goods were determined by the subjective factor "propensity" and the objective factor "ability" to save (Röpke 1929, p. 23; Hayek 1929, p. 475).

According to Röpke, propensity was based on three motives. The first was the desire to save for rainy days, the second due to earning additional income by obtaining interest rates, and the last—on which Röpke placed particular emphasis—was automatic saving. This takes place in cases where income is so high that its entire consumption is characterized by low marginal utility.[9] The amount of saving was here determined by balancing the marginal utility of consuming the entire income and the marginal utility of saving it. With increasing income the marginal utility of consuming the entire income which defines that a larger part of income will be saved decreases. According to Röpke, any further increase in high income caused a progressive (and not proportional) increase in the amount of saving. This last motive is related to the objective factor—ability to save. The ability to save is determined by the amount of income. Röpke inferred that what was still true for any household could be true for the entire economy. He stated that with increasing income the capital formation of one economy would improve progressively and rejected the idea that interest rates were the only reason for saving. He argued that savings could take place automatically even when the interest rate reaches zero. By contrast, income should be understood as the prime mover in the process of saving (Röpke 1929, p. 28).

Entrepreneurial capital building, also called "self-financing," took the form of direct demand for capital goods. Röpke argued that corporate surpluses contributed to accumulation (or saving) in the community since enterprises were more inclined to reinvest their surpluses in new machines rather than to lend them on the capital market (Röpke 1936a, p. 106). Hence, the demand for capital goods of enterprises represented the bulk of voluntary capital accumulation in society—and any increase in the surpluses (income) of enterprises would rise their demand for capital goods and thereby the accumulation of the community (Röpke 1936a, b). In this sense, income (or corporate surpluses) played the same role as the considerations developed regarding the saving of private households: with increasing surpluses (income), the desire to expand the demand for capital goods increased. Röpke described the inherent inclination of enterprises to do this as the "seeds of wasting capital" which arose from the absence of a division between savers and investors. The lack of division abolished the payments of interest rates and hence the regulating character of interest rates with respect to the optimal use of capital. This explained the wasting behavior by entrepreneurs and their tendency toward overinvestment (Röpke 1929, 1936a, p. 106).

As a result, the size of income was the prime mover in the process of voluntary accumulation in the economy since it defined the savings of private households and the demand for capital goods of enterprises. Röpke rejected the idea that voluntary capital building would on its own reach such a magnitude that it would destroy economic equilibrium. In addition, Röpke underscored that a "powerful mechanism" will make voluntary capital accumulation reach these dangerous dimensions (Röpke 1936a, p. 106, 1936b, p. 328). Credit expansion represented this powerful

[9]This is similar to the Keynesian analysis where increasing income decreases the marginal propensity to consume (Samuelson 1939).

mechanism, defined as monetary forced saving. The latter worked via changes in "the social structure of incomes" (Röpke 1936a, p. 107). These changes were expressed by a disproportionate increase in different types of income of private households and enterprises. This disproportionate increase caused a disturbance in equilibrium (Röpke 1925, p. 409, 1936a, p. 107).[10]

In order to recognize the distortive impact of credit expansion, Röpke emphasized the importance of understanding the method of credit creation. He described that the commercial banks possessed certain autonomy, explicitly discussed in Röpke (1930), regarding credit creation. The basis for understanding this autonomy is that the bulk of payment transactions in the economy were carried out by using checks which entitled the public to use their demand deposits to carry out payments. Commercial banks were able to change the volume of deposits in the economy via credit provision. This was carried out by accommodating deposit accounts not limited by real factors (like gold, cash, etc.). If commercial banks decided to increase the credit supply due to profit considerations, they could just decrease the interest on credits and create new deposits (Röpke 1930, pp. 760–761, 1936a, pp. 113–114). This explained that the monetary interest rate depended on the power of commercial banks.[11] Röpke sometimes even called it a "manipulated" (Röpke 1929, p. 31) or "artificial" rate of interest (Röpke 1926, p. 268). He recognized that the law of the formation of this interest rate, defined as a monetary interest rate, does not work as the law of the formation of prices for commodities where demand and supply are the underlying forces (Röpke 1926, p. 272).

Röpke emphasized that not the absolute—but rather the relative—height of monetary interest rate to the "natural interest rate" in Wicksell's sense played a role in the start of the boom (Röpke 1926, p. 273, 1936a, p. 114). In this sense, he was on the same page as the Austrian School also known as the "Neo-Wicksellian" School (Haberler 1937/1946, pp. 31–32). Similarly, Röpke defined the natural interest rate as the equilibrium rate that arises in a fictional economy where capital is lent "in natura" and not in monetary form and underscored that the natural interest rate was the price for waiting, emphasizing the time dimension (Röpke 1937/1951, p. 237). This interest rate balanced the demand for capital with the supply of capital represented by the existing capital funds in the economy and

[10]Röpke appraised that insights regarding this problem were derived from the views of underconsumption theorists like Marx (Röpke 1936a, p. 89).

[11]This autonomy, underlined by Wicksell in order to discuss the nature of the money rate of interest, was the focal point in the work of L. Albert Hahn (1889–1968), especially in *Die volkswirtschaftliche Theorie des Bankkredits* (Hahn 1930). See also Röpke's statement on Hahn in *Eine Freundesgabe für Albert Hahn* (1959) where Röpke stressed the importance of Hahn's theoretical considerations. Röpke explained that the interest rate was not only a real problem but also a monetary problem, as discussed by Wicksell, Hayek, Keynes, and Hahn (Röpke 1937/1951, p. 257).

secured the stability of price level (Röpke 1926, p. 269; Hayek 1931/1935, p. 217; Wicksell 2001).[12] In this fictional economy, the amount of credits was "built up solely of real savings and not out of additional credits besides"—and he described additional credits as "created out of nothing" (Röpke 1930, p. 760, 1936a, pp. 114–115). The creation of credits "out of nothing" was exactly the expression of the aforementioned commercial banks' autonomy (Hagemann 2010).

The commercial banks could cause this discrepancy in two ways—either by decreasing the money interest rate or by satisfying higher credit demand without increasing the money interest rate when the natural interest rate was starting to rise. The tendency to the latter was a signal of economic recovery because he described the natural interest rate as the "average rate of profits anticipated from capital investment" (Röpke 1936a, p. 113) or just the rate of return on capital (Röpke 1930, p. 760).[13] Any increase in the profits on capital was an indication of optimism and the desire to expand investment (Röpke 1937/1951). By contrast, the money interest rate was the result of the liquidity considerations of commercial banks. These liquidity considerations were directly influenced by the policy of central banks. Thus, if commercial banks arbitrarily decided to decrease the interest rate on credits compared to a given natural interest rate, they would cause the volume of credit in the economy to increase (Röpke 1926, pp. 274–275).

4.2 Distortion of Equilibrium and Dynamic of Disequilibrium

Röpke stressed that any increase in the volume of credit led to the creation of additional purchasing means ("Kaufmittel") available to enterprises (Röpke 1926, 1936a).[14] He was on the same page with the Austrians that any increase in credit provision made the income of enterprises rise faster than the fixed income of private households. As already said, the relative changes in incomes in society distorted the equilibrium of economy. This distortion happened in a double manner (Röpke 1925, 1936a). First, as mentioned above, the rising income of enterprises made

[12]In "Kredit und Konjunktur", Röpke defined Wicksell's interest rate as the real interest rate. It should be emphasized that Irving Fisher's and Wicksell's real interest rates are two completely different definitions of interest rates (Hayek 1931/1935, p. 23). For the possibility to combine the two interest rates, see the work of Friedrich A. Lutz (1901–1975), especially *Zins und Inflation* (1973), and the subsequent comments of Emil-Maria Claassen (1974).

[13]It is important that Hayek stated 3 years after *Crises and Cycles* that the interest rate and the profit rate were completely different concepts, while many wrongly considered them to be the same (Hayek 1939/1975).

[14]It should be stressed that Röpke made a distinction between purchasing means ("Kaufmittel") and purchasing power ("Kaufkraft"). This distinction was also embraced by Hayek (1929b/1976).

them expand their demand for capital goods which constituted the bulk of capital accumulation in the economy.[15] Second, the rising income of enterprises enabled them to expand their production, thereby increasing employment and hence income of the society (Röpke 1936a, p. 106; Haberler 1937/1946, p. 365). The increasing income in the community would not only play a role regarding the aforementioned voluntary accumulation of capital but also regarding the quality of the current demand for goods, even generating demand for new goods. This is due to the arising of new tastes and desires with increasing income that caused new needs and hence demand for commodities in order to satisfy those desires (Röpke 1925).

Röpke stressed that in both cases, any increase in the demand for goods of lower order could—due to technical reasons—cause a stronger increase in the demand for goods of higher order.[16] He described in an Austrian manner that goods of lower order were those goods that are close to consumption, whereas goods of higher order were those goods further away from the sphere of consumption, such as capital goods (Röpke 1922, p. 62, 1936a, p. 103). This mechanism, defined as the acceleration principle, constitutes the dynamics in Röpke's boom, defined as a disequilibrium process. Röpke emphasized that the acceleration principle could work in two ways (Röpke 1936a, b):

First, the increase in demand for any goods caused an increase in the demand for productive equipment (or goods of higher order) in order to satisfy the initial increase in demand. In addition, the augmentation of the productive equipment required a further increase in productive equipment with the aim of making possible the initial increase in productive equipment. Röpke illustrated this with the example of the demand for fowls or silver foxes. Any increase in the demand for fowls or silver foxes (in other words demand for goods of lower order) would cause an expansion of the farms producing those goods. As a result, the expansion required an increase in the capital equipment in order to make that expansion possible. In addition, the increase in demand for capital goods needed for the expansion of farms capital equipment would cause an expansion of the factories that produced those capital goods. In other words, an enlargement of factories producing capital goods not only caused an increased demand for building additional plants to make the increased production possible, but also an expansion of those factories delivering the necessary resources for the building of those plants.

[15]This gave rise to the phenomenon called "monetary forced saving." This phenomenon was fundamental for the Austrian Business Cycle Theory, and its use proves Röpke's proximity to the Austrian School. In contrast, this phenomenon was criticized by Keynes. The phenomenon will be explained as follows: The faster increase in the demand for capital goods of enterprises leads to an increase in their prices. At the same time, these goods appear in the commodity markets where they are in demand by private households. That their income does not rise at the same rate as the income of enterprises forces private households to decrease their demand for these goods. In other words, private households reduce their consumption. The reduction in consumption means an increase in the savings in the community. That this process of saving is not carried out in a voluntary manner explains why it is called "monetary forced saving" (Röpke 1937/1951, p. 88).

[16]Haberler emphasized that goods of lower order did not necessarily mean consumption goods but any final goods (Haberler 1937/1946, p. 88).

Hence, Röpke stressed that "in order to produce more machinery the machines industry itself has to produce more machines for producing more machines" (Röpke 1936a, p. 103).

Second, the increase in the demand for goods would make sellers increase their stock holdings. This would be repeated in the higher stages at a progressively rising rate. Röpke assumed that a definite fixed percentage of sales was held as stocks in each production stage, and any increase in sales would cause a further increase in orders carried out by the sellers greater than the initial sales (Röpke 1936a, p. 104). The stock holding was recognized very early by Röpke in his habilitation, where he noted that with increasing durability of one commodity, its ability to be held in stock rose. That commodity was vulnerable to the effect described as "anticipatory cycles" ("Antizipationskonjunktur") (Röpke 1922, pp. 24–63, 1936a, p. 14). In other words, with increasing optimism during the boom, the sellers and producers were inclined to increase the stocks of this commodity due to expectations of higher sales in the future. The opposite was true when pessimism became ubiquitous (Röpke 1922, p. 58).

In summary, any lowering of the money interest rate below the natural interest rate would cause credit to increase. This would lead to an increase in the income of enterprises and their demand for capital goods. Hence, the monetary forced capital accumulation would "force"—in a roundabout way—a different impact on different incomes and the voluntary capital accumulation to increase, not only disturbing the equilibrium but also exacerbating disequilibrium in the economy (Röpke 1936a, b).[17] This disequilibrium was characterized by "disproportionate expansion in the higher stages of production, the rate of expansion being the greater the higher is the stage of production, i.e., the further it is removed from the sphere of consumption" (Röpke 1936a, p. 103).

Röpke emphasized that this disproportionate increase in the higher stages would come to an end if the demand in the lower stages did not increase at the same rate. This described the upper turning point in Röpke's business cycle theory (Röpke 1936a, p. 103). According to later writings, Röpke stressed that a satisfaction of demand is the main reason for its contraction (Röpke 1936a, p. 102). However, this paper argues that this reasoning is a very contradictory one and accepts Röpke's early explanation that those enterprises which initially expanded their demand for capital goods and caused the boom were suffering from lack of profitability and reduced the expansion of their capital equipment. He emphasized that this happened when credit became more expensive compared to the profits of enterprises. Röpke referred once again to the importance of the discrepancy between the natural and money interest rate. In other words, not the absolute increase in the interest rate but the relative increase compared to the natural interest rate caused the aforementioned industries to suffer. Consequently, the decrease in income, expressed in lower profits, was important for the breakdown in the demand for capital goods

[17]Röpke also stated that the effects of the authoritarian forced savings in planned economies were similar to those of the monetary forced savings in capitalist economies (Röpke 1936b, p. 331).

(Röpke 1926, pp. 273–274). In order to understand if this breakdown leads to a primary depression that will either restore the equilibrium or degenerate into a secondary one, the paper will expand the discussion on the boom with some additional characteristics.

5 The Boom and the Severity of the Primary Depression

The process of primary depression was a process of shrinkage in industries that experienced expansion during the boom—particularly the capital goods industries (Röpke 1936a). In order to understand when the primary depression transformed into disequilibrium, we should ascertain when the boom could sow the seeds for this tendency.

As discussed above, during the boom when economic activity was expanding, the production of capital goods (defined here as durable goods) experienced a more rapid growth rate than the production of consumer goods (defined here as less durable goods). At the upper turning point, when economic activity stopped expanding, the public suddenly ceased to increase its demand for more durable goods. Hence, in case of depression, the demand for capital goods was limited to required replacement or even completely avoided (Haberler 1937/1946; Röpke 1936a). This prompt change in the demand for capital goods can be understood by considering Röpke's early theoretical formulations.[18,19]

According to Röpke, the demand for different kinds of goods was characterized by different volatility. This was explained by the assumption that new demand for a specific type of goods could be shifted to the future in accordance with the amortization period of these goods. Hence, the new demand for the goods whose amortization period was very long could be easily postponed (Röpke 1922, p. 64). Additionally, the ability to postpone the demand depended also on the wants which had to be satisfied. The urgency of the wants and the period of time of their new occurrence after their initial satisfaction defined the ability to postpone demand for the different commodities that would satisfy the wants. In other words, the more urgent the wants were and the more frequently they occurred, the more limited the ability to postpone the demand for the commodities that satisfied these wants. Hence, the demand for these kinds of commodities would be characterized by low volatility, which Röpke associated with consumer goods (or less durable goods). On the other hand, if the wants were not so urgent and their occurrence

[18]These considerations are from the chapter in Röpke's habilitation entitled "Causes of the Business Cycles". This chapter was considered early on an important contribution to understanding the process of business cycles (Fleck 1923).

[19]Haberler stated that "in the last few years [it] has been more and more recognized and emphasized, that it is the production of durable goods, consumers' goods as well as capital goods that fluctuate[s] most violently in the business cycle" (Haberler 1937/1946, pp. 86–87), a pattern which Röpke described 15 years earlier.

infrequent, then the demand for the commodities to satisfy those desires could easily be postponed. This made those sorts of demand react more elastically to changes in economic and psychological factors—such as income or crisis of confidence—upon which the purchasing process depended. This explained why the demand for capital goods (or more durable goods) was characterized by larger volatility, since they reacted more promptly to the changes in the aforementioned economic and psychological factors than the demand for consumer goods (Röpke 1922, p. 61).[20]

The demand for capital goods would increase smoothly only if the economic and psychological factors did not change so frequently. In other words, enterprises would be willing to substitute existing machines with new ones or make production more capital intensive only if they were facing continuously increasing demand for their commodities, making them more optimistic regarding their future profits (or income) (Haberler 1937/1946, p. 306; Strigl 1934). In this vein, we can refer once again to the statement formulated in the previous chapter that with increasing income, new tastes and wants that caused new needs and hence demand for commodities to satisfy these wants arose. The longer the process of expansion went on, the more optimistic enterprises became regarding the future developments of profits, thereby making them adopt the most modern capital goods. Furthermore this allowed the acceleration principle to develop and gave rise to the appearance of many new industries whose production of capital goods depended on the production of the industries that created the new demand (Haberler 1937/1946, p. 365). The continuous increase in capital equipment would further give rise to a so-called secondary demand, defined as demand for the replacement of durable goods. The latter demand was inclined to develop when the expansion of economic activity continued for a long time. Röpke emphasized the intensifying and pro-cyclical character of the replacement demand by describing that during the boom replacement sped up, and that during the depression it was not carried out but instead "postponed as long as possible"(Röpke 1936a, p. 104).

Consequently, a long-lasting boom was able to change the tastes and wants of the public, which, in turn, increased their demand for durable goods. Furthermore, Röpke emphasized that the production of capital goods itself needed time as well. He described that the period from new orders for capital goods to their production was a long process and concluded: "It is evident that the length of the boom is connected to some extent with the period of time necessary for the construction of the productive plant" (Röpke 1936a, p. 105). In addition, the length of the boom depended on the existence of unused factors of production. This is explained by the assumption that in cases of fully employed resources, expanding industries would

[20]It is interesting to note how Röpke described metaphorically cyclical movements in the economy. Röpke compared the business cycle to a sea hit by a hurricane, distinguishing between different sea layers representing the different stages of production or goods of different order in the same manner as Menger and Böhm-Bawerk. The bottom of the sea is not affected by the hurricane, whereas the closer to the top we move, the stronger is the impact of the hurricane. In a similar way, the higher the stage of the production or the further away from the consumption sphere, the stronger the volatility of that stage of production (Röpke 1922, pp. 61–62).

face increasing production prices due to increased competition for their use. In other words, the costs would surge, thereby interrupting the expansion. In contrast, if the increase in production happened during periods of unused resources, then entrepreneurs would face the elastic supply of unutilized factors of production (Haberler 1937/1946, p. 366). If the monetarily compelled capital accumulation "forced" voluntary capital accumulation in periods of partial equilibrium, serious instability in production would develop.

The longer the instability developed undisturbedly, the longer it would take for the economic process to regain equilibrium during the primary depression. In other words, the duration of the boom could have an impact on the duration of the readjustment process. However, if the shrinkage of the capitalistic process lasted for a very long time, then the expectations of entrepreneurs would turn more pessimistic—and many would fear for their survival. This would cause pessimism to become widespread, provoking hoarding and bearishness. As already stated, that bearishness was a result of the crisis of confidence that occurred due to the losses enterprises suffered. Furthermore, that crisis of confidence was the main cause why the transformation of saving into investment was not happening. A situation of a secondary depression occurred when industries that also had not expanded or had expanded at a slower rate during the boom started to suffer, i.e., the consumption industries (Röpke 1936a, p. 130). This was the first attempt to explain when the boom could cause a primary depression that, in turn, would be inclined to evolve into a secondary one.

6 Conclusion

This paper set out to revitalize Röpke's writings in the field of monetary theory and business cycle theory, aiming at connecting Röpke's views on the secondary depression with his arguments regarding the mechanics of the boom and the primary depression. The main purpose was to address the question of when a primary depression is inclined to degenerate into a secondary one. The answer could be found in the upswing period which affects the structure of the primary depression and hence the likelihood of a secondary one to occur. At the same time, the paper underscores the proximity of Röpke's business cycle views to those of the Austrians.

The paper argues that the impact of the discrepancy between the natural and the money market interest rate on relative prices and the importance of the monetary forced savings are the underlining views in Röpke's business cycle theory. These two views constitute the Austrian Business Cycle Theory (Hayek 1931/1935) and were criticized by Keynes (1936/1973). Hence if we use John Hicks' quotation "Wicksell plus Keynes said one thing whereas Wicksell plus Hayek quite another" (Hicks 1967, p. 204) as a basis for classifying Röpke's business cycle views, then Röpke unambiguously took Hayek's side. In this vein, the paper's conclusion is a further proof of Haberler's statement that Röpke could be considered a member of the "Neo-Wicksellian" or the Austrian School.

At the same time, this insight represents a huge challenge, since the boom period and the primary depression in Röpke's writings were thoroughly in the spirit of the Austrian School, whereas the secondary depression was under the influence of Keynes. In order to overcome this challenge, this paper made an attempt to link Röpke's early insights (Röpke 1922) with his later views (Röpke 1936a) and expand them with Haberler's theoretical consideration of the acceleration principle. As a result, the paper could point out that the structure of the boom is prevalent in determining the likelihood of a secondary depression to occur. This is explained as follows: By accepting the main arguments of the "Neo-Wicksellian" School, Röpke emphasized that the increased credit provision made possible by lowering the money market interest rate below the natural interest rate gave rise to changes in the distribution of income in the economy. As a result, the variable income of enterprises rose faster than the fixed income of private households. When enterprise income rose, demand for capital goods increased, as did the desire to make production more capital-intensive. This sets the acceleration principle in motion, in which any increase in demand for any goods can cause a stronger increase in the demand for capital goods. Thus the process of accumulation speeds up, breaking up the equilibrium.

However, in order to increase their demand for capital goods and switch to a more capital-intensive production, enterprises must have incentives to do so. In other words, if they face continuously increasing demand for their commodities—and hence profits—then they will increase their demand for capital goods. As a result, the counterpart to the pessimism of the secondary depression is the optimism of the boom, the latter making enterprises turn each earned cent into investment. The longer this process goes on, the more tremendous the disequilibrium will grow. The result will be a more severe reaction. Hence, the readjustment process during the primary depression will be inclined to evolve into the destructive process of the secondary depression.

This paper represents the first step toward more profound research on Röpke's business cycle views. It concludes that Röpke's arguments are an essential basis for further research on the theory of economic contraction. Such theory is not only of historic interest but also—in light of the long-lasting financial and the ensuing sovereign debt crises—a very topical one.

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Part IIIA
Wilhelm Röpke as a Social Philosopher. Part A: Conservatism

From Basel to Brooklyn: Liberal Cultural Pessimism in Burckhardt, Röpke, and the American Neoconservatives

Alan S. Kahan

1 Introduction: Jacob Burckhardt, Anti-modernist

Wilhelm Röpke is a figure whose thought is not always easy to characterize, and the same has often been said, rightly, of liberalism in general. Whether or not Röpke himself ought to be considered a liberal has been the subject of considerable debate (for the most recent discussion, see Solchany 2015). By putting into the context of liberal thought what has sometimes been considered one of his most illiberal characteristics, his marked cultural pessimism, we can learn something not merely about Röpke's thought, but about the width of the liberal spectrum as well. Cultural pessimism can be as liberal as faith in progress, and once this is acknowledged, Röpke must indeed be considered a liberal thinker. Liberal cultural pessimism itself comes in both modernist and anti-modernist versions, and while Röpke's anti-modernist version was not unique among liberals, as the case of Jacob Burckhardt makes clear, the modernist variant, here represented by Irving Kristol, is perhaps in the long run more convincing, if not necessarily more liberal. The ways in which liberal cultural pessimism has developed over time and across contexts may be seen in this progression from Basel to Brooklyn, from the aristocratic liberal pessimism of Basel native Jacob Burckhardt, to the anti-modernist Utopian liberal pessimism of Wilhelm Röpke, and finally to the modernist liberal pessimism of the American Irving Kristol.

Let us begin by dismissing the notion of a necessary link between the liberal faith in freedom and faith in progress. If the high point of the nineteenth-century

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liberal political thought was John Stuart Mill or Alexis de Tocqueville, then it is impossible to claim that liberalism was characterized by faith in progress. Neither of these thinkers had such a faith. Many liberals did believe in progress, but there was never a liberal consensus on the issue any more than there was an Enlightenment consensus about progress. Insofar as liberalism was heir to many of the varieties of Enlightenment thought and to more than one Enlightenment project, it is no surprise that it should have inherited this division between optimists and pessimists (and for that matter between anti-modernist admirers of the ancients and modernist admirers of commercial society) as well.

Jacob Burckhardt was surely one of the most pessimistic of liberals. True, for Burckhardt "liberal" was more often a term of abuse than of praise. Nevertheless, he was a liberal, a man whose thought was founded on the values of freedom, individuality, and diversity and who feared the state and those who would control it as the greatest threats to these. His quarrel with the liberals of his day was that he saw them as complicit in the destruction of the foundations of liberal society (Burckhardt 1979, p. 139). The future Burckhardt foresaw was grim. He thought so for solidly liberal reasons. He feared power, regarded it as evil, and saw it as becoming ever greater and more concentrated. Burckhardt's liberalism was a "liberalism of fear" such as Judith Shklar described, one which wanted to limit power, especially government power, out of fear of the cruelties and savagery it would otherwise inflict (Shklar 1989). Burckhardt believed that illiberal forms of social and political organization were certain to triumph in the short- and mid-term—and of course he was right about this (Burckhardt 2001, pp. 209, 212–213).

Burckhardt feared for nothing less than the end of European civilization, the end of the freedom, diversity, and individuality that, in his view, were its hallmark. The sources of his fears were firstly the modern state, no matter who ruled it; secondly, democracy, in both the Tocquevillian sense of that word, namely, the broad effects of equality, and in particular universal suffrage; and finally the effects of a globalized capitalism and unlimited laissez-faire. All three were linked to a fundamentally moral and spiritual evil, the optimism that had conquered European culture, which encouraged people to hope for too much from power and to fear it too little (Burckhardt 2001, pp. 143–144).

The modern state, in Burckhardt's view, was acquiring unheard-of powers and using them for unheard-of purposes. In short, the state was acquiring an unprecedented capacity for evil. With the growth of democracy, and especially of universal suffrage, all limits on the state were doomed to disappear. Not that Burckhardt had some better political alternative in mind. Burckhardt foretold that the end of universal suffrage would be a period of "sheer, unlimited violence." Many liberals envisaged a limited state as merely a means of protecting property, but Burckhardt thought that they were pursuing a chimera. The same materialistic impulse which made bourgeois liberals want to restrict the state in order to lower their taxes worked in the opposite direction among the masses, whose equally strong materialism led them to strengthen the state so that it could fulfill their desires. And the state itself was liable to seek to take control of all the vast wealth created by society, for the purpose of feeding its own insatiable appetite for power. Beyond the state,

Burckhardt also feared some of the consequences of the rise of global capitalism. People would be too willing, in Burckhardt's view, to sacrifice their freedom, individuality, and diversity whenever necessary to maximize their wealth and accommodate a global market (Burckhardt 1999, p. 229, 1979, p. 314).

Burckhardt's fear of modernity did not lead him to become a conservative, however. He did not believe that conservatism had any future, and he was alive to all the defects of its past. He rejected all the usual solutions for Europe's problems. The mature Burckhardt feared the nationalism he had loved in his youth, but his fear of nationalism did not make Burckhardt into an advocate of a "United States of Europe," much less of a world government. He mocked talk about "humanity" and "cosmopolitanism." He recognized the powerful cultural, economic, and social forces which united Europe, but was equally cognizant of their weakness in times of crisis: "in unhealthy situations botched by parliaments one falls back on his descent and lineage as a saving solution for the intolerable, until one finally gets his way, without being better off for it than before" (Burckhardt 1999, p. 183). That it is not hard to apply his words to today's European immigration crisis or Britain's vote to leave the European Union is an indication of his political insight.

Another common liberal solution, education, also found no grace in Burckhardt's eyes. Burckhardt thought that universal education was only another form of universal optimism. It was not a good thing if peasant's sons wanted to become schoolteachers rather than farmers. It would only breed more and more dissatisfaction as more and more people were educated for a very small number of "higher positions." Naturally Burckhardt saw no good purpose for "the absolutely insane insistence upon scholarship that goes on in girls' schools" (Burckhardt 2001, pp. 215–216). One thing he shared with Röpke was rejection of women's rights.

For Burckhardt all the usual liberal solutions increased the power of the state or the demands upon it, in a mutually reinforcing and vicious circle. Burckhardt thus turned away from politics and economics toward a moral perspective. Just as Röpke opposed both socialism and what he called "historical liberalism," so Burckhardt rejected them both, and traced them to the same, essentially moral error: "The great harm was begun in the last century, mainly through Rousseau, with his doctrine of the goodness of human nature. Out of this plebs and educated alike distilled the doctrine of the golden age which was to come quite infallibly, provided people were left alone. The result [. . .] was the complete disintegration of the idea of authority in the heads of mortals, whereupon, of course, we periodically fall victim to sheer power. In the meantime the idea of the natural goodness of man has turned, among the intelligent strata of Europe, into the idea of progress, i. e. undisturbed money-making and modern comforts. [...] The only conceivable salvation would be for this insane optimism [. . .] to disappear from people's brains. [. . .] A change will and must come, but only after God knows how much suffering." (Burckhardt 2001, pp. 143–144)

Too much optimism was the ultimate culprit. Burckhardt nevertheless found a saving grace—not for liberal society, but for the liberal individual. He sought in "knowledge as such an asylum" for freedom and individuality. As he told his students,

"Our task [. . .] is to free ourselves as much as possible from foolish joys and fears and to apply ourselves above all to the understanding of historical development. [. . .] Out of the jumble and confusion we shall win a spiritual possession" (Burckhardt 1999, pp. 238–239). Burckhardt's dystopic liberalism had an educational program, but only for the few. His liberalism was for well-educated stoics who refused to despair of the individual even when they despaired of their society.

2 Wilhelm Röpke, Anti-modernist

Röpke too was an enemy of the optimism of socialist planners and laissez-faire dreamers, but unlike Burckhardt he held out hope for a Utopian reversal of Western cultural malaise. At the root of the decline of Western civilization was what Röpke called "historical liberalism," the liberalism of the nineteenth century. Where Burckhardt blamed Rousseau for optimism, Röpke blamed Adam Smith. Smith's notion that a natural harmony developed out of the clash of self-interests in the marketplace led, as Röpke saw it, to the triumph of laissez-faire economics in the nineteenth century, a triumph that proved self-destructive in the long run. For Röpke the free market is a necessity; it is both the foundation of freedom and a constituent part of freedom, but it is not, as optimists like Smith and Hayek think, a spontaneous order. Neither is it a creation of the state. It is based on a moral foundation that precedes it and that must be maintained, partly by state action and, even more importantly, by social and spiritual cement. "Market economy, price mechanism, and competition are fine, but they are not enough." The fate of the market lies "beyond supply and demand," as he titled one of his books. And Röpke indirectly rejoins Hayek, seemingly left for dead as an historical liberal, by assaulting a rationalism that claims to know and provide for everything. If we fail to realize that the market is "merely a part of a spiritual and social total order, we would become guilty of [. . .] social rationalism" (Röpke 1998, p. 35).

Röpke stressed the cultural failings of modern society in ways reminiscent of Burckhardt, whom he cited as a predecessor. But for Röpke, his predecessors were insufficiently grim. "Men like John Stuart Mill, Herman Melville, or Jacob Burckhardt, who watched with misgiving the proliferation of the signs of cultural decay, would find their worst fears far exceeded" in the middle of the twentieth century. Röpke's view of culture was very conservative. If the classical context of a reference to Scylla and Charybdis was not immediately comprehensible to the reader, that would be proof of cultural decay. Röpke wrote of a "cultural catastrophe" in which the transmission of Western high culture has broken down: "Mass society and the giant strides with which technology advances through our world are the symptoms and sources of a severe disease of society" (Röpke 1998, p. 58). Before we describe Röpke's claims as mere romantic conservatism, let me cite in parallel a liberal figure as far from romantic conservatism as possible—the American pragmatist John Dewey: "the machine age in developing the Great Society has invaded and partially disintegrated the small communities of former times without

creating a Great Community" (Dewey 1954, p. 74). Indeed cultural pessimism can be liberal. As can the Utopianism that Dewey and Röpke, in very different ways, shared.

For Röpke the free market is a positive force against cultural decline, even though it is also, if left to its own devices, an engine of cultural destruction. To fulfill its positive role, the scope of the market must be limited. In a "disenchanted and depleted world bereft of its mainsprings," we must find new or revive old spiritual resources (Röpke 1998, p. 89).

Where can we find them? To make a long story very short, in two places. First, in what Röpke described as the "bourgeois virtues"—"independence, ownership, saving, the sense of responsibility, rational planning of one's life." But these bourgeois virtues are not strong enough to stand on their own. They have their source in "family, church, genuine communities, and tradition," all things that are threatened, in Röpke's view, by the unbridled market, which will consume its own foundations looking for greater profits. Röpke thus states something like the American neoconservative Daniel Bell's thesis of the cultural contradictions of capitalism (Röpke 1998, p. 125).

Unlike Bell, or Burckhardt, Röpke has a set of solutions to his problem, however, a set which has often made him seem a kind of conservative, although a better description would be a liberal with a bridle. His answer to cultural decline is both material and spiritual. Materially, he advocated the provision of security by what seems rather like a welfare state, though he hated the phrase, so he called it a Social Market Economy instead, that is, public old age pensions and health and accident and unemployment insurance, combined with a "small is beautiful" program encouraging rural and small town life. These are to provide the social basis for a spiritual revival of precisely what Burckhardt thought impossible—legitimate cultural authority. Röpke refers to André Siegfried by saying that for 3000 years, people agreed with Pascal that human dignity came from thought, whereas now people think human dignity resides in the standard of living (Röpke 1998, p. 109). Röpke wants to see the return of a legitimate intellectual elite, the return of the "clercs," a word he borrowed from Julien Benda (Röpke 1998, p. 130). This, even more than his romantic attachment to life in small villages, represents the Utopian element in Röpke's thought. It is the "clercs," we are led to believe, who will somehow prohibit billboard advertising and installment buying. Röpke's clerisy is not conservative, as the intellectual authority he appeals for has no direct historical or traditional precedent. Although Röpke believed firmly in the role of religion (indeed, he went so far as to claim that "a good Christian is a liberal who doesn't know it"), it is not an explicitly religious authority, although religious figures are included among his "clercs." But Röpke's elite is traditional in the sense that it is made up of classically educated and usually wealthy people (Fèvre 2015, p. 910). Like most Utopians, Röpke is not terribly clear about who or how this elite will come to be. He is clear about one thing, however: It will not include women—there are, after all, reasons why some call Röpke a conservative, and what one might call "historical ordoliberalism" certainly has illiberal elements. Nevertheless, Röpke is neither a reactionary nor a conservative, even though he is

pessimistic about Western culture and anti-modernist. His liberalism is a bridled horse galloping to Utopia along a path full of pitfalls. Of course, Röpke himself thought he was following not a liberal path, discredited by the nineteenth century, but a new "Third Way." But I would suggest that his "Third Way" was just a less traveled liberal side road.

