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The Politics of Order:
Ordo-liberalism from the Inter-war Period
through the Long 1970s

A dissertation submitted in partial satisfaction of the
requirements for degree Doctor of Philosophy
in History

by

Joshua Charles Rahtz

2017

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ABSTRACT OF THE DISSERTATION

The Politics of Order:
Ordo-liberalism from the Inter-war Period
through the Long 1970s

by

Joshua Charles Rahtz

Doctor of Philosophy in History

University of California, Los Angeles, 2017

Professor Robert P. Brenner, Chair

This dissertation examines the thought of the five principal thinkers of the distinctive German neo-liberal tradition of ordo-liberalism, a consistent and often prominent current in the intellectual life of the Bundesrepublik since the end of the Second World War. By way of intellectual profiles of these main figures, the dissertation shows that ordo-liberalism developed as a political rather than purely economic theory. Shaped by the double crisis of capitalism of the inter-war period – of inflation and global economic depression – it attempted a response to the failure of the liberalism of the time. From the 1920s, these thinkers sought institutional and social arrangements that would preserve the separation of economic and political spheres, which

they believed to be the basic requirement of a functioning price mechanism. They achieved this by appeal to the state in its capacity to enforce this separation and regulate social life. The dissertation proceeds by close reading of the main texts of Walter Eucken (1891-1950) and Franz Böhm (1895-1977), representatives of the Freiburg School who developed a method of political economy and constitutional legal theory that sought to isolate the economic responsibilities of the state from democratic pressure. The dissertation then turns to the sociological thinkers Wilhelm Röpke (1899-1966) and Alexander Rüstow (1885-1963), and profiles their development of a theory of mass culture and the measures the state might take to reintroduce and preserve a politics of vitality to combat it. The concluding chapter, on Alfred Müller-Armack (1901-1978), theorist of capitalist crisis in the 1930s, economist of European integration within the Christian Democratic Union, and sociologist of religion, reconstructs his development of the social market economy and concludes with his response to the onset of the downturn of the 1970s. The dissertation shows that by various means, ordo-liberals of the first generation sought resolution to economic crisis directly through politics, and therefore were compelled to undertake comprehensive revision of liberal economics and political theory.

The dissertation of Joshua Charles Rahtz is approved.

Francis R. Anderson

Russell Jacoby

Dylan Riley

Robert P. Brenner, Committee Chair

University of California, Los Angeles

2017

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Lastly, I must acknowledge the Estate of F.A. Hayek for granting permission to use quotations from Hayek's unpublished letters.

List of Acronyms

ACDP	Archiv für Christlich-Demokratisch Politik (Archive for Christian-Democratic Policy)
ASM	Aktionsgemeinschaft Soziale Marktwirtschaft (Action Group for the Social Market Economy)
BA	Bundesarchiv (Federal German Archives, Koblenz)
BRD	Bundesrepublik Deutschland (Federal Republic of Germany)
CDU	Christlich-Demokratische Union (Christian Democratic Union)
CSU	Christlich-Soziale Union (Christian Social Union)
DDR	Deutsche Demokratische Republik
ECB	European Central Bank
ECSC	European Coal and Steel Community
EEC	European Economic Community
EFTA	European Free Trade Area
EPU	European Payments Union
FDP	Freie Demokratische Partei (Free Democratic Party)
GATT	General Agreement on Tariffs and Trade
KAS	Konrad-Adenauer-Stiftung (Konrad Adenauer Foundation)
MPS	Mont Pèlerin Society
NATO	North Atlantic Treaty Organization

NSDAP	Nationalsozialistische Deutsche Arbeiterpartei (National Socialist German Workers' Party)
NOUS	Netzwerk für Ordnungsökonomik und Sozialphilosophie (Network for Constitutional Economics and Social Philosophy)
NZZ	Neue Zürcher Zeitung
OECD	Organization for European Cooperation and Development
OEEC	Organization for European Economic Cooperation
PDS	Partei des Demokratischen Sozialismus (Party of Democratic Socialism)
SA	Sturmabteilung (Storm Detachment)
SED	Sozialistische Einheitspartei Deutschlands (Socialist Unity Party of Germany)
SPD	Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany)
SS	Schutzstaffel (Protection Squadron)
VDMA	Verband Deutscher Maschinen- und Anlagenbau (Mechanical Engineering Industry Association)
ZwKG	Zwangskartellgesetz (Compulsory Cartel Act)

Vita

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“Laissez-Faire’s Reinventions,” *New Left Review* 89 (September-October 2014)

Selected Conference Presentations

“Imperium and Private Law,” The History of Economics Society, Duke University, June 2016

“Imperial Power and Private Law: Ordo-liberal Conceptualizations of European Integration,”
Wissenschaftszentrum Berlin für Sozialforschung, Berlin, Germany, March 2016

“Provincial Designs: The Ordo-liberal Critique of Economies of Scale,”
Institut für die Gesamtanalyse der Wirtschaft, Linz, Austria, December 2014

Introduction

This dissertation is a sustained examination of the thought of the five principal founders of the distinctive German neo-liberal economic tradition of ordo-liberalism, a consistent and often prominent current in the intellectual life of the Bundesrepublik since the end of the Second World War. It contends that the main feature of ordo-liberalism has been political rather than economic. The exact meaning of the use of politics in this tradition, however, requires some qualification. All five thinkers – Walter Eucken (1891-1950), Franz Böhm (1895-1977), Wilhelm Röpke (1899-1966), Alexander Rüstow (1885-1963) and Alfred Müller-Armack (1901-1978) – were born at the turn of the twentieth century, and shaped by the crisis of capitalism of the inter-war period. They sought resolution to it at the level of the state, and beyond that, a hoped-for development of a liberal inter-state order. Further, the crisis of capitalism for all of these thinkers compelled a political response to the ideological and intellectual failure of liberal economics.¹

The ordo-liberal defense of liberalism, and of capitalist social-property relations, rested on two distinguishing insights. The first was that a capitalism developing of its own accord under a laissez-faire regime of a supposed limited liberal state, was inadequate for ensuring the

¹ The term *Ordoliberalismus* was a post-war designation. The term was first used in 1950 in an article by Hero Moeller titled “Liberalismus.” The term therefore followed the founding of the journal *Ordo* by two years, and that of the Freiburg School group (of which Eucken and Böhm were members), by decades. The passage in which the term first appeared reads as follows: “Based on the name of the collective publications of this circle, we would like to designate this neo-liberal movement here as ordo-liberalism.” See Hero Moeller, ‘Liberalismus,’ in *Jahrbücher für Nationalökonomie und Statistik* (Stuttgart, 1950), Bd. 162, 224. See also Ralf Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, pp. 23 n1; Helmut Paul Becker, *Die Soziale Frage im Neoliberalismus: Analyse und Kritik* (Heidelberg and Löwen: F.H. Kerle Verlag und E. Nauwelaerts Verlag, 1965), 41. It will be used throughout as shorthand to refer back to the pre-history of the tradition as well as the period after 1950.

separation of political and economic spheres – the *sine qua non* for any functioning capitalist economy, where the needs of consumers on the one hand, and those of employers buying labor power on the market could be measured through prices. To work, the price signal could not be subject to direct political pressure, but must be isolated as a purely economic fact and propelled by competition. Secondly, ordo-liberals of the first generation understood that a market itself was not a bearer of cultural, psychological or inner meaning, fundamental for legitimizing a social order. Religious thought and moralism were therefore given significant weight in their writings and were to provide the political frame for a depoliticized economy. Of course, this mode of thought was itself a form of politics. It was a politics operating at two levels: that of the foundational decision to determine the general structure of a social order that separated politics proper from economics proper; and the development of an ethos within the political sphere that would give meaning to the lives of people living in this society, to the end of legitimating it.

In its very insistence on separating the economic from the political through organized political agitation and ultimately through the state, ordo-liberal thinkers betrayed an understanding of the basic unity of the two spheres as constitutive of the totality of social relations.² Efforts to separate out an economic sphere by depoliticization were thus

² Walter Eucken's student Karl Paul Hensel wrote with great clarity on this point. Economic questions immediately raised further, much broader social ones: "It is not easy to solve the problem of the order of human communal life in general, and of solving the problem of economic order in particular. The main reason for this is the fact of the universal interdependence of all phenomena of social life." See K. Paul Hensel, *Grundformen der Wirtschaftsordnung* (München: C.H. Beck, 1974), 17. In Eucken's posthumous *Grundsätze der Wirtschaftspolitik*, the point is made in a slightly more historical mode: in the aftermath of the French Revolution and the industrial revolution, no one household could avoid purchasing consumer goods that were the product of many interrelated divisions of commodity and labor markets; in this way, "the economic order as a whole...covers other human orders in which this household also lives. There is thus not only economic interdependence, but also interdependence of the economic order with all the rest..." The task of *Ordnungspolitik* was to answer the question posed by the growth of economic power (most conspicuous in the tendency of centralization in the form of cartels) and the social question that was its byproduct, via social policy and an economic-constitutional order. See Walter Eucken,

complemented by a positive political program, not the economization of the state or of politics. At the level of theory, this meant that ordo-liberalism understood market-dependency and the separation of the economic from the political as a historically specific, rather than natural order. In this way, they differed in their approach and outlook from some of their like-minded neo-liberal colleagues. The distinction is well-articulated in an exemplary letter of 1942 sent from F.A. Hayek to the economist Wilhelm Röpke, who is subject of the third chapter of this work. In his letter, Hayek laid out his criticisms of Röpke's *Gesellschaftskrisis der Gegenwart* (translated into English as *The Social Crisis of Our Time*): first, Hayek objected to Röpke's use of the term "Vermassung" – massification – which, he felt, misleadingly "suggests that the phenomenon is a result of the competitive society"; Hayek warned furthermore that Röpke's use of the term "Dritter Weg" – third way – would easily be misinterpreted as one of the "half way houses between competition and planning which take the worst of both worlds as to discredit them with all thinking people" and more fundamentally could mislead readers into thinking that Röpke was "as opposed to the ideals of liberalism as it is to those of socialism." Lastly, Hayek described himself as "not really happy" with Röpke's distinction between *konform* and *nicht konform* state intervention into the market, which he hoped could be elaborated in other works.³

Grundsätze der Wirtschaftspolitik (Tübingen: Mohr Siebeck, 1952, 2004), 14. On the social question, 185-90; and on its relation to economic policy, 314-324. For the separation of political and economic spheres, see Ellen Meiksins Wood, "The Separation of the Economic and the Political in Capitalism," *New Left Review* I, 127 (May-June 1981): 66–95.