In this context, the details of Röpke's "Third Way," his advocacy for small towns, rural childhoods, agriculture and small business, "clercs," etc. matters less than its broader sociocultural perspective. As he put it in the "Reappraisal after Fifteen Years" that he wrote for *A Humane Economy* in 1958, he remained and always had been a defender of "the spontaneous and free co-operation of people through the market, price, and competition," while combining its advocacy with a rejection of the "utilitarianism, progressivism, secularism, rationalism, optimism" often historically associated with liberalism. If one associated the rejection of these views with conservatism, Röpke suggested, then he was a conservative. But we may take this as a kind of rhetorical hyperbole and a slap at a certain kind of social democrat. Röpke knew Tocqueville far too well to think that liberalism was exclusively associated with those particular "isms" (although he was not always a sufficiently careful reader of Tocqueville, much as he liked to cite him). Against them he crafted a vision of individual freedom in an imagined social and cultural context that was often hostile to modern ways of life. He knew that his anti-modernist cultural pessimism was not widely shared, even by defenders of the free market such as his friend Hayek—hence his appeal to a "Third Way" (Röpke 1998, pp. 3–4).

3 Conclusion: The Anti-modernists, Irving Kristol, and the American Neoconservatives

The examples of Burckhardt and Röpke might lead one to identify liberal cultural pessimism with anti-modernism, but this would be mistaken. The American neoconservatives of the first generation (ca. 1965–1985) were by no means anti-modern. They were, to a large extent, New York Jews who loved city life, had no special affection for peasants, supported civil rights for blacks (though they opposed affirmative action), and opposed the Vietnam War (though staunch anti-communists, they thought it imprudent). They rejected the Great Society programs of Lyndon Johnson, while remaining supporters of the kinds of social safety net endorsed by Röpke. Despite being called "neoconservatives," anywhere outside the United States, they would have been called liberals. They all were members of the Democratic Party early in their careers and only slowly became Republicans as the Democratic Party moved left. They were all cultural pessimists much in the tradition of Burckhardt and Röpke.

Irving Kristol (1920–2009), a leading neoconservative and public intellectual, will serve as a typical example. While describing capitalism as both the freest and

the least romantic of systems, Kristol also recognized that "the moral authority of tradition, and some public support for this authority, seems to be needed. [. . .] how it can be assimilated into a liberal-capitalist society is perhaps the major intellectual question of our age." The problem faced by liberal capitalism today, for Kristol as for Röpke, was that there is a "spiritual vacuum at the center of our free and capitalist society" that the Left was rushing to fill (Kristol 1978, p xi, 63).

In response, Kristol, like Röpke, emphasized that the capitalist ethic was an ethic, not just a search for profits. The Horatio Alger novels, the classic American rags-to-middle-class stories, were not about making money, Kristol noted; they were about exercising virtue when faced with temptation. But late twentieth-century capitalism had abandoned its ethic: "For decades now, liberal capitalism has been living off the inherited cultural capital of the bourgeois era and has benefitted from a moral sanction it no longer even claims" (Kristol 1978, p. 62). As proof of this statement, Kristol could have cited Milton Friedman. And indeed, Kristol attacked Friedman, because Friedman had no idea of the bourgeois virtues or at least was not willing to defend them. He equally took Hayek's *The Constitution of Liberty* to task, because while Hayek supported freedom, he divorced freedom from social justice, and in the name of Samuel Smiles and Horatio Alger, (and Adam Smith, he might have added, but Kristol did not understand Smith well), Kristol argued that freedom, markets, and morals, including social justice, had always been linked in the liberal tradition (Kristol 1978, pp. 83, 244–245).

The market, in Kristol's view, was the source of material progress. But it was not the source of a good or a moral life. That was precisely the problem with what Kristol called capitalism and Röpke historical liberalism. What brings about criticism of capitalism and bourgeois society is not material injustice, but "a deficient conception of the common good" (Kristol 1978, p. 34). Thus, like Röpke, Kristol thought that capitalism risked undermining itself. "The bourgeois ethos" was "being subverted by its own material achievements" (Kristol 1978, p. 100). Bankers claimed to believe in the work ethic, but promoted installment buying and the use of credit cards, Kristol lamented, sounding ever more like Röpke. Kristol favored an economy that was a mix of large corporations and "a more traditional market economy" (Kristol 1978, p. 155). But most important, according to Kristol, were the moral and spiritual flaws of twentieth-century capitalism (Kristol 1978, p. 174). A modernist, he was much more fond of the nineteenth century than Röpke.

What Kristol appealed for sounds suspiciously like a "Third Way." He cites as his predecessors the American Progressive thinker Herbert Croly and the British essayist Matthew Arnold. He laments that neither is much read these days and continues "Neither of them can pass into the conventional anthologies of liberal or conservative thought. I think this is a sad commentary on the ideological barrenness of the liberal and conservative creeds." Kristol is using the word "liberal" in its American sense here, that is, to mean those who favor economic redistribution. And he redefines conservatism, oddly, to mean anyone who emphasizes quality of life over material progress. What he wants from Croly and Arnold is expressed in his next sentence: "if our private and public worlds are ever again [. . .] to have a congenial relationship [. . .] then some such combination of the reforming spirit with

the conservative ideal seems to me what is most desperately wanted." We have constructed "a spiritually impoverished civilization [. . .] on what once seemed to be sturdy bourgeois foundations." We need "a world that possesses a transcendent meaning, in which the human experience makes sense. Nothing, absolutely nothing, is more de-humanizing, more certain to generate a crisis, than experiencing one's life as a meaningless event in a meaningless world" (Kristol 1978, pp. 252–253).

But if Kristol identifies the form of solution necessary, he does not provide one. Unlike Röpke, Kristol does not have a Utopia to propose. Unlike Burckhardt, he does not fall into cultivated stoic despair about Western culture. As pessimistic about Western culture as either, yet lacking Röpke's archaic moral impulse (the source of both his Utopianism and his anti-modernism), or Burckhardt's perception of history, Kristol is a persevering cultural reformer, even if there is nothing in his middle or late work to justify cultural optimism.

But optimism is not a requirement for liberalism. The motto of liberalism in hard times is not faith in the progress of freedom and the all-conquering religion of liberty. It is the motto of William the Silent, the Catholic leader of the Dutch Revolt against Philip II's tyranny: "It is not necessary to hope in order to act, nor to succeed in order to persevere." That is why Burckhardt, Röpke, and Kristol can all be considered liberal, because despite their common cultural pessimism, they all persevered in pursuing freedom.

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Wilhelm Röpke: Why He Was a Conservative

Jean Solchany

1 Introduction

In September 1957, the still young Mont Pèlerin Society (MPS) celebrated its first decade of existence in St. Moritz.[1] Once again, Switzerland was the host country. Once more, the meeting took place in a fantastic hotel nested in a dreamlike mountain location. Numerous members and guests attended a lot of sessions on various issues. The president, Friedrich A. von Hayek, took the opportunity to present the summary of his next book which was still in preparation. It was *The Constitution of Liberty*, to be published in 1960 (Hayek 1960).

The most important address was the one delivered by Hayek, just after the general meeting on the afternoon of September 5. This paper, "Why I Am Not a Conservative," remains famous until today, at least among scholars and others interested in the history of liberalism and conservatism. It is not the purpose of the paper, however, to discuss the extent to which Hayek was, or was not, a conservative. Let us just recall that this address was, to a certain extent, a response to the influence exerted by the American conservative intellectual Russell Kirk on members of the MPS. Among them, the most famous was Wilhelm Röpke. It was him who urged Albert Hunold, the secretary of the MPS, to invite Kirk as a guest to the St. Moritz meeting of 1957.[2] Hayek reluctantly agreed, while Röpke was an absolute fan of Kirk. This remark may sound anecdotal as Kirk might be considered

[1]For the history of the Mont Pèlerin Society, see Hartwell (1995), Plickert (2008), and Walpen (2004).

[2]Nachlaß Röpke (NR), Institut für Wirtschaftspolitik, Köln, Box AK 56-57, Wilhelm Röpke to Albert Hunold, 14 November, 1956.

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peripheral to explain the life and work of Röpke.[3] Yet Röpke's admiration for Kirk sheds light on his proximity to conservatism. If the question whether Hayek was or was not a conservative is still a matter of debate, I will argue that Röpke was, without any doubt, a conservative thinker.

First, I will briefly sketch Röpke's grim description of what he called *The Social Crisis of Our Time*. According to him, the modern world was plagued by a multifaceted process of decay, and the fate of Western civilization was at stake. From this perspective, not only the diagnosis but also the therapy promoted to cure mankind was clearly conservative minded. Second, I will try to explain how Röpke became more and more conservative over the years, arguing that this evolution was more the product of a transnational "Zeitgeist" than the result of his German socialization. Lastly, I will make a few concluding remarks, emphasizing that Röpke was nevertheless a true liberal,[4] the most famous and articulate exponent of a conservative variant of (neo-)liberalism.

2 Wilhelm Röpke: A Conservative Mind

Röpke was one of the most important founding fathers of neoliberalism, whose origins can be tracked as far back as the early 1930s in various countries. The Colloque Walter Lippmann in Paris in 1938 was an important milestone on the road to the founding meeting of the MPS in Switzerland in April 1947.[5] During WWII, Hayek and Röpke published ambitious books analyzing the past and the future of the Western world facing the threat of so-called collectivism. It is worth mentioning that Röpke was by far more prolific than Hayek, publishing no less than four notable books from 1942 to 1945 (Hayek 1944; Röpke 1942, 1944, 1945a, 1945b), and his success was tremendous. Ten thousand copies of *The Social Crisis of Our Time* were sold in one year in German-speaking Switzerland, a small market of a little over three million inhabitants.[6] At the end of WWII, Röpke's reputation began to spread throughout Europe. It is no surprise, therefore, that the German economist of Geneva remained the second most important figure of the neoliberal movement until the late 1950s, just behind Hayek.

But what message did he deliver, especially in *The Social Crisis of Our Time* and *Civitas Humana*, his two major books of the war period? Röpke outlined a program for recovering from the depths of crisis and despair. He promoted a renewed liberalism presented as fundamentally different from the old and abhorred laissez-faire, aiming at establishing true competition impervious to the influence

[3]For Röpke, see Gregg (2010), Hennecke (2005), Resico (2008), Solchany (2014a, 2015).

[4]The term "liberal" is used here in the European sense.

[5]For the Colloque Walter Lippmann, see Denord (2001, 2009) and Audier (2012). The proceedings have been reprinted with an introduction in Audier (2008).

[6]For Röpke's success in Switzerland, see Solchany (2010, 2015).

of vested interests. Notwithstanding the significant criticism directed toward old liberalism, Röpke's thinking was, in the final analysis, a vigorous advocacy of the defense of liberal ideas, presented as the only viable antidote to statism, socialism, and collectivism. Röpke was therefore quite in line with Henry Simons, Walter Lippmann, Louis Rougier, Ludwig von Mises, Hayek, and the other proponents of early neoliberalism.

However, his new liberalism also presented more specific features. Among his neoliberal works published from the early 1930s to the end of WWII, *The Social Crisis of Our Time* and *Civitas Humana* were the most ambitious in their scope, seeking to depict all aspects of social, cultural, and political life, well beyond the mere economy. It can be said that, from the 1940s onward, economics was no longer Röpke's primary concern. In the wake of the Great Depression and the rise of National Socialism, the former theoretician transformed himself into a pessimistic thinker analyzing a global crisis in its sociological, anthropological, and cultural components. His thought can be characterized as cultural sociology. Thus, economic issues are not to be solved without taking into consideration more fundamental problems of a sociological, cultural, and even spiritual nature. In his work, one can clearly observe a primacy of sociology and culture over economics.

What were, according to Röpke, the causes of the global crisis? He criticized the whole process of modernization. Mass society, industrialization, secularization, urbanization, and modern art were held responsible for the decay of our civilization. He also castigated the so-called secular religions which aimed at seducing a mankind that was deeply disturbed by the loss of faith in God and therefore an easy prey for demagogues of all types. These demagogues promoted secular religions like bolshevism, fascism, socialism, and statism: so many threats summarized by the keyword "collectivism." From this perspective, the rise of the state and the progress of socialist ideas were the results of the cultural and sociological crisis. What emerges from that situation is a Röpke very far from the homo economicus. In his major books he delivered a historicist view of history. According to him, "collectivism" was the last pathological stage of a modern world which had been falling apart since the outburst of the French Revolution and the advent of industrial civilization.

That is not to say that Röpke lost interest in economic questions: quite to the contrary, since the aim of his numerous publications was precisely to promote the market economy and to fight interventionism. In his war books, he addressed economic issues, and did so much more precisely than Hayek in *The Road to Serfdom*. The recovery from statism and collectivism and the building of a true competitive order must come about, Röpke explained, through the implementation of the positive economic policy that he presented in *Civitas Humana*.

What is first needed is a framework policy ("Rahmenpolitik"). Still, in order to secure a true market economy without concentration and monopolies, a market policy ("Marktpolitik") is also of the utmost importance, in the sense of the liberal interventionism promoted by Alexander Rüstow in the early 1930s (Rüstow 1932). But that is not enough. Beyond framework policy and market policy, Röpke also emphasizes the urgent necessity of implementing a "structural policy" ("Strukturpolitik"),

aiming at fighting the trends toward concentration, proletarianization, monopolism, and colossal capitalism observed for decades. In this way, the structural policy is not easy to distinguish from the social policy ("Gesellschaftspolitik") which is the bulk of the therapy he promotes. This fourth pillar is by far the most important. Social policy is the main concern, the policy to implement absolutely, or else mere economic therapy is condemned to fail. The functioning of the economy must not go against the allegedly natural and intangible laws that command the functioning of society. Fundamentally, Röpke subscribed to an anti-evolutionist worldview. According to him, there are permanent anthropological features man has to accept which outline the basics of a sound society (Röpke 1948, p 31). The therapy must aim at the restoration of the natural order. What is at stake is not only the "problem of freedom," he explained in 1950. What matters is "order, true community, stability of individual life, return to what is measured, proportioned, natural" (Röpke 1950, p 157). There is clearly a primacy of sociology over economics in his thought. Even if economic laws may be identified through economic thinking, they do not work outside of social, political, or cultural determinisms. Only the reframing of the noneconomic environment can solve the social crisis of our time.

All in all, Röpke's neoliberalism appears to be fundamentally conservative, in the sense that it amounts to nothing less than a massive rollback of modern civilization. The aim was to radically change the social and economic structure of the industrialized countries of the Western world. Röpke aimed to make countrymen and craftsmen of as many workers and city inhabitants as possible, going very far in the direction of what might be called a "retro-utopia." He was, for instance, not afraid to pillory the big modern city, presented as a "monstrous abnormality" and as a "pathological degeneracy" (Röpke 1948, p. 161), and saw no serious reason to doubt that a sound city fulfilling all required tasks must not exceed 50,000–60,000 inhabitants. The peasant, not the worker, was the citizen of the world of which he dreamed. He argued that mankind had to remember "the cardinal maxim of sociology that a healthy peasantry is the elementary foundation of a sound society" (Röpke 1948, p. 117).

To put the matter provocatively, the new liberalism promoted by Röpke looks like a painting by Carl Spitzweg, the famous painter of the Biedermeier era. "Anti-modernism" is the key word to decipher it. Moreover, it would be an error to think that Röpke jettisoned his cultural pessimism after the end of WWII. In his last great book, *Beyond Supply and Demand* published in 1958 (Röpke 1958, the original German version of *A Humane Economy*), right in the middle of the European economic miracle, he castigated more than ever so-called massification and secularization. According to him, the illness was more acute than ever in the late 1950s (Röpke 1960, p. 7). The modern man has become a fragmentary and disintegrated man. He has lost true religious faith, is unable to cherish cultural tradition, and looks for surrogates in the political and social religions of our time, among them socialism, communism, and nationalism.

A comparison between Röpke, Hayek, Mises, and Milton Friedman would be another way to emphasize the conservative outlook of his thought. Among the leading figures of early neoliberalism, Röpke was also the most prone to elaborate

on the sociological aspect of the neoliberal agenda. This double particularity is not enough to make him a case apart in the history of neoliberal thought and its movement, but it deserves to be explained.

3 Wilhelm Röpke: How He Became a Conservative

The first explanation of Röpke's conservatism could be a sociological one, stressing the conservative mood that once prevailed in German universities. The point is to emphasize that this conservatism was embedded in a cultural and sociological background. Since the 1870s, the German academic class had felt insecure about the combined advent of technology, industry, and mass civilization. Seeing themselves as the keepers of humanist culture, German professors felt dispossessed of the role of cultural leaders they had exerted or believed they had exerted in the past, in the supposed golden age of the preindustrial society. They developed a mentality of the besieged citadel, seeing in engineers and journalists, in the entertainment industry and the printing press, nothing else but expressions of cultural decay, so-called half-knowledge ("Halbbildung"), and crude materialism. Another point to notice is that beyond universities, the alleged crisis of modern civilization was a commonplace of German intellectual debate in the late Empire and the Weimar era. It is therefore possible to see the updating of an anti-modernist stance familiar to German intellectuals in the cultural pessimism displayed by Röpke from the 1940s onward.

To be sure, this explanation is not to be outright rejected. Indeed, beyond Röpke, other German neoliberals like Walter Eucken, Alexander Rüstow, and Alfred Müller-Armack shared the same pessimistic view of modernity, mass civilization, and secularization. To a certain extent, the German variety of neoliberalism, ordoliberalism, was more conservative minded than, for instance, the Chicago School. But scholars have to be cautious with exceptionalist explanations. It is not because Röpke was German that his neoliberalism was more conservative than others'. Indeed, the paper will now try to defend the opposite thesis, that is, that his thought was fundamentally the product of the acculturation of a German scholar who left Germany when he was only 33 years old. His thought is to be considered the synthesis of many influences, of which the German is not the most important.

Röpke became more and more conservative over the years. In the early 1920s, the young student at Marburg clearly belonged to the small minority of democratic students. He had nothing in common with the hordes of nationalist students who despised the Weimar Republic. He was later a member of the DDP, the left-wing liberal party. In the early 1930s, not only did he criticize the National Socialists but also the conservative DNVP, the nationalist party which enabled the National Socialist seizure of power. He moved toward conservatism only after leaving Germany, explaining later that he discovered "true conservatism" in Switzerland. In *Beyond Supply and Demand* (Röpke 1958), he openly confessed that he felt more conservative than liberal, even if he was still very critical of any form of nationalist conservatism like the German one in the interwar period or the French one during the Algerian war.

As a consequence, it should be stressed that the intellectual maturation of Röpke's conservatism was fundamentally the result of a transnational process. After leaving Germany, he spent 4 years in Istanbul before moving to Geneva. Already in the 1920s, he travelled throughout Europe and in the United States, learning to read and speak in English and French and obtaining a good knowledge of the economic and even sociological literature of various countries. Therefore, his conservative sociology is to be interpreted as the internalization of a conservative master narrative on modernity which was exerting a growing influence in the Western world as a whole. In a period of crisis characterized by the rise of totalitarianism, economic despair, and total war, a pessimistic sociology of modernity was fashionable. No wonder that *La rebelión de las masas*, the famous book by José Ortega y Gasset published in 1929 and translated into more than 20 languages, became a hit in all liberal-conservative circles anxious about the alleged irruption of the terrifying "masses" onto the scene of history. The Spanish philosopher gave birth to a new kind of book, an elitist and pessimistic lament on the alleged decay of culture and the advent of the "mass man," the new barbarian citizen of modernity. To a certain extent, Röpke's conservative sociology was the product of a "Zeitgeist" to be found everywhere in Europe and America.

But Röpke's growing conservatism was not only a matter of intellectual maturation on a transnational level. It was also the result of a more political quest for an appropriate ideology, one suitable to implement the neoliberal agenda. He was a public intellectual eager to promote a new order based on liberal and conservative values. The exact opposite of the ethereal professor isolated in his ivory tower, he wanted to influence politics. From the 1940s onward, he therefore never stopped getting in touch with all the persons who he thought shared his views and who were able to fight for them in media and political arenas. Among these persons, there were public intellectuals, influential journalists, and politicians. The ideological profile of these people gives valuable clues about the conservatism that Röpke was looking for, not only on an intellectual level but on a political one.

West Germany and the United States are highly interesting cases in this regard. In his native country, Röpke had nothing but contempt for the liberal party, the FDP, which he thought was far too soft on communism. As it is well known, he had much more sympathy for the Christian Democratic Union, the CDU. He was without any doubt a supporter of Konrad Adenauer and Ludwig Erhard, but over the years, he became more and more critical of many aspects of the real-existing Social Market Economy in West Germany. He was a neoliberal hawk criticizing, not only in private, the supposed compromises made by Ludwig Erhard, as the conservatism promoted by the CDU was too moderate in his eyes. The conservative line he dreamed of was embodied better by the German Party (Deutsche Partei), a small right-wing party situated to the right of the CDU. Röpke was an admirer of its leader, the archconservative politician Hans-Joachim von Merkatz (Solchany 2015, pp. 426–427).[7] He was also enthusiastic about notoriously sulfurous right-wing

[7]For Hans-Joachim von Merkatz, see Strelow (1995).

intellectuals like Winfried Martini and William S. Schlamm. The latter was a former Austrian Trotskyist who had become an American neoconservative cold warrior (Solchany 2015, pp. 359–361).[8] Röpke was friendly toward staunch conservative intellectuals and politicians of many countries, especially the United States.[9]

The German economist was, as stated in the introduction, an admirer of Russell Kirk, the leading figure of the new American conservatism which emerged in the mid-1950s. In *Beyond Supply and Demand*, Kirk is by far the most frequently quoted intellectual. The two men's admiration for each other was reciprocal; they shared the same anti-modernist worldview. Röpke was, moreover, an active contributor to Modern Age, the intellectual journal founded by Kirk. He also belonged to its editorial board. Interestingly, he belonged simultaneously to the editorial board of the National Review, the famous conservative weekly magazine founded by William F. Buckley, which was much esteemed by Röpke. It is not surprising that in the early 1960s, Röpke was, like Milton Friedman, a fierce supporter of Barry Goldwater, a senator from Arizona and an ultraconservative Republican who became the challenger to Lyndon B. Johnson in the presidential election of 1964. Two years earlier, in 1962, Röpke had tried, without success, to convince Jacques Freymond, the then director of the Graduate Institute of International Studies in Geneva, to invite the American conservative champion to give a lecture at the Institute.[10] In his enthusiasm for the new American conservatism, his fierce anti-communism definitely played an important role (Solchany 2014b, 2015, pp. 349–370).

4 Conclusion

The above analysis was hopefully convincing in stressing the conservative dimension of Röpke's worldview. However, my intention was by no means to suggest that he was not liberal minded. Quite to the contrary, his life and work shed light on the ideological diversity of what is usually called neoliberalism. Needless to say, Hayek, Mises, Röpke, and Friedman differed from each other in many respects, if only on an epistemological level. The feeling when reading Friedman's *Capitalism and Freedom* is not exactly the same as when one reads *Beyond Supply and Demand*. Yet, the differences within the neoliberal movement are not to be overestimated. Even if Hayek and Friedman did not share the same approach to economics and Röpke was more conservative than Friedman, all neoliberal intellectuals were fighting the same enemies. Indeed, the leading figures of

[8]For Winfried Martini and William S. Schlamm, see Payk (2006).

[9]For a general account on the American intellectual conservative scene, see Nash (1996).

[10]NR, Wilhelm Röpke to Albert Hunold, 27 August 1962, Albert Hunold to Wilhelm Röpke, 24 September, 1962, Box AK 62. For the links between Röpke and the American intellectual conservative movement, see Solchany (2015, pp. 437–466).

neoliberalism, and the less famous ones too, were not only pure theoreticians and thinkers but also public intellectuals, crusaders for a new faith, and fierce denigrators of evils named statism, socialism, communism, big government, and the like. In his famous address "Why I Am Not a Conservative," Hayek exaggerated the reality and the extent of the cleavage between conservatism and liberalism. If we consider the history of liberalism and conservatism since the 1950s, we may observe that the differences are less striking than the similarities.

Until today, defenders of tradition and supporters of the free market often fight side by side in the same organizations. This assessment is easy to verify concerning the Mont Pèlerin Society. Röpke was not alone in his professing a mix of liberal and conservative ideas. The former secretary Albert Hunold, the Austrian sociologist Helmut Schoeck, the German-American economist Karl Brandt, the Austrian archcatholic and archconservative essayist Erik von Kuehnelt-Leddihn, the French economist Louis Baudin, and the French philosopher Louis Rougier, to name a few, were all members of the MPS, and they shared ideas rather similar to those promoted by Röpke. Beyond the MPS, there were many organizations in which conservatives and liberals sat side by side. For instance, the Philadelphia Society was founded in the United States in 1964, with its mission up until today of "deepening the intellectual foundation of a free and ordered society and of broadening the understanding of its basic principles and traditions." In this Society, one finds conservatives like Russell Kirk, Erik von Kuehnelt-Leddihn, Eric Voegelin, and Henry Regnery, as well as liberals like Hayek, Henry Hazlitt, and Ronald Coase.

In the early 1960s in the United States, many conservative and liberal intellectuals were tired of the numerous quarrels that had divided the liberal-conservative intellectual milieu in the previous years. They were looking for a new synthesis, the so-called fusionism able to merge liberal and conservative values. That was the reason that the syncretic conservative liberalism Röpke promoted was so successful in the United States. The American translation of *Beyond Supply and Demand*, published under the title *A Humane Economy*, was enthusiastically received. Indeed, Röpke is still successful in the United States today. In 2006, the libertarian Intercollegiate Studies Institute published a thousand-page encyclopedia on American conservatism. In this reference book, there is an entry devoted to Röpke, who is presented as "perhaps the most important conservative economist of the twentieth century" (Beer et al. 2006, p. 747). Though this judgment may not be universally agreed upon, it nevertheless underlines the enduring echo in today's conservative America of the ideas professed by Röpke.

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Wilhelm Röpke and American Conservatism

Tim Petersen

1 Introduction[1]

In the standard reference *The Conservative Intellectual Movement in America since 1945*, the American historian George Nash called Wilhelm Röpke's *A Humane Economy* (Röpke 1958) "the very model of fusionism" (Nash 2014, p. 183). Nash thus associated the German economist with a current of US conservatism which aimed to combine value-conservative and economic-liberal elements. As such, it represents a conception that at first glance appears very similar to Röpke's "liberal conservatism" (Röpke 1949, p. 18), so Nash's characterization seems coherent. On closer inspection, however, new questions arise. Röpke's attitude to American conservatism was multifaceted, just like his relationship to conservatism as a whole. The current paper aims to contribute to a more detailed and thus more nuanced judgment of these links.

For this purpose, the exposition first studies Röpke's positioning in German conservatism, in particular his relationship to the publicist William S. Schlamm (1905–1978). Subsequently the key controversy between Russell A. Kirk (1918–1994) and Frank S. Meyer (1909–1972) about the orientation of American conservatism in the 1950s and 1960s is reconstructed. In the final part, Röpke's attitude to this controversy is delineated so that he can be located more precisely within the conservative spectrum.

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2 Röpke and Conservatism—A Complex Relationship: The Example of William S. Schlamm

"Wilhelm Röpke, as old as the century, died last week in Geneva. I believe he will one day be celebrated as the true savior of Europe" (Schlamm 1970b, p. 79). William S. Schlamm, recognized by his rivals of the time as the "'star' of conservative journalism" (Mohler 1991, p. 137), began his obituary of Röpke with these dignified words. The columnist of Die Welt am Sonntag praised Röpke's influence on Germany's postwar economic development (via Ludwig Erhard), on France (via Jacques Rueff), and on Italy (via Luigi Einaudi). He saw in Röpke a model representative of the German idealism of Kant and Schiller who had resisted the National Socialist temptation. In addition, he underscored Röpke's opposition to interventionist policies in the postwar period. The personal tone resonating in the praise for the "wonderful man—beautiful and witty to his last day" (Schlamm 1970b, p. 81) suggests a close relationship between the two. This impression intensifies when comparing this adulation with the judgments of Röpke by conservative commentators of other varieties. There, too, was praise, but Röpke was clearly counted to the liberal, not to the conservative camp. For the apologist of the Conservative Revolution and mastermind of the New Right, Armin Mohler, Röpke was one of the "genuine liberals" (Mohler 1974b, p. 109) as he knew how to distinguish freedom and majority rule. According to Caspar von Schrenck-Notzing, founder of the conservative journal Criticon, it belonged "to the tragic side of neo-liberalism that Wilhelm Röpke, the prophet of the 'Social Market Economy', became in the last years of his life a clear-sighted and powerless witness of how 'a nation can become morally rotten'" (Schrenck-Notzing 1973, p. 67).

The skeptical distance shown by conservatives of this variety until the end of Röpke's life was not characteristic for Schlamm, with whom Röpke even enjoyed a personal relationship. The correspondence recorded in secondary literature indicates their contact starting July 8, 1946, at the latest. Röpke wrote to Schlamm about the founding of the later Mont Pèlerin Society (Burgin 2012, pp. 82–84, 252). There may have been contacts during or even before WWII, with Catholic-conservative journalist Klaus Dohrn (1909–1979) as a possible intermediary. After a long odyssey, Dohrn emigrated to the USA and became a messenger between the Adenauer government and the Eisenhower administration (Krone 1995, pp. 283–284). He was believed to possess "always shining connections" (Franzel 1983, p. 304). Schlamm (Torberg 1992, p. 25) and Röpke (1976, pp. 102–103) belonged to his wide circle of acquaintances and correspondents.

The correspondence quoted by Jean Solchany from April 1958 (Solchany 2014, pp. 224, 231) is of even greater value than the aforementioned letter from 1946 and speculation about a possible relationship with Dohrn. The background: as a Jew by the standards of the National Socialist race law, the former Communist Party of Austria member and now independent leftist intellectual Schlamm (Schrenck-Notzing 1996; Peters 2013) fled from Prague to the USA. He fell under the influence of American intellectual circles, and in Dohrn's eyes he became the "sharpest anti-communist I know" (Franzel 1983, p. 120). In

his American era, he advised Time Magazine publisher Henry Luce and co-founded the conservative magazine National Review, whose contributors also included Wilhelm Röpke. After breaking with its publisher William F. Buckley, Schlamm came to Germany in 1958 where Röpke provided him with contacts, and his book *The Limits of the Miracle* appeared, on the very first pages of which he acknowledged his indebtedness to Röpke and praised "the character of some Germans (the most important among them was and remains Swiss resident Prof. Dr. Wilhelm Röpke) who opposed National Socialism not only because it was nationalist, but also because it was socialist" (Schlamm 1959, p. 10). The economic success of the Adenauer era was attributable to these masterminds of the Social Market Economy. Schlamm's book sold well and, above all, caused a stir (Peters 2013, pp. 335–347) which was less due to his analysis of the postwar German economy than to his radical anti-communism, particularly evident in his statements on foreign and defense policy.

If Röpke's thought was still a model in Schlamm's report on Germany, with Schlamm's next project, the relationship reversed. Schlamm, then a columnist at Stern, wrote the book *The Young Masters of the Old Earth* in 1962. He was concerned with the aspiring young politicians, shaped in his view by the decline in values of the fin de siècle period just before WWI. Headed by the young US President John F. Kennedy, "a generation comes to power that mistrusts all mindsets and does not commit itself to any principle" (Schlamm 1962, p. 264). For this scolding Schlamm received almost unanimous criticism (Peters 2013, p. 412), Röpke's being one of the few positive reviews. In an article for the ORDO Yearbook, Röpke sharply criticized the policies of the young president, judging there to be a "disturbing disproportion between the self-confidence of the president and his actual successes" (Röpke 1963, p. 82). In his analysis of the causes for this asymmetry, Röpke mentioned Schlamm's book and presented its content in detail, finally concluding: "This thesis of consummate pragmatism as the key to the understanding of the Kennedy administration appears rather convincing" (Röpke 1963, p. 83). In the end, however, Röpke decided for another explanation, and following another conservative thinker, Thomas Molnar, he interpreted "a kind of secularized millenism" (Röpke 1963, p. 84). Nevertheless, his attention showed that Röpke appreciated Schlamm's work, also mentioning an article by Schlamm from National Review in *A Humane Economy* (Röpke 1958, p. 119).

The obvious proximity between Röpke and Schlamm suggests that analyzing the history of ideas in Schlamm's oeuvre can be relevant to Röpke scholarship. Schlamm was predominantly active in newspaper journalism, but wrote the article "No Conservative Manifesto" for the magazine Zeitbühne which he edited himself. Schlamm was tired of the debates among conservatives about what it meant to be conservative, diagnosing "the meticulousness of sectarians" (Schlamm 1977c, p. 81). However, he confronted these in his view scholastic discussions with his own concept of conservatism, which he summarized with the slogan "Ten Commandments, the multiplication table, and Mozart" (Schlamm 1977c, p. 82). Schlamm meant the belief in a traditional order of values ("Ten Commandments"), the rational and pragmatic handling of everyday questions ("the multiplication table"), and the belief in the creativity of the individual and not of the collective

("Mozart"). Armin Mohler (1920–2003), who, as will be shown, was a target of the article, felt entertained by such a concept of conservatism (Mohler 1978b, p. 29). Probably intentionally, Mohler overlooked the fact that the Schlammian definition fitted an American variety of conservatism called "fusionism" of which Frank S. Meyer has been credited as the creator. Schlamm called Meyer "one of the most profound conservative thinkers in America" and wrote: "He was an excellent and serious man. He was my friend." (Schlamm 1977d, p. 363). Within American conservatism in the 1950s and 1960s, Meyer attempted to bring together the various strands of American conservatism (traditionalism, libertarianism, and anti-Marxism). These threads ("Ten Commandments," traditionalism; "the multiplication table," libertarianism; "Mozart," anti-communism) appear not only in Schlamm's work; Meyer also attempted to distill a list of similarities, and his seven points are very similar to Schlamm's three catchphrases (Meyer 1996d, pp. 192–195).

However, Schlamm's article not only contained fusionist ideas, as he once again distanced himself from the New Right thinker Armin Mohler. Mohler wrote a dissertation entitled *The Conservative Revolution in Germany* (for the history of the dissertation, see Mohler 1978c). By "Conservative Revolution" he understood "the spiritual renewal movement that sought to clean up the ruins left behind by the nineteenth century and to create a new order of life" (Mohler 1999, p. 30). In the 1960s and 1970s, he attempted to revitalize the ideas of the "Conservative Revolution" under the slogan "New Right" (Weißmann 2011, p. 44). He denounced "gardener conservatives" (Anglo-American-oriented liberal conservatives) and "humility conservatives" (Christian-occidental, predominantly Catholic conservatives) (Mohler 1974a, pp. 47–48). In post-war German conservatism, he criticized "the two slogans": "unconditional attachment to the US" and "anti-communism dominate the critique of liberalism" (Mohler 1991, p. 137). Therefore, in a Criticon article, he declared that, at least in terms of habitus, he stood closer to Herbert Wehner than to Rainer Barzel and Helmut Kohl (Mohler 1978a, pp. 15–22). This statement provoked the former communist and now anti-communist Schlamm. There had already been strong internal tensions during the Atlanticist-Gaullist controversy, but also due to Mohler's lack of distance to National Socialism (Mohler 1991, p. 138). When Mohler praised Wehner, Schlamm expressed a fundamental criticism of the "Conservative Revolution", diagnosing in the term an inner contradiction: "Every honest adherent of the dishonest concept 'Conservative Revolution' must discover one day that only one of the two incompatible metaphors can be important to him—either conservatism or revolution" (Schlamm 1977c, p. 84).

Schlamm's political mindset can thus be seen as a synthesis of value-conservative and economic-liberal ideas, while distancing himself from the ideas of the New Right. This was a position not far from Röpke's, whose late work contains a synthesis that he called "liberal conservatism" in *Civitas Humana*. In *A Humane Economy*, he was indeed a "cultural conservative fighter for the spirit of the citizens" (Rieter 2010, pp. 836–843), one very much against secularization and massification. However, this did not impede his liberal economic thinking, as he simultaneously polemicized against "fiscal socialism, which increasingly socializes the use of income" (Röpke 1958, p. 46). On the second point, the rejection of the thinking of the New Right, Schlamm and Röpke also agreed. At the end of the

1920s, the magazine Die Tat under Hans Zehrer developed a political conservative-revolutionary spirit and achieved "phenomenal success" (Sontheimer 1959, p. 229). Röpke remained immune, accusing the affiliates of the "Tatkreis" circle of having lost "any feeling for humanitas in the widest sense of this word" (Röpke 1959, p. 97). This rejection applied not only to the young Röpke. A look at his bibliography shows that the later Röpke was a columnist for Frankfurter Allgemeine Zeitung and Neue Zürcher Zeitung, and also for Die Welt am Sonntag when Schlamm was a columnist there, but not for Die Welt, which was edited by Zehrer (Hoppmann 1968, pp. 22–51).

Apart from these strong affinities, there were also differences between Röpke and Schlamm, the first one regarding population policy. Schlamm saw it as the duty of the West to "further increase the population of the 'Third World'" (Schlamm 1977b, p. 350) and endorsed the immigration of refugees as economically advantageous (Schlamm 1959, p. 25). Röpke, in contrast, was skeptical about population growth and was indignant at "the blindness with which its dangers are denied or simply ignored" (Röpke 1958, p. 63). Differences also surfaced regarding foreign policy. In West Germany of the 1960s, the dispute was polarized between pro-American Atlanticists and pro-French Gaullists (Petersen and Wohlgemuth 2010, pp. 231–232). Despite his opposition to the Kennedy administration, Schlamm was politically socialized mainly in the USA (Schlamm 1977a, pp. 65–69). Thus, in contrast to many other German-speaking conservatives, he was skeptical of the US-skeptical French president Charles de Gaulle (Schlamm 1970a, pp. 8–11). According to Mohler, in private circles he even developed "his thesis of General de Gaulle as a mere marionette of the communists" (Mohler 1991, p. 138). In contrast, Röpke was in principle always skeptical about the USA, also beyond concrete criticisms of politicians like Roosevelt and Kennedy. As early as 1928, he attacked "the uncritical American enthusiasm of a large part of our audience" (Röpke 1928, p. 925). Hence, it is hardly surprising that he was on the Gaullist side in the Atlanticist-Gaullist controversy, very much to the disappointment of his neoliberal friends (Petersen and Wohlgemuth 2010, pp. 231–235).

Thus there was plenty of agreement, but also some differences between Röpke and Schlamm. This reflected on their relationship to American conservatism, which was anything but a monolithic phenomenon and splintered into different groups. If, as shown, Schlamm was a proponent of fusionism, it is not easy to claim this for Röpke. Therefore, in the next section, the debate between fusionists and traditionalists in American conservatism is explored, followed by Röpke's positioning in this debate.

3 Frank Meyer versus Russell Kirk

In her review of Jean Solchany's volume on Röpke, Karen Horn depicted how Solchany described the controversies in the Mont Pèlerin Society "about the American conservative-liberal 'fusionism' of a Frank Meyer, William Buckley or Russell Kirk, which Röpke joined" (Horn 2015). Even if the representation of Solchany's

thoughts is correct in principle, the list of fusionists deserves closer attention. As far as Meyer is concerned, the term "fusionism" is undoubtedly correct, since he is commonly regarded as its spiritual creator. Buckley can be called a fusionist avant la lettre: in his most famous work, *God and Man at Yale*, he fought both atheism and collectivism which distanced the school from its Congregationalist roots (Nash 2014, pp. 139–140). National Review, founded by Buckley and featuring Kirk as a contributor, was regarded as "a coalition of often competing intellectuals" (Nash 2014, p. 155). It is precisely for this reason that the term "fusionist" is inappropriate for Kirk. He and Meyer vehemently disagreed about what could be called American conservatism. To understand this, a retrospective at the emergence of modern American conservatism is necessary.

The longest-serving president, Franklin D. Roosevelt, shaped the political and intellectual landscape in the USA during the 1940s. Liberalism, which in the USA bears a social-reformist twist, was regarded at that time as the unquestioned political worldview of America. However, in the following years, a change in the political and intellectual landscape took place, as conservatism returned in three new currents.

First, there was the current of the libertarians. It included above all the thinkers of the Austrian School, and the work which prepared the way for the rise of the libertarians in the USA was Friedrich August von Hayek's 1944 *The Road to Serfdom* (Hayek 1994). Dedicated to the "socialists of all parties," the economist and social philosopher teaching at the London School of Economics developed an intellectual interpretation of National Socialism diametrically opposed to the Marxist models of fascism. He did not see National Socialism as the expression of a capitalist society, but rather as the result of anti-liberal and anti-capitalist developments, thus warning that "it is Germany whose fate we are in some danger of repeating" (Hayek 1994, p. 19). As a countermeasure, he advocated "to release the creative energy of individuals" (Hayek 1994, p. 294). With these thoughts Hayek offered a message which resonated in the USA. The Reader's Digest printed a version of the book, and it thus spread beyond narrow academic circles (Hennecke 2000, pp. 192–194; Ebenstein 2001, pp. 134–137).

Second, there was the current of the traditionalists or "New Conservatives" which referenced conservative thinkers of the nineteenth century and even medieval scholasticism. A central work, Kirk's dissertation *The Conservative Mind*, appeared in 1953. At its beginning, he provided a six-point canon of conservatism: "(1) Belief that a divine intent rules society as well as conscience [. . .] (2) Affection for the proliferating variety and mystery of traditional life [. . .] (3) Conviction that civilized society requires orders and classes [. . .] (4) Persuasion that property and freedom are inseparably connected [. . .] (5) Faith in prescription and distrust of 'sophisters and calculators' [. . .] (6) Recognition that change and reform are not identical" (Kirk 1953, pp. 7–8). Kirk "presented Anglo-American history beginning with Edmund Burke and ending with T.S. Eliot as a series of biographical moments" (Birzer 2015, p. 4). Referring to Barry Goldwater's presidential candidacy, the book has been called "the intellectual touchstone for the conservative movement leading to the political events of 1964" (Birzer 2015, p. 4).

Third, there was the anti-communist current within this unfolding postwar conservative awakening. This often recruited—Schlamm was an example—former communists. From their knowledge of communist ideology and strategy, they considered the foreign policy of the USA vis-à-vis the Soviet Union, including that of the Republican Eisenhower, as much too soft. Inside the country, they identified communist subversion tactics, so some of them even approved of the extremes of Senator Joseph McCarthy.

This third group included Frank Meyer, also a former communist. At the same time, however, he was compatible with the libertarian group, since it was *The Road to Serfdom* which made him go through an ideological change. Although he later attempted a synthesis of the various currents, he had his problems with traditionalism. He subjected Kirk's work to harsh criticism in the libertarian magazine The Freeman under the heading "Collectivism Rebaptized." In his view, Kirk underestimated the value of freedom, being a thinker in the tradition of the high church wing of the Anglican Church. Hence, Meyer saw in Kirk and American "New Conservatism" only "another guise for the collectivist spirit of the age" (Meyer 1996a, p. 13).

With his main work *In Defense of Freedom*, published in 1962, Meyer also stirred controversies. At first glance, this is surprising since Meyer was aiming at a synthesis of libertarian and traditionalist elements and thus became the founder of fusionism. As the title of the book shows, Meyer was concerned with the defense of freedom, with individuals rather than social entities at the center of his thinking. In totalitarianism, he saw the danger that the individual would become no longer an end, but instead a means of politics. From this individualistic perspective, it is hardly surprising that the concept of freedom played a central role. He clearly presented a negative conception of freedom, strictly distinguishing it from others, e.g., from Hegel's ("insight into necessity"). Freedom was for him "the unrestrained power to choose" (Meyer 1996b, p. 70). However, he did not contrast this libertarian concept of freedom with the traditionalist concept of virtue, but rather attempted to synthesize them. Virtue was for him the goal of man—but only the free individual, who can also make the decision to do evil, can achieve this goal. He applied this synthesis to the entire society, which in his opinion could only exist if both virtue and freedom existed. In a virtue-free society, freedom would become a "useless toy" (Meyer 1996b, p. 80). In turn, in a freedom-lacking community, virtue is "meaningless and truth rote" (Meyer 1996b, p. 81). With this synthesis of freedom and virtue, however, Meyer was not only making friends in the various currents of American conservatism, since he did not spare criticism for both sides. He criticized the classic liberals of the nineteenth century, such as Bentham and the Mills, claiming that their relationship between freedom and virtue "evades rather than faces the contradiction" (Meyer 1996b, p. 79). He was even more focused on the traditionalists and criticized them, among others, for their concept of community which neglected the individual: in his eyes their concept left no room for "the person as such" (Meyer 1996b, p. 130). This might explain why Meyer received criticisms from both sides. For the libertarian Murray Rothbard, Meyer's attempt at synthesis was merely "an organizing principle to hold very disparate wings of a political movement together" (Rothbard 2004, p. 20). From the traditionalist side, it

was above all Meyer's constant rival Kirk who harshly criticized him: in National Review, a controversy about John Stuart Mill unfolded where Kirk attacked Mill, whereas Meyer defended Mill (Meyer 1996c, pp. 164–169). In a one-and-a-half page review of *In Defense of Freedom*, Kirk conceded that Meyer had turned away from communism, but accused him of remaining an ideologue. According to the headline of the review, Meyer was now "An Ideologue of Liberty," which led to Meyer's overvaluation of freedom and neglect of the values of order and justice. Referring to contemporary events in Central Africa, Kirk believed that Meyer's imagined free society ended in "the terrible 'freedom' of the Congo" (Kirk 1964, p. 350).

The different approaches of Meyer and Kirk confirm that American postwar conservatism was anything but a monolithic phenomenon. The questions of whether and how Wilhelm Röpke positioned himself amid these conflicts will be explored in the following section.

4 Röpke's Positioning

The later Röpke was closely connected to American conservatism. Numerous publications (Hoppmann 1968, pp. 36–43) provide ample evidence, particularly in Buckley's National Review and Russell Kirk's Modern Age and The Freeman, but here only until January 1954 when The Freeman became almost anarcho-liberal (Nash 2014, p. 146). Röpke's close connection became especially evident in the 1964 presidential election. Intellectual conservatism showed here its first fruits when the Republicans nominated Barry Goldwater, a controversial senator from Arizona, as their presidential candidate. Röpke hoped that Goldwater would defeat Lyndon B. Johnson and eliminate his "Great Society" policies (Hennecke 2005, pp. 239–240), in contrast to his formerly close ally, the then Chancellor Ludwig Erhard, who saw in Johnson a close political and personal friend (Mierzejewski 2005, pp. 293–295).

Since Goldwater represented the entire breadth of American conservatism, the question as to how Röpke positioned himself within the spectrum of American conservatism and its disputes has not yet been answered. To my knowledge, Röpke's publications do not deal with this subject explicitly but, as will be shown, they provide very strong evidence. A small explicit hint can be found in a new Kirk biography. Its author, Bradley Birzer, presents a letter of Kirk to Buckley, dated September 1, 1955, which was about Meyer's negative review of Kirk's *The Conservative Mind*. From this correspondence Birzer quotes: "T.S. Eliot, Wilhelm Röpke and Erik Kuehnelt-Leddihn sent letters of congratulations to Kirk for 'being attacked by the 'Freeman'"" (Birzer 2015, p. 328).

That Röpke was much more connected to the traditionalist than to the fusionist current of US conservatism becomes evident when comparing Röpke's literary and personal relations to Meyer and Kirk. Regarding Röpke's reception by Meyer, to my knowledge it is very limited. In *In Defense of Freedom*, Meyer mentioned Röpke only in a short passage in a footnote, but one which is rather revealing: he

saw in Röpke a temporary ally of the "New Conservatives" around Kirk; nevertheless he did not want to include him and other Europeans in this concept because of their different starting points (Meyer 1996b, p. 60).

In contrast, Kirk's reception of Röpke is more intensive. Ironically, the name Röpke does not appear in Kirk's economics textbook, illustrated with many historical examples (Kirk 1989). Still, in his *The Conservative Mind*, Kirk described Röpke as a "penetrating social thinker in the line of Burckhardt" (Kirk 1953, p. 410). *A Program for Conservatives* was published in 1954 and was later republished as *Prospects for Conservatives*, figuring as a contemporary addition to the historically oriented *The Conservative Mind*. In the section "The Problem of Community," Kirk positively evaluated Röpke's approach in *The Social Crisis of Our Time* when compared to others like Mises'. He praised Röpke's criticism of mass culture, his humanist image of man, and a Third Way approach to economics (Kirk 2015, pp. 114–115), the latter being a term from which Röpke later distanced himself (Röpke 1994, p. 330; Schüller 2000, p. 175). Also in his later years, Kirk praised Röpke, adding personal reminiscences (Kirk 2007, pp. 543–547). Kirk's biographers seem to see Röpke's influence on Kirk as so significant that they refer to it on several pages (Birzer 2015, pp. 160–162; Person 2016, pp. 185–186, 203–206).

If we approach the matter from the other side and ask about Röpke's valuations of Meyer and Kirk's work, a similar picture emerges. I am not aware of Röpke referring to the work of Meyer. In contrast, he reflected on Kirk rather intensively and very positively. In an article for the Neue Zürcher Zeitung entitled ironically "Liberal Conservatism in America," Röpke saw in the traditionalist awakening in America a successful synthesis of liberalism and conservatism and emphatically reported on Kirk's work. He read *The Conservative Mind* on a flight from New York to Genoa and was subsequently pleased to note that "I had read a work which in substance and form has been the most captivating for a long time" (Röpke 1955, p. 17). In the same article, he also referred to Kirk's *A Program for Conservatives* and to his *Academic Freedom*. Regarding the former, he was pleased to note that he was mentioned in the volume. He gave Kirk "the compliment back twice with the assurance [...] that I feel myself refreshed and enriched by his book as by little else" (Röpke 1955, p. 17). This emphatic praise is not a spontaneous singular event. Kirk's influence on Röpke surfaced in Röpke's final book, *A Humane Economy*. The index shows 11 references to Kirk (Röpke 1958, p. 360). If one revisits these, an almost entirely positive reception of Kirk's work is encountered in cultural pessimistic contexts. So it is hardly surprising that Kirk, for his part, was active in spreading the thoughts of the later Röpke in the USA. *The Conservative Mind* appeared in German under the title *Living Political Heritage*, published by Eugen Rentsch who was also in charge of Röpke's book publications, while Röpke's American publisher, Henry Regnery, published US conservatives like Kirk. The cooperation between these two Regnery authors was so extensive that Kirk claimed to have invented the title *A Humane Economy* for the American translation of Röpke's *Beyond Supply and Demand* (Kirk 2007). Thus, it is clear that Röpke had a very close relationship to the main figure of American traditionalism (and opponent of fusionism). From this point of view, Röpke's description as a fusionist appears wrong in its historical context.

5 Conclusion

At the outset, this text was motivated by the question whether Röpke, as done so often, should be described as a "fusionist." The conclusion of this exposition is that it is necessary to differentiate. If one understands "fusionist" abstractly as a synthesis of value-conservative and economic-liberal ideas, then this term is appropriate, at least for the later Röpke. If the term is understood strictly historically, then this is certainly not the case. Röpke clearly distanced himself from the German tradition of the "Conservative Revolution" and saw himself largely in agreement with Anglo-American conservatism. He kept close ties with William S. Schlamm, a fusionist. However, as far as the conflict between traditionalism and fusionism within American conservatism is concerned, all evidence indicates that he sympathized with the traditionalist side.

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Cultural Pessimism and Liberal Regeneration? Wilhelm Röpke as an Ideological In-Between in German Social Philosophy

Frans Willem Lantink

1 Introduction

Wilhelm Röpke is considered one of the intellectual founding fathers of the new socioeconomic order of the early Federal Republic of Germany and of the Social Market Economy. His social philosophy, however, makes him a link between postwar Germany and diverse older German intellectual traditions from the Weimar Republic and the Kaiserreich. His trilogy *Die Gesellschaftskrisis der Gegenwart* (*The Social Crisis of Our Time*) (Röpke 1942), *Civitas Humana* (Röpke 1944), and *Internationale Ordnung* (*International Order and Economic Integration*) (Röpke 1945a) is a philosophical elaboration of a remarkable "sociological" ordoliberalism and is deeply rooted in the philosophical and political debates of his time. He combined his social philosophy with a severe critique and questioning of the history and significance of modern Germany in Europe. In that sense, his vision for the future of Germany published just after the war in 1945, *Die deutsche Frage* (*The German Question*) (Röpke 1945b), can be read as a political epilogue to his trilogy. These rhapsodic texts from the early 1940s are not very well known today when compared to his more specialized writings in economics, which have been the subject of continuous interest and research. Especially the first two volumes of the early 1940s, *The Social Crisis* and *Civitas Humana*, have often been labeled as extremely eclectic. These texts appear completely outdated today in regard to style and approach.

In a broader perspective, however, these works deserve to be considered more seriously—and not only for Röpke scholarship and the study of ordoliberalism. In

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the history of ideas and German social and political thought, with all its ideological undercurrents, antitheses, and crossovers, these texts contain a fascinating missing link. Many highly original expressions of the cultural pessimism, anti-capitalism, neoliberalism, and anti-socialism of his time can be found in Röpke's works. At least at first glance, he may even be perceived as belonging to the diffuse group of the "Conservative Revolution," although without the outspoken nationalism of most of its members. His critical views of German history are also of particular originality. He developed one of the first German critiques of the classical tradition of the "Primat der Außenpolitik" (primacy of foreign affairs), and his views on the challenges for the defeated Reich after the horrors of the National Socialist regime and WWII bear striking similarities to the reformulated ideology of the postwar Christian Democrats and the decentralized federalism of the Federal Republic. Röpke should be seen as an ideological in-between in the social and political thought of his time, and that is something different from mere eclecticism.

Analyzing Röpke's social philosophy, the two first volumes of Röpke's trilogy, *The Social Crisis* and *Civitas Humana*, can be seen separately from the last volume with its more specific focus on international relations. Discussing the first two works, six more or less related themes should be put in perspective. Firstly, we analyze the character of these works' textual form, considering genre conventions: are these texts examples of essays typical for his time? Secondly, we compare Röpke's cultural pessimism with the ideas of his time: is he similar to or influenced by Oswald Spengler, José Ortega y Gasset, or Johan Huizinga? To what extent was Röpke's cultural pessimism an original contribution to the debate of his time? Thirdly, the ideological component of his work brings us again to the continuing quest of Röpke scholarship: should Röpke be seen as a (neo-)liberal or a (neo-) conservative (Solchany 2015, pp. 409–435)? Fourthly, these questions are closely linked with the content of Röpke's social philosophy. Was his utopian view of Switzerland the central counterpoint in his thinking of society and community and the dialectical opposite of his critique of modern German civilization after 1870? And lastly, the commonalities of Röpke's social philosophy in *The Social Crisis* and *Civitas Humana* with the postwar ideology of the German Christian Democratic party must be interpreted as well. Is there any ideological continuity with Röpke's works of the early 1940s?

2 The Textual Format and Style of Röpke's Trilogy

The first two volumes of the trilogy were written in the years 1941–1944 during Röpke's difficult exile in Geneva and published by Eugen Rentsch. Due to the official politics of neutrality, Swiss censorship did not allow any explicitly political remarks by foreigners like Röpke on National Socialism or Italian fascism or even on the events of the WWII. This explains much of the sometimes apolitical abstraction and vagueness of Röpke's arguments during the extreme war circumstances of this time. The broad reception of *The Social Crisis* in the Swiss press made Röpke a central figure in the liberal-conservative and even Catholic political

discourses of Switzerland in the 1940s and 1950s (Solchany 2015, pp. 37–63). Notwithstanding several critical reviews, Röpke's work was interpreted by many as an original contribution to the contemporary questions of the "crisis" of modern democracy and capitalism. For modern readers of the trilogy, and especially economists, the intellectual gap often seems unsurpassable. Understanding these texts in their contemporary context using a hermeneutic approach to explain their typical textual format and ideological context can bring some new clarity.

What is the structure of the opening volume, *The Social Crisis*? The reader is confronted with a free-floating philosophical text with the explicit purpose of giving "orientation" in the "mental chaos" of the time,[1] offering a diagnosis, explanation, and understanding of the moral crisis, followed by a threefold cultural, societal, and economic "therapy": this programmatic perspective is reflected in the chapter structure of the volume.[2] The first part gives a highly speculative interpretation of the negative developments of collectivistic state capitalism in connection with the errant direction of modern liberalism. In the second part, Röpke sketches his "Third Way" after a thorough attack on modern socialism. A new agenda of de-proletarianization and decentralization of industrial economic life is underlined by a utopian perspective on the economic systems of farmers and artisans. With *Civitas Humana*, Röpke aimed to focus on the necessary constitutional, societal, and economic reforms and to conceive a fundamental therapy for his diagnosis outlined in *The Social Crisis*. Röpke forecasts a "Renaissance of liberalism,"[3] a real pursuit of individual freedom, and a moral program that transcends merely economic liberalism. *Civitas Humana* gives concrete thematic elaborations of this ordoliberal program, and in the three last chapters—on the state, the society, and the economy—Röpke reformulates this "sociological" liberalism.[4] This volume's content and rhapsodic style connect it closely to the first volume. Though there are repetitions, *Civitas Humana* also tries to answer some critics of *The Social Crisis*.[5] Röpke's ideological attack on modern science, the Enlightenment, and social planning are remarkably sharp.

This intellectual position has also notable consequences for his way of reasoning. In the preface to *Civitas Humana*, he clearly states that his way of writing

[1] "There is nothing pontifical about this offer of guidance. It purports nothing more than that as many as possible should be spared the years of mental struggle and the diverse errors through which the author himself had to pass before he attained to the degree of understanding which he believes himself to possess today" (Röpke 1942, p. 7).

[2] "We adhere to the natural division into diagnosis and therapy, interpretation and action" (Röpke 1942, p. 16).

[3] "The renaissance of liberalism springs from an elementary longing for freedom and for the resuscitation of human individuality. It is a liberalism which should not be regarded as primarily economic" (Röpke 1944, p. 50).

[4] "Politico-cultural liberalism [. . .] is the primary, and economic liberalism the secondary consideration. This primary liberalism might be described as sociological" (Röpke 1944, p. 51).

[5] "Let us hope the present book will be understood in this sense. It continues the efforts which started in the earlier book" (Röpke 1944, p. 29).

may be in conflict with the rigor of the social sciences and that he is looking for a method of synthesis and integration (Röpke 1944, pp. 23–25). The result is a free "philosophical" style, never very precise, and in a continuing intellectual dialogue with contrasting ideological positions. This leads to a more emotional than analytical style, as the arguments do not follow a strict rhetorical path of reasoning. The "literary" style can be understood as an intellectual form of "Emphase," the German term for an emotional, sometimes even hyperbolic way of expressing thoughts and feelings. Röpke is of course a sound thinker in economics and not at all an expressionistic irrationalist. However, the cultural pessimism of *The Social Crisis* and *Civitas Humana* is set in very gloomy, even apocalyptic colors. Furthermore, and problematically, the narrative unfolds in a lengthy, meandering way, and the first two volumes alone comprise more than 800 pages. In many ways, the trilogy can be characterized as an example of a typical contemporary textual form: the intellectual-philosophical essay. Thomas Mann invented the concept of the "intellectual novel" in his critique (Mann 1922/1982, p. 147) of Oswald Spengler's *The Decline of the West* (Spengler 1918, 1922). The term defines a form of intellectual essay with a particularly literary composition, a philosophical perspective, and a structure of sometimes bewildering complexity. The argumentation is rhapsodic in the sense of following the author's free associations and intellectual quotations. Three contemporary examples of the "intellectual novel" whose cultural critiques have much in common with Röpke's *The Social Crisis* and *Civitas Humana* are Mann's rhapsodic *Reflections of a Nonpolitical Man* (Mann 1918/1983), written during WWI and published in 1918, *Dialectic of Enlightenment* by Theodor W. Adorno and Max Horkheimer (Adorno and Horkheimer 1944), and *The Road to Serfdom* by Friedrich A. von Hayek (1944). The last two books are contemporaneous to Röpke's trilogy and are nowadays paradigmatic works of the 1940s, much more famous than Röpke's almost forgotten works.

What do these three in many ways so different works of Mann, Adorno, Horkheimer, and Hayek nevertheless have in common with Röpke? Form and content are related in a special way: their cultural critique is shaped by a polemic reasoning, an extremely normative interpretation of social reality, and a rhetorical distortion of the argument. These texts are written as lengthy monographs[6] and are completely different from the sharp essayistic form popular today in short newspaper editorials and internet blogs. The three examples share with Röpke an extreme form of cultural consciousness, a cultural urgency regarding their position at the crossroads of time, a sense of anxiety, and a sense of being "in-between times" ("zwischen den Zeiten").[7] These are all clearly ideological texts, deliberately imprecise and distorting in their polemic cultural pessimism.

[6]To put it more bluntly, these texts are far too long as essays for the modern reader. An extreme example is the boundless length of Adolf Hitler's *Mein Kampf*. To note a contemporary example of the "intellectual novel," Francis Fukuyama's *The End of History* was also much more readable as an article than the lengthy monograph he wrote after the initial success.

[7]An expression Oswald Spengler used for his own cultural position.

In Thomas Mann's exuberant *Reflections of a Nonpolitical Man* (Mann 1918/1983), the defense of the "organic" German culture—"Kultur"—was presented in contrast to the "mechanistic" French and English civilization—"Zivilisation." It was the latest formulation of the so-called "Ideas of 1914" (Mommsen 1992, pp. 407–421; Bruendel 2003). In its defense of German cultural concepts, and in its rejection of the political ideals of the French Revolution and "French" democracy, rationalism, and civilization, this work was also Mann's last contribution to the "Conservative Revolution" (Mohler 2005; Breuer 2005) before he became a half-hearted defender of the democracy of the Weimar Republic after 1922.

A clear echo of the anti-French sentiment of the "Ideas of 1914" and the "Conservative Revolution" so present in Mann's *Reflections of a Nonpolitical Man* cannot be ignored in the first part of *Civitas Humana*. There are, according to Röpke, two negative aspects of French civilization in modern civilization, rationalism[8] and Saint-Simonism,[9] which work as mental and social poisons in modern society. The historical origin of all evil can be found, according to Röpke, in French state absolutism and centralism. Röpke diagnoses the pathology of France:

> Thus the task of explaining the aberrations of rationalism historically narrows to a large extent to comprehending the social and intellectual history of France [. . .] that owing to the poisoning effects of absolutism and centralism, France manifested highly pathological traits which have continuously burdened French history to the present day. Let us remember the centralization of the French nation, so destructive of all healthy and regional organization which the French Revolution, the Empire, and all successors to the Third Republic indeed continued and emphasized. (Röpke 1944, pp. 114–115)

In his political analysis, Röpke is not that different from the Thomas Mann of 1918, an astonishing fact for a text written at the end of WWII.

Mann's definition of the "intellectual novel" (Mann 1922/1982, p. 147) describes an essayistic fusion of the critical and the aesthetic. The extreme cultural critique of Adorno's and Horkheimer's *Dialectic of Enlightenment* was also written in a distinct literary form strikingly similar to Röpke.[10] In *Civitas Humana*, he wrote about the "hell of civilization" caused by the complete instrumentalization and functionalization of humanity: Röpke used here the very strong word "hell of

[8] "It can hardly be denied that the problem of the aberrations of rationalism is to a certain extent a specifically French one" (Röpke 1944, p. 116).

[9] "And so we observe those collectivist social engineers [. . .] who quite openly commit themselves to the perspective of 'society as a machine', and who would thus seriously desire to realize the nightmare of a veritable hell of civilization brought about by the complete instrumentation and functionalization of humanity" (Röpke 1944, p. 137).

[10] An exception is Bonefeld (2014) who makes a comparison with the negative dialectics of Adorno and Horkheimer.

civilization" (Röpke 1944, p. 137). The famous quote by Adorno and Horkheimer was written in the same years, the last years of WWII:

> Enlightenment can be seen in its broadest sense as progressive thinking, which all times aimed at taking the fear from the people so that they could emerge as masters. But the completely enlightened earth brings man-made disaster everywhere. (Adorno and Horkheimer 2007, p. 9)[11]

The Enlightenment's program was the "disenchantment of the world" ("Entzauberung der Welt"), quoting Max Weber. Their critique of the capitalist mass society culminated in coining the term "culture industry." Modern media like films and radio were the instruments of manipulation of mass society into docility. Adorno was neo-Marxist in his stress on culture and in his disregarding economic analysis. His rejection of mass culture came very close to a conservative cultural pessimism. More shocking for the readers in the 1940s was Adorno's and Horkheimer's interpretation of the "scientific racism" of anti-Semitism as another product of the radical Enlightenment. For this comparison it is important to notice how National Socialism was categorized similarly by Adorno and Horkheimer and by Röpke as the culmination of a rationalistic and collectivistic state obsession.

Friedrich A. von Hayek's *The Road to Serfdom* was written during the same years as Röpke's *The Social Crisis* and *Civitas Humana*. This paradigmatic work was revolutionary by challenging the common interpretation of National Socialism as a "capitalist reaction" to the communist threat in Europe. In one of the first formulations of the totalitarian thesis, socialism and National Socialism were, according to Hayek, two forms of the same deadly danger to individual freedom. Comparable to Röpke's social philosophy and Adorno's and Horkheimer's cultural critique, Hayek's economic-political perspective shows the same apocalyptic fear of the dominance of planning and control. Is *The Road to Serfdom* an "intellectual novel" according to Mann's definition? Compared to Röpke and Adorno, there is less dialogue with the intellectual tradition, but the style of *The Road of Serfdom* is noteworthy. Of the three texts, it is certainly the most political and the most effective in using a sharp ideological language. Hayek's argument rejecting any form of state economic planning and his prophetic critique of the Social Democrat welfare state avant la lettre are well known. Hayek's condemnation of modern Germany (after 1871) enables a further comparison with Röpke. One of the really ominous sentences of *The Road to Serfdom* has to be seen in this light: "By the time Hitler came to power, liberalism was dead in Germany. And it was socialism that had killed it" (Hayek 1944, p. 36). In this effective distortion, Hayek tells the same story as Röpke, who needed many more words! The economic interventions and policies of the modern German state after 1871 had destroyed true liberalism, the result being state collectivism, a truly German state socialism,[12] long before Hitler's Third Reich.

[11]Written in 1943–1944, the first edition was published in 1947 by the Dutch publisher Querido in Amsterdam.

[12]Note that this is an expression not used by Röpke or Hayek.