³ F.A. Hayek to Wilhelm Röpke, 6. June 1942, Nachlass Röpke, Ordner 7, pp. 207-209. Both Hayek and Röpke were to serve as contributing editors of the *ORDO Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*; two decades later, as members of the neo-liberal Mont Pèlerin Society, they split during a factional dispute between two wings of the Society, then largely divided along geographic lines between American and European groups, with Hayek siding with the American that was more oriented to Milton Friedman.

Hayek's reservations illuminate some of the differences within neo-liberal thought that may be traced back to the early years of its development: Hayek's view of the limited epistemology that hinders attempts at any organized political economy, and Röpke's and his colleagues' view of a politics separate from market competition, but that nevertheless would function as an anchor for it.

In the English-speaking world, it has largely been a simplified version of Hayek's neo-liberalism – interpreted above all as a restricted state – that has come to be more or less identified with neo-liberalism as a body of thought and the politics of market-based “reforms” and austerity that have defined the period since the late 1970s globally. In Germany, the history of neo-liberalism follows a different trajectory in its intellectual content and in its periodization: not entirely introduced by way of reform from the seventies on by Washington, neo-liberalism via ordo-liberalism may be plausibly associated just as much with its own native thinkers practically from *Stunde Null*. Preceding by three decades the response to the breakdown of the Keynesian consensus, ordo-liberal thinkers in their more policy-oriented years worked in close proximity to the West German state and within the Christian Democratic Union party apparatus – as advisers, directly as officials themselves, or as celebrated theoretical inspiration. Ordo-liberalism has therefore often been seen as a defining feature of what is particular in German political economy since the end of the 1940s. The historic 1948 currency reform, supported by prominent ordo-liberals who sat on the important advisory council within the British-American occupied zone, the abandonment of price controls advocated by a close political associate Ludwig Erhard, the introduction of the deutschmark the Düsseldorf program of the CDU, which abandoned Christian socialism of the Ahlen program, and its place within West German academic life, are some of the foundational associations this intellectual tradition has made with the political establishment of

the Bundesrepublik.⁴ These political and strategic as well as strictly economic contributions to world-making events, along with the development of the CDU's social market economy platform, based on in many respects on its teaching, also helped to identify the tradition as a basis for Christian Democracy.

In the unified Germany of the first decade of the twenty-first century, but especially in the acute phase of the crisis of the Eurozone from 2010, ordo-liberalism enjoyed a renaissance, at least rhetorically among some prominent commentators and politicians. It became shorthand for explaining the policy of austerity Germany has enforced at a European level, as well as the apparent relative economic dynamism of the German national economy. This association was in no small part embellished by elements of the CDU such as Wolfgang Schäuble, the powerful interior and then finance minister of Angela Merkel's cabinet during the period, but it was noted by prominent economists within Germany and without.⁵

This dissertation will not attempt to account for the influence of ordo-liberalism over such policies directly, but will instead work to reconstruct and contextualize it as a branch of neo-liberal thought.

An intellectual history of ordo-liberalism, one of many currents within neo-liberalism, as with any history of the topic, immediately encounters problems of conceptualization. A few

⁴ See Herbert Giersch Karl-Heinz Paqué, Holger Schmieding, *The Fading Miracle: Four Decades of Market Economy in Germany* (Cambridge: Cambridge University Press, 1992), 26-44. See also the overview in Mark Blyth, *Austerity: The History of a Dangerous Idea* (Oxford: Oxford University Press, 2013), 135-145.

⁵ See, for example, Wolfgang Schäuble, *Zukunft mit Maß: Was wir aus der Krise lernen können* (Lahr/Schwarzwald: Johannis-Verlag, 2009); Sebastian Dullien and Ulrike Guérot, "The Long Shadow of Ordoliberalism: Germany's Approach to the Euro Crisis" (European Council on Foreign Relations Policy Brief, February 2012); Lüder Gerken, "Merkel is Gambling Away Germany's Intellectual Heritage," *Financial Times*, 19 September 2013; "Ordoliberalism Revisited," *The Economist*, 18 October 2014; Wolfgang Münchau, "The Wacky Economics of Germany's Parallel Universe," *Financial Times*, 17 November 2014; "Of rules and order" *The Economist*, 9 May 2015.

words are necessary therefore to clarify the aims of this project, and what specifically is meant by the main terms. There is a wide range in the meaning of the term “neo-liberal.” These may be grouped into two principal categories of use. From an economic-historical vantage, as has already been seen, neo-liberalism designates a period in the history of capitalism beginning with the onset of macroeconomic austerity. The interest rate hike initiated by Federal Reserve Board chairman Paul Volcker in the US in 1979 may be taken as the decisive event.⁶ In this way, seen as a policy regime beginning in the English-speaking countries, and continuing up to the present, it has implanted itself as a second nature of capitalist states globally in a period of increasing inter-capitalist competition, declining rates of growth and declining investment at a system-wide level. Neo-liberalism in this gloss must be seen as policy response to the first major economic crisis of the post-war order. The features of this period from an economic standpoint are well known: decimation of organized labor, cuts to the social state, privatization of public services, the takeoff of finance and real estate, and increasing competition in a labor market evermore defined by temporary and irregular employment, where wages remain virtually stagnant. All of these qualities define the neo-liberal period, and mark it as distinct from post-war boom, characterized by high growth, investment and employment that prevailed in the advanced capitalist world up to the mid-1970s. Then, counter-cyclical, demand-side management and near full employment policies that accompanied it were associated with the name of economist John Maynard Keynes.

The intellectual history of neo-liberalism, by contrast, begins with not with the 1970s, but with the inter-war efforts of a group of economists, philosophers and sociologists to organize the

⁶ Here I follow Robert Brenner’s account given in *The Economics of Global Turbulence* (London; New York: Verso, 2006), 186.

revival and defense of capitalism during the period of the double crisis of hyper-inflation of the 1920s and the Depression of the 1930s. As a movement of ideas, neo-liberals, hailing from across the advanced capitalist world during the 1920s and early thirties, first were organized at the end of the decade at the well-funded Walter Lippmann Colloque in Paris of 1938. By the breakdown of Keynesianism in the 1970s, some of its most prominent representative thinkers stood to inherit a position of public importance that would replace the regulated or mixed economies. In the Anglosphere, this development took place over the course of many decades, but in Germany, the chronology is slightly different, in that neo-liberalism was from the beginning of the post-war period, a significant, and for a time the most prominent political economic force, from a policy standpoint and generally in academic culture, as has been discussed above. In this respect, the economic policy regime of neo-liberalism and the historical period of capitalism that is coeval with it overlap significantly. The movement of neo-liberal thought, now the subject of a growing body of literature, is sufficiently heterogeneous to warrant an ensemble portrait of intellectuals as political actors, pressing their case systematically and in an organized fashion to shape political categories and concepts at the highest levels of diplomacy and statecraft.⁷

⁷ Much of the literature on neo-liberalism has been focused on the Austrian and Chicago schools. David Harvey's *A Brief History of Neoliberalism* (2005) traces the origins of neo-liberalism in practice to Chile, September 1973, the "first experiment in neoliberal state formation." Daniel Stedman Jones's *Masters of the Universe* (2012) devotes five pages sequentially to ordo-liberalism and the social market economy, though his introductory essay cites ordo-liberalism's founders as among the most influential in the tradition of neo-liberalism writ-large. He writes that "outside Germany, [neo-liberals] lacked concrete political success in the 1950s and 1960s,"; but the focus is on Anglo-American developments. Jamie Peck's *Constructions of Neoliberal Reason* (2010) addresses ordo-liberalism at greater length, but, perhaps reflecting the author's background in geography, the text offers a less than systematic, concentrated account of its historical development and prospects. It appears as foil to the Chicago and Austrian schools where the latter two are so clearly hostile to state intervention of any kind. Peck concludes that ordo-liberalism subsided after the ascendancy of the SPD-FDP coalition in 1969, but leaves open the possibility of a renaissance, since 2008. See, respectively, David Harvey, *A Brief History*

Literature Review

One approach to intellectual history of neo-liberalism has been through an analysis of the Mont Pèlerin Society, the vehicle by which neo-liberals reconstituted themselves as an international “thought collective”⁸ in 1947, reviving associations of the late 1930s that were partially suspended during the Second World War. The MPS was initially a small group mainly of economists, but grew soon to include prominent politicians including heads of state like the Italian Luigi Einaudi and Ludwig Erhard, and is active as a central organ of neo-liberal politics and activity into the present. All of the ordo-liberal subjects of this dissertation were members at one point, and Röpke briefly served as president of it.

A lively scholarship in multiple languages has developed around the history and sociology of the Society, owing to the prominence of many of its members, but also because of its origins as a self-conscious international movement with global ambitions, and because of its heterogeneity. This latter quality affords a view into the internal variation within neo-liberalism as a tradition. History of it suggest one reason for neo-liberalism’s durability through successive economic crises, and its adaptability as a paradigm across the globe. It has also meant that, given the eclecticism of early neo-liberal thought, and the proximity of the social market economy of the 1950s under ordo-liberal influence that is one lesser-known outcome of it politically, historians of the period have sought to distinguish neo-liberalism from the “ultra-liberalism” of

of Neoliberalism, (Oxford: Oxford University Press, 2005); Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012); Jamie Peck, *Constructions of Neoliberal Reason* (Oxford: Oxford University Press, 2012).