3 Cultural Pessimism: Oswald Spengler and Johan Huizinga

Röpke's warnings against the dominance of reason as well as against scientism and positivism culminated in his rejection of the modern, centralized state, as he condemned both unlimited laissez-faire capitalism and the various forms of modern socialism. Overpopulation, proletarianization, mass society, and mass urbanization were outcomes of modernity paid for by the loss of the natural order in harmony with the family, farmers, small communities, and artisans. All these laments were not original: Röpke's "cultural despair" was part of an enduring discourse. *The Social Crisis* and *Civitas Humana* were manifestations within a broader wave of cultural pessimism which started in the late nineteenth century. Oswald Spengler's *The Decline of the West*, published just after WWI (Spengler 1918, 1922), is the most brilliant and expressionistic formulation of this modern cultural critique. Spengler's plea for a Prussian state socialism for the coming "German future" could not be more diametrically opposed to Röpke's political and social arguments 20 years later, however. Röpke's cultural pessimism is, on the other hand, very much in tune with the cultural pessimism of the Dutch historian Johan Huizinga's work *In the Shadow of Tomorrow* (Huizinga 1935). We can see the same arguments and similar expressions:

> The gods of our time, mechanization and organization, have brought life and death. They have wired up the whole world [. . .] established contact throughout, created everywhere the possibility of cooperation, concentration of strength and mutual understanding. At the same time they have trapped the spirit, fettered it, stifled it. They have led man from individualism to collectivism, the negation of the deepest personal values, the slavery of the spirit. Will the future be one of ever greater mechanization of society solely governed by the demands of utility and power? (Huizinga 1935, p. 7)

Huizinga and Röpke both criticized modern mass culture, but without any trace of a futuristic admiration for modern technology that Spengler so strongly expressed. What is more, the two authors warned strongly against the political agenda of the "Conservative Revolution." Huizinga and Röpke both disliked the political Spengler and his anti-democratic campaigns against the Weimar Republic (Lantink 1995, 2015, pp. 49–54). In a Swiss newspaper article in 1944 unnoticed by Swiss censors, Röpke accused the representatives of the "Conservative Revolution," like Spengler, of being predecessors of National Socialism (Solchany 2015, p. 125). When we look at the discourse of cultural pessimism in the work of Röpke in the early 1940s, clear differences between the judgments of the thinkers of cultural pessimism can be noted. Spengler is only mentioned twice in *The Social Crisis* and *Civitas Humana*, while Ernst Jünger is mentioned more often and also quite negatively. Ortega y Gasset and Huizinga are presented more prominently and positively, with many references made to Huizinga's *In the Shadow of Tomorrow* (e.g., Röpke 1944, p. 165).

The big divide between Spengler and Röpke lay in their diametrically opposed answers to the cultural crisis of Western civilization. For Spengler, the solution for

the future was state socialism. Germany-Prussia had to be the new Rome ruled with the ideologies of Prussianism and socialism,[13] looking not back to the country of Goethe, but forward to the country of German technology and German political dominance of Europe. There was sadly enough no way back to Spengler's own preferred past, the refined eighteenth-century "Kultur" represented by Haydn's music and French aristocratic culture. The development of modernization and of technology and mass urbanization could not be stopped. According to Spengler, all was destiny: "Schicksal." The only option left is to emphasize this direction, and here Spengler came very close to a futurist form of fascism. Prussia was no longer the symbol of conservatism, but of modernity! All of Spengler's admiration for the modern Prussian state and Prussian bureaucracy, for the German engineer and for the "Technische Hochschule," seems to be reversed in Röpke's work. One has to say in favor of Spengler that he acknowledged the great success of the second industrial revolution in the German Empire, with its great scientific innovations in chemistry, electricity, and other fields. And was not the German Prussian bureaucracy the most modern of his time? How can we distinguish the difference between Spengler and Röpke ideologically? Karl Mannheim has differentiated "ideology" and "utopia," and in his terms Spengler is ideological, pushing modernity into a German "reactionary modernity" (by way of a "Conservative Revolution") through stressing the perceived direction of civilization, while Röpke is truly utopian, willing and striving to reverse the direction of civilization. Nowadays, "retro" might be a label appropriate for Röpke.

A remarkable sign of how radical Röpke's cultural pessimism and anti-modernity really were can be found in a sentence in *Civitas Humana* in which an eclectic use of concepts is not unlike the eclectic use of concepts and terms in Mann's *Reflections*, but with a notably clear anti-Spengler mention of Prussianism. Röpke describes how French rationalism combined with German Hegelianism and modern ideologies to a dangerous mixture:

> It was not long before this stream was united with other corresponding tendencies outside of France, above all with Hegelianism in Germany, and finally brought forth that fateful combination of Cartesianism, Encyclopaedie, Ecole Polytechnique, Prussianism, relativism, materialism, Marxism, utilitarianism, biologism, evolutionism and pragmatism, a veritable mixture of dynamite which was eventually to blow up the whole world. (Röpke 1944, p. 65)

4 Civil Society and Community: Röpke's "Third Way"

Regarding his social philosophy, Röpke was also an in-between in a long tradition. Concerning the connection between social thought and cultural pessimism, German sociology followed a long road from Ferdinand Tönnies via Max Weber and Karl

[13]See Spengler (1919) as the expressionist political manifesto where he first used the term "socialism" as "salonfähig" for the Right.

Mannheim to Daniel Bell's final post-ideological closure at the end of the 1950s. Still standing in the tradition of Mannheim, Bell formulated in his *The End of Ideology* (Bell 1960) the most eloquent antithesis to the cultural pessimistic implications of German social thought. Whereas ideology—following the theory from Marx to Mannheim—is always rooted in social stratification and class distinctions, there was, according to Bell, a true sign that ideology had come to an end in respect to the flourishing classless society in the United States, which was not at all the atomistic, lifeless, and alienating world painted in dark colors by European cultural criticism. In a chapter "America as a Mass Society," Bell criticized the sociological implications of classical cultural pessimism by pointing to the vibrant networks of a large city like Chicago, with its numerous organizations, associations, clubs, societies, and 82 local community newspapers.

At the beginning of this German cultural pessimistic sociology stood Ferdinand Tönnies' *Gemeinschaft und Gesellschaft* (*Community and Society*) (Tönnies 1887). Tönnies distinguished two types of social stratifications. "Community" refers to social formations based on emotional feelings of togetherness and on mutual bonds, a spiritual imaginary community. "Society," in contrast, refers to a more structured entity, social groupings that are sustained by practice, conventions, and instrumental aims. "Community" stands for the idealized social settings of the family and neighborhood relations in the premodern world—"society" is sustained by the formal regulations and social structure typical for modern societies. The social ties in "society" are instrumental, self-interested, and fitting for capitalist economic order. Max Weber developed new concepts of a much more complex social order, of rationalization as a social force and of bureaucratization, and connected this analysis to his concept of the "disenchantment of the world" ("Entzauberung der Welt"). Max Weber named this process "socialization" ("Vergesellschaftung") as opposed to "communification" ("Vergemeinschaftung") (Lichtblau 2000, pp. 423–443). In this sense, Röpke's social program, his "Third Way,"[14] can be seen as a type of "communification," restoration, and reinforcement of what he thought were more natural networks in society, like the family, the farm and the farmers, craftsmanship organizations, and smaller towns:

> Decentralization, natural promotion of smaller production and settlement units, and of the sociologically healthy forms of life and work [. . .] strictest supervision of the market to safeguard fair play, development of new, non-proletarian forms of industry, reduction of all dimensions and conditions to the human measure. (Röpke 1942, p. 288)

How reactionary or utopian was Röpke really in his social philosophy? His position is too complex to discern only conservatism in his thoughts on society and community. Noting a peculiar resemblance to the social anarchist, or libertarian socialist, Pierre-Joseph Proudhon in one regard can bring a better understanding of

[14] "These remarks are intended to show once more the kind of measures with which the defense and re-establishment of economic liberty and the accompanying battle against selfish vested interests must be conducted in order to fulfil our counter-program of the 'Third Way'" (Röpke 1942, p. 288).

Röpke's ideological position. Proudhon is well known for his famous work *Qu'est-ce que la propriété? ou Recherche sur le principe du Droit et du Gouvernement* (Proudhon 1840), in which he states "What Is Property?—Property Is Theft!," which had a strong influence on Marx. In his fundamental attack against the liberal notion of "absolute property" of the nineteenth century, Proudhon is of course the extreme opposite of Röpke and his strong plea for property rights. But Proudhon's social utopia has something quite relevant in common with Röpke: in Proudhon's thought, the "sociétés d'adultes," spontaneous associations of individuals, are central to his concepts of federalism in which federal, corporatist arrangements protect the citizens of free communities from capitalist and financial feudalism. Switzerland had the same utopian quality for anarchist ideals as a country without any trace of the powerful central state—in the Swiss cantons there seemed to be a free economic order still intact in the nineteenth century with guilds as associations of craftsmen. Not only were the majority of anarchist intellectuals often in exile in Switzerland, the country was also idealized as the perfect utopia. The cantons and the guild of Swiss watchmakers in the Jura inspired anarchists like Pyotr Kropotkin and Mikhail Bakunin (e.g., Badillo and Jun 2013).

With his program of the "Third Way" in *The Social Crisis*, Röpke claimed a position between Scylla and Charybdis, between the ugly outcomes of laissez-faire capitalism and collectivist socialism which both led to a dehumanizing of society and economy. The concept of the "Third Way" is a confusing, sometimes misleading concept, but nevertheless a striking phenomenon of the political language of the twentieth century. Mussolini coined the term in the early 1920s as a propaganda tool for the economics and politics of his fascist regime, claiming to represent an alternative between capitalism and communism. The complete failure of Mussolini's program of Italian corporatism in the 1920s and 1930s discredited the concept. Another unhappy example of a "Third Way" can be found in the Peronism of Argentina in the 1950s. Reconciling right-wing economic and left-wing social policies was the program of Tony Blair's "Third Way." "New Labour" embraced the free market economy along with a partial preservation of the welfare state. When comparing these examples with Röpke, they are all different, but share one striking quality: the (still) very strong position of the central state.

Röpke takes a classical liberal position in defending a state-free zone of civil society. Perhaps there is at this point an ideological connection to the concept of "subsidiarity" in the Catholic social teaching of the period (Ycre 2003, pp. 163–174). In the 1931 encyclical *Quadragesimo Anno*, Pius IX reevaluated the social teaching of the famous encyclical *Rerum Novarum* of 40 years earlier. In this reformulation, the contrast between the two evils of a collectivistic communism and an unrestrained capitalism is the stepping-stone for positioning the social teaching of the Church. Like in *Rerum Novarum*, private property is part of the natural order of society, a right that should be defended. Institutions like the family, the church, and (Catholic) social organizations must be protected from state intervention. The basic principles of the encyclical are solidarity and subsidiarity. This view of a natural order of society and the importance of private property as a natural right had much in common with Röpke's organic social philosophy. The difference

between *Quadragesimo Anno* and Röpke's "Third Way" is nevertheless obvious: the Catholic social teaching was a conservative defense of the existing order with a clear corporatist agenda, while Röpke's "Third Way" unfolded a political, social, and economic program[15] that was not corporatist at all. Notwithstanding Röpke's conservative stress on the traditional values of family, farmers, and craftsmen, his prescription for a cure was entirely liberal: everything had to work in defense of a real middle class and true individual economic freedom. This necessitated the preservation and reinforcement of property rights, the protection of property, and even more so of the fundamental importance of the individual's desire to possess property:

> First such a policy requires the restitution of property as the most important prerequisite, so that men again desire to really possess property. (Röpke 1944, p. 279)

5 The German Question and the Postwar Ideology of Christian Democracy

In 1945, the British historian A. J. P. Taylor published one of the most outspoken historical condemnations of Germany and the causes of the world wars of the twentieth century: *The Course of German History* (Taylor 1945). It was the sharpest formulation of the ideological exceptionalist "Sonderweg," claiming there was no normality in German history and that the Third Reich was the outcome of a long illiberal tradition. Röpke's *The German Question* (Röpke 1945b), also published in 1945 shortly after the end of the war, was not more gentle regarding the issue of historical collective guilt. According to Röpke, the pathology of German history started with the political impacts of Lutheranism. German unification under Prussia and Bismarck paved the way for the "pathology" of German history (Röpke 1945b, p. 158). Its product was collectivistic German capitalism with its disturbing monopolistic effects.[16]

Federalism, decentralization, international economic cooperation, and institutionalization were political answers proposed to overcome the deadlock of German (Prussian) history and anticipated the construction of the Federal Republic of Germany. Key in Röpke's philosophy was Switzerland, described as a social utopia, the happy intermediate between all extremes with its decentralization of politics, economy, and society. We must understand his vision of Switzerland as the perfect

[15] "If there be such a thing as a social 'right', it is the 'right to property', and nothing is more illustrative of the muddle of our time than the circumstance that hitherto no government and no party have inscribed these words on their banner" (Röpke 1944, p. 284).

[16] "Finally, the Prussification of Germany was greatly furthered by the manner in which the evolution into a modern industrial State took place in Germany. [. . .] This German 'capitalism' was not one of the Marxist pattern, but the historically unique and, we may fairly say, dismally distorted form in which the modern industrial system developed on German soil in a Greater Prussian Empire" (Röpke 1945b, pp. 226–227).

contrast to the modern Germany he knew well, with its longing for the strong state, "Realpolitik" and the "Großstadt." Just after the war, Röpke's dislike of Bismarck, and negative view of the role of Prussia in German history became fashionable. Even the old Friedrich Meinecke wrote after the war about the aberrations, "Irrwege," taken in German national history. Röpke's plea for decentralization and federalism was very suitable as a proposal for a new orientation for the West German state.

Röpke can be seen as an ideological in-between during the formation of the postwar liberal-conservative Christian Democratic Union (CDU). Close readings of the documents and the discussions of the "Ahlener Programm" of 1947 and the "Düsseldorfer Leitsätze" of 1949 in comparison show strong similarities to Röpke's social philosophy. The "Ahlener Programm" was an early attempt to form a new Christian Democratic ideology reminiscent of similar programs of the old Zentrumspartei. This "Ahlener Programm" was much more left-wing, and the term "Christian Socialism" was only left out as Adenauer by all means did not want it. A look at this text shows a clear notion of the "Third Way" which comes from the same discourse of finding a way in-between. Two years later, in the "Düsseldorfer Leitsätze," the CDU's socioeconomic program for the 1949 elections, economic freedom was formulated as a central value in a coordinated market economy. One could say that the most important aspect of Röpke's social philosophy and social politics is the reinforcement of property: in the "Düsseldorfer Leitsätze," the "promotion of ownership" was a central item on the political agenda of the CDU. Thus, in the postwar period, the liberal-conservative CDU had a striking ideological affinity with Röpke's economic and social philosophy.

6 Conclusion

Last but not least, was Röpke a conservative liberal or a liberal conservative? Perhaps Michael Freeden's theory of ideology can help. Freeden explains that the complex structure of ideologies entails four different aspects: proximity, permeability, proportionality, and priority (Freeden 2003, pp. 60–66). There is a clear proximity to conservative values in Röpke's social philosophy, but there are no clear boundaries, as there is always some sort of permeability. We cannot find a central concept of conservatism in Röpke's texts either, namely, the admiration of authority or of power per se. More important are proportionality and priority. Regarding priority, Röpke's key concept is freedom. His emphasis on checks and balances against the central state and his advocacy for an international order and individual private property are liberal. In the "horseshoe spectrum" of ideologies, liberalism and anarchism share the same focus on freedom. In some respects, Röpke is a right-wing anarchist, a reversed Proudhon, with the same objections to a powerful central state and federalistic solutions.

In 1966, Hans-Peter Schwarz called Röpke the most important "intellectual father" of the Federal Republic of Germany (Schwarz 1966, p. 393). In the decades after 1968, in the culturally and politically transformed Federal Republic, this

liberal-conservative ideological origin was no longer such an important perspective in public opinion. However, in the twenty-first century, there is a new interest in the early Bonn Republic. The liberal-conservative fundaments and "Bürgerlichkeit" after 1945 are now objects of interest and research (e.g., Hacke 2008; Budde et al. 2010), and a new historical interest in Röpke is part of this new perspective (Mooser 2005, pp. 134–163).

Was he really an "intellectual father"? Only perhaps in a dialectical way, as Röpke was not a nationalist but rather an anti-nationalist. He asked for the spiritual "Entthronung" ("dethronement") of Bismarck in 1945 (Röpke 1945b, p. 207)! This was certainly too radical a position for postwar Germany, but otherwise his focus on federalism and decentralized politics and his disapproval of Prussianism fitted perfectly well in the new political horizon of the Federal Republic. In several ways, Röpke was an ideological in-between. There is a kind of "family resemblance" in Röpke's social philosophy with the "Conservative Revolution," but without the German nationalist perspective. He was a cultural pessimist, but without the nationalistic tendencies of his ideological antipode Spengler. He was, like Spengler, an "active pessimist,"[17] but his program for the future was diametrically opposite to Spengler's: instead of a Prussian state socialism, he wanted an ordoliberal program with political, economic, and social decentralization. Spengler even coined a name for this future: the "Swissification of nations" ("Verschweizerung der Nationen") (Spengler 1933/2016, p. 129).

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[17] "We have always committed ourselves not to a passive, but rather to an *active pessimism*" (Röpke 1944, p. 32, emphasis in the original).

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Part IIIB
Wilhelm Röpke as a Social Philosopher. Part B: Liberalism

Wilhelm Röpke on Liberalism, Culture, and Economic Development

Nils Goldschmidt and Julian Dörr

1 Introduction[1]

"It is a manifest truth that our society's crisis coincides with the crisis of liberalism" (Röpke 1947, p. 8). From today's perspective, it is difficult to take Wilhelm Röpke's cultural diagnosis, which was also a diagnosis of the times, at face value. The discontents with modernity and the observed crisis of the contemporary age not only suggested to him the deterioration of one particular social order but also pointed to the decay of occidental culture as a whole and with it of the liberal European social model. The deep-reaching cultural pessimism which marks his writings and becomes ever more apparent in his later work seems strange to readers today, and his call for a "nobilitas naturalis", the rule of an aristocratic elite, conveys pallid, anti-democratic tones. Yet his careful observation and his comprehensive understanding of societal processes are remarkable and direct the economist's view to questions of economic action that—as one of his books is titled in the German original—lie beyond supply and demand (*Jenseits von Angebot und Nachfrage*). The close connections Röpke drew between liberalism and culture, between economic development and societal preconditions, seem relevant also today to the discussion of economic processes of transformation and to the difficulties of implementing market institutions in non-Western cultural contexts. The calls for "cultural economics" emanating from different economic subdisciplines are an unmistaken sign of Röpke's relevance as a pioneer of the "cultural turn" in economics.[2] Together with Alexander Rüstow, Röpke

[1]This paper relies heavily on Goldschmidt (2010). We would like to thank Mark McAdam for the editorial work.

[2]For the research program of "cultural economics", see Goldschmidt (2006).

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is a proponent of a variety of neoliberalism which offers more than merely a theory of free and organized markets but also offers a theory of free and organized societies. In part because of the connection he drew between the economic and the ethical order, Röpke has been rediscovered of late, leading to numerous, mostly non-German contributions on various facets of his oeuvre since the turn of the millennium (see Solchany 2015; Fèvre 2015; Lottieri 2014; Schüller 2013; Gregg 2010; Rieter and Zweynert 2010; Mierzejewski 2006; Schüller 2003; Yamawaki 2001). Because of the importance of his thought for our contemporary age, Röpke can rightfully be considered "[a] man for the twenty-first century" (Zmirak 2001), especially in respect to cultural economics, as we will show in this paper.

In the following, we wish to trace and flesh out Röpke's understanding of culture. To that end, in Sect. 2, the significant importance he attributed to societal structures for economic development is mapped out. In Sect. 3, these thoughts are connected with his ideas of an everlasting liberalism as an occidental cultural ideal. Section 4 demonstrates that in addition to his apologetics for Western culture, he formulated approaches towards a culturally sensitive view of other regions. It is this "different Röpke" that makes him so valuable for a new, present-day cultural economics. Röpke's worldview was not without problems, however, as shown in his perspective on apartheid in South Africa in Sect. 5.

2 Beyond Supply and Demand

How is a cultural diagnosis à la Röpke to be understood as a societal renewal on the one hand that complies with the ideal of liberalism on the other? It is the mass society that constitutes the central focus of his criticism.[3] The "hell of congestion" (Röpke 1998 [1960], p. 41) he bemoans in *A Humane Economy* leads to direct discomfort:

> Each of us brings his personal experience to the understanding of the problem under discussion. What the words mass society first call to mind is the visible crowdedness of our existence, which seems to get irresistibly worse every day: sheer oppressive quantity, as such, surrounding us everywhere; masses of people who are all more or less the same—or who are at least assimilated in appearance and behaviour; overwhelming quantities of man-made things everywhere, the traces of people, their organizations, their claims. [...] In the great cities of the United States, it is considered necessary that school children, instead of being taught more important things, should have lessons in "social adjustment", that is, in the art of queuing patiently, folding one's newspaper in the subway without being a nuisance to other passengers, and other such tricks of civilization [...] We all know to what extent this American pattern of life has already spread to Europe. We can hardly hope to

[3] Although Röpke was not alone in using a criticism of "multitudes" as a starting point for the development of a research program, as this extended to other neoliberals as well, the systematic meaning of Röpke in this respect has hardly been examined. Every indication suggests that liberals did not understand "masses" as social stratification but as a (degenerated) intellectual disposition which is juxtaposed against the idea of personality. For a fundamental and convincing exposition, see Dathe (2008).

> escape the same hell of congestion. In Europe, too, the traffic columns are becoming denser, and even the queues at ski lifts are getting longer [. . .] the very mountain peaks, which Providence seems to have preserved as a last refuge of solitude, are drawn into mass civilization by chairlifts. In Europe, too, the power shovels of the world of steel and concrete are advancing steadily. (Röpke 1998 [1960], pp. 39–41)

It is a paradoxical development of modernity that Röpke derives from his analysis: the possibilities that enabled industrialization and economic growth for broad layers of society are simultaneously the catalysts of the forthcoming societal and economic crisis. Economy and society are a "pyramid standing on its point" (Röpke 1998 [1960], p. 45): "The welfare and existence of millions of people depend upon the orderly functioning of this huge mechanism, but with their mass passions, mass claims, and mass opinions, these same people are undermining the conditions of order, certainty, and sober reason, without which the greatest technical and organizational progress is of no avail" (Röpke 1998 [1960], p. 45). The societal system which relies on the uniting reason of some is threatened by the power of the masses.[4] Simultaneously, for Röpke it is those with social responsibility who accelerate the collapse of modern society by having "to buy [the masses'] good graces [those of the masses, NG/JD] by continually yielding to economically irrational demands by the continuous expansion of the welfare state which stifles responsibility, incentives, and initiative" (Röpke 1998 [1960], p. 46).

Aside from the power of the masses and those with social responsibility giving into the masses, there is a second characteristic for Röpke which can explain the societal crisis of modernity and is constituted by the discrepancy between individual and society:

> The equilibrium between individual and society, their relation of constant tension and genuine antinomy, is disturbed in favor of society. This equilibrium—there can be no doubt whatever about it—is the norm of individual and social health. We do not hesitate, therefore, to call the serious imbalance a disease, a crisis, with which we cannot live for long. [...] To the extent of this shift of the center of gravity, the essential element which the individual needs in order to be a complete human being and spiritual and moral personality seems to us to be missing. (Röpke 1998 [1960], pp. 52–53)

The consequence of the shift from individual to society is a double crisis: intellectually and morally, as well as socially. The former is primarily a crisis of education:

> What we have in mind is the way thought is becoming shallow, uniform, derivative, herdlike, and tritely mediocre; the growing predominance of the semi-educated; the destruction of the necessary intellectual hierarchy of achievement and function; the crumbling away of the edifice of civilization; and the presumption with which is the homo insipiens gregarius sets himself up as the norm and chokes everything that is finer or deeper. (Röpke 1998 [1960], p. 54)[5]

[4]The power of the masses leads to the destruction of finely tuned societal structures, as Röpke describes in *The Social Crisis of our Time* (*Die Gesellschaftskrisis der Gegenwart*): "The disease which has been holding Western society in an ever firmer grip [. . .] is characterized by a process of social decomposition and agglomeration" (Röpke 1950, p. 10).

[5]Röpke adopts the character of the "homo insipiens gregarious" from José Ortega y Gasset (Röpke 1979 [1942], p. 11).

Far more momentous for Röpke, however, is the social crisis triggered by mass society and understood as the "disintegration of the social structure" (Röpke 1998 [1960], p. 55). Herein he sees a process of depersonalization in which "true communities are broken up" (Röpke 1998 [1960], p. 55) and "the area of individual action, decision, and responsibility shrinks in favour of collective planning and decision" (Röpke 1998 [1960], p. 56). This is the breeding ground for all forms of totalitarianism, "to fill the emptiness of their souls" (Röpke 1998 [1960], p. 57). According to Röpke, this decomposition of society takes on its own dynamic:

> It is hard to disagree with pessimists [. . .] who maintain that our civilization is becoming subject to a sort of Gresham's Law. Just as, according to Gresham's Law, bad money drives out good money, so, too, does modern mass culture make it increasingly difficult for anything better to hold its own. (Röpke 1998 [1960], p. 58)

Consequently, the crisis of society is an all-encompassing crisis, leading to the dissolution of the foundations of the entire occidental tradition:

> But why, we may ask, is the loss or even the dilution of this Christian and humanistic cultural tradition more than a change of scene in the history of thought? Why is it a cultural catastrophe, which is of the essence of our present cultural crisis? Because this tradition is a European tradition and because it makes us Europeans in the widest sense of the word. What this means can easily be appreciated by anyone who merely tries to imagine what the world, a world in which every continent is built upon Europe and its traditions, would be like without this pillar. We cannot even seriously conceive of the idea that after three thousand years we should have to begin again at the beginning in fashioning our minds and that we could possibly replace our spiritual heritage by educational matter of the kind which may roughly be indicated by the range and style of popular magazines. (Röpke 1998 [1960], p. 62)

The diagnosed crisis of and threat to culture based on the power of mass society only first became possible through the economic development of modernity, but it would, according to Röpke, be mistaken to infer a general failure of the market economy from this. The opposite is the case for Röpke, also leading to a first clue for a way out of the crisis:

> On the contrary, the market economy, with its variety, its stress on individual action and responsibility, and its elementary freedoms, is still the source of powerful forces counteracting the boredom of mass society and industrial life, which are common to both capitalism and socialism. (Röpke 1998 [1960], p. 87)

In the thought of a "market economy within limits", one finds the core of Röpke's ordo-political, cultural, and societal thinking. The limits of the market economy *in a narrower sense* are made up of the political framework governing the market economy ("the rules of the game"), which represents the creed of all ordoliberals. In Röpke's words from *Civitas Humana*:

> A real, fair and well-functioning competitive order cannot exist without a well-thought out juridical-moral framework and without a constant monitoring of the conditions under which competition based on merit must occur. (Röpke 1979 [1944], p. 76)

Yet this positive determination of the limits of the market economy, primarily focused on political and juridical facets, is eclipsed in *A Humane Economy*, not least because of his concern "whether, in a mass democracy, with its many kinds of

perversions, it is at all possible for policy to serve the common interest" (Röpke 1998 [1960], p. 142). Rather, the limits of the market economy are worth noting and of increasing importance *in a broader sense*. They are constituted by the limits of the societal competences of the market economy:

> Society as a whole cannot be ruled by the laws of supply and demand [. . .] Individuals who compete on the market and there pursue their own advantage stand all the more in need of the social and moral bonds of community, without which competition degenerates most grievously. As we have said before, the market economy is not everything. It must find its place in a higher order of things which is not ruled by supply and demand, free prices, and competition. (Röpke 1998, [1960], p. 91)

Determining this "higher context" is Röpke's positive response to the diagnosed cultural decay of his age. The market economy is a form of economic order corresponding to a "particular philosophy of life and to a particular social and moral world" (Röpke 1998 [1960], p. 98). Without the "very conditions of man's spiritual and moral existence" (Röpke 1998 [1960], p. 103), a market economy serving society is not possible: "Extra-economic, moral, and social integration is always a prerequisite of economic integration" (Röpke 1998 [1960], p. 124). How can this "higher context" be determined as a cultural ideal?

3 The Cultural Ideal of Liberalism

The "higher context"—the cultural ideal—which is to be established anew for Röpke is liberalism. Only a truly liberal society can be a society in which a market economy can flourish and which provides the necessary societal-moral preconditions. In *Das Kulturideal des Liberalismus* (Röpke 1947),[6] one finds two variations of liberalism which must be distinguished carefully: "vergänglich" and "unvergänglich" ("fleeting liberalism" and "lasting liberalism").

Fleeting liberalism entails political and social movements which originated in the nineteenth century and which, according to Röpke, are in a state of error and confusion. To blame for the crisis of fleeting liberalism, which is "part of an overall crisis of modern society" (Röpke 1947, p. 21), are the three distortions of rationalism, individualism, and economic liberalism. *Rationalism* entails a belief in reason which "no longer accepts objective rules, which questions everything in free and arbitrary thought", leading to a kind of relativism in which "all norms and values dissolve in the acid of its own reason" (Röpke 1947, p 22). *Individualism* neglects the necessary integration of each individual into society, making up "something different than merely the sum of its parts" (Röpke 1947, p. 24). The erroneous assumption that human reason suffices to steer society and economy "according to a conscious master plan" coincides with the mistaken belief that society "is a simple association of individuals" (Röpke 1947, p. 24). Paradoxically, a mistaken view of individualism thus paves the way to collectivism and socialism. Modern economic

[6]Röpke later integrated it as the first chapter in the collection *Maß und Mitte* (Röpke 1979 [1950]).

liberalism misconstrues "that the ideal of so-called economic liberalism—specifically the free market economy—belongs to the primary goals of intellectual-political liberalism" (Röpke 1947, p. 25). The market economy can be compatible with the preservation of the ideals of an intellectual-political liberalism, but it is not a necessary condition: "One can imagine a liberal society very well which is made up of modest farmers and does not entail stock exchanges or banks or currency, and perhaps this would be the best of all" (Röpke 1947, p. 5).[7]

In contrast, *lasting liberalism* entails a Western culture consisting of "a wealth of ideas beyond the despotism of man, and accepting the inviolability of natural orders prior to and beyond state power as a guiding light" (Röpke 1947, p. 12). Even in his early writing "Epochenwende?" (Röpke 1933), he sees a "cultural tour de force [in lasting liberalism], which has been active in all periods of flourishing in Western culture and comprises the ideas of the best of all time, irrespective of the deep illiteracy of our time" (Röpke 1962 [1933], p. 110).

This liberalism, anchored in the "anima naturaliter Christianae" (Röpke 1947, p. 12) instead of the "esprit pharaonique" (Röpke 1947, p. 13), is marked by five characteristics:

> What is liberalism? It is *humanist*: that means it assumes a human nature that is capable of achieving good and is only fulfilled in community. It understands its purpose beyond material existence and offers the respect that each deserves in his uniqueness and which forbids debasing him as a mere means to an end. It is therefore individualist or, if one prefers stating it this way, *personalized*: according to the Christian doctrine [. . .] the single human person is the ultimate real [...] Liberalism is [. . .] *anti-authoritarian*: [it guards] wisely against the romanticism of community, which state organization makes [. . .] the object of a mystic cult. Liberalism is thus *universal*: in being humanist, personalized, anti-authoritarian, and respecting mankind in itself, it—warning against the deification of the state—resists the extension of patriotism to nationalism, and thereby Machiavellianism and imperialism. With all that, it is finally *rationalist* in a non-hypercritical sense, namely that the liberal as a humanist ascribes all persons according reason [. . .]. (Röpke 1947, p. 15; emphasis in the original)[8]

This liberalism is identical to a "bourgeois philosophy" which "taught us that there is nothing shameful in the self-reliance and self-assertion of the individual taking care of himself and his family, and it led us to assign their due place to the corresponding virtues" (Röpke 1998 [1960], p. 119). In this sense, society is liberal for Röpke or it is—to put it provocatively—not at all.

[7] What must appear today as a bizarre "village or garden plot romanticism" (Röpke (1979 [1944], pp. 283–291) can be explained by Röpke's belief in the reconnection of society to the experiences within a community. In his view, structures of civil society are tied to the actual experiences of daily life which require freedoms outside of the market.

[8] What Röpke describes here is typically what one would identify with the Enlightenment. In this manner, Röpke entraps himself in a contradiction: in spite of the Christian roots he emphasizes, the lasting liberalism he posits first became possible as a fruit of the Enlightenment and political liberalism of the eighteenth century. Röpke, on the other hand, separates political and intellectual liberalism, thereby retrospectively elevating an apparently lasting liberalism.

Therefore, for Röpke, there is a simple acknowledgement: Western, bourgeois philosophy is simultaneously the philosophy which coincides with certain individual virtues, a defined value system, and a formative principle of our entire cultural system. The "societal soil" for this value system is the "aristocrats of public spirit" (Röpke 1998 [1960], p. 131)—the "nobilitas naturalis":

> The conviction is rightly gaining ground that the important thing is that every society should have a small but influential group of leaders *who feel themselves to be the whole community's guardians of inviolable norms and values* and who strictly live up to this guardianship. What we need is true *nobilitas naturalis*. No era can do without it, least of all ours, when so much is shaking and crumbling away. We need a natural nobility whose authority is, fortunately, readily accepted by all men, an elite deriving its title solely from supreme performance and peerless moral example and invested with the moral dignity of such a life. (Röpke 1998 [1960], p. 130, emphasis in the original)

Now it becomes understandable that the crisis of economic liberalism is intertwined with the present day cultural crisis and offers no escape. The market economy must be embedded in the "true" system of Western society which takes as its starting point "the natural order of things":

> Whether we now speak of a rape of mankind and nature by our modern industrial and metropolis civilizations or from the calamity of a collectivist economic order [...]—is it not here and there an artificiality against which we are fighting in both cases? And is it not here and there the natural order of things which is important to us, in the double sense of a natural, socio-biological correct embedding of mankind and the "ordre naturel" of a well-ordered and enclosed market (Röpke 1948, p. 232)

Röpke's pessimistic cultural diagnosis, which finds its economic response in his call for the "containment" of the market economy, leaves an ambivalent impression from the perspective of today's cultural economics. On the one hand, Röpke's diagnosis appears premodern. The distinction between "Gemeinschaft" and "Gesellschaft" (community and society) popularized by Ferdinand Tönnies does not find any expression in Röpke's analysis. Röpke does not consider *system dependences*, the result deduced from Tönnies' distinction that modern open industrialized societies rely on and further develop especially in economic and political matters, as they rely only to an exceedingly small degree on "face-to-face" interactions within small communities. On the contrary, Röpke, in an unwavering manner, normatively and judgmentally presumes that a "betterment" of society must succeed by the individual efforts of elites—and he is repeatedly disappointed.[9] He gets lost in a "culturally pessimistic maelstrom" lacking the escape of a positive message, a shortcoming that Golo Mann appropriately lists in his review of Röpke's *Maß und Mitte*:

> He overshoots his mark. Against the direction of the world nearly in its entirety—against metropolises, multi-storey buildings, unions, nationalism, Sartre, jazz, abstract art, war,

[9] In a certain sense, Röpke seems to negate the distinction between individual ethics ("virtues") and social ethics ("just structures"). He does not seem to entertain the criticism that "an open society" cannot be based on the "morality of a small crowd" (Hayek 1996 [1988], pp. 7–26; Hayek 2004 [1979], pp. 54–57; Hayek 2003 [1973–1979], esp. pp. 239–242).

> world government and so on. A prophet may direct his scorn towards all this, a professor ought not to. Because when a professor writes against something, he does so—or purports to do so—that things could be changed if one listened to him? [. . .] A free market economy—but no crises [. . .]. An economy guided wisely by the state—but nothing that could even approximate preparing collectivism. A strong display of power against communism—but no big business or big government. All the conveniences and benefits of technology—but none of its dark sides. No, that is not the way the world is. (Mann 1952, pp. 92, 94)

Röpke conceals in his cultural pessimism an insight that is important for the economic message of neoliberalism: The *wealth of nations* does not result automatically from an "invisible hand" of market forces but through "the visible hand of law" (Mestmäcker 1978). The enforcement of general and just—in other words, fair—rules of the game should be valid not only for the creation of the economic system but also for the creation of political and societal levels. Here, too, *legal structures* must be demanded that are conducive to coexistence in society, instead of maintaining Röpke's hope for morally "better players" (Buchanan 2008).[10]

On the other hand—and here one can see Röpke as a pioneer of cultural economics—he succeeds in justifying a "cultural turn" in economics in a threefold approach: first, cultural factors are not "external factors" but rather integral building blocks in explaining economic development; in his mind, the societal and economic orders are interdependent. Second, cultural embeddedness does not only apply to the economic "system" in general, as he considers the embeddedness of every individual within the cultural context.[11] Röpke's references to the societal context's imprinting of and influence on individuals connect his ideas to what is termed "enculturation" in modern sociological theory (Dux 2014). Third, Röpke proposes a dynamic concept of cultural development.[12] The societal order is not a plannable hermetic system but rather the result of historical path dependency. Even liberalism is subject to a force with "which it seeks to aspire beyond itself" (Röpke 1947, p. 13).

[10]The quest for the creation of rules for society as a whole based on the well-being of its citizens is the central concern of modern "Ordnungsökonomik" and Constitutional Political Economy, respectively. For an overview, see Vanberg (1994) and Vanberg (2008).

[11]In light of the necessary moral requirements of the market, Röpke writes in *A Humane Economy*: "It is also necessary that people should grow up in conditions which favor such moral convictions, conditions of a natural order, conditions promoting co-operation, respecting traditions, and giving moral support to the individual" (Röpke 1998 [1960], p. 125). He emphasizes—advocating the idea of "informal institutions"—the importance of historical cultural regions as necessary societal contexts for individuals. In demarcating his views from a "rationalist" perspective, he writes polemically: "It will be no easy task for us to convey our rationalist friend and to dissuade him from glossing over such minutiae as space and history in constructing a free-floating and arbitrarily associating individual" (Röpke 1979 [1944], p. 110).

[12]This developmental process holds for Röpke as much as for society in general (for his reference to Hayek, see, e.g. Röpke (1947), p. 24) as well as for the economy in particular (Röpke 1979 [1944], pp. 57–60).

4 The Other Röpke? Different Cultural Spaces and a Culturally Sensitive Cultural Pessimism

Equating liberalism and the occidental cultural ideal allowed Röpke to become a careful observer of cultural processes. His diagnosis in respect to his own culture may be exceedingly pessimistic, yet cultural assessment of economic development is unavoidable and necessary for him. This placement of economic action in its cultural context may explain why he understands some of the difficulties involved in transferring liberalism, a characteristically occidental cultural ideal which he embraces, to other regions. In this sense, "the other Röpke" argues not for cultural hegemony but for a culturally sensitive transfer of institutions. With respect to the "bourgeois philosophy" he values so highly, he writes:

> In order to appreciate just how important this "bourgeois" spirit is for our world, let us consider the difficulty of implanting modern economic forms in the underdeveloped countries, which often lack the spiritual and moral conditions here under discussion. We in the West take them for granted and are therefore hardly aware of them, but the spokesmen of the underdeveloped countries frequently see only the outward economic success of Western nations and not the spiritual and moral foundations upon which it rests. A sort of human humus must be there, or at least be expected to form, if Western industry is to be successfully transplanted. (Röpke 1998 [1960], p. 119)

Röpke's clear message is that without considering "informal institutions", a successful replication of Western economic institutions cannot occur. Economic change and the build-up of modern economic structures are bound to traditions within civil society (Zweynert and Goldschmidt 2006). But this does not imply that he endorses a "Westernization" of non-Western cultural regions—on the contrary, he views in these processes of Westernization one of the intrinsic causes of the problems of development in non-developed countries. Thus, he writes:

> Behind the slogan of the "development of undeveloped countries" lies nothing less than that something is happening before our eyes which has not happened in all of human history: the apparent unstoppable expansion of a world-dominating cultural form, i.e. the occidental, at the expense of the merciless subversion and decomposition of other forms. Whether an uninterrupted occidentalisation of the world will result is doubtful. Only the negative is clear: the upheaval, illness, subversion and final destruction of non-Western cultural, life and societal forms, the tension and fermentation that results from the most distant peoples' and tribes' ever-closer and clasping contact with the Western, modern world. (Röpke 1961, pp. 20–21)

Undoubtedly, Röpke's plea for the "preservation of traditional cultural and societal systems" (Röpke 1961, p. 29), as discussed in the next section, is not always devoid of paternalism,[13] yet his admonition that the "*economic spirit and all its bourgeois virtues and institutions* are necessary for the success of an economic program of development" is as fundamental for economics as it is

[13]Thus, for Röpke, "specialists of the West are essential, not only as temporary advisers, but as permanent and leading persons" (Röpke 1961, pp. 31–32).

seldom heard.[14] Considering present global changes, it is high time to make Röpke's message a key issue in economic policy matters. What is required is a gradual approach in political economy instead of "shock therapies", as well as seriously including "other" cultures and incorporating knowledge of those: "Any development programme will prove to be more surely on the right and sensible lines the less it does violence to natural conditions and to the circumstances already existing" (Röpke 1959, p. 236).

5 Röpke's "Dark Side"?

Röpke's apologetics of the Western cultural ideal is ambiguous, however. He does not stop with the mere positive analysis of lasting liberalism but goes further by arguing that any "cultural space" that does not have roots in Western philosophy is inferior. This is paradoxical since the universalism he posits—a force directed against imperialism and nationalism—is a necessary feature of liberalism. Especially in light of the Cold War tensions, this facet of Röpke's thinking should not go unmentioned. He views the retention of Western values as necessary for the survival in the struggle against the socialist system, and he emerges as a paragon of the "transnational character of neoliberal anti-communism" (Solchany 2014, p. 219).

Röpke, who devoted the majority of his writings in the 1950s to questions of international relations, also dealt with South Africa, which was being governed by a White minority in an authoritarian manner. He recognized the danger arising as a result of misguided policies of decolonization and development, thereby laying the groundwork, economically and morally, for communism. He commented on the situation in a short column for Frankfurter Allgemeine Zeitung (Röpke 1963a)[15] and later authored a more extensive piece in Schweizer Monatshefte drawing on the arguments and formulations from previous newspaper articles (Röpke 1964). The article "Südafrika: Versuch einer Würdigung" ("South Africa: An Attempt at a Positive Appraisal") was well-received—especially apartheid proponents thankfully accepted his line of argument. His piece was translated into three languages and distributed in wide circulation (Solchany 2015, pp. 220–231). Röpke reiterated his position on June 29, 1964, in a lecture series organized by the Swiss Institute of International Studies on Africa (Röpke 1965). Röpke thus became a renowned proponent of the isolated South African government (Slobodian 2014, p. 82).

He assumes that South Africa has a stable economy with a market-oriented government. Röpke is impressed by the country's economic performance and the

[14]Röpke's explanation as to why this insight has hardly become widely recognized is convincing as well: "The reason for it is that these preconditions seem obvious and given to a person in the West, thus hardly being aware of them, while the leaders in undeveloped countries only see the economic success of the West, without knowing or suspecting the intellectual-sociological preconditions for it" (Röpke 1961, p. 30).

[15]And later, in almost identical wording, in Rheinischer Merkur (Röpke 1963b).

dynamism of its economy, attributing its vigor to "the extraordinary qualities of its White population" (Röpke 1964, p. 99) whom he views as "the rightful owners and rulers" as they broke fresh ground "in practically uninhabited territory" (Röpke 1964, p. 104). In this sense, the Whites there became Africans in the same manner "as other Europeans who crossed the Atlantic westward became Americans" (Röpke 1964, p. 104). He views South Africa's successes as endangered by an "ethnic problem" that "overshadows everything" (Röpke 1964, p. 103). The White proportion of the population is becoming an ever-smaller minority due to immigration into the country resulting from its economic prosperity. This "majority of an extremely different race" is "penetrating deeply into the settlement area of Whites" (Röpke 1964, p. 103). The solution to the migratory patterns should not be the formation of a joint nation with equal rights for all citizens:

> Only obsessed ideologues like the so-called "liberals" in South Africa and their counterparts abroad can earnestly recommend offering Blacks complete political equality within the unified South African state, and thereby in reality leaving them the responsibility for rule over South Africa. It is nothing other than a call for national suicide. (Röpke 1964, p. 109)

This measure would not work as the ethnicities are too different. In order to understand this, Röpke asserts, one must merely acknowledge that Black Africans:

> are not merely people of a completely different race, but they belong to a completely different civilisation at a completely different level. One of the most disturbing signs of mental confusion of our time is that one hardly ever asks whether it is possible to build a nation worthy of the name out of completely different ethnic-cultural groups which can be organised as a democracy. (Röpke 1964, p. 104)

Instead, Röpke proposes a different approach. Relief from the "heavy [...] burden of its ethnic heterogeneity" could only be achieved by segregating the different parts of the population (Röpke 1964, p. 99). Apartheid, consequently, is a legitimate attempt by the South African government to solve the "Negro question" or, at the very least, "to make it bearable" (Röpke 1964, p. 105). Röpke is staunchly in favor of clear segregation ("macro-apartheid"), not of discriminating against Blacks in joint settlements ("micro-apartheid"):

> This [micro-apartheid, NG/JD] is the—oftentimes humiliating, pedantic and incensing—placement and special status of Blacks within White settlement areas, in other words that "segregation" which one knows in particular from the American South, but also—on a not insignificant scale—from the Northern States. (Röpke 1964, p. 108)

Röpke advocates a de facto "two-state solution", one in which the Whites live and one called "Bantustans home to the Bantu" (Röpke 1964, p. 108). In this manner, "development opportunities can be provided corresponding to each group" (Röpke 1964, p. 106).

The South Africa article clearly reveals Röpke's elitist and paternalistic vision, for example, when writing of improving the educational attainment of Blacks and "teaching them the methods of modern agriculture" (Röpke 1964, p. 106). His naïveté regarding the everyday reality of Blacks is also outlandish. In his three-week travels through South Africa in September 1963, he describes "the happily waving children of the Negro villages" and the:

> humorous farmer from the Northern Transvaal sitting in our Johannesburg hotel who had gotten a job for a few months as an elevator operator in order to utilize the earned money to purchase an additional cow [. . .] with the acquiescence of Whites and with the drastic and refreshingly dismissive caricature of their White superiors. (Röpke 1964, p. 108)

Röpke profoundly laments the double standard of the world community. Even though racial segregation also exists elsewhere—for example, in Israel—only South Africa is viewed as a pariah state:

> That does not hinder those participating in condemning South Africa in the strongest terms, even though the country attempts a more conciliatory and more just application of the tacitly acknowledged principle. (Röpke, 1964, p. 106)

Instead he demands a just evaluation of the South African policy of segregation which assumes "it to be a serious response to a serious problem" (Röpke 1964, p. 106). He understands the case of South Africa within the context of the Cold War, citing it as a place where a proxy war is being fought:

> Should the Communist-non-occidental majority within the United Nations succeed along with those propagating occidental masochism to transform South Africa into a type of Congo or Indonesia, that would be geo-political and economic landslide that could only be compared to the loss of Latin America to Communism. (Röpke 1964, p. 110)

He thus determines apartheid, which he calls anything but "dumb or malicious" (Röpke 1964, p. 107), as the right tactic to uphold the occident and to prevent communists from "staking a claim in all of Africa" (Röpke 1964, p. 111). The country thereby assumes the role of a "white stronghold in Röpke's racialized world" (Slobodian 2014, p. 61). Western countries "should therefore finally muster the courage to view the problem of South Africa in its gravity and complexity" (Röpke 1963a).

But even Röpke's contemporaries evaluated apartheid in a far more nuanced fashion, as contrasted to his view. The General Assembly of the United Nations recommended the suspension of diplomatic and economic relations to the apartheid regime in 1962 (Solchany 2015, pp. 226–231). From today's perspective as well, Röpke's taking of sides and his worldview seem oddly racist. Nevertheless, the endorsement of segregation must be viewed in its historical context. Röpke was in part instrumentalized by the New Right in the United States and played an important role in the Mont Pèlerin Society (Mirowski and Plehwe 2009; Plickert 2008; Plehwe and Walpen 2004). From 1961 to 1962, Röpke formed its leadership together with Albert Hunold, whose opinions he shared not only on this matter.[16] During this time, the contrast between Continental and Anglo-Saxon liberals emerged on their respective theoretical foundations, and Röpke was a pugnacious spirit in search of discussions and argument. He enjoyed viewing himself in the role of someone arguing against the dominant opinion of the time, as the title of his

[16]Röpke used the occasion of a collected volume of a lecture series "to thank Hunold for the great service he had rendered through his courage irrespective of the zeitgeist or the inevitable harsh criticism that was certain to set in, and that instead of the frequently heard and unusually distorted one-sidedness the topic of 'Africa' was receiving due justice" (Röpke 1965, p. 125).

autobiography—*Gegen die Brandung* (*Against the Tide*)—reveals. Concerning the suspicion of having displayed racist tendencies, one must recall that he not only fled National Socialist Germany but also fought against its ideology resolutely. The National Socialist authorities in power accused Röpke of having displayed an "extremely cosmopolitan attitude" and cast him as someone who rejected "every form of National Socialism" (cited in Aly 2015, p. 110). Thus, on the whole, Röpke is difficult to capture in his many facets.

Röpke's dark side, which has mostly been overlooked and has hardly been discussed (see, e.g. Hennecke 2005; Solchany 2015 is an exception), nevertheless demonstrates that, for Röpke, culture is an important factor to understand economic processes—even if one may not share his political conclusions.

6 Conclusion

For some time now, the voices of those who are calling for a "cultural turn" in economics are getting louder. Already 10 years ago, in 2007, Guido Tabellini, in his presidential lecture of the European Economic Association, spoke out clearly:

> [The] theoretical literature is still in its infancy, and much more remains to be done, both at the core theoretical level (*how to model cultural transmission and how to integrate values in a model of rational choice*), and with regard to specific applications. But it would be wrong to view this new line of research as antithetical to ongoing work on political economics. On the contrary, integrating this new perspective in the research agenda of political economics is a first order priority, that can yield fundamental new insights in the economic analysis of political institutions. (Tabellini 2008, p. 291, emphasis added)

Since then, the consideration of cultural patterns of explanation has gained traction in economics.[17] The importance of culture in the transplant effect for developing countries in Africa is emphasized, describing that "imported law lacks effectiveness unless there is an initial level of familiarity or the imported law is successfully adapted to local legal norms" (Seidler 2014, p. 371). For successful institutional transfer, cultural factors must be considered. Awareness of the concept of culture within economics is increasing (Grube and Storr 2015; Sum and Jessop 2013; Beugelsdijk and Maseland 2011; Platteau and Peccoud 2011; Harrison and Huntington 2000). Even if it is excessive to speak of a fundamental paradigm shift, it is worth noting that it is currently "fashionable for economists to invoke Anthropology and to cite Gramsci, Weber and Durkheim" (Zein-Elabdin 2016, p. 1).

As was shown in this paper, this approach was foreseen by Röpke. It was obvious to him that with the transplantation of Western, market, and structurally

[17]For Alberto Alesina, for example, taking into account of a "cultural dimension" is constitutive for a contemporary modern political economy: "Where do institutions come from? What is the origin of certain political institutions? How quickly do institutions change? What is the role of culture in explaining economic outcomes and developments? How does culture evolve? What is the role of ethnic identity in explaining economic conflict, success and failures?" (Alesina 2007, p. 3).

differentiated institutions, the interaction with already existing informal structures must be considered. His genuine ordoliberal message still applies to "cultural economists" today: economic freedom, societal order, and cultural embeddedness are interdependent.

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Skepticism About Markets and Optimism About Culture

Henrique Schneider

1 Introduction

"The ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously" (Röpke 1960, p. 126). It is in this sentence that Röpke sums up the philosophy of his economics in *A Humane Economy*. Here he uses three concepts that require a deeper understanding: market, market economy, and moral prerequisites.[1] Apparently, according to him, there is a type of economy based on the market which necessarily relies on morals. One might call this moral prerequisite culture.

This paper analyzes the relationship between market and culture in Röpke's normative thought. "Normative" denotes here the fact that Röpke not only offers an explanation for economic and social phenomena and phenotypes, but also expresses his preference as to what these social and economic relationships ought to be. Röpke's "Weltanschauung" is by nature normative. It will be argued here that Röpke, in his normative thought, is both overly skeptical about markets and overly optimistic about culture.

This might come as a surprise, since Röpke is thought of a liberal[2] and also as a cultural pessimist criticizing what he perceives as the downfall of culture with the

[1]There are more concepts that require definition in that brief passage, for example, competition and the difference between moral support and moral prerequisite. However, the three mentioned above are the most important in light of this paper's subject.

[2]The term "liberal" will be used here broadly to encompass the thinking that assigns to the market—either as an institution or as a process—a fundamental role (at least) in the economic organization of a society. Liberals will call for free markets and the broad use of markets in economic and social settings. This, however, is not the place for an analysis of the different usages

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rise of "mass society" and large-scale economies in which families disintegrate and individuals become powerless. How, then, is it possible to claim that Röpke was overly optimistic about culture? For one, Röpke's negative diagnosis of the contemporary culture he witnessed reflects his preference for a much better culture, the desire for which caused him to be (overly) optimistic with regard to that preferred superior configuration. His idea was the Christian-humanistic agricultural society and culture, the stark preference for which caused him to deplore any deviation from it. He was a pessimist in his judgment of what he saw as factual, given culture but an optimist regarding his normative claim of what ought to be. This analysis will be the main focus of this paper.

After having established what culture is for Röpke, this paper will critically assess if his conception of culture contributes as much as he wanted for his *A Humane Economy*. Especially, it will be asked if Röpke has a clear understanding of what culture is, by which (epistemic) criteria he is guided, and if there are contradictions between his understanding of culture and the whole of his economic philosophy. Then, the role of markets in Röpke's economic philosophy will be analyzed. It will be contended that although he employs markets much as any liberal would, he falls short of recognizing that the market can play a much more fundamental role in the advancement of a "Humane Society" as he envisioned it. A third and last section briefly summarizes the argument and discusses Röpke's merits, in particular in comparison to other liberals.

Before commencing with the analysis as outlined above while quoting Röpke as much as possible, three caveats must be voiced. The first is of normative nature. To many a contemporary reader, Röpke seems a reactionary. While this might be true, it will neither be qualified nor judged by this paper. Here, Röpke's ideas will be discussed in function of himself as a benchmark. Naturally, this does not mean that the author of this paper either agrees or disagrees with Röpke. Second, although there is a focus on *A Humane Economy*, the whole body of his work will be read in an attempt to understand it as consistently as possible. This approach is based on a broadly understood "principle of charity" (Davidson 1974). Third, this paper is a discussion of ideas, mainly as presented in *A Humane Economy*, not of texts, history, historical importance, or the like.

2 Culture and Its Enemies

In *A Humane Economy*, Röpke argues that the market economy, and with it, social and political freedom, can thrive only as part of and with the protection of a bourgeois culture. For Röpke, this culture is in itself important but is also the backbone of any defense against communism, still the most important danger in

of the term nor is the market the only component of liberal thought—many would claim that freedom is. For these discussions, see, e.g., Mirowski and Plehwe (2009) or Schneider (2014).

his time and from his point of view. However, what exactly is this bourgeois culture? Why assign a pivotal role to it? And is it coherent? This section deals with these questions by first explaining Röpke's conception of culture and then critically assessing it.

2.1 Röpke's Conception of Culture

A Humane Economy does not define culture in a systematic way but rather in opposition to what Röpke considered threats to his preferences. These threats are mass society, mass economy, the welfare state, inflation, and centralization. This list is extensional, i.e., it enumerates different states considered threats to bourgeois culture. But the list lacks the intensional criteria for counting or discounting something as proper to bourgeois culture. Still, Röpke seems to have at least one conception of what this bourgeois culture entails. What is it?

The attempt at a neutral definition of culture might ease the way to understanding Röpke.[3] Culture is the characteristics and knowledge of a particular group of people, defined by everything including language, religion, cuisine, social habits, music, and arts. It consists of shared patterns of behaviors and interactions, cognitive constructs, and understanding that are learned by socialization. Thus, it can be seen as the growth of a group identity fostered by social patterns unique to the group. In short, culture is a set of cooperative practices (Spencer-Oatey 2012).

Spencer-Oatey (2012) develops the following twelve characteristics of culture: culture is manifested at different layers of depth; culture affects behavior and interpretations of behavior; culture can be differentiated from both universal human nature and unique individual personality; culture influences biological processes; culture is associated with social groups; culture is both an individual construct and a social construct; culture is always both socially and psychologically distributed in a group, so the delineation of a culture's features will always be fuzzy; culture has both universal (etic) and distinctive (emic) elements; culture is learned; culture is subject to gradual change; the various parts of a culture are all, to some degree, interrelated; and culture is a descriptive, not an evaluative concept.

Röpke, on the other hand, does not seem to care about a systematic characterization of culture, but advances his normative preferences without much ado:

> My picture of man is fashioned by the spiritual heritage of classical and Christian tradition. I see in man the likeness of God; I am profoundly convinced that it is an appalling sin to reduce man to a means [. . .] and that each man's soul is something unique, irreplaceable, priceless, in comparison with which all other things are as naught. I am attached to a humanism which is rooted in these convictions and which regards man as the child and image of God [. . .]. (Röpke 1960, p. 5)

[3]The word "culture" itself derives from a French term, which in turn derives from the Latin *colere*, which means to tend to the earth and grow or cultivation and nurture.

Röpke claims that a market economy without this solid basis does not work, for example (Röpke 1960, p. 6), "The market economy is not everything. It must find its place within a higher order of things which is not ruled by supply and demand, free prices, and competition." And:

> Market economy is one thing in a society where atomization, mass, proletarianization and concentration rule; it is quite another in a society approaching anything like the "natural order" which I have described [elsewhere, HS]. In such a society, wealth would be widely dispersed; people's lives would have solid foundations; genuine communities, from the family upward, would form a background of moral support for the individual; there would be counterweights to competition and the mechanical operation of prices; people would have roots and would not be adrift in life without anchor; there would be a broad belt of an independent middle class, a healthy balance between town and country, industry and agriculture. (Röpke 1960, p. 35)

It seems that Röpke uses the terms moral and culture synonymously. It also appears that he has a clear-cut conception of the culture he prefers: it is the bourgeois culture. In a footnote, he explains the extension of the word (Röpke 1960, p. 98): "The word 'bourgeois' is here used to correspond to the German word 'bürgerlich', in a completely non-pejorative and non-political sense." He also discusses its intention:

> The true role of ownership can be appreciated only if we look upon it as representative of something far beyond what is visible and measurable. Ownership illustrates the fact that the market economy is a form of economic order belonging to a particular philosophy of life and to a particular social and moral universe. This we now have to define, and in so doing the word 'bourgeois' imposes itself, however much mass public opinion (especially of the intellectual masses) may, after a century of deformation by Marxist propaganda, dislike this designation or find it ridiculous. In all honesty, we have to admit that the market economy has a bourgeois foundation. [. . .] The market economy, and with it social and political freedom, can thrive only as a part and under the protection of a bourgeois system. This implies the existence of a society in which certain fundamentals are respected and color the whole network of social relationships: individual effort and responsibility, absolute norms and values, independence based on ownership, prudence and daring, calculating and saving, responsibility for planning one's own life, proper coherence with the community, family feeling, a sense of tradition and the succession of generations combined with an open-minded view of the present and the future, proper tension between individual and community, firm moral discipline, respect for the value of money, the courage to grapple on one's own with life and its uncertainties, a sense of the natural order of things, and a firm scale of values. (Röpke 1960, p. 98)

This idea is further nuanced:

> It was a 'bourgeois' philosophy in the true sense of the word, and one might also legitimately call it 'liberal'. It taught us that there is nothing shameful in the self-reliance and self-assertion of the individual taking care of himself and his family, and it led us to assign their due place to the corresponding virtues of diligence, alertness, thrift, sense of duty, reliability, punctuality, and reasonableness. We have learned to regard the individual, with his family, relying on his own efforts and making his own way, as a source of vital impulses, as a life-giving creative force without which our modern world and our whole civilization are unthinkable. In order to appreciate just how important this 'bourgeois' spirit is for our world, let us consider the difficulty of implanting modern economic forms in the underdeveloped countries, which often lack the spiritual and moral conditions here under

> discussion. We in the West take them for granted and are therefore hardly aware of them, but the spokesmen of the underdeveloped countries frequently see only the outward economic success of Western nations and not the spiritual and moral foundations upon which it rests. A sort of human humus must be there, or at least be expected to form, if Western industry is to be successfully transplanted. Its ultimate conditions remain accuracy, reliability, a sense of time and duty, application, and that general sense of good workmanship which is obviously at home in only a few countries. With some slight exaggeration, one might put it this way: modern economic activity can thrive only where whoever says "tomorrow" means tomorrow and not some undefined time in the future. (Röpke 1960, p. 119)[4]

Reading this material, it could be claimed that Röpke, despite focusing on his normative preference, also had a conception of culture as consisting of virtues, norms, and institutions (Röpke 1960, p. 125). The virtues needed for a bourgeois society are: "Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms—all of these are things which people must possess before they go to market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration." Then, there are institutions: "Family, church, genuine communities and tradition are their sources. It is also necessary that people should grow up in conditions which favor such moral convictions, conditions of a natural order, conditions promoting co-operation, respecting tradition, and giving moral support to the individual." And finally, there are norms: "Ownership and reserves, and a feeling for both, are essential parts of such an order. We have, a little earlier, characterized such an order as 'bourgeois' in the broadest sense, and it is the foundation upon which the ethics of the market economy must rest. It is an order which fosters individual independence and responsibility as much as the public spirit which connects the individual with the community and limits his greed" (Röpke 1960, p. 125).

Now one might ask if Röpke is aware of the historicity of culture. In *Economics of the Free Society*, Röpke makes an allusion to his understanding of the historical background of the bourgeois society (Röpke 1963, p. 38): "There is some evidence that this interpretation of costs reflects the moral climate in which the English bourgeoisie of the eighteenth and nineteenth centuries lived, a climate in which every honest gain was thought to require a corresponding sacrifice." Also, in *A Humane Economy*, he condemns the ancien régime and its lack of concern for the future (Röpke 1960, p. 100). Both allusions reveal that he is at least conscious that culture has its own historicity, i.e., there are not unchanged sets of values, but they change over time and even change their basic paradigm—for example, the ancien

[4]The second part of this quote might have a reactionary and/or exclusivist ring to it. However, it is interesting to observe that many a monetarist and so-called neoliberal in the 1990s—this irony must have made Röpke turn in his grave—went around the world preaching the causal relation of free market and free society. Based on this postulate, many pro-market reforms were made, which were no doubt a step in the right direction. But many a country proved them wrong: markets came and even became freer than before, but free society did not follow. According to Röpke, however, free markets can only unfold on the basis of the bourgeois society.

régime turning into bourgeois culture. On the other hand, many of the passages quoted above also convey the idea that bourgeois culture—at least the one Röpke prefers—is an anthropological constant. During his time in Istanbul, Röpke seems to have reached the conclusion that there are anthropological criteria for this natural, bourgeois culture.[5] This shall be addressed more in depth in the next subsection.

What is the overall picture of Röpke's understanding of culture, then? For one, he seems to have an overlapping view of culture and morals or of culture and values. The virtues[6] of the individual and of the small group are the backbone of his conception of culture. These are individual reliance on family, self-discipline, justice, moderation, and proportionality, among others. Apart from these virtues, there are some legal norms that seem to be as fundamental as the virtues themselves, namely, private ownership and the unconditionality of obligations. Then, some important institutions can be discerned: family, church, village, and civic society are among them. Further evidence speaks for the state as the body politic also to be counted among them. If this is Röpke's conception of bourgeois culture, some critical questions arise.

2.2 Questions

This assessment should answer the following four closely interrelated questions: (1) Is Röpke's understanding of culture natural or historical? (2) Does it allow for change or evolution over time? (3) How institutional is it? (4) Is it coherent? The characteristics of culture introduced above (Spencer-Oatey 2012) should facilitate this discussion.

The first question probably addresses the most important dichotomy. Is culture something that emerged from the history of Europe or is it something natural that just has to be unveiled? Röpke seems to be aware of a certain historicity. He admits that there were other dominant forms of culture before his preferred bourgeois mode. And by criticizing the social crisis of his time, he at least concedes that even a bourgeois culture can change in the wrong direction. Röpke is, then, aware that culture is maybe not bound to but at least exists in time. On the other hand, he often makes allusions to a natural order, identifying his preferred bourgeois culture with

[5]For Röpke's development in Istanbul, see the chapter by Antonio Masala and Özge Kama in this volume.

[6]There are three dominant theories in normative ethics. Röpke was a profound critic of utilitarianism/consequentialism. This is the position holding that the best moral action is the one that maximizes utility. Röpke's opinion of deontology, the position that judges the morality of an action based on the action's adherence to a rule or rules, is less clear. Here, however, he will be treated as a virtue ethicist. Virtue ethics emphasizes the role of one's character and the virtues that one's character embodies for determining or evaluating ethical behavior. His conception of culture as bourgeois morality will be seen in this paper as an influence on the character of individuals (Crisp and Slote 1997).

it.[7] According to natural law moral theory, the moral standards that govern human behavior are, in some sense, objectively derived from the nature of human beings and the nature of the world (Coleman and Murphy 1990). While "natural law" might be acceptable for many liberal philosophies,[8] it is one thing to claim that there is a natural moral content of behavior and another to claim that there is a natural order of things or a culture that comes naturally. This involves, namely, a threefold claim. First, it identifies culture as a thing; second, it sees culture as a homogenous whole uniformly distributed among its members; and third, it presupposes that all virtues, norms, and institutions are on the same level of importance.

This threefold claim faces several problems. First, as seen above, culture is not a thing or even an independently acting entity, but more a set of cooperative practices with different features influencing individuals in their behavior and being influenced by the individual. One important consequence is that culture is not the necessary basis upon which contingent relationships might unfold. Many aspects of culture are contingent as well and are influenced by these relationships. Culture is neither homogenous nor uniformly distributed among individuals. The idea that there is a "culture pack" for each person and that each person at any given time can go back to that pack full of items that are identical to everyone else's packs can be challenged at two levels. On one level, even if the packs were the same, all individuals might not use the same item in comparable situations. For example, if there is a conflict of interest between the norm of property and the institution of the state, one individual could try to solve it by relying on the virtue of moderation, while another individual could resort to justice. Argumentatively, it is not possible to defend homogeneity by stating that the content of the "culture packs" is the same, or their result would be the same. If this path is to be trodden, then questions regarding the role of different items of the "pack," i.e., virtues, arise as well as concerns regarding determinate futures, human freedom, and the like. The other level of challenge to the "culture pack" theory is based on the prima facie fact that the packs are simply not the same. Even in a region that more or less resembles Röpke's normative preference, Switzerland's Appenzell,[9] there is quite a diversity of situations judged differently by its citizens (see, e.g., Nentwich 2006; Maissen 2009; Baumann 2001). These problems combined, considering culture a thing and treating it as homogenous entity, lead to yet another problem which is one of completeness. If culture is a homogenous entity, all its parts are necessary. So, all

[7]Also, in *Civitas Humana* Röpke acknowledges anthropological constants: relationships toward private property, gender, the community, work, and leisure (Röpke 1979, p. 159). Also, he speaks of a "consensus saeculorum" (sic!)—a consensus emerging from human history—regarding aesthetics (Röpke 1952, p. 164).

[8]For example, in Hayek (Posner 2005) and Ayn Rand (Rand 1964).