⁸ The term is taken from Dieter Plehwe’s and Philip Mirowski’s *The Road from Mont Pèlerin*.

the Thatcher and Reagan years, and cast the alternative neo-liberalisms of the 1930s as moderate or sensible alternatives.⁹ This has been one upshot of the work of Serge Audier, whose histories of the Lippmann Colloquium and the Mont Pèlerin Society showcase, in the divisions between ordo-liberals and Austrians on the one hand, and the Chicago and Virginia Schools on the other, the apparent moderation and complexity exemplified by ordo-liberalism, especially the work of Rüstow and Röpke. Their sociological liberalism, because it took into account the loss of vitality of life under both laissez faire and – what was surmised – socialist societies, so Audier argued, represented an authentic third way alternative to both.¹⁰ Audier announced that the historical task of recovering this was all the more important in the aftermath of 2008; one effect of the history was to be an overhaul the common misconception of neo-liberalism as a market extremism, and to replace it with a pluralist understanding.¹¹ The hope was to “relativize” readings of especially Rüstow and Eucken as authoritarian, that saw them in the orbit of Schmitt, prizing inequality and hierarchy. Audier’s treatment of Alfred Müller-Armack’s membership in the NSDAP, and his 1933 pamphlet welcoming the Third Reich demonstrates one limit to this approach. For Audier, Müller-Armack’s “brief proximity to Nazism did not result in a scientific or militant commitment, which explains why [he] was able to impose his views after the end of the Third Reich.”¹² This explanation is insufficient, given Müller-Armack’s practical activity within the

⁹ For the use of this term, see Serge Audier, *Le colloque Lippmann: Aux origines du “néo-libéralisme”* (Lormont: Éditions Le Bord de leau, 2012), 10-12. On Röpke and Rüstow’s sociological liberalism, see 176-96; 392, 397.

¹⁰ *Ibid.*, 189, 195.

¹¹ Serge Audier, *Néo-libéralisme(s): Une archéologie intellectuelle* (Paris: Grasset, 2012), 7, 53-7.

¹² *Ibid.*, 447.

Nazi bureaucracy charged with eastern settlement of Germans¹³; but, more importantly, it misses the intellectual continuity in Müller-Armack's writings. Although Audier's study admits the anti-socialism within the world of early neo-liberalism, it does not concern itself with the anti-democratic and indeed authoritarian bent that informed even the social provisions of ordoliberalism: constitutional limitation of popular sovereignty at a constitutional level, or the politics of vitality and religion were instruments in the political challenge of the socialism and of the masses. This was a concern shared among the ordo-liberals from the early writings.¹⁴

Angus Burgin's *The Great Persuasion* (2012) likewise emphasizes the pluralism within the Mont Pèlerin Society; Hayek and Röpke stand out as exemplary of the complexity of neo-liberalism before it was overtaken by the "return to laissez faire" thinking in the latter half of the 1960s. The study organizes itself more around the internal personnel changes in the Society, and largely excludes the politics or general social thought, concentrating on the internal processes and relations.¹⁵ These questions, and the commitments of the major figures, are left largely to the side, in favor of emphasis on Milton Friedman's takeover of the Society with a brash form of market extremism. Müller-Armack, political official in the Bundesrepublik, is not discussed; Röpke is a social thinker of little political moment, though he was a close adviser to Erhard, also a member of the Society, who goes unexamined as a significant politician by Burgin. Here, the key insight is into the internal development of the society, and the important documentation of a

¹³ On Müller-Armack's economic plans for German settlement of the *Ostraum*, see Ralf Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft* (Wiesbaden: Springer Fachmedien, 2004), 86.

¹⁴ Audier is clear in his writings that Röpke et al. were hostile to the welfare state strictly speaking.

¹⁵ See Angus Burgin, *The Great Persuasion* (Cambridge: Harvard University Press, 2012). Burgin avoids mention of Hayek's support for Pinochet, and the fact of his role in arranging for the MPS meeting in Viña del Mar in 1981; this was the city from which Pinochet launched his coup d'état against Allende.

strain within it that understood that “if market was to be preserved, it would need to be presented as part of a potentially compelling world-view.”¹⁶

Philip Plickert’s sympathetic *Wandlungen des Neoliberalismus* – Transformations of Neo-liberalism – brought out by the imprint of the Aktionsgemeinschaft Soziale Marktwirtschaft, a publicity arm of the CDU’s social market economy platform founded by Rüstow, provides a sustained history of the Society and its various intellectual and institutional affiliations.

Naturally, as it is a history of the Mont Pèlerin Society, ordo-liberalism is not so much the focus of the study but one important component. But, despite examination of the inter-war debates, the origins of the Freiburg School of Eucken and Böhm, and the development of the thought of Röpke, discussion of Müller-Armack begins in the post-war period. Taking stock of Germany of 2008, Plickert laments the growing preference among the population for equality over freedom – especially in the former DDR *Länder* after only a “short euphoria.”¹⁷ Sixty years after Erhard, the population was forgetting the lessons of the Röpke and Rüstow. Plickert also sees weakness within neo-liberal circles, and potential answers in the ordo-liberal school. In the thirties and forties, he argues, neo-liberals fought against socialists, Keynesians and National Socialists; the New Left opponents of first decade of the twenty-first century, who held economic problems as secondary, could better be combatted with the *Vitalpolitik* and social thought of Röpke, but too few in neo-liberal circles wanted to hear of this tradition.¹⁸

¹⁶ Ibid., 121.

¹⁷ Philip Plickert, *Wandlungen des Neoliberalismus: Eine Studie zu Entwicklung und Ausstrahlung der “Mont Pèlerin Society”* (Stuttgart: Lucius & Lucius, 2008), 472. For a critical overview of Plickert’s study, and his ties to the MPS, see the introductory chapter to Matthias Schmelzer, *Freiheit für Wechselkurse und Kapital: Die Ursprünge neoliberaler Währungspolitik und die Mont Pèlerin Society* (Marburg: Metropolis-Verlag, 2010), 25-6.

¹⁸ Ibid., 475.

The definitive major study of the society by a sole author remains Bernhard Walpen's *Die offenen Feinde und ihre Gesellschaft* – The Open Enemies and Their Society – brought out by VSA in 2004. It puts politics in the center of the intellectual history of the Society, and, with unparalleled empirical detail, sets forth the history of the publication drives, and the network of think-tanks built up from the 1930s onward with the goal of setting out a basis for hegemony of liberalism: the Society as *Hegemonialapparat*. Walpen's study offers the exemplary mapping of the interconnections of these think-tanks and organizations in the MPS orbit from the inter-war period through the 1990s, and the activities of implanting its representative thinkers across civil society at an international scale. Ordo-liberalism features prominently as a force within the early years of the MPS, with the 1970s conceptualized as *Requonquista*, and the predominance of some libertarian strains, Walpen documents the concern of some within the society that it had lost the specific moral and social richness found in the thought of early members like Röpke, and that more should be done to refocus on such questions.¹⁹ Walpen manages this vast literature and sociological rigor without losing sight of the politics of neo-liberalism, and the binding force that makes it a coherent movement.

Matthias Schmelzer's 2010 study, *Wechslelkurse und Kapital*, aside from offering a comprehensive overview of the history of the MPS, is a singular history of the various positions within it on monetary policy as they developed over the course of the 1960s. Schmelzer shows how specifically the emergence of floating exchange rates as the dominant position within the

¹⁹ Bernhard Walpen, *Die offenen Feinde und ihre Gesellschaft* (Hamburg: VSA-Verlag, 2004), 266-8.

Society followed a younger generational cohort shedding allegiance to the gold-standard ideal promoted by the first generation of ordo-liberals such as Röpke.²⁰

In English, Philip Mirowski's and Dieter Plehwe's edited collection *The Road from Mont Pèlerin* (2009), has been a touchstone, one of the essential texts on this topic that demonstrates its global reach. Here, the networks of neo-liberal organizations, their backers come into full view as an international force. In the volume, an essay on legal theory of by Rob van Horn – the theory of competition and of Eucken's *Ordnungspolitik* given important divergence between Chicago school and the ordo-liberal position with respect to monopolies, examines the ordo-liberal influence on jurisprudence, and builds on the work of David J. Gerber's *Law and Competition in Twentieth Century Europe* (1998). Gerber takes the position that ordo-liberal principles were foundational in the early phases of European integration, shaping the Treaty of Rome in 1958 thus laying the groundwork for the legal parameters regulating trade within the Eurozone.²¹

The literature focusing on German history also treats ordo-liberalism as an important component of political economy and culture. Alexander Nützenadel's *Stunde der Ökonomen*, which comes out of a social and economic-historical perspective, examines the multiple currents of economic thought from 1949 through the first half of the seventies. In the expert culture of the

²⁰ Röpke left the society in 1961 in part as a result of this controversy. For a discussion of this, see Schmelzer, *Freiheit für Wechselkurse und Kapital*, 97.

²¹ David Gerber, *Law and Competition in Twentieth Century Europe: Protecting Prometheus* (Oxford: Oxford University Press, 1998), 263. In recent, this thesis has been challenged this builds on the legal as does a chapter by Ralf Ptak, on the origins of the neo-liberal tradition in Germany. See Pinar Akman, "Searching for the Long-Lost Soul of Article 82EC," *Oxford Journal of Legal Studies*, Vol. 29, No. 2 (2009), pp. 267–303. Here, Akman argues that it is not the competition article 82EC that upholds ordo-liberal norms, because it is predicated on efficiency; rather, Akman argues, it may be historically that the European Court of Justice.

Bundesrepublik, ordo-liberalism features prominently, emerging from the methodological overhang of the historical school of the 1930s, but it is not the only school in the young BRD; in the person of Alfred Müller-Armack, it enjoys sustained but ultimately short-lived afterlife in the attempt to institute a second phase of the social market economy amidst new conjunctural realities. At the intellectual-historical register, Nützenadel's study emphasizes the heterogeneity of economics in the Bundesrepublik. Empirical and formal as well as Keynesian strains developed along side ordo-liberalism, so that by the first downturn of the post-war period, and the period of the Schiller's stability mechanism, it had faded definitively.²²

Ralf Ptak's path-breaking close examination of ordo-liberalism, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft* – From Ordo-liberalism to the Social Market Economy (2004), with Dieter Haselbach's *Autoritärer Liberalismus und Soziale Marktwirtschaft* – Authoritarian Liberalism and Social Market Economy (1991) – constitute the essential critical accounts of the tradition in German as a whole, focused on its development and revealing especially the Schmittianism and right-wing affiliations of the inter-war years that undermine the self-styled image of the group as a outpost of resistance to the Third Reich.²³ Both studies work through the

²² See Alexander Nützenadel, *Stunde der Ökonomen: Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949-1974* (Göttingen: Vandenhoeck & Ruprecht, 2005). For detailed study of academic economics in the Bundesrepublik along similar lines, see Jan-Otmar Hesse, *Wirtschaft als Wissenschaft: Die Volkswirtschaftslehre in der frühen Bundesrepublik* (Frankfurt: Campus Verlag, 2010).

²³ Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 62-75; Dieter Haselbach, *Autoritärer Liberalismus und Soziale Marktwirtschaft: Gesellschaft und Politik im Ordoliberalismus* (Baden-Baden: Nomos, 1991), *passim*. The term "authoritarian liberalism" was already the title of a landmark short essay of 1933 by Hermann Heller, translated into English in 2015. In his critical appraisal of Schmitt's 1932 lecture 'Starker Staat und gesunde Wirtschaft' Heller's intervention held that the lesson of Schmitt's talk was that only an authoritarian state would be able to "sever the 'excessive' connections between the state and the economy." Heller wrote that "Of course, the German people would not tolerate for long this neoliberal state if it ruled in democratic forms." "[T]he 'authoritarian' state is characterized by its retreat from economic production and distribution," he wrote. See Hermann Heller, "Authoritarian Liberalism?" in *European Law Journal*, Vol. 21, No. 3, May 2015, 295–301. See especially p. 300. Wolfgang Streeck's

main texts of the tradition and put them in their social and political context, with special attention paid to the instrumentalism of the ordo-liberal sociology and mythology; this is especially the case in the work of Haselbach, who has written elsewhere on the nineteenth century anthropology that was the basis of much of Rüstow's work.²⁴ Werner Bonefeld, working within political theory, has outlined much of this as well in his recent study, *The Strong State and the Free Economy*. In Bonefeld's work, liberal authoritarianism and the efforts at "deproletarianization" are rightly given emphasis, as is the influence of Schmitt. Bonefeld sees Röpke's statement that "we need to eliminate the proletariat as a class defined by short-term wage-income," as the basis for a the new social and cultural rootedness that would secure alternative ways of "access to the means of subsistence without entering into collective welfare arrangements."²⁵ In his discussion, Bonefeld extends the concept of authoritarian liberalism up to the level of the Eurozone, the crisis of which has "uncovered the European Council as the Union's core decision maker," along with the "depoliticized European Central Bank."

Michel Foucault's lectures at the Collège de France from 1978-1979, published in English as *The Birth of Biopolitics* (2008), present ordo-liberalism in a slightly different light. Rather than emphasizing depoliticization, they take ordo-liberalism as the theoretical basis for the neo-liberal "art of government," only belatedly taken up by British and American policymakers. Ordo-liberals for Foucault were the central thinkers who founded in theory—and

commentary on Heller's article sees "similarities between Schmitt's 'authoritarian liberalism' and the 'ordoliberalism' of postwar Germany" and the "politically engineered depoliticisation of contemporary European capitalism." Wolfgang Streeck, "Heller, Schmitt and the Euro" in *ibid.*, 363-5.

²⁴ See Dieter Haselbach, *Franz Oppenheimer: Soziologie, Geschichtsphilosophie und Politik des "liberalen Sozialismus"* (Opladen: Leske Verlag + Budrich, 1985).

²⁵ This was a deproletarianization in "quasi-feudal terms." See Werner Bonefeld, *The Strong State and the Free Economy* (London and New York: Rowman & Littlefield, 2017), 105-6.

then implemented in practice—the redefinition of the juridical state whose main charge it was to regulate society on the basis of competition.²⁶ For Foucault, the ordo-liberals had learned from Nazism that “the defects and destructive effects traditionally attributed to the market economy should instead be attributed to the state.” They had concluded, according to Foucault, that “market economy itself” should be raised to the principle of the state’s “internal regulation from start to finish of its existence and action.”²⁷ This entailed a shift in the understanding of the market as principally a site of exchange to one of competition. Serge Audier has criticized Foucault’s position, for, among other deficiencies, passing over the plurality within neo-liberalism and failing to distinguish between the ordo-liberals who encouraged and tolerated social welfare in theory and practice, and the Austrian and Chicago neoliberals who did not.²⁸

Foucault’s 1978-1979 lectures have given rise to a wide literature on neo-liberalism. The suggestive historical period in which they were delivered, and the fact that they concerned themselves with the origins of neo-liberalism just as it was gathering momentum as policy at the end of the 1970s according to one accepted periodization (and especially as it related to German-French relations and the spread of the social market economy to France) may be one reason for this. References to the ordo-liberals constitute one of the central and consistent theoretical touchstones of Foucault’s discussion. However, notwithstanding attention to Röpke

²⁶ Michel Foucault, *The Birth of Biopolitics* (New York: Palgrave Macmillan, 2008), 160.

²⁷ *Ibid.*, 116. For Foucault’s sympathy for neo-liberalism and the special meaning of ordo-liberalism to him within the French context of the late 1970s, see Daniel Zamora and Michael C. Behrent (eds.), *Foucault and Neoliberalism* (Cambridge: Polity, 2016). See especially Behrent’s contribution, “Liberalism without Humanism: Michel Foucault and the Free-Market Creed, 1976-1979,” and here, especially 38, 48-53, where Behrent tracks Foucault’s relation to Rosanvallon and the so-called Second Left, the conversion of the SPD in Germany in 1959 to a liberalism which impressed him as a “non-disciplinary form of power.” For the latter point, 50-1.

²⁸ Audier, *Néo-libéralisme(s)*, 29, 424.

and Rüstow's *Gesellschaftspolitik*, Foucault's emphasis on the economization of the state under ordo-liberals, and the subordination of social policy to the requirements of competition, obscures the relative independence of the two spheres in the original texts. Foucault's reading meant that the social sphere was itself to play a supporting role to economic "enterprises," even adopting its qualities.²⁹ Wendy Brown's *Undoing the Demos*, which takes the lectures as its theoretical frame, sees ordo-liberalism as an exaggeration of this general tendency within neo-liberalism. For Brown, neo-liberalism means that "[t]he state secures, advances, and props up the economy; the state's purpose is to facilitate the economy, and the state's legitimacy is linked to the growth of the economy....Ordoliberalism carried this even further: the market economy should also be the principle of the state's internal regulation and organization."³⁰

Pierre Dardot and Christian Laval's *New Way of the World* is perhaps the most extensive treatment of the history of neo-liberalism using Foucault's basic concept, and it is a welcome corrective to the misconception which would equate neo-liberalism with laissez-faire economics, in whatever period. Dardot and Laval trace the origins of the world economic crisis of 2008 and of the 1970s before to a "crisis of governmentality"; they set their argument up expressly against the Marxist conceptualization of a crisis of accumulation, which they deem too "economic" a reading, too reliant on an "economic 'mode of production' which, as such, is independent of law."³¹ Here, a needless opposition is set up between what they deem a Marxist "essentialism" and the "economic-juridical complex"; in insisting upon the inherent unity of a "juridico-political

²⁹ Michel Foucault, *The Birth of Biopolitics*, 173.

³⁰ Wendy Brown, *Undoing the Demos: Neoliberalism's Stealth Revolution* (New York: Zone, 2015), 64.

³¹ Pierre Dardot and Christian Laval, trans. Gregory Elliott, *The New Way of the World: On Neo-liberal Society* (London and New York: Verso, 2013), 10.

order” and the economic, they overlook what is in fact a foundational category of historical materialism: social relations of production. They state, with emphasis, that “*the juridical belongs to the relations of production from the outset*” as though this would have never occurred to readers of *Capital*.³² This fundamental misreading of Marx by Foucault was already understood well in 1978: “It is not true, as Foucault or Deleuze would have it,” Poulantzas wrote in *State, Power, Socialism*, “that relations of power are, for Marxism, ‘in a position of exteriority vis-à-vis other types of relation: namely, economic processes...’ The economic process *is* class struggle, *is* therefore relations of power – and not just economic power.”³³ These are the foundational categories of the tradition dismissed out of hand by Foucault and those works using his concepts, without much engagement with them. Dardot and Laval’s work is however of exceptional quality in its description of the major texts of ordo-liberalism, and their efforts at inducing new forms of subjectivity through institutions. These striking insights help to understand the ubiquity of neo-liberalism thinking today, and, the importance for ordo-liberalism to post-war European integration.³⁴

³² For detailed discussion of related questions, see Perry Anderson, *Arguments within English Marxism* (London: Verso, 1980), 63-8.

³³ Nicos Poulantzas, *State, Power, Socialism* (London and New York: Verso, 2000), 36.

³⁴ See especially Dardot and Laval, *The New Way of the World*, 63, 83-4 and 106. For their discussion of ordo-liberalism as European integration from the Rome through Maastricht Treaties, see 197-201. Nevertheless, one side-effect of reading ordo-liberalism as a strategy of “enterprise culture” has been a collapse of the distinction emphasized within its main texts of the very separate orders of life to be allocated to politics and law, sealed off from economics. Despite their efforts, Dardot and Laval’s use of the Foucaultian frame yields too much of an “economistic” reading of ordo-liberalism. The distinction to be drawn when looking at the relation of these categories in the ordo-liberal canon is two-part: although there is *in fact* no natural separation between economic and political, its *end* was very much the political thrust of ordo-liberalism; it sought to accomplish this by depoliticized economics, and a developed politics, with sources in anthropological needs.