[9]The region of Appenzell consists of two cantons (states) that were separated after a civil war concerning which Christian denomination to adhere to: Innerrhoden remained Catholic and Ausserrhoden became Protestant, but even Innerrhoden claimed differences with the Catholic Abbey of St. Gall, which is only 17 km away, and became an exempt region, i.e., directly under the administration of the Pope rather than the Bishop of St. Gall.

the virtues, norms, and institutions discerned above are a necessary part of culture, and if any is missing, the normatively preferred culture does not exist. This would make Röpke extremely exclusivist leading to propositions like the following: "in a small city, there is no bourgeois culture," "a single person cannot have bourgeois culture," and "where there is no church, there is no bourgeois culture." While these claims are not by necessity false, they are troublesome because of their burden of proof and because of the fact that bourgeois culture originated in towns, was developed by single people, and often faced the resistance of the church.

Since Röpke was aware of some historicity of his preferred bourgeois culture, it is highly doubtful that he would have endorsed the full extent of the claims above. Nonetheless, his many recurrences to the "natural order of things" might indicate that he was not aware of this bifurcation when he developed his own conception. However, there is a way to read him that minimizes these problems, namely, by reading him as advocating a culture, rather than a combination of virtues, institutes, and institutions, that would be appropriate to his time, rather than corresponding to the best possible abstract order. This reading minimizes the problems of interpretation, but it also incurs the risk of minimizing some dimensions of Röpke's thought and the appeal he wanted to make.

The second question posed is whether culture is static or can change over time. This is slightly different from the question of historicity since even a nonhistoric culture could allow for its evolution (Schehr 1997) and a culture deeply rooted in history could lead to a normativity of the static (see, e.g., Han Fei's philosophy in Schneider 2011). In order to answer this question, a more precise definition of change is needed. Change can occur at the level of virtues, forms, and institutions, for example, when one of them is replaced by another or a new one or becomes obsolete and is no longer needed in the body of culture. From the answer to the first question, it seems that Röpke's conception of culture would be extremely hesitant toward any change in this sense. However, there might be another dimension of evolution, namely, the one that occurs within the system. Take, for example, Röpke's endorsement of some redistribution and some subsidies (Gregg 2010). If his conception of culture is understood statically, redistribution is not possible because it infringes on the institution of property and subsidies cannot be accepted by any member of the bourgeois culture because it goes against the virtue of self-reliance. However, the mere introduction and acceptance of both these policies—independent of their merit or adequacy—show that culture allows for some inner dynamics as it allows for trade-offs of virtues, forms, and institutions according to circumstances. If a time arises in which both these policies are necessary, the cultural system readapts to it. So, in this reading of Röpke, his preferred culture is in some institutional sense static but allows for enough dynamism to adapt to certain circumstances.

If his conception of culture is in some institutional sense static, the third question already poses itself: how institutional is Röpke's culture? Institutional means here that bourgeois culture as a whole would be some sort of building that one might choose to enter and to remain in. Only inside of that building could freedom and free markets fully work. This idea of culture as an organization, or a building, goes

hand in hand with the problems of entity and homogeneity discussed above. It has a different nuance since even an "organized" culture allows for inner differentiation, as in corporate culture, for example, (Denison 1990), and the Roman Catholic milieu (Heilbronner 2000). "Organized" cultures can also have "cultural referees," symbols, or people that mark or judge if behavior is commensurate with the "organized" culture. Going to church on Sundays and a person in charge of corporate identity are examples of these "cultural referees."

Röpke, when thinking about which culture to normatively prefer, is acting as such a "cultural referee." *A Humane Economy*, *The Social Crisis of our Time*, and *Economics of the Free Society* are full of symbolic markers of culture, some of which regard acting virtuously—being moderate, respecting private ownership, and taking care of the family—and others of which regard upholding single institutions, participating in civic society. Also, he exemplifies how freedom and free markets fail outside this "organized" bourgeois culture. All of this points in the direction of an "organized" view of bourgeois culture. At first glance, it seems a possibly conservative worldview. However, from the perspective that is relevant here, there are more profound problems with this understanding than first meets the eye. Among these are as follows: for culture, as an organization, to work, it should at least have worked as such in the past or have a possibility of realization. While it is very difficult to claim that the envisaged bourgeois culture ever existed in this form in the past, Röpke himself makes it clear how difficult it is to implement. Capping, for example, the maximum inhabitants of villages (at 3000 people) (Röpke 1979, p. 80) and advocating global population control (Gregg 2010, p. 138) expose the immense difficulty of organizing this culture. Röpke would also have difficulty in accounting for the successes of freedom (at least relative) and free markets (also in an absolute sense) in non-bourgeois regions and countries like the USA, Canada, Australia, and New Zealand. It is even more difficult when analyzing Israel, Korea, Taiwan, and Japan. The most important problem that the view of culture as an organization faces is the one imposed by individual behavior, which shall be returned to shortly.

The fourth and last question summarizes what has been assessed in this subsection. How consistent was Röpke in his conception of culture? There are several perspectives from which to examine this question. One is the individual and his behavior. Röpke constantly reminds his readers that he has the freedom of the individual in mind. On the other hand, he places this individual into his preferred bourgeois culture. This is still not problematic per se, since all individuals' behavior is culturally influenced. A problem would emerge if Röpke thought that culture makes individuals act in a predetermined way. This does not seem to be the case. To the contrary, Röpke seems to see it as the individual's task to maintain a culture that, in turn, influences individual behavior. While this is good news on the determinacy front, it is bad news for what most of the scientific community considers the permeability of culture.

Individuals may belong, at the same time, to sometimes overlapping, sometimes completely different cultures. Just as a speaker of a language normally understands different levels of that language—from poetry to slang—and sometimes even its

dialects, individuals in a culture know how to navigate its different facets. Some individuals even know how to navigate in very different, even contradictory, cultures. Strangely, some of these individuals mastering different cultures are taken as tokens of bourgeois culture by Röpke himself, such as Montesquieu and Adam Smith. There are also examples not mentioned by Röpke that come to mind, like Wilhelm and Alexander von Humboldt and Reginald Fleming Johnston. And yet, these individuals and many unnamed more were not only able to live with the contradictions of different languages and cultures but also to engage in (or for) liberty.

Another apparent inconsistency in Röpke's cultural normativity is its function. At the same time, it serves as a necessary precondition for freedom and free markets as well as a bulwark against collectivism of different sorts. But is Röpke not himself a collectivist when determining population growth and density policies (and declaring them part of the bourgeois culture)? By subjecting the individual to an "organized" culture, Röpke is allowing for a possible collectivist body to determine the behavior of an individual.[10] This problem of interpretation, however, can be mitigated, using the same approach as above. If Röpke is read as encouraging the individual to constantly work toward bourgeois culture, which is by itself a set of cooperative practices, at least the direction of the social vector is different: culture exists because of individuals. But the problem still remains, albeit in weaker form: individuals work toward a collective culture.

The result of this review is that Röpke has a conception of culture but lacks a systematic theory backing it. This lack of theory creates some problems in the interpretation of what he considers to be ideal. It is in this sense that Röpke can be seen as overly optimistic about culture. He criticizes the "crisis of his time" with a view to that bourgeois culture he prefers, but bourgeois culture itself is more an abstraction than a reality, and, as all culture, it is heterogeneous, porous, dynamic, and malleable. Not reflecting critically what culture is, Röpke becomes overly optimistic about aligning most of his philosophy with an abstraction that is very difficult to implement.[11] And once it is implemented in the way he wants, it becomes a facet of collectivism. Market economies and liberty can be, however, implemented even if there is no full-fledged "bourgeois culture." On the contrary, the market as a process can even influence the advancement of that culture or at least of many aspects that belong to it. This is due to a dynamic feature of (bourgeois) culture: it is a constant negotiation between normative ideals and reality. Röpke's pessimism about markets led him to neglect this feature, which shall be explained in the next section.

[10]Karl Renner, an Austrian Social Democrat, described Röpke as a "communitarian liberal."

[11]One could go even further and say impossible to implement (a) since that culture never existed in Röpke's normativity and (b) because of the inner problems of his conception of culture.

3 The Market and Its Friends

A Humane Economy is by no means written against the free market. On the contrary, it is subtitled *The Social Framework of the Free Market*. Röpke understands it as a foundational work not only for a free society but also for free markets. This section will first understand what the market is for Röpke and then assess why he neglects its potential with regard to the "bourgeois culture."

3.1 Free Markets and Not Capitalism

As with culture, Röpke often prefers to tell his readers what something is not, so he defines free markets in opposition to many other concepts. First, the free market is opposed to communism, because it attains to individual property, individual responsibility, and free exchange. Second, free markets are not capitalism. Capitalism is a mix of markets, monopolies, and command-and-control economies, whereas free markets are by necessity competition among individuals. Capitalism, on the other hand, dampens competition with large enterprises and state- and privately held monopolies. Third, the free market is an institution of bourgeois culture and not a principle in itself. The principled view of "economism" subjects all relationships to the mechanism of the market. As such, it is utilitarian-consequentialist which is what Röpke criticizes in the first place. The free market belongs to bourgeois culture but "economism" tries to replace it and is, therefore, opposite to it (Röpke 1960, p. 99).

As with culture, Röpke is very clear about his normative preferences. While arguing robustly, he leaves it open to interpretation which conception he prefers. The following excerpts illustrate this point:

> [O]nly the blind could fail to notice that commercialism, that is, the luxuriance of the market and its principles, causes the beauty of the landscape and the harmony of the cities to be sacrificed to advertising. The reason that the danger is so great is that although money can be made from advertising, it cannot be made from resistance to advertising's excesses and perversions (Röpke 1960, p. 138). [. . .] The supporters of the market economy do it the worst service by not observing its limits and conditions [. . .] and by not drawing the necessary conclusions (Röpke 1960, p. 141). [. . .] These, I believe, are the reasons why I so greatly distrust all forms of collectivism. It is for the same reasons that I champion an economic order ruled by free prices and markets—and also because weighty arguments and compelling evidence show clearly that in our age of highly developed industrial economy, this is the only economic order compatible with human freedom, with a state and society which safeguard freedom, and with the rule of law. For these are the fundamental conditions without which a life possessing meaning and dignity is impossible for men of our religious and philosophical convictions and traditions. (Röpke 1960, p. 5)

Does Röpke, however, offer more content to his definition of the market? In *Economics of the Free Society*, he does. Labeling it a "Third Way" between collectivism and capitalism, Röpke comes up with a free market economy, which

he calls Social Market Economy, not because it pays attention to social rebalancing or redistribution but because it is based upon the values—or virtues—of freedom, justice, and moderation:

> This "third road" of economic policy is, above all, a road of moderation and proportion. It is incumbent upon us to make use of every available means to free our society from its intoxication with big numbers, from the cult of the colossal, from centralization, from hyper-organization and standardization, from the pseudo-ideal of the "bigger and better," from the worship of the mass man and from addiction to the gigantic. We must lead it back to a natural, human, spontaneous, balanced, and diversified existence. It is incumbent upon us to end an epoch in which mankind, in the triumph of its technological and organizational accomplishments and in its enthusiasm over the vision of a future of unending growth and unrestrained progress, forgot man himself: forgot his soul, his instincts, his nerves and organs, heedless of the centuries' old wisdom of Montaigne (Essays, Book III, Chap. 13), that even on the highest stilts we must still walk with our legs and even on the world's highest throne we must still sit on our bottom. Such a "road" signifies, above all, the favoring of the ownership of small and medium-sized properties, independent farming, the decentralization of industrial areas, the restoration of the dignity and meaning of work, the reanimation of professional pride and professional ethics, the promotion of communal solidarity. The prospects for the success of such a policy would be not too good, were it not for the fact that a slow-down in population increases is eliminating one of the principal causes of the rise of the proletariat, and were it not obvious that the advantages which up to now have been attributed to large scale enterprises have been seriously exaggerated. The notion that we are faced with an irresistible trend toward large-scale enterprise has been shown to be completely inapplicable to the broadest and most important segments of the economy, particularly agriculture, the handicrafts, and small business. Even with respect to industry, it can be assumed that the notable increase in average-sized enterprises in recent decades is explainable less in terms of the technical-economic advantages which would be thereby gained, than as a reaction to that megalomania to which the world has so heedlessly surrendered. It is everywhere apparent that the dimensions of many areas of our lives—economic as well as noneconomic—have expanded far beyond the optimum, and that they must be deflated to more reasonable proportions, a process which will prove to be painful but, in the long run, beneficial. In this connection, there must be due recognition of the fact that contrary to a widely held opinion, technological development itself has very often had the effect of strengthening the viability of the small as opposed to the large-scale enterprise. (Röpke 1963, pp. 256–257)

The link between this "Third Way" and his own philosophy of culture is made in *A Humane Economy*. There Röpke acknowledges some "educational" features of the market:

> The market economy is a constantly renewed texture of more or less short-lived contractual relations. It can, therefore, have no permanence unless the confidence which any contract presupposes rests on a broad and solid ethical base in all market parties. It depends upon a satisfactory average degree of personal integrity and, at the margin, upon a system of law which counteracts the natural tendency to slip back into less-than-average integrity. Within that legal framework, the market's own sanctions undeniably foster the habit of observing certain minimum rules of behavior and thereby also integrity. Whoever always lies and deceives and breaks contracts will sooner or later be taught that honesty is the best policy. For all its resting on utilitarian calculation, this pattern of behavior is valuable and reliable, as we can see in the extreme example of Soviet Russia, which, in its relations with the outside world of the market, has tried systematically and successfully to acquire the reputation for prompt payment while adhering, in other respects, to the ethical code of gangsters. Even if we conscientiously credit the market with certain educational influences,

> we are, therefore, led back to our main contention that the ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously. This is the error of liberal immanentism. These prerequisites must be furnished from outside, and it is, on the contrary, the market and competition which constantly strain them, draw upon them, and consume them. (Röpke 1960, p. 125)

Summing up, Röpke's market is an institution governed by the principle of competition. In the free market, individuals exchange their surpluses and this leads to a state of competition. For this free market to work, however, some rules are needed, since every institution needs them. Among these rules are the power equivalency of demanders and suppliers, the fair value of goods, moderation of marketing activities, and fomentation of the local economy. Since the market is an institution and every institution needs rules, it becomes apparent why these rules have to come from culture. No institution makes its own rules on the go; it needs a rule book and by logical necessity, the rule book comes from outside. No football game would succeed if players were to make up rules as they play. But even rules will not guarantee the functioning of markets. Individuals must adhere to these rules. Virtuous individuals will find it easier to adhere to the rules. Here again, Röpke goes back to his bourgeois culture and the virtues that are part of it. Since free markets are dependent on culture, Röpke devotes his attention to the bourgeois society as the backbone of the free market.

3.2 Questions

If Röpke is such a great friend of the market, why label him here as a skeptic? In order to answer this question, this subsection will ask the following: (1) What, exactly, is Röpke's conception of the market? (2) If Röpke recognizes the "educational" role of markets, why does he not assign them a more important role in fomenting bourgeois culture? (3) Is there something about the market that Röpke misses and would help his intention to solidify both the market and culture?

First, regarding Röpke's conception of the market, his vision of economic and social order, while offering a "Third Way," also forces a choice between utilitarianism and loyalty to ideals that transcend the material and the utilitarian or between a capitalistic economy of fragmented special interests, technologism, and excessive urbanization and a humane economy that seeks balance. Röpke holds that liberty and correct reasoning go together. Correct reasoning about the objective reality of values is the basis for genuine freedom, including that of a free market. The distinction Röpke makes between the essentials of the free market system and its historical accidents allows him to overcome the stalemate of the false either/or discussion of socialism or capitalism/liberalism. He is conservative in keeping the essentials and radical in jettisoning the historical deformities. Röpke firmly believes in free markets as the only legitimate way to harness self-interest in

the service of others. However, Röpke also understands the need to place markets and the entire economy in proper perspective.

When presenting his ideal alternative model of the economy, Röpke's arguments depend strongly on an essentialist rhetoric and philosophy. He insists that there is a difference between the "essence" of the free market system and its "exchangeable accessories." Again, in distinguishing essentials from historical incidentals, he speaks of competition; within this framework of essential distinctions, Röpke is able to argue for a form of the competitive market economy that is still significantly different from that of historical liberalism. He is conservative in the sense that its essential norms (freedom, competition, and private property) are retained but radical in his willingness to dispense with deforming accretions of history. Also, he did not seem to believe in a mechanism of self-correction inherent to markets: far from assuming that the market would correct itself, Röpke proposes a policy of consumer education that begins in the schools with an intensive program. The appropriate direction and schooling of demand will have to be complemented with keeping the advertising of rich enterprises within bounds or counterbalanced with advertising by artisans' associations. In some cases, consumers need help to purchase handicraft products—even through installment buying.

For Röpke, the ordinary person is not simply a homo economicus. Economics is also about the logic of relationships and should focus on interdependencies—on willingly incurred independencies, which are a form of relationship based on individualism and responsibility, and on non-willingly incurred ones, which are a form of collectivism and therefore go against the idea of a free market and a free bourgeois society. The free price mechanism is at the center of the market, first, because it is the product of competition and, second, because it operationalizes the different preferences of freewilled individuals freely incurring relationships. Therefore, thirdly, the free market is an expression of a free society and not vice versa, i.e., not in the manner "society is free if there is a free market."

This understanding of the market leads to the answer to the second question. If the market has an "educational" side, why cannot it be used in alignment with the ideal of the bourgeois culture? Röpke's problem is what he considers to be a utilitarianism naturally, or necessarily, embedded in the market. Knowing that man is more than producer and consumer, Röpke rejected utilitarianism and thought that most of his fellow economists perceived human existence imperfectly, being blinkered by utilitarian dogma. Murray Rothbard analyzes Röpke's rebuttal of utilitarianism as follows:

> In brief, utilitarian social philosophy holds the 'good' policy to be the one that yields the 'greatest good for the greatest number': in which each person counts for one in making up that number, and in which 'the good' is held to be the fullest satisfaction of the purely subjective desires of the individuals in society. Utilitarians, like economists [...] like to think of themselves as 'scientific' and 'value free', and their doctrine supposedly permits them to adopt a virtually value-free stance; for they are presumably not imposing their own values, but simply recommending the greatest possible satisfaction of the desires and wants of the mass of the population. But this doctrine is hardly scientific and by no means value free. For one thing, why the 'greatest number'? Why is it ethically better to follow the wishes of the greater as against the lesser number? What's so good about the 'greatest

> number'? [. . .] Secondly, what is the justification for each person counting for one? Why not some system of weighting? This, too, seems to be an unexamined and therefore unscientific article of faith in utilitarianism. Thirdly, why is 'the good' only fulfilling the subjective emotional desires of each person? Why can there be no supra-subjective critique of these desires? Indeed, utilitarianism implicitly assumes these subjective desires to be absolute givens which the social technician is somehow duty-bound to try to satisfy. But it is common human experience that individual desires are not absolute and unchanging. They are not hermetically sealed off from persuasion, rational or otherwise; experience and other individuals can and do persuade and convince people to change their values. [. . .] Modern welfare economics is particularly adept at arriving at estimates (even allegedly precise quantitative ones) of 'social cost' and 'social utility'. But economics does correctly inform us, not that moral principles are subjective, but that utilities and costs are indeed subjective: individual utilities are purely subjective and ordinal, and therefore it is totally illegitimate to add or weight them to arrive at any estimate for 'social' utility or cost. (Rothbard 2002, pp. 201–203)

So, even if Röpke thinks that the market has some "educational" component, he cannot use it to foment bourgeois culture but has to place it as an institution of that prerequisite. Markets as institutions obey a utilitarian logic that may be useful in that situation, but cannot be the basis of a society. Also, markets have no rule-giving mechanisms and only very limited self-correction mechanisms.

However, in answering the third question above, there might be something that Röpke did miss about the free market—something that could have helped him align it even more to his preferred culture. This shall be explored now. Methodologically, Röpke argued against the collectivisms of socialism and capitalism and also Keynesianism. Economically, Röpke associated the welfare state's growth with Keynesian full-employment policies and the temptation of inflation as an escape from unemployment. Crucial in this conception is the Keynesian concept of aggregate demand. Röpke methodologically opts to fight Keynes on Keynes' own field and uses aggregate demand as well as its correspondent in microeconomics, individual demand, and supply. It is in the same methodological vein that Röpke worked on business cycles. Unlike Keynesians and some Austrian economists, Röpke was less concerned with escaping the business cycle than with facilitating a society capable of absorbing business cycle upheavals, thereby reducing opportunities for adventurism and soft despotism.

Why is this methodological explanation of Röpke's economics important in answering this third question? Often, methodologies influence conceptions. Using methodologies that understand the market as an entity, most probably as an institution with clearly defined rules (or mechanics), agents, and equilibria,[12] Röpke forgets alternative views. Among these alternatives is conceiving the market as a process in which individuals or groups of individuals voluntarily engage in exchange. If thought of in this way, the term market becomes a linguistic denotation

[12]In *Die Lehre von der Wirtschaft*, Röpke dedicates a chapter to the imbalances of the market identifying the sources of the imbalances and how to stabilize the market. To be fair, he also states that the more policies of stabilization are implemented, the less stable the markets become (Röpke 1943, p. 292).

of a phenotype instead of the description of a mechanism with the implicit claim that the mechanism can be built, expanded, regulated, and so on. This is even more important from Röpke's point of view. Understanding the market as the free exchange among individuals, without any other quality to it, would bring it in line with other elements of Röpke's thought and make it immune to the "dangers" of economism, capitalism, and so on. If markets are understood just as a linguistic marker for relationships, there is nothing more to it than the relationships. And these are grounded on the cooperative practices that make up culture and values. In this logic, markets are part of culture. And if Röpke prefers a culture fomenting virtues, these virtues are applicable to the exchange process without intermediaries. This understanding of markets would dissipate yet another dichotomy, that of how to reconcile market utilitarianism with the priorities of culture and virtue. Röpke's failure to recognize the market as just another process embedded in culture leads him to an uneasy situation in which he accepts markets as an institution of culture but at the same time tries to assign them a place and function (like the state or the welfare system) in order to stop them from overpowering other institutions and becoming a determinant in the life of the individual.

And it is in this last sense that Röpke can be considered a skeptic about markets: by treating them as an institution, he failed to recognize that markets can be thought of as processes of exchange between individuals and groups of individuals. This second concept of markets would be more in line with his normative preference for bourgeois culture by in fact identifying the actions on the market with moral actions, which by themselves presuppose individual virtue as well as the cultural norms discussed above. Röpke is a skeptic because he failed to see that markets as processes are harmonious with his claims. And instead of markets as institutions, markets as linguistic markers of individual exchange do not need to be assigned to specific realms and regulations.

4 Conclusion: A Different Mind

Samuel Gregg[13] once said: "It is a good thing Röpke died before 1968; he would not have survived it." In this short sentence, Gregg explains two peculiarities and problems of Röpke in one. First, Röpke was among the few economists setting out not only into economic inquiries but acknowledging that the economy is just a subset of cooperative practices. Culture, as he called it, is the basic precondition for every economy that cannot work independently from it. Second, Röpke set out to define the culture he normatively preferred and came up with a set of virtues, institutes, and organizations; in them were, for example, the virtues of the individual, the institutes protecting the individual, and the organizations that enable free individuals to pursue their respective liberties, such as the market.

[13]In a private conversation (March 2016).

By doing so, Röpke's theory faces two problems that are quite severe. By engaging in a definition of what culture should be, he simply wanted too much from his theory. If he was an optimist about culture, then he was it in the sense that he expected too much from culture—so much that it would be an error in being as optimistic as he was. However, Röpke's second mistake was not to further develop his ambitious plan. And because of this, he remained overly skeptic about markets. Developing his theory more ambitiously, Röpke might have encountered a different concept of the market, one that is not based on utilitarianism but reconciles the market as a process with those virtues he preferred. In fact, understanding the market as a process in which virtuous people engage in exchange turns the market in one cooperative practice out of the set of cooperative practices that culture is.

These two errors should not, however, obscure the important messages of Röpke: markets do not exist for their own sake—they do not bombinate in vacuo.

At the end of this discussion, and independently from what one's personal opinion of Röpke or his conceptions of culture and the market is, this peculiar economist should have the last word. Independently from the timeliness of his other ideas, the warning expressed in *A Humane Economy* remains timeless:

> Once we have recognized this necessity of a fundamental choice, we must apply it in practice and draw the conclusions in all fields. It may come as a shock to many of us to realize how much we have already submitted to the habits of thought of an essentially unbourgeois world. This is true, not least, of economists, who like to think in terms of money flows and income flows and who are so fascinated by the mathematical elegance of fashionable macroeconomic models, by the problems of moving aggregates, by the seductions of grandiose projects for balanced growth, by the dynamizing effects of advertising or consumer credit, by the merits of "functional" public finance, or by the glamor of progress surrounding giant concerns-who are so fascinated by all this, I repeat that they forget to consider the implications for the values and institutions of the· bourgeois world, for or against which we have to decide. It is no accident that Keynes—and nobody is more responsible for this tendency among economists than he –has reaped fame and admiration for his equally banal and cynical observation that "in the long run, we are all dead." And yet it should have been obvious that this remark is of the same decidedly unbourgeois spirit as the motto of the ancien régime: "Après nous le déluge." It reveals an utterly unbourgeois unconcern for the future, which has become the mark of a certain style of modern economic policy and inveigles us into regarding it as a virtue to contract debts and as foolishness to save. (Röpke 1960, p. 100)

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Democracy, Liberalism, and Moral Order in Wilhelm Röpke: A Comparison with James M. Buchanan

Gabriele Ciampini

1 Introduction: Wilhelm Röpke, Neoliberalism, and the Mont Pèlerin Society

Wilhelm Röpke and James M. Buchanan were both early members of the Mont Pèlerin Society, one of the most important international associations for the development of liberal thought: Röpke was among the founding members in 1947, while Buchanan was invited to join in 1957. This society was characterized by a remarkable intellectual pluralism, and liberals of different cultural tendencies can be found among its members: Friedrich A. von Hayek, one of the key representatives of the Austrian School; Milton Friedman, a key representative of the Chicago School; and Luigi Einaudi, one of the most important liberals in Italy and the intellectual heir of the Italian tradition in public finance.

There seems to be no substantial evidence that Röpke and Buchanan ever met in person, even though the possibility cannot be discarded altogether. Röpke left the Mont Pèlerin Society in 1962. When Buchanan became a member, he had already started developing his own theory of the nature of the political class. As expounded by Angus Burgin, Buchanan articulated his concerns at the 1954 meeting of the Mont Pèlerin Society, arguing that the "'maintenance of free society may well depend on the removal of certain decisions from majority-vote determination', in part so that wealthier citizens would not be asked to shoulder an unreasonable tax burden for their fellow citizens" (Burgin 2012, p. 118).

How productive can a comparative analysis be between Röpke and Buchanan?

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The German ordoliberals focused for the functioning of the economy on the legal constitution (or, in their terms, the "constitutional framework"), which was a seminal part of the concept of the Social Market Economy (Vanberg 2004, p. 18). The development of public choice theory as an independent area of study can be traced back to the early 1950s, initiated by the work of Kenneth Arrow, giving rise to a vast body of literature on the construction of a social welfare function through the voting system and the problem of aggregation of individual preferences. The theories developed by James Buchanan and Gordon Tullock in *The Calculus of Consent* (Buchanan and Tullock 1962) resonate with the ideas of German ordoliberalism, and Buchanan and Tullock explicitly cite an article by Röpke (1959) about the role of pressure groups: "For a discussion of recent European works on the problem of pressure groups, see Wilhelm Röpke, 'I gruppi di pressione' e l'ultima istanza," Studi economici, XIV (1959), 480–85" (Buchanan and Tullock 1962, p. 283). This is already a first indication that Röpke's thought contains a sketch of public choice arguments avant la lettre.

This article is organized in three sections. Section 2 focuses on the way Röpke conceived democracy, and *The Social Crisis of Our Time* (Röpke 1942) is analyzed, illustrating the points of contact with Buchanan's ideas. In Sect. 3, some of Röpke's ideas that he shared with Buchanan receive further attention, analyzing *A Humane Economy* (Röpke 1958), where he expanded on the topics discussed in *The Social Crisis of Our Time*. Section 4 shows how Röpke and Buchanan shared the notion of a constitutional and also of a strong ethical framework as prerequisites for a well-functioning market economy.

2 *The Social Crisis of Our Time* and the Degeneration of Democracy

This comparison of Röpke's and Buchanan's ideas can start by analyzing Röpke's *The Social Crisis of Our Time* (Röpke 1942) and in particular by analyzing Röpke's theory of democracy. He is worried about the possible degeneration of democracy and its oligarchic drift and explains that it was important first to clarify what constituted concepts like "democracy," "liberalism," and "collectivism": "The urgent need for a delimitation and precise, even if only temporary, definition, arises from the careless and faulty manner in which these concepts are generally being employed in everyday discussion" (Röpke 1942, pp. 83–84).

Röpke locates modern collectivism in the proximity of ancient concept of tyranny: "In both cases we witness the brutal usurpation of sovereignty by a minority which rises from the masses, using them as stepping stones by cajolery and threats" (Röpke 1942, p. 84). The key feature is not primarily the unlimited power of the tyrant but rather that he ruled without a time limit. The office of the

Roman dictator, who enjoyed absolute discretion in the use of power at times when the republic was threatened, had a time limit of 6 months. In this vein, a political system should be considered fully autocratic when it does not have a fixed term for those in power. In line with many other proponents of liberalism, he clearly distinguishes democracy from liberalism, asserting that sometimes democracy could become illiberal: "democracy [. . .] can lead to the worst form of despotism and intolerance if bounds are not set to it by other principles and institutions, and it is this limitation in all aspects that we must call the liberal content of a political structure" (Röpke 1942, p. 85).

The concept of "totalitarian democracy," as developed by Jacob Talmon (Talmon 1952), is helpful to understand Röpke's concept of democracy. "Totalitarian democracy" arises from the abandonment of those liberal principles that are the foundation of the set of checks and balances. This institutional system is responsible for preventing disorientations from which democracy may suffer. Such an imbalance can be avoided, first, by empowering intermediate bodies and associations set up independently by citizens and, second, if possible, by not totally disempowering what remains of the aristocratic classes. According to Röpke, illiberal democracy is not the product of a deficit of participation but, on the contrary, a product of its exaltation: for example, after the French Revolution, the Jacobins extolled the direct intervention of the people in political life. They did not limit themselves to respecting the popular will but sanctioned governmental directives that supported the purges of the Reign of Terror, aiming at the complete realization of the democratic ideal. According to this view, the people seen as the source of political sovereignty and as the holder of an opinion that is not debatable legitimize an abnormal extension of state power. Samuel Gregg has expounded how "Röpke traced a straight line between France's Jacobin revolutionaries of the 1790s and the expansive welfare states that began to characterize Western European democracies from the 1950s onwards" (Gregg 2010, p. 6).

European representative assemblies before the French Revolution aimed to represent the various facets of society: for example, every economic corporation had its own representatives. The king was therefore the one who had the task of mediating between the various social demands to develop common solutions. Only in this way, by taking into consideration the deep heterogeneity of the social body, could an attempt be made to achieve the "common good." Redistributive policies can be seen as a system of mechanisms whose function is to legitimize the interests of expansionist bureaucracies and protect well-established interest groups: according to Röpke, welfare states lurch almost inevitably in this direction. Moreover, preempting what would later be called public choice theory, Röpke suggests that there is an entire class of bureaucrats and politicians whose self-interest lies at the heart of the welfare state's infinite extension and who have no interest in letting this fact be disclosed. In his view, in the context of mass democracy, it is impossible to restrain the expansion of the welfare state (Gregg 2010, pp. 131–132).

However, it may seem unusual for an author like Röpke, one of the initiators of the Social Market Economy, to be associated with Buchanan and Tullock, two economists who based their theories on the principle of methodological

individualism. In 1931 Röpke was a member of the Brauns Commission, established to combat the rise in unemployment and the further deterioration of the depression. The co-founder of ordoliberalism proposed an expansionary policy, albeit a modest one, thus showing patterns of thought which would later be described as Keynesian. Röpke recommended a moderate public intervention capable of reviving the German economy.

By analyzing the history of ordoliberalism, one can observe that a "mistrust" of democracy is perhaps a constant in the evolution of this intellectual current. In fact, Rüstow's "Freie Wirtschaft – Starker Staat" (Rüstow 1932) is an early formulation of the problem of how lobbyists can impose their interests on the majority to obtain political and economic benefits. Rüstow thinks of lobbyists as private economic institutions capable of influencing the decision-making process within the state. For this reason, the state has to be strong enough to resist pressure from the private sector. Gregg has clarified this point which is parallel in Röpke and Rüstow:

> [...] the state must be strong enough to resist interest-group capture. It is possible that Röpke's proposed fragmentation of state power might actually make such resistance harder. Possibly anticipating this criticism, Röpke stressed that his decentralization policies were not designed to unduly weaken the state. A degree of differentiation in the state's responsibilities was, he held, inevitable in any political arrangement. The question was whether these separations were harmonious with the preservation of liberty. Freedom, political decentralization and a strong state were not, Röpke believed, necessarily incompatible. (Gregg 2010, p. 136)

Neoliberalism did not develop as an intellectual current that justifies laissez-faire. In line with Louis Rougier's thought, it sought a balance between public and private powers. Röpke was also a supporter of public intervention, albeit moderate and of a specific kind. However, over time he turned increasingly skeptical of government's ability to optimally allocate public resources. From the early 1940s onward, his thought underwent an interesting evolution. As he matured, his criticism of collectivism and state intervention became more pronounced. He felt a growing concern both about the progressive growth of the welfare state in European countries after WWII, and about pressure groups, political parties, and trade unions that resembled the concept of rent-seeking, thus paralleling Hayek's *The Road to Serfdom* (Hayek 1944). Hayek criticizes the socialists and all those calling for a larger role of the state in alleviating social tensions, but not taking into account the limited possibilities of human knowledge and the subjective expectations of each individual regarding the future—in contrast, in accordance with socialists' view, all members of society will tend to organize their lives according to the socialists' own expectations. It is obvious that no bureaucrat or politician can have knowledge of every member of society.