A wave of translation in the 1980s introduced, perhaps for the first time in some cases, ordo-liberalism to English speaking readers. This was largely undertaken by sympathetic scholars or, in the case of the *Standard Texts on the Social Market Economy* volume of 1982, the Ludwig Erhard Stiftung itself. In 1989, The Trade Policy Research Centre, brought out two volumes, one of primary material, and the other of collected analysis by students of the first generation of ordo-liberals and conservative commentators such as Daniel Johnson.³⁵ Scholarly monographs in English treating ordo-liberalism at length are T.W. Hutchison's *The Politics and Philosophy of Economics* (1981) A.J. Nicholls's *Freedom with Responsibility* (1994), and Keith Tribe's *Strategies of Economic Order* (1995). Hutchison, who translated Walter Eucken's *Grundlagen der Nationalökonomie*, devoted a chapter to Walter Eucken and the German Social-Market Economy, "the one outstanding national politicoeconomic success in the Western or North Atlantic World" which, he lamented, had attracted "little interest" from American and British economists. In West Germany, it was noteworthy "that just as policy in Germany never suffered from the more extreme and dogmatic forms of "Keynesian' fiscalism – as Britain has – so, subsequently, it has not been affected by the more extreme and oversimplified forms of monetarism."³⁶ Tribe takes a clear line that the ordo-liberal movement was politically successful, but that its inner circle hardly produced a coherent economic theory. Politically, since it consisted of liberals exiled during the Nazi period (Röpke and Rüstow), those who, like Walter Eucken and Franz Böhm, were kept at arm's length from the Nazi regime but nevertheless

³⁵ See Alan T. Peacock, Hans Willgerodt, eds., *Germany's Social Market Economy: Origins and Evolution* (London: Macmillan, 1989); Alan T. Peacock and Hans Willgerodt, eds., *German Neo-Liberals and the Social Market Economy* (London: Macmillan, 1989).

³⁶ T. W. Hutchison, *The Politics and Philosophy of Economics: Marxians, Keynesians and Austrians* (New York: New York University Press, 1981), 164, 170.

participated in advisory committees to it, and outright NSDAP members such as Alfred Müller-Armack, it hardly had an easily-identifiable positive philosophy or tendency. Tribe contends that beyond vague general principles, the social market economy was far more contiguous with the Nazi period than most would admit, and therefore cannot really be seen as purely liberal in the manner of Hayek or the Austrian school. *Strategies of Economic Order* presents ordo-liberal theory, such as it is, as a mélange of various strains of anti-communism that produced strange bedfellows at a moment in the immediate post-war period when the threat of a socialization of production loomed. Its goals were always short-term and pro-capital, rather than scientific and neutral, despite the affectations of its main proponents who nevertheless used their professed neutrality to their political advantage. Although Tribe's critical account ends at 1950, subsequent developments would seem to confirm his central thesis: ordo-liberalism persisted as the theoretical and rhetorical touchstone for West German policy but adapted to changing economic and political circumstances.

Nicholls's *Freedom with Responsibility*, over two decades after its publication, remains the most exhaustive account of ordo-liberalism in English. The study, really of the social market economy from the inter-war period through 1963 (the end of the Adenauer era), adopts to a great extent the perspective of its subject; in this way it represents a more fleshed-out version of Hutchison's entry on Eucken. Nicholls does not conceal his admiration of the social market economy – a topic that was of some “antiquarian interest” at the turn of the 1980s, but since the fall of 1989, and certainly by the book's publication in 1994, of great interest generally and of much “contemporary relevance,” since West Germany's “export-oriented industries have consistently held their own against the tough competition to be found in world markets” while the society has maintained a political culture “more akin to the American model” – a great

success.³⁷ Not only did Nicholls make use of archival sources, building up an image of the correspondence of the major figures of what was to become ordo-liberalism as it gathered momentum up through its breakout period after the Second World War, but he frames this intellectual history by way of clear presentation of social and economic problems, charting their development. In English, probably only Herbert Giersch et al.'s *Fading Miracle* offers such clear presentation of this dynamic. A further virtue of the study is its treatment of the history of SPD, with extensive discussion of its Weimar days – and the infant strains within it that were more conciliatory to a market economy – and importantly, the internal post-war struggles within it that resulted in the decisive abandonment of Marxism in 1959.³⁸ But one telling feature of the study is its treatment of Müller-Armack, the author of the phrase which is the titular subject of the book. Though he does not flinch from examining Müller-Armack's Nazi work – the infamous *Staatsidee und Wirtschaftsordnung im Neuen Reich* – is “generally wretched” – Nicholls is eager to distance this figure, one of the most influential, politically active and prolific of the ordo-liberals, from the others. Significantly, Müller-Armack is painted as a vulgar opportunist (“more interested in administration than scholarly matters”), “probably the most *dirigiste* of all” and repeats demeaning gossip exchanged between Rüstow and Eucken who expressed “doubts about the quality of his work” during the Second World war.³⁹ Still, the Nazi state was “incompatible with his own commitment to the market economy” as early as 1936. Little sustained reflection on

³⁷ A.J. Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany, 1918-1963* (Oxford: Clarendon Press, 1994), 1, 9.

³⁸ *Ibid.*, 88-9, 252, 321. By 1962, “[i]n the economic sphere, but also in the sphere of ethical principles and social objectives, the yardstick against which Social Democratic policies were measured had come to be that of the social market economy.”

³⁹ *Ibid.*, 72-3, 121.

the continuity of Müller-Armacks' thought, his practical activities within the Nazi state, and the general admiration for Schmitt among the Freiburg School, renders the politics of the Müller-Armack exceptional categorically rather than in degree, and the politics of ordo-liberalism as a whole anodyne.

Biography of its main figures constitutes a separate category of literature about ordo-liberalism. There is a wide range of quality of scholarship here, many studies having been produced by authors working within the network of think-tanks or official organizations whose aim is to promote the social market economy, and so often read as publicity, without much by way of critical examination of underlying concepts. Jean Solchany's 2015 work, *Wilhelm Röpke, l'autre Hayek* is one exception.⁴⁰ This comprehensive study opens by way of close analysis of Röpke's 1942 *Gesellschaftskrisis der Gegenwart*, part of his wartime trilogy, and situates it in the anti-communist and anti-socialist Swiss milieu. The strength of Solchany's account is in its patient study of minor published writings, building them up around the well known books, and giving them context by extensive use of archival correspondence. What is revealed is an intensively militant and political figure, driven by a profound anti-democratic liberal-conservatism that, while opposed to fascism, in this period was just as allergic to Popular Front

⁴⁰ For the best of the quasi-official accounts of Röpke, see Hans Jörg Hennecke, *Wilhelm Röpke: ein Leben in der Brandung* (Stuttgart: Schäffer-Poeschel, 2005); on Böhm, Niels Hansen, *Franz Böhm Mit Ricarda Huch: Zwei Wahre Patrioten* (Düsseldorf: Droste, 2009). The former author, a member of the Wilhelm-Röpke-Institut and the F.A. Hayek Society, the latter book, under the imprint of the Konrad-Adenauer-Stiftung. On Walter Eucken, see Lüder Gerken, ed., *Walter Eucken Und Sein Werk: Rückblick Auf Den Vordenker Der Sozialen Marktwirtschaft* (Tübingen: Mohr Siebeck, 2000). The volume is a product of the Walter Eucken Institut of which Gerken was formerly the head; he now chairs the Stiftung Ordnungspolitik, the Friedrich-August-von-Hayek-Stiftung, and sits on the board of the Initiative Neue Soziale Marktwirtschaft. An English-language example is the work of the director of research at the Acton Institute and MPS member: Samuel Gregg, *Wilhelm Röpke's Political Economy* (Cheltenham, UK ; Northampton, MA: Edward Elgar, 2010).

politics.⁴¹ A further virtue of this intensive work of contextualization is the illumination of other figures, as with the far-right members of the Freiburg School Leonard Miksch and Hans Großmann-Doerth (whom Solchany deems the ordo-liberal opportunists) and the dissidents who fled Germany (Röpke and Rüstow). Eucken split with Großmann-Doerth in the early forties, but the exact political meaning of the activity of the Freiburg group during the Nazi period is far from settled, Solchany argues.

At a theoretical level, relations between Eucken's Freiburg group and the exiles was generally warm, but it was still "clouded" by divergence in their views of classical liberalism; Röpke had criticized Eucken in a 1942 review of the latter's work, in what was otherwise a positive reception.⁴² Still, this was significant enough to interfere in the intellectual synergies between the two. Though Röpke remained in Switzerland, he was in close contact with the politics and civil society in the BRD, active in advising Erhard, who admired him. The picture of Röpke that emerges from this account is above all political – anti-modernist, but pro-market and capitalist; liberal and disgusted by Nazism but at the same time with an undeniable authoritarianism; a defender, along with Max Eastman and Russell Kirk, of Joseph McCarthy in the U.S., given a bad name by "world communist propaganda." Very late in life, the Civil Rights Act was deemed monstrous, equivalent to the suicide of the West; and in South America, he was

⁴¹ Jean Solchany, *Wilhelm Röpke, l'autre Hayek: aux origines du néolibéralisme* (Paris: Publications de la Sorbonne, 2015), 60-1. For Röpke's anti-communism, see especially the chapter, "Plutôt mort que rouge," 349-70.

⁴² Ibid., 210-226. Röpke's review, in the *Neue Zürcher Zeitung*, was the subject of discussion with Hayek: "W.E. sent me the second edition of his book. It is rather unchanged—unfortunately because I really think that by following our criticisms and suggestions he could have improved it very much. I suspect that you and I may disagree on rather the same points. I am going to write a long review for the *Neue Zürcher Zeitung*." Röpke to Hayek 16/1/1942 Ordner 7 216-129, Institut für Wirtschaftsforschung, Köln.

an enthusiast of the Brazilian military seizure of power of that year.⁴³ The political distinctions between the Müller-Armack of the early 1930s and Röpke's are revealed in this portrait to be worthy of careful study, not to be dismissed. Whatever their differences, there are common categories and modes of thought, characteristic of the political Right, that were never diluted even by this famous exiled dissident. All of this is brought out clearly in Solchany's account.

Chapter Outline

This dissertation is organized into five chapters, each an intellectual portrait of one figure. Internally, the chapters are arranged chronologically; the dissertation as a whole is organized by study of the two representatives of the Freiburg group, moving through analysis of the work of Röpke, Rüstow, and concluding with Müller-Armack, who was active until his death in 1978.

Chapter One concentrates on Walter Eucken's method of political economy from his first scholarly work up to his death in 1950, and relates it to his social thought. The question of method for Eucken – *Denken in Ordnung* or thinking in orders – was recognized by his colleagues and followers as constitutive feature of it. The chapter examines Eucken's earliest student works, in which he is trained in the historical school tradition of thick description of economic data, with some early glimmers of the dramatically altered theoretical innovations he would subsequently develop. It then turns to a discussion of Eucken's religiously oriented social thought of the 1920s, essays and correspondence from the 1930s bearing on monetary policy of

⁴³ Ibid., 456, 494. On Wilhelm Röpke, South Africa and the US-American Right, see Quinn Slobodian, "The World Economy and the Color Line: Wilhelm Röpke, Apartheid and the White Atlantic," *Bulletin of the German Historical Institute* Suppl. 10 (2014): 61–87.

Schacht's Reichsbank, and the inflection of his well known essays of the time. In his pseudonymous writings, Eucken sought in metaphysics a productive answer to Marxism, and to the evident crisis of capitalism. This discussion aims to round out presentation of the methodological arguments for a strictly ordered and regimented political economy found in his *Grundlagen der Nationalökonomie* of 1940, which posited an elaborate taxonomy of various transhistorical forms of economies based on the degree of their economic concentration and openness. The social theory that came after it is then discussed by way of close reading of the lectures he prepared for the LSE, which would be his last.

Chapter Two examines the work of Eucken's younger Freiburg colleague Franz Böhm. From early on, Böhm's insistence on private law or customary law as a basis for a competitive society informed his official work in the cartel office of the Weimar Republic as well as his scholarly work. The 1933 *Wettbewerb und Monopolkampf*, his first sustained study of legal theory, is taken as a turning point, marking affinity for a strong state, potentially with state of emergency powers, to interrupt the political influence in the sphere of exchange. This was, for Böhm, a means by which juridical arm of the state could separate out private and public power and disarm trusts and guilds. The scientific and epistemological basis for this is more clearly put in the 1937 preface to Böhm's *Ordnung der Wirtschaft*. Co-written with Eucken and their colleague Großmann-Doerth, it asserted a role for economists as experts to effectively decide on a state of exception, a concept developed more fully in Böhm's monograph that followed it which drew expressly on Carl Schmitt. Böhm's career was relatively unproductive from 1938 until the end of the war as it was interrupted by Nazi persecution, a result of his denunciation of racial laws. In the post-war period, his life was characterized by his activities as member of the Bundestag delegation from Frankfurt; here, his theories on labor market policies are examined in

some detail. Finally, Böhm's geo-political thinking is brought out: as Cold Warrior, negotiator and diplomatic representative to Israel; defender of the nuclear deterrent against Communism, which he saw as making troubling strides in the Arab world; and its relevance for politics at home, where he remained vigilant as a militant opponent of the student and peace movements, and to the thinking of the New Left.

Chapter Three concerns itself with the development of Wilhelm Röpke's sociologically-informed economics, often of international scope. The chapter proceeds by examination of his theory of international integration and of his *Konjunkturpolitik* of the 1920s and early 1930s. It then moves to examine the discussion of the causes for international disintegration, which Röpke found to exist at a national level. In pursuing the question of the national origins of the disintegration of the placid nineteenth century international order, Röpke moved into a sociological register, and developed over the course of the wartime trilogy a highly moralistic and social explanation – prescriptive as much as anything else – that emphasized the extra-economic conditions required for sustaining capitalism. These elaborate visions, of a decentralized national economy, harnessing the wholesome activity of peasant life, based on a gold standard or hard currency, put Röpke often at odds with the political parties most influenced by him, which he implored to do more to live up to the standards set out in his writings. He eyed the BRD with some concern from his post in Geneva, and warned of risks of export-led growth and the dependence on economies of scale.

Chapter Four looks at Alexander Rüstow's development from Christian socialist in the Weimar period, official in the economics ministry in the early twenties, to early theorist of a neo-liberal strong state that could be structured as limit on democracy, at a time in which he was employed as a researcher for the important machine tools lobby in the Ruhrgebiet and then in

Berlin. Here, the particular interests of the mid-size firms he represented, caught between big suppliers of raw materials, matched Rüstow's political-economic outlook, oriented toward the imperative of greater competition. The chapter then turns to a close reading of his three-volume *Ortbestimmung der Gegenwart*, Rüstow's "universal history" – really an anthropological theory – of freedom and domination begun in Turkish exile from 1937 and developed through to the mid-fifties. By then an honored professor, occupying Alfred Weber's chair at Heidelberg from 1953, Rüstow was also politically engaged, an active publicist of the social market economy, for which he founded the *Aktionsgemeinschaft*. Rüstow's understanding of world religions, for the most part taken as significant in their function rather than in the particular meaning of their holy texts, were, in the last writings on "Judeo-Christian" civilization, given closer scrutiny. The chapter concludes by suggesting that politics and Cold War instrumentalism were however never far from this approach.

The final chapter on Müller-Armack is a portrait of one of the more striking political figures among the five. Although A.J. Nicholls has seen Müller-Armack as somewhat aloof from the Freiburg School and from Rüstow and Röpke, based as he was in Cologne, his career and intellectual production represents the most concentrated realization of their thought. He was a great admirer of Röpke, and worked with the *ORDO* yearbook, and outlived Böhm, Eucken, Röpke and Rüstow. In his work, animated by an anti-Marxism that found a highly systematic expression, Müller-Armack was not just accomplished as an analyst of trade cycles, but a policy adviser for internal matters and the question of European integration within Erhard's economics ministry. His activity in the 1930s, affinity for Nazism as a mode of overcoming class struggle politically by binding of social classes to the ideology of the nation, was replaced in the post-war period by a Christian metaphysics, the study of "irenics" or peaceful harmony of different orders.

The chapter traces the development of this religious anthropology from his 1944 *Genealogie der Wirtschaftsstile* through the 1970s and the promotion of a “second social market economy,” which he was never to see materialize once Willy Brandt’s SPD occupied the chancellery. However, in his last works, the chapter shows, Müller-Armack anticipated the *Wende* of 1982 and the revival of the rhetoric of the social market economy, albeit under transformed political-economic circumstances of the end of the long 1970s. The consistency in his thought is nevertheless underscored; his last works make use of many of the same sources mobilized for his theoretical undertakings of the 1930s, and with a politics that seemed scarcely altered. Here, different orders of existence are sealed off from one another. Competition is given its proper place, but Müller-Armack’s metaphysics – the transcendental dimension of human thought that neither classical liberals nor Marxists attended to – would form the basis of ensuring a stable social order.

Chapter 1: Walter Eucken: Theorist of *Ordnungspolitik*

Throughout his oeuvre, from his 1914 dissertation through his posthumous works published in the 1950s, economic method remained of paramount importance for Walter Eucken. This was in part because Eucken developed his own economic theory against the background of the shifting sands of the discipline in the German-speaking world, exemplified by the *Methodenstreit* in Vienna and its aftermath. Methodological questions were therefore inevitably given priority during Eucken's intellectual formation and particularly emphasized in his own work. Independent of contemporary expectations, however, questions of scientific method were important for Eucken primarily because they were central to his political vision. For Eucken, scientific work stood simultaneously outside of politics, but was to be used to the end of social and political administration, with economists themselves appointed as guardians of policy. Questions of method therefore were not merely a matter of academic and philosophical debate, but rather functioned first as the ethical justification certifying economists' political legitimacy as law-givers. Secondly, method worked as adjunct to epistemology, and refined the scope of economics as a science, delimiting it but also broadening its realm of action in interpreting and shaping historical outcomes. With the proper method, economics could therefore work to deduce general laws of development from historical data. Thirdly, Eucken took method as a major focus of his economic theory insofar it could be employed in a political response to the challenge of socialism. This was first approached as a head-on confrontation with Marxism, the focus much of Eucken's earlier short religious writings, published pseudonymously. After the Second World War, these concerns had lost their polemical flair and had been transformed into a categorical

rejection of “economic planning” as a generic or non-market form of economic regulation. In this regard, Eucken’s later work shared in the common parlance of the time. But it was a continuation of what was from the outset a research program aimed at the study of capitalism, referred to equally as market economies, with the aim of their sustainable regulation. Like many of the thinkers of the inter-war period on the political right, Eucken prized economic competition as the only fool-proof process for establishing value through the price signal. But he was unique among right-wing economists in thinking through the foundations on which a pro-capitalist price formation took place. These foundations were historical and social, and furthermore tended towards contradiction through politicization. The formation of cartels and political interest groups distorted market processes, and required a state apparatus above the market to enforce the separation of politics and economics. Under such conditions of regulation, capital formation, price signaling, supported by competition, could continue in perpetuity. The correct scientific method therefore required attention to the social and historical variations of market formation, and was to be an assay in identifying the fidelity of social forms to market openness. As method, it bore the double burden of identifying the correct functioning of prices and competition, and the degree to which countervailing processes had undermined it. On this terrain, science could intervene into the reproduction of capitalism.