If the members of the ruling class try to organize society in order to realize the "common good," they demonstrate that they have a collectivist vision and that they see the community they want to administer within a statist vision, with little interest in the legitimate desire for individual freedom of those who deviate from the ideology of the political class. The weak point in the autonomy of the individual is that the "common good" ends up coinciding with the particular conception of

those in power. Röpke partly shares the assumption of the élite theory that political power tends to be controlled by an oligarchy. This basic assumption is useful here since elitism was among the sociological currents that most influenced public choice theory.

According to Röpke, the political class conceived the welfare state as a means to broaden electoral support. Those in power are not seen as an élite that rule on behalf of the "common good" but rather by using cost-benefit calculation: in other words, every individual engaging in political action is seen as an economic agent who tends to maximize his or her own benefit. In this sense, the various political actors (voters, bureaucrats, political parties, etc.) are driven by special interests.

These similarities between the patterns of thought in Röpke and in Buchanan can be found particularly clearly in *A Humane Economy*:

> Social demagogues use the promises of the welfare state and inflationary policy to seduce the masses, and it is hard to warn people convincingly of the price ultimately to be paid by all. All the more reason is there for those who take a more sober and longer view to redouble their efforts to undeceive the others, regardless of violent attacks from social demagogues, who are none too particular in their choice of means, and from the officials of the welfare state itself. (Röpke 1958, p. 152)

These considerations are very similar to those expressed in *The Calculus of Consent*, and Röpke's works also contain further issues later integrated by public choice theorists:

> It is one to which we cannot pay too much attention in this field beyond supply and demand. To put it briefly, the problem is whether, in a mass democracy, with its many kinds of perversions, it is at all possible for policy to serve the common interest. In effect, policy has to withstand not only the pressure of powerful interest groups but also mass opinions, mass emotions, and mass passions that are guided, inflamed, and exploited by pressure groups, demagogy, and party machines alike. All these influences are more dangerous than ever when the decisions in question, to be reasonable, require unusual factual knowledge and the just assessment of all circumstances and interests involved. This applies above all to the wide field of economic policy. (Röpke 1958, p. 142)

He expresses concerns about the increase of state prerogatives in society and maintains that the decision-making power is conditioned by a series of political agents such as political parties and trade unions that aim to create beneficial positions, threatening not only economic freedom but also political freedom:

> Closely connected with the issue of liberty is that of the control of power in society. One of the most weighty criticisms to be made of our entire economic and social system refers, indeed, to the disquieting concentration of economic and social power in the form of monopoly, privileges, giant corporations, pressure groups, monster associations, including the trade-unions, and other organizations. Almost everywhere, modern development favours an excessive accumulation of power of men over men, and since it is in the very nature of power to be abused—"Power tends to corrupt, and absolute power corrupts absolutely" (Lord Acton)—the problem of how to control such excess of power is one of the most important in our society. To the socialist the idea which suggests itself to solve this problem is to abolish the system ("Capitalism") in the midst of which the concentration of power developed and which—very unjustly—is made responsible for it. That, however, is a tragic mistake because, in this way, we are bound to make things immeasurably worse. There is no getting away from the fact that collectivism involves the maximum

> centralization of the economic process in the hands of the government and the entire politicization of economic life, together with the corresponding immense increase of the concentration of power. (Röpke 1951, pp. 28–29)

From these considerations about the "costs" of democracy identified by Röpke, we can see how his thinking paralleled Buchanan's political theory. In *The Calculus of Consent*, Buchanan and Tullock mention Röpke as one of the founders of European studies of lobbying. In their view, public interest necessarily coincides with the subjective conception that everyone has of it. In particular, the focus here on the chapter "Pressure Groups, Special Interests, and the Constitution," Buchanan and Tullock start with the statement that the existence of pressure groups is an unavoidable phenomenon in any society and even more so in a democratic society. As we will see with Röpke, they have the task of representing the various factions of which a society is composed. As a consequence, the traditional conceptual equipment with which the decision-making process and, in general, politics have been interpreted needs a reconsideration.

The concept of the "common good" has been reappraised in an attempt to reconcile it with the legitimate activities of those pressure groups that seek to influence government action legitimately. Traditionally, the "common good" is a concept that owes much to the Catholic political thought. It is an idea of collective well-being at which society, regardless of its internal divisions, should aim. This concept is then linked to the idea that the attempt to achieve this ideal automatically tends toward the satisfaction of individual expectations. However, the "common good" is very difficult (perhaps impossible) to define clearly. The most obvious question is who should decide what it is, given the heterogeneous preferences in society. It is precisely on the basis of this philosophical and political impasse that Buchanan and Tullock begin to illustrate their theory of pressure groups and how they act in the decision-making process. In their view, to arrive at an agreed definition of the "common good," it would require at least some members of the community to clarify exactly what this concept means for them:

> In this construction the "public interest" is what the individual says it is. Moreover, each individual will have a meaningful conception of what he conceives to be the public interest; there will be as many social-welfare functions as there are individuals in the group. "Social welfare" or the "public interest" does exist, for the individual, as something apart from and independent of special group interests, but the usefulness of this approach disappears when we come to those issues on which individual evaluations of alternatives differ. (Buchanan and Tullock 1962, p. 284)

For them, a possible alternative to an impossible single definition is to arrive at a collective decision by considering as "best" those changes that are approved unanimously: "Any change that secures unanimous support is clearly 'desirable', and we can say that such a change is 'in the public interest'" (Buchanan and Tullock 1962, p. 284). However, they admit the impracticability of this solution: in complex societies like the contemporary one characterized by a great diversity of cultures, views, and expectations, to envision achieving unanimity is hardly realistic. Thus one comes to the conclusion that it is not possible to determine unambiguously the concept of the "common good":

> At the ultimate constitutional level of decision, the implied requirement of consensus prevents the partisan struggle among group interests that characterizes operational decisions. If identifiable and permanent coalitions are expected, genuine constitutional process, as we have defined this term, is not possible. We do not, of course, deny that conditions may be present in which separate class or group interests are so solidified that no democratic constitution can be chosen for the community. However, we should emphasize that at the ordinary operational level of decision, within defined constitutional rules, pressure-group conflicts are fully consistent with the democratic process. (Buchanan and Tullock 1962, p. 285)

They formulate the distinct difference between special interests and the "public interest" in the sense of the "common good," and it is no coincidence that they put the term "public interest" in quotation marks. Eventually, as theorized by many liberal theorists including Hayek, the "common good" ends up coinciding with the benefits for a particular political or social group. At this point, public choice theory clearly converges to the rule-based approach of the Freiburg School of ordoliberalism: Buchanan and Tullock underscore that the "common good," understood as a decision taken unanimously, can only be achieved with regard to the procedural rules by which the decision-making process must be developed. In other words, the "public interest" in the sense of the "common good" only concerns the constitutional parameters within which political actors can act.

In Röpke's perspective, pressure groups play an increasingly important role when government activity expands and becomes more extensive and encompassing. Quoting Röpke's article "I gruppi di pressione e l'ultima istanza" (Röpke 1959), Buchanan and Tullock underscore:

> The activities and the importance of special-interest groups in the political process are not independent of either the over-all size or the composition of the governmental budget. A hypothesis explaining the increasing importance of the pressure group over the last half century need not rest on the presumption of a decline in the public morality. A far simpler and much more acceptable hypothesis is that interest-group activity, measured in terms of organizational costs, is a direct function of the "profits" expected from the political process by functional groups. In an era when the whole of governmental activity was sharply limited and when the activities that were collectivized exerted a general impact over substantially all individuals and groups, the relative absence of organized special interests is readily explainable. However, as the importance of the public sector has increased relative to the private sector, and as this expansion has taken the form of an increasingly differential or discriminatory impact on the separate and identifiable groups of the population, the increased investment in organization aimed at securing differential gains by political means is a predictable result. (Buchanan and Tullock 1962, pp. 285–286)

When analyzing *The Calculus of Consent*, one finds commonalities with Röpke's ideas but certainly also differences. The vision of public choice has often been summarized by the expression "politics without romance" (Buchanan 1979), considering the "common good" an ideal that is not only unattainable but that is not even conceivable. Röpke had a different vision. His liberalism, close to the Catholic social doctrine, is compatible with the typical vision of Christian personalism, where the individual is autonomous, but at the same time inserted into a community, in whose context individual freedom actually occurs.

In a 1957 article, Röpke emphasizes the proximity between his theory and the Catholic social doctrine. Focusing on the encyclical *Quadragesimo Anno* by Pius XI, he explains the strict continuity between Christian political thought and liberalism:

> Indeed, the 'liberal' quintessence of this document cannot be denied, so long as we take this word in its large and eternal sense of a civilization based on man and upon a healthy balance between the individual and community; so long, in short, as we accept liberalism as the antipodes of collectivism. (Röpke 1957, p. 130)

Assuming that pressure groups are an unavoidable phenomenon due to the impossibility of defining the "common good," Buchanan and Tullock proceed to question the mechanisms by which they act. Here too, every political agent acts on the basis of cost-benefit calculation: the more government spending increases, the more the political agent will tend to influence the criteria by which national economic resources are used. This results in a vicious cycle: the rise in public spending and legislative activity constitutes an incentive to influence government decisions in order to further increase the taxation power of the state.

As in Röpke, the bureaucratization of society and the expansion of the welfare state and the public sector lead to rent-seeking-consistent policies like protectionist policies or preferential tax treatment for certain manufacturing sectors. Buchanan and Tullock assert that even if there was a society in which taxation was applied equally to everyone in order to fund services used by the entire community, this would not prevent the action of at least one pressure group that aims at the protection of their interests at the expense of others. In this case, groups would become an integral part of the decision-making process.

3 *A Humane Economy* and Politics as Science

After *The Social Crisis of Our Time*, Röpke explores again in *A Humane Economy* the question of what should characterize a modern and balanced market economy:

> This is precisely what we are busy doing nearly everywhere now, in the age of the welfare state and loosening family ties, forgetting that we are thereby chopping away at the very roots of our free society and economy. To say it briefly, today's super-state, with its super-budget, super-taxation, and super-welfare programs, has developed into a colossal apparatus for dissaving and, at the same time, an apparatus of inflation and growing compulsion. To close the vicious circle, this same inflation, which is due to insufficient saving, gravely impairs further saving because it shakes the saver's confidence in the stability of his savings' value. (Röpke 1958, p. 202)

Fully consistent with the ordoliberal tradition, he asserts that the market economy can only develop within a constitutional framework. However, here he penetrates deeper into these problems than he did in *The Social Crisis of Our Time*, depicting how contemporary democracies are characterized by lobbying activities of pressure groups that threaten to clog up the decision-making process:

> The Capitol is besieged by pressure groups, lobbyists, and veto groups, to use the American political jargon. The structure of the modern state is the result of this interplay of constitutional institutions and para-constitutional economic and social power. It is obvious that the discrepancy between democratic idea and constitutional law on the one hand and the hard facts of reality on the other, puts a heavy strain on the modern democratic state. The idea itself appears compromised, and any responsible government must examine carefully all the possible means of resisting this pluralistic disintegration of the state. (Röpke 1958, p. 143)

As reconstructed by Gregg, for Röpke "[. . .] the legal system was responsible for protecting its foundations from rent-seeking interest groups" (Gregg 2010, p. 34). Röpke also attempted to explain the process by which interest groups have begun to have an excessive importance, albeit legitimately since they represent the various factions that make up a truly pluralistic society. In the wake of the liberal tradition, even a representative democracy could become authoritarian and threaten individual freedom if a controlling institution did not limit the executive. In contemporary democracies, parliament is the main intermediate body that stands between government and the citizens. While taking into account different historical, social, and political contexts, parliament essentially has the functions of representing the various facets of society and of imposing limits on the actions of the executive in such a way that they may not be unlimited or arbitrary:

> The idea was that there was no room for legitimate separate interests beside what was called the common interest. The state was supposed to represent an indivisible common interest through co-operation between the executive, organized in the civil service, and parliamentary parties, which, in their turn, were to be divided by ideas rather than by material interests. (Röpke 1958, p. 142)

For Röpke, the state should be the institution fulfilling the task of mediating between the various social demands to develop common solutions. Only by taking into account the deep heterogeneity of the social body is it possible to reach the "common good" by mediating between the various social partners. With the advent of democracy as we know it today, sovereignty became the domain of a small group of individuals who claim to administer public affairs in the name of "the people" seen as a homogeneous entity:

> It is well known that actual developments were less and less in line with this concept. Governments and political parties everywhere progressively became subject to the influence of groups and associations either pressing their particular claims upon both the legislative body and the administration or at least obstructing what did not suit them. One result is that political parties are swayed more by interests than by ideas; another, that the internal authority of the state and its claim to represent the common interest are impaired. (Röpke 1958, p. 142)

One of the main problems of the concept of pluralism in liberal political theory did not escape Röpke: The Swiss-influenced scholar admits the possibility of oligarchic degeneration of the representatives of the social factions that should, on the whole, make up the community. He explicitly distinguishes between two meanings of pluralism, a positive and a negative. The positive is the one contained in the English concept of "people," where the term does not denote the people as a

homogeneous entity. Behind this term there is the Anglo-Saxon conception of society, seen as an aggregate of individuals who do not "solidify" into an aggregate that transcends the individual components. Therefore, Röpke contrasts this meaning with the French concept of "people," which designates the people as the holder of the general will implemented through the institution of the state (Röpke 1958, p. 143).

With the first meaning of pluralism, Röpke asserts the superiority of an economic, political, and social polyarchy, capable of putting up a barrier to governmental activities, while respecting the prerogatives of the social partners that make up the social body. In this case, the various intermediary groups that act as representatives of the various social partners have a "defensive" function against the state. They set themselves the objective of limiting the prerogatives of the state in politics and in its economic activity, for example, by putting a limit on the tax levy. Sometimes, however, the intermediary groups may also have an "offensive" function: in this case Röpke considers such associations as mere concentrations of oligarchic power, constituting "pluralism of the second degree" (Röpke 1942, p. 131):

> Unhealthy pluralism, on the other hand, is not defensive but offensive. It does not limit the power of the state but tries to use it for its own purposes and make it subservient to these purposes. The state is opposed only when it crosses the interests of this kind of pluralism, which, for the rest, merely tries to exploit its power. (Röpke 1958, p. 144)

From the description of this negative pluralism, it is easy to grasp Röpke's understanding of how these oligarchies of power have the objective of attracting public resources. This results in a vicious circle: on the one hand, citizens are alienated from public life, losing confidence in their possibilities of participation, while on the other hand, various pressure groups take advantage of this situation, exponentially increasing government spending and bureaucracy. Moreover, political radicalism leads to the disruption of the normal economic process: pressed by the constant demands of the unions, governments increase public sector wages to avoid strikes. The various administrations have to choose between public disruptions due to strikes and the demand of these workers to raise wages. Röpke addresses here the political parties and trade unions that have had an increasingly important role in the politics of European states, especially during the twentieth century. In his view there is a close relationship between the state's concentration of business into its own hands and the growth of these organizations.

At this point, the analysis of pressure groups proves very similar to Buchanan and Tullock's formulations in *The Calculus of Consent*. Röpke explicitly describes the rent-seeking effect caused by the uncontrolled activities of these powerful groups undermining the economic stability of the state. The representatives of pressure groups tend to defend these rents with demagogic arguments, the effect being an overall simplification of political issues and a consequent reduction in the quality of the public debate:

> Rent control is really nothing but the protection of one privileged special kind of tenants, those with old leases, at the expense of the landlords and later tenants alike. Yet it persists,

> and the explanation is no doubt that, on the one hand, it does need a little reflection and intelligence to see its full implications and that, on the other hand, politicians are afraid to renounce this object of cheap demagogy. (Röpke 1958, pp. 146–147)

This situation causes the adoption of policies allowing the incumbent political class to maintain an immediate consensus in the short run but one which would prove harmful over time. One of these is the adoption of protectionist policies which in the short run favor manufacturers but in long run prove detrimental to consumers. Again, the phenomenon of rent-seeking often favors the protection of certain sectors of the economy at the expense of others via public subsidies. Another effect of a progressive bureaucratization of the state and the economy is inflation: Röpke reiterates that it is a phenomenon related to the degeneration of the democratic state. Interestingly, he explores the unrealistic expectations that have been built upon the real possibilities of decision-making in a democratic society. But how can government activity be restricted and the democratic process brought back toward a system in which individual freedom is protected? As on other occasions, Röpke's conservatism shines through here:

> The market economy, and with it social and political freedom, can thrive only as a part and under the protection of a bourgeois system. This implies the existence of a society in which certain fundamentals are respected and color the whole network of social relationships: individual effort and responsibility, absolute norms and values, independence based on ownership, prudence and daring, calculating and saving, responsibility for planning one's own life, proper coherence with the community, family feeling, a sense of tradition and the succession of generations combined with an open-minded view of the present and the future, proper tension between individual and community, firm moral discipline, respect for the value of money, the courage to grapple on one's own with life and its uncertainties, a sense of the natural order of things, and a firm scale of values. (Röpke 1958, p. 98)

For Röpke, the solidity of the community is founded not only on a necessary political and constitutional framework within which the economy grows but also on the respect for natural law and attachment to tradition. Like Hayek and many other members of the liberal tradition, Röpke criticizes the constructivist approach. He assigns the label "economocracy" to the tendency of some scholars and public officials to propose reforms of the economy starting from abstract theories without taking into account the high complexity of the economic system. His critique of "economocracy" is very similar to the considerations on constructivism advanced by Hayek. In 1954, Hayek edits *Capitalism and The Historians* which describes the difficult relationship between intellectuals and market economy (Hayek 1954). The general purpose of the book is to describe the vision that European intellectuals had of the Industrial Revolution. Starting with Hayek's paper "History and Politics," the volume shows how intellectuals developed a consistently hostile approach to capitalism, often spoiled by a preconceived ideological approach which aimed to demonstrate the alleged dehumanization produced by the birth of the modern production system and the profound technological innovations that took place during the nineteenth century. In "History and Politics," Hayek focuses on the ideological approach that European intellectuals have adopted on studying capitalism:

> Yet, if it is too pessimistic a view that man learns nothing from history, it may well be questioned whether he always learns the truth. While the events of the past are the source of the experience of the human race, their opinions are determined not by the objective facts but by the records and interpretations to which they have access. Few men will deny that our views about the goodness or badness of different institutions are largely determined by what we believe to have been their effects in the past. There is scarcely a political ideal or concept which does not involve opinions about a whole series of past events, and there are few historical memories which do not serve as a symbol of some political aim. Yet the historical beliefs which guide us in the present are not always in accord with the facts; sometimes they are even the effects rather than the cause of political beliefs. Historical myths have perhaps played nearly as great a role in shaping opinion as historical facts. Yet we can hardly hope to profit from past experience unless the facts from which we draw our conclusions are correct. (Hayek 1954, pp. 3–4)

Hayek constantly underscores the influence that ideas, also originating in the academic world, exercise on society and, ultimately, on everyday life. It is widely believed that certain theories and visions originate in areas seen as essentially self-referential do not permeate society. But often they do, and the most important thing is that the "man in the street" is not aware of this, merely accepting these ideas passively once they are made available by the media. Hayek's critique is not directed specifically at economists and social scientists but in general at all those intellectuals who claim to understand an entire mode of production with a simple theory. From this point of view, it is consistent to believe that a group of bureaucrats, following the correct theory, can change society for the better without taking into consideration the indeterminate variety of individual knowledge processed in the free market. According to Hayek and Röpke, the lowest common denominator of these intellectuals is that they interpret the development of economic systems in the light of the "laws of historical development," making themselves guilty of "historicism."

Inherent in Röpke's thought is a criticism of positivistic scientism underlying social sciences. He often emphasizes that society could not be analyzed in terms of a biological organism: individuals that make up society are not cells or organs deprived of will, each of which exists by virtue of a specific function to be performed. Instead, individuals are agents that interact freely with other agents: "Economics, from Röpke's standpoint, was not an ideology, philosophy, or religion. Instead it was a social science capable of providing society with powerful insights into reality, but also incapable of encapsulating reality in its entirety" (Gregg 2010, p. 6). Positivism is to him the philosophical orientation which clashed to the highest possible degree with a liberal vision of society. Without delving into Hayek's arguments in *Law, Legislation and Liberty*, it suffices to remind of Nicola Abbagnano's diagnosis that positivism is "the elevation [of science] to the position of the only guide for the single associated human life, that is, of the only knowledge, the only morality, the only religion possible. [...] Positivism accompanies and stimulates the birth and the technical-industrial organization of modern society and expresses the optimistic elation that accompanied the optimistic exaltation of industrialism" (Abbagnano 2001, p. 836).

At this point it is interesting to compare Röpke's vision with that illustrated by Buchanan in "The Potential for Tyranny in Politics as Science" where he describes (with a much higher analytical clarity than Röpke) his purpose to demonstrate the substantial difference between the process leading to the achievement of a scientific truth and the one leading to a policy decision (Buchanan 1986a). While scientific research is essentially of a teleological nature with the specific purpose to discover truth, politics has as its sole purpose the resolution of conflicts between individuals. Buchanan explains that it is impossible to find a higher interest independent from individual expectations:

> When politics is wrongly interpreted as being analogous to science, as a truth-discovery process, coercion may find moral legitimization for those who claim enlightenment. By contrast, when politics is rightly interpreted as a process for settling conflicts among interests, which are acknowledged to be individually derived, those who seek to impose preferred solutions do so without claim to moral superiority. (Buchanan 1986a, p. 40)

A society governed through politics is characterized by a pluralism of opinions, values, and interests. Such pluralism cannot simply be eliminated by a search for truth in line with the scientific method since individual preferences are not the result of scientific research. They are the result of conventions and subjective experiences. The problem arises when these preferences do not remain confined to the private sphere but are expressed in the public context. Here, however, no one realizes that one's preferences are the result of individual experiences rather than of truth. Politics has the task of bringing together diverse interests to avoid conflicts:

> Only the romantic anarchist thinks there is a "natural harmony" among persons that will eliminate all conflict in the absence of rules. We require rules for living together for the simple reason that without them we would surely fight. We would fight because the object of desire for one individual would be claimed by another. Rules define the private spaces within which each of us can carry on our own activities. (Brennan and Buchanan 1985, p. 5)

Beyond that, politics can establish rules that might become traditions and thus accepted spontaneously beyond their artificial nature. Even in this case, however, the acceptance of rules created by politics, although effective for the resolution of conflicts, does not contribute to the achievement of the "common good" or "public interest." Politics should task itself with finding the common ground on which these differences are able to coexist. But one will never find a greater good in which such differences can be canceled:

> Applied to the problem at hand, which is that of deriving some conceptual explanation of why individuals might be expected to seek out, design, argue for, and support changes in the general rules of the sociopolitical order when, by presumption, such behavior would be contrary to identifiable self-interest, it is necessary to resort to some version of "general interest" or "public interest" as the embodiment of a shared moral norm. That is to say, persons must be alleged to place positive private value on "public good" for the whole community of persons, over and beyond the value placed on their own individualized or partitioned shares. Furthermore, this "public good" that is privately valued must be that state of affairs defined by the interaction of freely choosing individuals, rather than some transcendental notion derived from God or Karl Marx. (Brennan and Buchanan 1985, p. 163)

Röpke continues with his vision of mass democracy and the consequences of welfare and inflation: "Among these slowly spreading cancers of our Western economy and society, two stand out: the apparently irresistible advance of the welfare state and the erosion of the value of money, which is called creeping inflation. There is a close link between the two through their common causes and mutual reinforcement" (Röpke 1958, p. 151). In his analysis of the welfare state, he explains that gradually, and especially in the twentieth century, there has been a constant growth of state power, resulting in the creation of a social protection system, leading to an impoverishment of the private sector and to the loss of natural bonds of solidarity between individuals.

As discussed above, contemporary democracy for Röpke is characterized by the presence of numerous lobbyists who try to pursue the interests of a particular social faction. This oligarchic vision is maintained when he speaks of the social protection system. Röpke seems to be influenced by the vision of élite theorists: paraphrasing Gaetano Mosca, welfare, although inefficient, is run by an organized minority which imposes itself on the disorganized majority (Mosca 1896). This imposition is certainly not exercised by force but, rather, democratically by consensus. It is based on this very premise that Röpke preempts results of public choice theory:

> The small circles—from the family on up—with their human warmth and natural solidarity, are giving way before mass and concentration, before the amorphous conglomeration of people in huge cities and industrial centers, before rootlessness and mass organizations, before the anonymous bureaucracy of giant concerns and, eventually, of government itself, which holds this crumbling society together through the coercive machinery of the welfare state, the police, and the tax screw. (Röpke 1958, p. 7)

The state delivers, often under monopoly conditions, public services that everyone needs. For Röpke the process by which wealth is transferred from civil society (especially from the richest part of it) to the state is justified by the belief that achieving greater equality is in itself a good thing. Very often, the desire for greater social justice is due to envy on the part of the poorest toward those who have had the ability (or the luck) to achieve a higher standard of living. Röpke is certainly not the only one to have thought about this aspect of the desire for social justice: Helmut Schoeck, for example, arrives at similar conclusions in his *Envy: A Theory of Social Behaviour* (Schoeck 1969).

An important consequence of increasing state power in society and economy is the loss of the natural individual desire to help others. Röpke's criticism of welfare is not, as in Buchanan, based solely on an economic analysis: instead, it is also the result of a moral evaluation. According to Röpke, society is able without excessive state aid to provide for the poorest part of the population. In premodern societies it was households and intermediate communities that dealt with these problems. The belief that the state with its substantial transfers of wealth should solve the problem was not deep-rooted. What is more, by entrusting individuals with the resolution of the problem of poverty, society was provided an incentive to be even more cohesive. With the massive intervention of the state, the individual is increasingly isolated from the rest of the community, and those ancient bonds of solidarity that characterized premodern societies disappear:

> This brings us to the second point. If it is true that the modern welfare state is nothing but a steadily spreading system of government-organized compulsory providence, it must obviously compete with the other forms by which a free society provides for itself: self-providence by saving and insurance and voluntary aid through family and group. The more the compulsory system spreads, the more it encroaches upon the area of self-providence and mutual aid. The capacity to provide for oneself and for members of one's family or community diminishes and, what is worse, so does the willingness to do so. Worst of all, it is only too evident that there can be no stopping on this road because the less able and willing the welfare state's citizens become to provide for themselves and help others, the more pressing becomes the demand for further expansion of public mass providence, leading to further curtailment of the ability and willingness to provide for oneself and voluntarily help others. It is yet another vicious circle. (Röpke 1958, p. 175)

Reflections on inflation are a recurring element in Röpke's thought. It is consistent with his description of the discretion that state power exerts on society and in the economic sphere. While not ruling out, at least during the 1930s, that control of the economy could fix an economic system, in *Economics of the Free Society*, Röpke explains how Keynes' ideas have been distorted to justify any policy to increase inflation: "One may believe that there are times in which vigorous measures to increase the money supply will prevent disaster; but not with impunity can a leading scientific figure like Keynes bestow the mantle of his authority on the chronic propensity of all governments to inflate. One may believe that under certain circumstances an increase in government debt is the lesser evil; but not with impunity is such a temporary measure transformed into a maxim" (Röpke 1937, p. 222). Röpke is particularly critical of the possible discretionary power of the central bank with regard to monetary policy. His views are shaped particularly by the economic crisis of the Weimar Republic and its high inflation, and he appreciates Ludwig von Mises's theory as illustrated in *The Theory of Money and Credit* (Mises 1912). Like Mises, he portrays the gold standard as the best way to prevent governments from printing money for electoral gain. Buchanan comments on Röpke's *Welfare, Freedom and Inflation* (Röpke 1964):

> Wilhelm Röpke recognized this consequence of inflation when he remarked: "Inflation, and the spirit which nourishes it and accepts it, is merely the monetary aspect of the general decay of law and of respect for law. It requires no special astuteness to realize that the vanishing respect for property is very intimately related to the numbing of respect for the integrity of money and its value. In fact, laxity about property and laxity about money are very closely bound up together; in both cases what is firm, durable, earned, secured and designed for continuity gives place to what is fragile, fugitive, fleeting, unsure and ephemeral. And that is not the kind of foundation on which the free society can long remain standing." (Welfare, Freedom and Inflation [Tuscaloosa: University of Alabama Press 1964], p. 70) (Buchanan and Wagner 1977, p. 67)

Thus the state has much less scope for public interventions aimed at extending welfare, income redistribution, and all those policies that in the long run lead to higher prices. According to Röpke, inflation is not only the logical consequence of redistributive policies: rather, it is also an effect of democratic society. There is a "positive connection between the values of economic efficiency, economic freedom and political liberty" (Gregg 2010, p. 126). The democratic state can become a promoter of policies that distort a market society based on a voluntary exchange of

goods and services. It may promote not only inflationary policies but also deflationary ones. Röpke speaks of "repressed inflation":

> First of all, repressed inflation had never before been experienced; this particular form of inflation was unknown in the past because it presupposes a hitherto unknown degree of state power. It was for our time that this combination of inflation and collectivism was reserved. In other words, this is the first great inflation of the collectivist age.
>
> This leads us to the second novelty. Our inflation is the first to be marked, unequivocally and almost exclusively, by the ideologies, forces, and desires of modern mass democracy. (Röpke 1958, p. 191)

Like Röpke, Buchanan also identifies a link between statism, bureaucracy, and inflation: "Permanent budget deficits, inflation, and an expanding and disproportionately large public sector are all part of a package" (Buchanan and Wagner 1977, p. 71). Inflation is the effect, just as portrayed by Röpke, of a manipulation of monetary policy, often pursued in order to satisfy certain requests from large parts of the electorate. First and foremost, the demand for inflationary policies is often due to an anti-capitalist prejudice that sometimes characterizes the electoral body. Often, in times of economic crisis, when citizens see their purchasing power decrease, they request from politicians policy geared to a greater control of the economy by the state. These requests are, in Buchanan's view, due to the ignorance with which the electorate approaches economic policy problems. These prejudices "[are] influential in providing support to political attempts at imposing direct controls, with all the costs that these embody, both in terms of measured economic efficiency and in terms of restrictions on personal liberty" (Buchanan and Wagner 1977, p. 67).

Buchanan describes this monetary laxity as typical of the "Zeitgeist" of the twentieth century. Since the advent of democracy created more and more popular participation, such participation did not result in a reduction of state power but rather in its increase. In fact, from the 1960s and 1970s onward, there has been a steady erosion of the moral and political foundations on which societies, even democratic ones, are built. Some of these social phenomena can be seen as "generalized erosion in public and private manners, increasingly liberalized attitudes toward sexual activities, a declining vitality of the Puritan work ethic, deterioration in product quality, explosion of the welfare rolls, widespread corruption in both the private and the governmental sector, and, finally, observed increases in the alienation of voters from the political process" (Buchanan and Wagner 1977, pp. 66–67). It is highly interesting that Buchanan considers bureaucratization of the economy, radicalization of the political proposals, and deterioration of the public debate as phenomena that go hand in hand with the lowering of the moral standards of society. Usually Buchanan's thought, and public choice theory, utilizes the paradigm of "homo oeconomicus": political agents (voters, political parties, bureaucrats, etc.) are considered economic agents who tend to maximize their benefits. In other words, Buchanan's vision is usually considered devoid of any ethical reference, with a purely contractarian conception of society and politics.

However, the abovementioned passages make him appear a conservative thinker: the change of customs favors expansionary policies, partly due to the fact that the executive is no longer able to guarantee a minimum standard of

governance. This leads citizens to demand a more proactive policy, one that it is more capable in solving their problems, resulting in the birth of the welfare state and modern bureaucracy. This apparatus is, however, increasingly separated from the needs of citizens, being run by a political class that primarily aims to gain electoral support with short run-oriented policies: "By the first law of economics, persons will 'demand' a larger quantity of the goods and services that have been reduced in price. This demand will take the form of pressures brought to bear on elected politicians for expansions in the levels of budgetary outlay" (Buchanan and Wagner 1977, p. 112).

Buchanan examines the actions of pressure groups in determining tax and budget policies. In illustrating these political processes, he repeatedly accuses Keynes of not having understood the basics of the mechanisms that lead to democratic political decisions. From Buchanan's perspective, Keynes was simply an idealist who believed that government was led by an enlightened élite concerned only with the "common good," which is quite the opposite of Buchanan's characterization of the political process: "Political decisions in the United States are made by elected politicians, who respond to the desires of voters and the ensconced bureaucracy" (Buchanan and Wagner 1977, p. 98). No decision-making body escapes the pressures that come from below. Democracy, therefore, is intimately connected with the concept of rent-seeking. Rent-seeking is a condition in which one or a few economic agents operate in a poorly competitive economic environment. Low or absent competition, as already stated by Röpke, is often due to special protection by the state or a public authority. In this way a company can take advantage of the lack of competition by raising prices or by not giving its own goods or services any added value. Rent-seeking is a phenomenon that occurs in a monopoly environment:

> In a democracy, the pressures placed upon politicians to survive competition from aspirants to their office bear certain resemblances to the pressures placed upon private entrepreneurs. Private firms compete among themselves in numerous, complex ways to secure the patronage of customers. Politicians similarly compete among themselves for the support of the electorate, and they do this by offering and promising policies and programs which they hope will get them elected or reelected. A politician in a democratic society, in other words, can be viewed as proposing and attempting to enact a combination of expenditure programs and financing schemes that will secure him the support of a majority of the electorate. These similarities suggest that political competition is not wholly unlike market competition. (Buchanan and Wagner 1977, p. 98)

In line with this diagnosis, "The resort to debt financing of this type is particularly insidious for democratically organized governments, however, for reasons that do not exist for private domains of individuals or small groups. The differences here do not arise from the logic of the debt relationship as such but from the temporal horizons that inform decision-making in the separate cases" (Buchanan 1986b, p. 215). This creates a vicious circle in which lowering the fiscal deficit becomes increasingly difficult. Buchanan focuses not only on the case of the USA but also seeks to test his theories vis-à-vis other Western democracies. As a result of the imbalances of the previous 20 years, in the 1980s the state should have adopted a more responsible fiscal policy. Consistent with the claims in many other writings,

his hope is a constitutional reform addressing the needs of a modern economy. An effective constitution is the first step not only for politicians but also for the citizens to enact better policies.