Formation

Walter Eucken was born in January 1891, in Jena the son of the Nobel-Prize-winning philosopher Rudolf Eucken. Heir to the Lutheran *Bildungsbürgertum* of central Thuringia, his pupil Hans Otto Lenel was to reflect that he learned Aristotle at his father’s knee as a boy, before embarking on the study of history at the Jenaer Gymnasium (as a youth, he served as a model for the painting by Ferdinand Hodler, “Aufbruch der Jenenser Studenten” which depicted the

defeated Jenenser student uprising against Napoleon's forces in 1805). Continuing his studies in Kiel and Bonn, taking political economy, Eucken first encountered economic theory proper under Heinrich Dietzel, prominent political economist of the historical school. He completed his doctoral dissertation under the direction of Hermann Schumacher in 1913, and then served as an assistant to the latter in Berlin during the years of the First World War.¹ His dissertation work, published in 1914, followed the path of the historical school influential of which Schumacher was also representative. This work, *Die Verbandsbildung in der Seeschifffahrt* – The Formation of Associations in Maritime Transport – was a collection of thick descriptions of function of cartels in sea trade; it was followed by an in depth *Habilitationsschrift* on the political economy of world nitrogen supply.

As Roberto Sala has indicated, early hints of departure from the descriptive approach favored by the then-dominant historical school are already apparent in *Die Verbandsbildung in der Seeschifffahrt*. There, Eucken describes the two opposed methodological alternatives: economic inquiry may be “either a history of the formation of associations in individual [maritime] routes” on the one hand, or it could formulate an attempt at clarifying their “general development” on the other.² *Die Verbandsbildung in der Seeschifffahrt*, Eucken argues, will be a study attempting to fulfill the promise of the latter approach, because strict historical inquiry would only reveal a “large number of facts...rightly regarded as insignificant” from a scientific

¹ Hans Otto Lenel, “Walter Eucken: Leben und Werk,” in Gottfried Bombach, Hans Otto Lenel, Otto Schlecht, *Über Walter Euckens “Grundlagen der Nationalökonomie”: Vademecum zu einem Wegbereiter der modernen Theorie in Deutschland* (Düsseldorf: Verlag Wirtschaft und Finanzen, 1990), 15-19.

² Walter Eucken, “Die Verbandsbildung in der Seeschifffahrt” (PhD diss., Rheinischen Fridrich-Wilhelms-Universität zu Bonn, 1914), V. See Roberto Sala, “Methodologische Positionen und soziale Praktiken in der Volkswirtschaftslehre: Der Ökonom Walter Eucken in der Weimarer Republik,” Discussion Paper Nr. SP IV 2011-401 (Wissenschaftszentrum Berlin für Sozialforschung, 2011), 5-6.

viewpoint. A focus on the general development of such commercial associations, on the other hand, alone could “recognize what is essential in the flux of appearances.”³

It was not until the first major crisis of the inter-war period that that Eucken began to shift from the descriptive methodology which was a feature of the historical school approach, and to begin to fashion a general theory of the type which would define his mature work. The shift however took place on the terrain of monetary theory, not regulation or *Ordnungspolitik*. It found expression in Eucken’s first major work, *Kritische Betrachtungen zum deutschen Geldproblem* (1923), which outlined the perils of reparations policy of the Reichsbank, cast by Eucken as dangerously inflationary.⁴ The text took aim squarely at the policy of the Reichsbank’s apologists, whose “balance-of-payments theory” held that the German inflation crisis was not a result of money creation or seigniorage by the Bank directly, but rather the devaluation of the Mark that was the inevitable result of the cash requirements stipulated by reparations.⁵ According to Eucken, the theory was “completely dependent on the price relation of domestic and foreign” developments:

Balance of payments theory suffers from a fault at its root; it explains commodity price and exchange rate developments in the last instance by way of a phenomenon that is itself dependent on the prices of goods and exchange rates, namely the balance of payments.⁶

³ Eucken, *Verbandsbildung in der Seeschiffahrt*, 7.

⁴ Lenel, “Walter Eucken: Leben und Werk,” 20-21, and Walter Eucken, *Kritische Betrachtungen zum deutschen Geldproblem* (Jena: Gustav Fischer, 1923), 80.

⁵ Walter Eucken, *Kritische Betrachtungen zum deutschen Geldproblem*, 8.

⁶ *Ibid.*, 19

The balance of payment theory could not account for the cause of inflation; it only referred to the problem needing explanation by way of describing it in detail. Fatally, it misrecognized the cause of the inflation—Germany’s public deficit—as a symptom of it. In this way, it played a part in legitimizing a concept of “passive economic balance” which could hardly explain the cause of the symptom to be cured. Eucken found theoretical recourse in part in a return to classical political economy, namely that of Ricardo’s 1811 Answer to Bosanquet. The ultimate source of inflation was the state budget deficit, and the increase in money supply allowed by the Reichsbank as compensation. This was no doubt politically a result of the enormous debts incurred by the peace treaty. But in expanding bank credit and in lowering interest rates, the Reichsbank had produced a snowball-effect in which the increase in circulating money, its devaluation, led to rising prices. This was not a matter of balances of payment in trade, but directly a result of the policy of the Reichsbank.⁷

The results of this policy were catastrophic. Eucken conceptualized the problems of inflation as affecting commodity and interest-rate sides of the economy. A budget deficit and low-interest-rate were the preconditions for inflation. “The more the discount rate of the Reichsbank fell short of the standard rate of return,” Eucken wrote, the “fewer buyers of treasury bills were to be found.” Thus, the only remaining way to proceed was by the creation of new money. “Here lies the most important, but the only, source of inflation,” he wrote.⁸ The other was the low interest rate policy of the Reichsbank beginning in 1922, which operated under the mistaken belief that all focus should be placed on meeting the needs of commercial transport wherever possible. According to Eucken, the Reichsbank carried out this policy without

⁷ Eucken., *Kritische Betrachtungen zum deutschen Geldproblem*, 37-38.

⁸ *Ibid.*, 62.

recognizing that raising interest rates could contain further damage to the German national economy by interrupting further devaluation.⁹

Eucken held that inflation's effects were likewise bifurcated. They appeared in the shape of unredeemable banknotes, on the one hand, and in the creation of bank credit on the other. Eucken took care to underscore that the creation of bank credit could in fact be just as dangerous as unredeemable currency, despite the immediate proximity of the regression to barter that the latter entailed. The reason for this was simply that a merchant making use of expanded bank credit functioned just in the same manner as a consumer proffering irredeemable banknotes, in terms of demand. This side of the ledger therefore yielded a similar effect of raising prices across the economy. But inflationary pressures did not have an even effect in this double expression. They had immediate effects on both commodity prices but also, and more importantly ultimately, on the foreign exchange market. Because of the necessity of payment of reparations after the First World War, accumulation of bank credit and irredeemable notes in this foreign exchange market quickly affected foreign currency markets, expressing itself as price increases in foreign exchange. The stimulus to demand for foreign exchange for investment purposes led to the further increases in foreign exchange and commodities, which had fed back on the state budget. The answer of the Reichsbank was to expand credit to meet this greater demand. This exacerbated inflation, reinforcing a vicious cycle.¹⁰

⁹ Ibid., 63.

¹⁰ Ibid., 66-67. Lenel, "Walter Eucken: Leben und Werk," 21. Sala, "Methodologische Positionen und soziale Praktiken in der Volkswirtschaftslehre," 6. Indeed, Eucken's views here had much in common with the prevailing perspective of Reichsverband der deutschen Industrie (RDI), an organization at which he held a management position during his time as a Privatdozent in Berlin. As Adam Tooze has written, estimations of the national income and other statistics were highly politicized, and not fully standardized until the mid-twenties. German capital took the position that inflation had destroyed the value of assets and inflated wages. From the vantage of economics as an academic discipline with emerging capacity to

With an eye to policy, Eucken was to examine possible answers to this conundrum. This reflected a theoretical shift and emphasis that should not be underestimated. Eucken believed that the solution to inflation would not be found through a correction of the balance of payments or a production-based policy: “That would mean, as we have explained in detail, starting at the wrong end,” he wrote.¹¹ On the contrary, rather than a focus on the source of the problem on the commodity side, Eucken argued that scientific analysis and attendant policy responses must formulate an approach to the problem practically from the money side of the circuit of capital, although he did not use this Marxian language.¹² It was clear that interest rates must be brought up, and the public budget balanced. But were there further implications for monetary theory? One possible approach Eucken considered was a return to a gold standard.¹³ Although conceivable that discipline could be restored by restricting the paper money supply, such an effect could only be achieved “if the state limits the amount of paper money with a strong hand.” However,

In Germany the state does not have that power. In the first instance, the enormous expense of the peace treaty and the Ruhr invasion forced it to increase the money supply. But despite this predicament, the German Reich would have had to reduce its deficit by restricting internal spending and through clever tax and borrowing policies. It nevertheless succumbed to the temptation to cover its deficit by creating new money. Interested parties also succeeded in forcing a lower interest rate and thus private inflation, citing the needs of commerce. Even considering the plight of the Reich, enduring strong external pressure, it must be

shape policy, the process of estimating national income and the balance of payments had direct relevance for Germany’s ability to pay reparations obligations. See J. Adam Tooze, *Statistics and the German State, 1990-1945: The Making of Modern Economic Knowledge* (Cambridge: Cambridge University Press, 2003), 123.

¹¹ Eucken, *Kritische Betrachtungen zum deutschen Geldproblem*, 70.

¹² Walter Eucken’s relation to Marxism will be discussed in detail below.