4 Conclusion: The Moral Basis of the Constitutional Framework

It is a widely held notion that Buchanan's political ideas are devoid of any moral element. In contrast to this reading, analysis of his writings in this paper locates him to a certain extent proximate to Röpke (and in general to ordoliberalism), even as far as his ethics is concerned. The focus of this paper was a comparison of this somewhat unusual aspect of Buchanan with Röpke's system of ideas.

As argued by Terence Hutchison, there are two basic conceptions of capitalism. The first originates from the works of David Ricardo**,** based on utilitarianism and on an abstract conception of general equilibrium, while the second is based on the achievement of Adam Smith "formulated in much broader terms, comprehending the political and social order, and especially the legal foundations and framework of the economic order" (Hutchison 1981, p. 162). In Viktor Vanberg's terms, "much the same can be said about modern constitutional economics as it emerged as a distinct research program in the 1970s [. . .]. Both the theoretical contributions to the concept of a social market economy and modern constitutional economics can be viewed as a revival of classical political economy" (Vanberg 1988, p. 18).

From this starting point, it is possible to identify a common origin in the ideas of Röpke and Buchanan. As early as 1933, Röpke explains how "the current world crisis could never have grown to such proportions, nor proved as stubborn, if it had not been for the many forces at work to undermine the intellectual and moral foundations of our social system and thereby eventually to cause the collapse of the economic system indissolubly connected with the social system as a whole. Notwithstanding all the harshness and imperfections of our economic system, which cry out for reform, it is a miracle of technology and organization; but it is condemned to waste away if its three cardinal conditions—reason, peace, and freedom—are no longer thought desirable by the masses ruthlessly reaching for power" (Röpke 1933, p. 80).

For Röpke, ethics and economics are aspects of human existence that cannot be kept completely separate: "Economically ignorant moralism is as objectionable as morally callous economism. Ethics and economics are two equally difficult subjects, and while the former needs discerning and expert reason, the latter cannot do without humane values" (Röpke 1958, p. 104). One cannot conceive a sound market economy without any ethical foundation. Röpke is influenced by the economic theories of the eighteenth century. It is no coincidence that he quotes Montesquieu when underscoring that there is an ethical motivation, not merely a legal one, that pushes individuals to respect each other: "It is the merit of eighteenth-century social

and moral philosophy, which is the source of our own discipline of political economy, to have liberated the crafts and commercial activities [. . .] from the stigma of the feudal era and to have obtained for them the ethical position to which they are entitled and which we now take for granted" (Röpke 1958, p. 119). For Röpke, liberal political theory as it emerged in the eighteenth century made an essential contribution to the development of modern liberalism. He welcomes liberalism constructed as constitutionalism, as a theory of a system of checks and balances. This institutional setup has the task of protecting small social units such as the family. It is precisely with the weakening of these "nuclear" structures which constitute society that the state becomes increasingly pervasive. In other words, the weakening of the Christian culture which used to determine the practice of social norms makes it much more difficult to create a constitutional framework which has the task of developing within itself a healthy market economy.

For Buchanan, too, there is a close relationship between social customs, constitutional framework, and economic policy. It may appear that Buchanan as a defender of the contractarian conception of society and politics has little to do with moral considerations. However, the paper attempts to show that he advocates the existence of a "moral framework" which is important for implementing a non-expansionary economic policy. To understand this aspect of his thought, it is useful to consult his autobiography and the social context in which he grew up: "My origins in the rural agricultural poverty of the upper South (Tennessee) in the United States, along with the sometimes pretentious efforts of the middle-class poor to impose social distinctions, are surely explanatory elements in any narrative account of my own history" (Buchanan 1992, p. 59). He was born in a provincial environment of a family holding leading positions in the local community, with his father a justice of the peace and his mother a teacher from a family of Presbyterian preachers. Even though it may not be that apparent from his other works, by reading his autobiography, one can appreciate how Buchanan considers ethics to be closely linked to the economy.

Taking into account the analyses of David Reisman and Alain Marciano (Reisman 1990; Marciano 2016), the paper proposes the idea that for Buchanan, economic constitutionalism is best defended in the presence of an appropriate ethical structure that permeates society. He realizes that even though the Founding Fathers developed an institutional system of checks and balances, they could not have foreseen the rise of state prerogatives in the twentieth century: "The writers of that document simply could not bring themselves to imagine governments with the authority and appetites that the modern Leviathan is observed to possess" (Brennan and Buchanan 1980, p. 32). In other words, he understands the importance of having strong cultural constraints to contain the political and economic activity of the state. As has been shown above, he clearly realizes that the decision-making process cannot comply with the unanimity rule if society is characterized by a marked pluralism of values, which is the case in Western democracies. Such unanimity is possible only in small, culturally homogeneous social groups, and in that case alone, there can be at least some decisions that meet the approval of all and

thus Buchanan's defense of "micro-contracting" (Reisman 1990, p. 116). Reisman points out how many dictators founded their totalitarian regimes on plebiscitary consent but rightly notes that Buchanan does not consider this kind of consensus. By "micro-contracting," Buchanan conceives social agreement between members of small groups that have a minimum of cultural homogeneity. In these small social settings, the decision-making process can be much faster and more transparent. As explained by Marciano:

> In small groups, or when they vote, individuals voluntarily adopt pro-social behaviors without having to sign a social contract in advance. They are willing to pay their taxes, internalize the effects their actions have on others; that is, produce "public goods" or refrain from producing "public bads." They follow an ethical rule of action. But this is not in contradiction with self-interest. Individuals adopt these kind of behaviors because—or when—they receive benefits or make gains from the exchanges they have with others. Individuals adopt this kind of behavior because their self-interest is satisfied. (Marciano 2016, p. 18)

Such lines of reasoning obviously parallel Röpke's preference for small units and decentralization as indispensable for good democratic governance and for the prevention of rent-seeking, as well as Röpke's emphasis on the indispensable link between the moral framework and the constitutional framework as a prerequisite for the stability of the latter.

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Wilhelm Röpke's Relevance in a Post-Totalitarian World

Richard Ebeling

1 Introduction: Röpke as Enlightenment Conservative

An Irish economist of my acquaintance, now long retired, studied for a period of time at the Graduate Institute of International Studies in Geneva in the late 1950s. He once told me that when Wilhelm Röpke entered the seminar room, there was, as he put it, "electricity in the air." It is easy to understand what he meant by picking up almost any one of Röpke's numerous books. The reader often feels as if he has been transported through time into the company of an Old Testament prophet, warning of the hellfire and brimstone awaiting humanity due to its weaknesses of character and ethical lapses.

There is no doubt that in an era in which social scientists in general and economists in particular have come to pride themselves on their dispassionate and detached scientific "objectivity," they would find Röpke out of step with their conception of how economic scholarship should be written. He wrote in a style frequently filled with passion about and attachment to a world that he deeply and sincerely believed had chosen morally wrong and economically dangerous directions in terms of where society was heading. Many modern readers might easily be put off by both Röpke's writing style and his strident warnings about where he thought that world was going. This will be most likely the case for those who do not appreciate the intellectual tradition out of which Röpke was coming and the historical context in which he was raising these warnings.

While there was much about the "rationalism" of the Enlightenment that Röpke felt had partly placed the Western world on the wrong path, in my view, his outlook and breadth of knowledge were strongly embedded in the tradition of the moral

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philosophers and liberal thinkers of the eighteenth century. This includes a concern with unearthing an understanding of the natural order of things, including the nature of man, but also reaching balanced conclusions about how man could and should live, given that natural order and man's place in it as derived from human reason, historical experience, and a higher ethical set of norms derived from man's religious sense (Röpke 1957, 1959). At the same time he was partly a child of the conservative romanticism of the nineteenth century. He may have rejected their common disapproval of commercial society and the calculating qualities of market interactions, but Röpke cherished the conservative longing for a social order of balanced and smaller communities in which each knew his neighbors and those neighbors formed the intermediary institutions of civil society that provided the aid and comfort needed by the otherwise solitary and atomized individuals.

2 The Great War, the Collectivist Demons, and Röpke's Courage

Born in Germany in 1899, Röpke had a living memory of a world more grounded in the ideas and ideals—if not always the full political practice—of personal freedom and economic liberty that seemed to be totally threatened by the collectivist demons set lose by the catastrophe of WWI, a part of which he experienced as a soldier in that horrific conflict (Ebeling 1999). The post-WWI world seemed torn asunder, especially in his native Germany: unexpected defeat, a humiliating peace treaty, social unrest as the established order seemed to be melting away, nationalist and communist radicalism fighting for control of a post-WWI Germany that appeared cut loose from its cultural moorings, and a destructive hyperinflation that undermined the middle class and brought financial ruin to the country (Ebeling 2008).

A violent, brutal, and murderous experiment in "building socialism" had begun in Russia in 1917, even before the end of the Great War. The Marxist revolutionaries declared their intention to tear down and destroy all the "bourgeois" institutions of prevailing capitalist society and construct in its place a mass and massive "workers' paradise" in which all the beliefs, values, and institutions of the existing social order would be thrown into the "dustbin of history." A grand experiment in rational constructivism would redesign and implement the new collectivist order through the abolition of private property, the profit motive, and the market system and replace it with socialist central planning to which all would be subservient and for the success of which all would be expendable. In the immediate wake of communism's triumph in Russia after a bloody 3-year civil war that assured power to Lenin and the Bolsheviks, the next collectivist demon emerged in Italy in the form of Mussolini's fascist movement, which came to power in 1922. It was Mussolini who coined the term "totalitarian" with its doctrine of everything for the state, nothing outside of the state, and nothing above the state. Here was absolutist

nationalism's counterpoint to communism with its complete rejection of individualist liberalism and the market economy, putting in its place fascism's own form of corporativist central planning (Röpke 1935).

Liberalism's ideals of humanistic individualism, a competitive market economy, and an impartial rule of law seemed to be facing their death knell with the coming to power of Hitler and his National Socialist Movement in January 1933. Here was not simply a "socialism of fools," as earlier Austrian anti-Semites were sometimes called, but a true socialism of primitive racial collectivism: blood and genes were what identified and defined a person from which there was no escape and on the basis of which racial superiority or inferiority was determined. The consequences of unwisely picking one's parents and grandparents and great-grandparents began with street violence, social ostracism, and legal persecution of the Jews as the 1930s progressed and finally ended during WWII with unimaginable mass murder in the name of racial purity and national greatness.

In 1933 Röpke was a promising and respected economist at the University of Marburg in his early 30s. How easy it would have been for him to go along to get along with the emerging new National Socialist order, as so many of "non-Jewish blood" were soon doing. Instead, he took his stand as a liberal humanist and a Christian. On February 8, 1933, a week after Hitler was appointed Chancellor of Germany, Röpke delivered a public address in Frankfurt am Main with the title "End of an Era?" (Röpke [1933] 1969). He declared that Germany was now in the grip of a "revolt against reason, freedom and humanity." National Socialism was an attack on the foundations of Western civilization. The mark of a humane society was "the rejection of the principles of violence in favor of the principle of reason." But National Socialism represented an "illiberal barbarism" reflected in servilism, irrationalism, and brutalism. In Röpke's view "A nation that yields to brutalism thereby excludes itself from the community of Western civilization." He also spoke out against the National Socialist expulsion of Jewish professors and students from the universities, which began in April 1933. The National Socialists denounced him as an "enemy of the people" and removed him from his professorship at the University of Marburg. Only after an angry exchange with two NS thugs sent to "reason" with him did Röpke decide to leave Germany for his own safety and that of his family.

At first he found a position in Turkey at the University of Istanbul at which he helped to fundamentally restructure the social science curriculum there. But in 1937 he was offered and accepted a position at the Graduate Institute of International Studies in Geneva, a position that he held until his untimely death in February 1966, half a year before what would have been his 67th birthday in October of that year.

With the rise and spread of Soviet communism, Italian fascism, and German National Socialism in the 1930s and the early 1940s, the twilight of liberty and liberalism seemed to be falling upon the world in which Röpke lived. But Röpke was not a fatalist. He believed that men and humanity as a whole had it in their power to turn back from the trend toward totalitarian collectivism in any or all of its manifestations. Three times during WWII Röpke was offered the opportunity to leave Europe behind for academic positions in the United States to escape from the

tyranny spreading over the continent and to secure a far greater degree of personal safety for himself and his family. He chose to decline each of these offers. Of course with hindsight, we know that Switzerland remained neutral and unoccupied for the duration of the war. But in 1940 or 1941 or 1942 or even 1943, when Switzerland was an island of democracy and personal freedom in a surrounding ocean of National Socialist and fascist tyranny, it was far from certain that the Alpine nation would not be a victim of National Socialist invasion, one result of which certainly would have been Röpke's arrest, imprisonment, and death.

3 The Social Engineer, the "Cult of the Colossal," and the Tyranny of Socialism

Instead, he chose to remain in his Swiss island of liberty to devote his knowledge and talents to write his momentous trilogy: *The Social Crisis of Our Time* (Röpke 1942b), *Civitas Humana* (Röpke 1944), and *International Order and Economic Integration* (Röpke 1945).

There is no way to do justice to these profound works in a few words or to fully explain their influence on a wide audience of readers in Europe and the United States and especially through those smuggled copies that reached Röpke's readers within National Socialist Germany itself. Through these works and others, Wilhelm Röpke is justly considered one of the intellectual and spiritual "fathers" of the German political and economic recovery in the years following the end of WWII. As his longtime friend and former Geneva Institute colleague, the Austrian economist Ludwig von Mises, said after Röpke's death in 1966:

> For most of what is reasonable and beneficial in present-day Germany's monetary and commercial policy credit is to be attributed to Röpke's influence. He—and the late Walter Eucken—are rightly thought of as the intellectual authors of Germany's economic resurrection [...] The future historians of our age will have to say that he was not only a great scholar, a successful teacher and a faithful friend, but first of all a fearless man who was never afraid to profess what he considered to be true and right. In the midst of moral and intellectual decay, he was an inflexible harbinger of the return to reason, honesty and sound political practice. (Mises 1966, p. 200)

What are some of the underlying themes in his three wartime works? First, his analysis and criticisms of the emergence and growing dominance of the social engineer in society are of interest. Like Friedrich A. von Hayek (2010), Röpke was deeply suspicious and fearful of the misplaced and dangerous constructivist rationalism so typical of the collectivist mindset that sees everywhere "irrational" institutions that have grown up in unplanned and undesigned ways which do not reflect man's conscious imprint in shaping society according to presumed rational principles of order and justice. One product of this mindset in the 1930s was those giant sports stadiums and bigger-than-life ideologically directed architectural structures, matched by huge political meetings of vast crowds all focused on and delirious with fanatical excitement and support for the totalitarian supermen

guiding and directing entire societies according to one imposed and overarching plan to which they were to be confined and to which they were expected to conform. All of this Röpke referred to as the "cult of the colossal," that is, government by centralized plans, massive buildings and infrastructure undertakings, and the reduction of humanity to what he called "the termite state" in which the individual human being was lost in the collectivist purposes and grand schemes (Röpke 1942b, pp. 62–71).

One of the tasks of reason, Röpke emphasized, was to understand the uses and limits of reason itself as a presumptuous tool or instrument to redesign, plan, and control an entire society. Modern man had gone mad with confidence in his intellectual power to make and redo anything and everything. Government planning of society had created a misplaced confidence and reliance on the quantitative and measurable (Röpke 1944, pp. 43–78). Man was reduced to various forms of statistical measurements that drained him of those characteristics that distinguish him and make up his human qualities: meaning, belief, values, faith, and senses of wonder and transcendence. The human dimension and size of man are lost in a society in which everything is consciously made "bigger than life," so man cannot see or conceive of himself as anything but something small and unimportant in the grand plans of the collectivist state. Also lost in the "translation" of man into the merely measured and quantified was his role and place in history, that is, as a part of a community of men including family, friends, and associates in numerous aspects of human life, as well as the culture and civilization that marks off man from other forms of life on earth (Röpke 1942b, pp. 48–53, 1951b).

All of this was most directly captured in everyday life in the economic collectivization of man. The planned economy, Röpke insisted, is a dehumanizing economy, in which the individual is fitted by the state to be a cog in the wheel of such things as "social progress" or "national greatness." Furthermore, the apparent "inevitable" trend toward socialist central planning also meant the loss of that institutional order that gives the individual a degree of personal autonomy, that enables coordination of the complex network of division of labor and also provides the incentives and opportunity for the economic improvement of mankind: a functioning, open, and competitive market economy.

Röpke shared with Austrian economists such as Ludwig von Mises and Friedrich A. von Hayek a firm belief based on economic theory and historical experience that central planning would lead to planned chaos with the abolition of a competitively generated price system that enabled economic calculation and therefore rational and efficient use of the scarce resources to serve the consumer ends of the members of society (Ebeling 2016, 164–170). But he also emphasized that the decentralized and competitive marketplace serves as the provider and guardian of individual freedom and choice without which tyranny becomes a danger once the state owns, controls, and directs all the economic affairs of life. Especially totalitarian collectivism in any of its forms—Soviet communism, Italian fascism, or German National Socialism—showed clearly that government domination of the economy meant government mastery over the individual in society (Röpke 1939, 1944, pp. 61–72).

4 A "Middle Way" for a Humane Economy and Against "Historical Capitalism" and the Welfare State

In writing his wartime trilogy, Wilhelm Röpke was confident that the "brown tyranny" of National Socialism would finally end in Germany as in the rest of Europe. But how was a new humane society to be brought to life? Röpke was an admirer and supporter of the great liberal revolutions of the eighteenth and nineteenth centuries that had reined in absolute monarchy and replaced it with more limited constitutional government. These revolutions had ended human slavery and the status society, had increasingly introduced equal rights for all under the rule of law, and had abolished the economic restraints of mercantilist controls and regulations on every aspect of economic life, freeing instead the spirit of competitive enterprise and entrepreneurship that soon began to bring about unprecedented improvements in the material conditions of humanity (Ebeling 2014).

But Röpke was not an advocate of laissez-faire capitalism. He made a distinction between what he called the "market economy" and "historical capitalism." The idea and ideal of a truly free market system was one in which markets were open and competitive, with the profit motive directing production to the satisfaction of consumers' demands through entrepreneurial innovation. It was supported by a sound monetary system not open to the abuse of inflation, based on a commodity as under the gold standard: it not only secured a stable domestic economic environment and certainty about the relative value of the monetary unit, but also provided the anchor and link for assuring and fostering a peaceful and expanding arena of international trade, commerce, and investment grounded in the sanctity of private property and the abiding of all by contracts entered into (Röpke 1951a).

On the other hand, "historical capitalism" was the story of how market society had, in fact, developed in the Western world. This often did not match the market economy ideal. Historically, capitalism had grown up with the residue of the old regime's hierarchy of privilege and favor. Governments had been open to and fostered monopolies and intervened in various ways in the market and social relationships. Furthermore, there had been aspects to historical capitalism's development that Röpke found objectionable in the market economy, especially what he viewed as overconcentration of populations in urban areas that he considered to have "proletarianized" populations into faceless and rootless "masses" rather than rooted human beings bound together through the intermediary institutions of civil society in more "human-size" communities (Röpke 1942b, pp. 100–142, 1944, pp. 4–10).

Reading through portions of Röpke's later treatise *A Humane Economy*, the modern classical liberal (and certainly the American libertarian) wonders whether at times he does not sound more like a "green" on environmental and population issues and "anti-business" on questions of advertising, commercialization of society, and the feeding of unhealthy wants and desires in the pursuit of profit (Röpke 1958a, pp. 36–89). But for all of his criticisms of what he considered to be some of the darker sides of the market economy's actual evolution and development, Röpke

was adamant that there was no economic or ethical alternative to the market order. What he believed was that the market economy had to be grounded and bound by moral principles and institutional constraints to prevent the system from undermining its own capacity to function and facilitate human betterment.

If the threats to Western civilization and the competitive market economy during the first half of the twentieth century had been from totalitarian collectivism, in the postwar period, new threats had emerged that may not have seemed as dramatically dangerous as German National Socialism and global war but which Röpke feared could easily eat at the vibrancy and sustainability of the liberal, free society. These new threats were the welfare state and inflation. Röpke was not against certain minimal and what he considered essential social responsibilities for those who were in need of material and social support. A decent and humane society could not exist without this sense of community obligation for those unable to sufficiently maintain themselves. The unwillingness or inability to fully tame the harsher consequences of rapid changes that had come with nineteenth-century industrialization and urbanization had opened the door to the charge of capitalism's "cruelty" and the emerging appeal of socialism as a counterweight to these concerns and fears. He considered what today are called the "social safety nets" to have been a pragmatic necessity during the transition from the dying preindustrial era to the arrival of the full fruit of the capitalist revolution that raised the vast majority of people from poverty to prosperity. But as modern, tempered capitalism had been successful in providing the standards of living that increasingly made the welfare state unnecessary as more and more individuals and families had the means of self-support, that same welfare state was growing and institutionally embedding itself over the societal landscape.

How can a healthy society be maintained, Röpke asked, when an expanding number of its citizens are reduced to a new form of proletarianization, as permanent welfare wards of the state? Is it not the case, he asked, that the goal should be to make as many people as possible in the society independent, self-reliant, self-supporting individuals who have a proper sense of duty and responsibility to participate in the support and assistance of those in their community and society who may need a "helping hand"? The welfare state, Röpke believed, dehumanized an expanding number of people—not only the growing number who were dependent upon the state for the material and related needs of everyday life, but also the taxpayers providing the financial means for government redistribution to the rest. He followed Bertrand de Jouvenel in arguing that wealth is not only a means of maintaining one's life plus some comforts and luxuries (Jouvenel 1952). It is also the means by which those more fortunate in society had and did play their part in sustaining the good society through charity and philanthropy both to support those less well-off and to ensure the cultural preservation of that society through the giving of their time and attention that modest or great wealth gave them the time and means to perform. Furthermore, it was through such conduct and societal benevolence that an intergenerational transmission of these values was passed on to children and grandchildren as a central element for preserving these social traditions.

When wealth and income are redistributed by taxation from one segment of the society to another, the taxed members of that society not only lose a part of the financial means of playing their role in the maintenance of culture in civil society, it also makes people less interested or concerned about their responsibility and duty to undertake such actions. It becomes easier to now merely say "I paid my taxes; it is the duty of the State to care for these societal problems, not mine." And this, Röpke emphasized, brings out another phenomenon that occurs as the welfare state grows—the real redistribution is not from Peter to Paul but from Peter to the state, which then has the means and authority to determine who is deserving of what and to what extent. Individuals and the intermediary institutions of civil society are diminished, leaving the individual at the mercy of those who hold administrative office in the state. Equally of concern is Röpke's warning that the welfare state has no limit. Serving the interests of those in political office and others who live in various and sundry ways off the largess of the government, the welfare state is an insatiable consumer of the income, wealth, and freedom of the ordinary members of society. It continues absorbing, he feared, more of the wealth and the controlling decision-making over the society (Röpke 1958a, pp. 151–182, 1964a, pp. 34–48).

It is for this reason that Röpke expressed his matching concern about the danger from inflation. When taxes could not be raised any further and ordinary borrowing costs became excessive with a growing government debt, the third option of government budgetary financing would be turned to: the monetary printing press. Of course, the memory of the German hyperinflation in the early 1920s left its mark on Röpke, just as it did on the entire generation who lived through that monetary catastrophe. But his point was that a free and prosperous society relied heavily on stable and honest money, money that assured the smooth operation of markets, covering commercial and financial transactions both in the present and through time. Only thus could participants in the complexity of market exchange make rational and reasonable judgments as a basis for the choices they made as consumers and producers, especially the entrepreneurs who guide the production processes for a coordinated balancing of investment decisions with the savings out of income that enable innovation, development, and improved standards of living over time.

For Röpke a commodity-based money such as the traditional gold standard had an ethical element as well. It linked work with reward and it assured that each received their just due based upon their contribution to the production of the society. It anchored the transactions of the society in a medium of exchange that, if not completely prevented, at least minimized the ability of governments to tax away and surreptitiously divert the resources of the society to its own uses and to those close to the political authorities and to feed the illusion that governments could give segments of the population "something for nothing" at no cost to others or to the longer-term well-being of the society as a whole (Röpke 1958a, pp. 190–215, 1963c, 1964a). Added to the danger and destruction of an openly inflationary policy was that when it was combined with price and wage controls as well as foreign exchange controls, it resulted in a near-total disruption and

distortion of a market economy by "repressing" the steering mechanism of the price system (Röpke [1947a] 1969, 1947b, 1949).

5 Röpke's Relevance to Today's Social Crises

Up until now, this study has attempted to summarize and interpret Wilhelm Röpke's worldview and present his political, economic, and ethical critique and analysis of the middle decades of the twentieth century during which he lived and wrote. The next step is far more uncertain: what has Wilhelm Röpke to say to us today in these early decades of the twenty-first century? What is his political-economic and ethical relevance to our own times? I would like to suggest an answer to this in the general and in the specific. If we look at our own times, I have no doubt that Röpke would still fear that we are faced with many of the same dilemmas and conflicts that he warned of more than half a century ago.

5.1 The Fall of Communism and the Welfare State

First, the demise and disappearance of Soviet totalitarianism would not have surprised him. In the 1950s and in the early 1960s, he suggested that in spite of its military strength and geopolitical expansionism—and against which he cried for the West to remain firmly opposed with its own military and moral might—he also believed that as an ideological and ethical threat, communist collectivism was a spent force. Communism's internal contradictions, its need to use brutal force to maintain its control over Eastern European "captive nations" such as East Germany in 1953 and Hungary and Poland in 1956, as well as its economic failure to surpass Western market economies in terms of material prosperity were the signs that its power and appeal over men's minds had passed its zenith (Röpke 1961, 1963a). So if Röpke had lived into the 1990s and seen the fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991, he would no doubt have been delighted but not surprised that like National Socialist totalitarianism, Soviet totalitarianism had finally been relegated to the "dustbin of history." But I doubt very much that he would share the views of those who, with the end of the Cold War, declared the "end of history" with the seeming triumph of liberal democracy over its global rivals. He would have probably insisted that the same weaknesses in the West that he warned about from the 1930s to the 1960s are still with us.

The West and the world are still loose and adrift from their historical ethical moorings. Firstly, there is the continuing decline of ethical individualism, an individualism that declares and insists upon the uniqueness and distinctiveness of the human being. Man, Röpke no doubt would remind us, is still lost in a social and cultural mass. Whatever aspects of historical capitalism he might still see at work in this area, I believe that he would see the most negative element as the intensified

degree to which the interventionist welfare state continues to pervade the Western democracies. The government expenditures of GDP in the member nations of the European Union averaging just under 50 percent in 2015 would be considered by Röpke as sign enough of how much personal freedom and individual responsibility had been taken out of the direct hands of the citizenry. He would certainly argue that a humane and decent society must have a variety of essential "safety nets" for those who need such community support, but he would warn that these levels of government spending and welfare state intrusions into the remains of European civil society are an indication of a continuing decline in the health and balance appropriate to proper human existence (Röpke [1958c] 1969). To revive a humane economy and a civil society, the friends of tempered liberalism should argue for market solutions to social and community problems. Market alternatives and private sector civic associations in place of the heavy-handed presence and predominance of political paternalism would probably be Röpke's suggested answer to the fiscal burden and cultural drag of government in society.

5.2 European Integration and the EU

It is also clear in my view what Röpke would most likely say about the evolution of the European Union. It may have started in the 1950s as a noble idea to bring the enemies in two world wars into a mutually beneficial dependency of freedom of trade that would assist in undermining the likelihood of new political and ideological irrationalities leading to a future European war. But in the late 1950s and the early 1960s, he wrote several articles challenging the forced integration and centralization of political and economic affairs in the early stages of European integration. Röpke was always looking for "the middle way" in both historical understanding and economic policy. And this was reflected in his criticism of the direction of European integration (Röpke 1958b, 1963b, 1964b, c). He explained more than once in his writings that the world economy, however imperfectly, by the late nineteenth and early twentieth centuries had attained a great degree of globalization and integration in spite of no international or superregional organizations imposing such common order on humanity. This globalized integration had been fostered and made possible because the major nations of the world—again, however imperfectly and inconsistently—had been guided in their individual international policies by their domestic policy agendas greatly influenced by the classical liberal spirit of separating the economic from the political, with Great Britain and the United States being the standard-bearers of such a liberal outlook and practice (Röpke 1942a, pp. 11–22, 1959, pp. 69–93).

When, to one significant degree or another, all the major nations of the world practiced economic and ethical liberalism at home, it naturally and necessarily followed that it then was reflected in a global community of nations in which there was freedom of trade, freedom of financial investment, and freedom of movement for people. Due to the emergence of the modern interventionist welfare state in

Imperial Germany and an accompanying aggressive nationalism in that country, clouds had been forming and storms were disrupting that world of international liberalism before 1914 (Röpke 1934). But it was nonetheless the principles and practice of classical liberalism that had made a world mostly of peace and prosperity among the peoples of much of Europe and North America in the decades before the cataclysm of the Great War (Ebeling 1995).

European integration in the post-WWII era was marked by the mindset of the social engineer attempting to remake the diversity of Europe with its national histories and distinct cultural and linguistic developments into a centrally designed and controlled homogeneous "United States of Europe." Röpke already pointed out what has been clear to many in recent years that the member nations possessing fiscal autonomy follow taxing and spending agendas that inevitably conflict and threaten to destabilize the whole European Union due to budgetary mismanagements of the respective national governments. More than a half century ago, Röpke said that an enduring solution could not come from a further forced integration and centralization by a Europe-wide political authority. This would simply be another version of the collectivism and planning that had been such a disaster in the earlier parts of the last 100 years.

In one of his last articles published in 1966, Röpke addressed "The Place of the Nation" in European affairs. He warned that just as nationalism had been the breeding ground for the animosities and conflicts that had plagued Europe in the first half of the twentieth century, an imposed or forced Europeanization through top-down political-economic integration would bring its own reaction and conflicts. As always searching for that "middle way," it would be wrong to presume that Röpke would have been a radical "Euro-skeptic." He would see the national reactions against what many in the member nations consider "dictates" from Brussels as an unhealthy response against the European Union central planners. A real "federalism" in which the idea and ideal of liberal free trade is the cornerstone of a European community without centralized command or dictate would be the only way to find a restorative middle course (Röpke 1966).

5.3 International Migration and the Humane Society

Finally, it might be asked what Röpke's message might be in the face of Europe's recent migration crisis. In fact, he wrote about this in a study for the Swiss National Committee of the International Chamber of Commerce on "Barriers to Migration" (Röpke 1950). The hallmark of a liberal community of nations had to be the principle of freedom of movement as an essential element of a humane society. With so many in the world being victims of tyranny and oppression, to deny people the freedom to move to havens where despotism was not present would be truly to turn them into the property and slaves of their own oppressive governments.

Röpke did not believe in unrestricted "open borders." He believed in the right of every society to have a reasonable claim to maintain its own culture, language, and

political order from a flood of migrants that might threaten to drown those very societies and their traditions of liberty which these migrants and refugees were trying to reach (Röpke 1945, pp. 140–149). But he was adamant that virtually all economic arguments against migration were seriously flawed and often represented misplaced attempts to impose "labor protectionism." As long as a society is not near or beyond some hypothetical "optimum" population in terms of labor productivity, more hands always create opportunities for more intensified division of labor with positive material results. Reformed immigration policy should most certainly be open to the highly skilled and professionals from other countries, especially what he called the "entrepreneurial, managerial, and intellectual classes." But this was also the case, he insisted, for many of the less skilled or even unskilled who filled niches and gaps in the receiving counties. Again, a major cause of the tensions and resistance to a greater openness to migration among the European nations, Röpke argued, was the welfare state. In an open and competitive society with government limited only to securing market freedom and those minimal social safety nets, the arrival of more hands means more work that can be done, with benefits therefore for both the "natives" and the migrants in the receiving nations. But in a society in which the government takes on more and more paternalist responsibilities and obligations, human life is necessarily "nationalized" and the state must replace the freedom to move with a control of borders as part of its planning of and influence over national employment and the determination of eligibility for and cost of guaranteeing all those "entitlements" under its political jurisdiction. A politicized economy means a politicized people, with government overseeing and dictating who may enter and leave the territory over which it has redistributive power.

5.4 Terrorism and Theological Totalitarianism

As a postscript to this, one might wonder how Röpke might have viewed the threat of radical Islamic terrorism. An interpreter guided by the body of his writings might suggest that he probably would have seen it as the embodiment of a theological totalitarianism, as a religious ideology that insists on one truth with a capital "T" which requires all to conform to its reading of a religious text for the creation of a theocratic state in which freedom of conscience and peaceful action would be violently repressed and punished outside of its own hermeneutic interpretation of God's will and command. If one extrapolates from his arguments about how National Socialist and communist totalitarianism had to be opposed to Islamic totalitarianism, Röpke would likely have claimed that it cannot be successfully defeated unless we clearly know what the Western world stands for and considers worth defending. In his view this was the uniqueness and the dignity of the individual human being who should not be viewed and treated as an expendable pawn in the name of a greater collectivist cause—whether that cause is secular or religious. As in 1933, he would have probably said that Western civilization was

based on the ideals of reason, argument, and peaceful persuasion, not brutality, force, and cruelty. The path to true insight and appreciation of the transcendent must come from within the individual himself and cannot be imposed by coercion without betraying its true meaning and spiritual value to a human being.

What Röpke would advocate today, I strongly believe, is a humane liberalism, a tolerant liberalism, a peaceful liberalism based on the rights of the individual. This would include unquestioned and uncompromising civil liberties, an impartial rule of law, and a civil society of intermediary institutions in which religious faith and associations might form an essential element. Equally essential to this vision of a free society would be a market economy based on private property, open competition, and freedom of trade. Such a free society, no doubt in Röpke's view, is the only enduring counterweight to the appeal of and attempts to establish false collectivist utopias, of which the recent version of theological totalitarianism has been one of the latest challenges to modern civilization.

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