¹³ Eucken, *Kritische Betrachtungen zum deutschen Geldproblem*, 80.

acknowledged that this degree of money creation was not necessary. There is only one way to prevent the abuse of money creation: as soon as external commitments allow, the state must use all its power to determine the quantity of money. This goal can only be achieved through the introduction of the gold standard.¹⁴

The gold standard would reduce the capacity of the state to a bare minimum role as “master of the mint.” Should irredeemable money in the form of a gold coin still be produced, it would likewise adversely affect the money quantity in the form of oversupply. However, Eucken was convinced that the gold standard would be the “greatest preference for world trade once it is implemented consistently with other important commercial peoples.”¹⁵

Eucken wrote *Kritische Betrachtungen zum deutschen Geldproblem* while he worked as a Privatdozent in Berlin and while participating as a leading economic researcher for the textile industry experts group of *Reichsverband der deutschen Industrie*.¹⁶ At the time, a colleague of Eucken’s, Alexander Rüstow, and future associate on the *Ordo Jahrbuch* also worked as a lobbyist in the German capital city. It can be inferred that for both young economists, economic and sociological theory had practical meaning as a component of policymaking. But once Eucken took a professorship at Freiburg in 1927, Eucken’s orientation toward topical matters hardly subsided.¹⁷ Indeed commentary in the journal *Magazin der Wirtschaft* in 1928 provoked a sharp response from the president of the Reichsbank Hjalmar Schacht himself. It is worth

¹⁴ Ibid., 80.

¹⁵ Ibid., 80.

¹⁶ Wendula Gräfin von Klinckowstroem, “Walter Eucken: Eine biographische Skizze,” in *Walter Eucken und sein Werk: Rückblick auf den Vordenker der sozialen Marktwirtschaft*, edited by Lüder Gerken (Tübingen: Mohr Siebeck, 2000), 68.

¹⁷ Klinckowstroem, “Walter Eucken: Eine biographische Skizze,” 72.

considering this exchange in detail in order to better understand the development of Eucken's theory trade and money, which was to inform both his mature understanding of capital formation and business cycles, as well as the role of central banks, crucial for later ordo-liberal formulations on the role of the state in capitalism.

Eucken's short article appeared in *Magazin der Wirtschaft* under the title "Auslandsanleihen" – Foreign Loans – in 1928. It was a direct and public rebuke of Reichsbank president Hjalmar Schacht's Atlanticist strategy of borrowing from American lenders to pay reparations owed to the French and British, in an attempt to separate American financial interests from other victors, with the ultimate aim of winning a renegotiation of the scale of German debt.¹⁸ No hawk on this count, Eucken in fact was discouraged by Schacht's caution more than anything else. According to Eucken, the limitations Schacht's Reichsbank had put on foreign borrowing impeded the ability of German employers to invest. That is, the risks of incurring greater debt were emphasized in Schacht's strategy, encapsulated by his Bochum lecture, at the expense of the benefits to be enjoyed by a resulting higher investment rate and gains in productivity of German industry. As Eucken wrote, "in Germany, capital shortage reigns." This prevented necessary rationalization of capital-intensive operations.¹⁹ Otherwise, Germany would remain in a political-economic relation to its creditors not altogether distinct from that of the colonial countries with their masters.²⁰ Eucken challenged Schacht's concern regarding the

¹⁸ See Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (New York: Penguin, 2006), 5-7, 16.

¹⁹ Walter Eucken, "Auslandsanleihen," *Magazin der Wirtschaft*, January 26, 1928, 121. For discussion of Eucken's position during the period of the first half of the twenties, see Nicholls, *Freedom with Responsibility*, 34-8.

²⁰ Eucken, "Auslandsanleihen," 122.

inflationary pressure of increased borrowing from abroad on the grounds that increased price levels would, in an economic upswing, also mean expanded purchasing of imports, and therefore lead to a restoration of price levels (“automatically-occurring countereffects” as the subtitle of the article put it). Eucken saw Germany’s borrowing position in 1928 as far stronger than in the immediate aftermath of the First World War, and warned that without capital improvements, it would simply be hindered from a full recovery. He detected a political motive, one that sacrificed the needs of capital for the maintenance of the Reichsbank’s institutional importance:

Under no circumstances may the Reichsbank’s desire for power lead it to keep foreign loans, which we flatly need in order to overcome the capital shortage, out of Germany.²¹

This was a striking accusation, given Eucken’s work in the early part of the decade, so concerned as it was with the specter of inflation. It is all the more arresting given the Reichsbank’s actual policy at the time. Although Schacht would eventually abandon his support, at the time he had favored a borrowing strategy in accordance with the Atlantic powers, the corollary to which was the eventual propping up of domestic demand by investment, and import substitution along nationalist lines, an increasingly prominent part of his politics that became dominant in 1931.²²

Indeed, the context of the dispute is illuminated further by a five-page letter Schacht sent to Eucken in the aftermath of the publication of Eucken’s article in *Magazin der Wirtschaft*. Schacht clarified for the general strategy of the Reichsbank, assuring him that Eucken had misunderstood the policy regarding foreign loans. For Schacht it was not, as Eucken had

²¹ Ibid., 124. In 1946, Eucken wrote to Wilhelm Röpke that capital shortage had taken place “after stabilization” and was only rebuilt with foreign loans. This had signaled to Eucken that in fact Keynes’s position was correct, that “he was on the right side” in the 1920s. See Eucken to Röpke, 19. Oct. 1946, Ordner 12 166, Wilhelm Röpke Archiv Köln.

²² Tooze, *Wages of Destruction*, 15, 40-1.

charged, the case that the Reichsbank was opposed to foreign loans generally or categorically. Rather, Schacht noted that he was in favor only of a “moderation in foreign loans” and furthermore, that he had, in his Bochum speech, indicated that the bank recognized the likely benefits of such loans in terms of helping to improve production. The requirements for the use of foreign loans in Germany, Schacht stressed to Eucken, were simply that they would be carried through insofar as they could reach production or capital reserves.²³ Schacht expressed caution, however, on the question of the extent of such loans. It would be “absurd,” he wrote, to “put foreign lending in place of Reichsbank credit”—but this was already a point on which the two agreed in any case. Where Schacht expressed some skepticism was on the count of the overwhelming positive tendency of the stimulative effect of solving the capital shortage in Germany in this manner. The Reichsbank had to live up to its charge of managing the policy with respect to the entire population, and could not simply rely on the private investment from abroad to perform in a manner necessarily totally beneficial for the national economy. This was particularly the case for the monetary effects of foreign credit. Contrary to Eucken’s prediction, it was unlikely that a process of an “automatic” adjustment to cash flows would be the outcome to unregulated capital flows across national borders. Rather, such unregulated private borrowing would very likely lead to inflation. With an influx of foreign capital, increases in wages and prices would give distorted picture of the profit rate. Schacht warned that covering capital shortages was not the only responsibility of the Reichsbank, but also it must ensure the internal stability of prices within Germany. This would have to mean a rate of capital flows and borrowing on foreign markets that would not unduly influence such prices and wages. What was of further concern to Schacht was the institutional structure of the political economy of

²³ Hjalmar Schacht to Walter Eucken, 31. January, 1928. Nachlass Walter Eucken.

Germany, which made it particularly unlikely that the automatic adjustments promised by Eucken would in fact materialize. Given the cartelization of German industry, as well as the tendency of wages to stay fixed, it could not be counted on that immediate deflation—net outflow of capital after a recovery—would suffice to return price levels to their previous levels. Even if Eucken were right, Schacht argued, that such fluctuations between inflationary and deflationary cycles were desirable was to be questioned. He made a case for gradual increases in borrowing from foreign markets, tolerating a parallel gradual increase in price levels, to the end of restoring Germany's export capacity. The Reichsbank could not therefore, as Schacht put it, "push for a policy of *laissez-faire*."²⁴

The Eucken-Schacht exchange is remarkable for several reasons. First, it indicates that by the late 1920s, Eucken's small review of Schacht's speech in Bochum was powerful enough an influence, or perceived to be, that the president of the Reichsbank felt obliged to issue an 800-word letter to the young professor. Secondly, the debate appears to anticipate the discussions that were to take place in early 1929 in the negotiations of the Young Plan. Schacht's reservations confirm that Schacht himself held contradictory views regarding the path forward of German capital in paying war reparations. Indeed, as Tooze has argued, Schacht was fundamentally split between an exceedingly rational approach, Atlanticist in orientation, outflanking even the conservative-liberal Deutsche Volkspartei (DVP) foreign minister Gustav Stresemann on this count, and a nationalist strategy which demanded territorial revision to the post-war settlement, including even the demand of the restoration of German colonies. This was the political subtext of Schacht's ultimate opposition to the Young plan and ultimately led to his departure from the

²⁴ Hjalmar Schacht to Walter Eucken, 31. January, 1928. Nachlass Walter Eucken, Thüringer Universitäts- und Landesbibliothek Jena.

Reichsbank in 1930, and to his move to the nationalist far-right.²⁵ On Eucken's side, the exchange reveals, if not an outright flexibility in his understanding of monetary policy, at least a sense of how Eucken gave priorities to capital accumulation over the principles of hard money. The deflationary policy that was eventually to take hold of Germany under conditions of the Young Plan, which itself was implemented against the backdrop of general, worldwide deflationary conditions brought on by the depression which began at the end of 1929, was something apparently less tolerable to Eucken in 1928 than the argument he had put forward in *Kritische Betrachtungen zum Deutschen Geldproblem* in 1923. Indeed, Eucken registered rather the differences in the problems faced by Germany at the end of the 1920s from those faced at the beginning of the decade. The first was a crisis of inflation; the second, of capital shortage and of deflation. Hence, Eucken's "laissez faire" call for lowering restrictions on borrowing, unpalatable to Schacht, was in this sense a sensible reading of the requirements of German capital under new circumstances.

The question remains, however, to what extent were economic—monetary and trade—considerations, independent of the politics of the moment? We must look to Eucken's response to Schacht's letter to see how he conceptualized his argument on this count. In his response, Eucken conceded that the two were not as far from each other as first indicated by Schacht's Bochum speech. He reiterated, however, that the risks of not taking on more foreign loans to fulfill capital requirements, but at the same time abiding by the demands of reparations transfers in Germany, could very well trigger a crisis. Such a crisis would also mean a reduction in imports and an increase in exports necessarily. The limits of the Reichsbank's power were thus exposed. It was in the last instance the reparations policy itself that was the source of this

²⁵ Tooze, *Wages of Destruction*, 16.

difficulty, and, Eucken insisted, this had to be changed before the share of the blame was to be assigned to the excess borrowing from abroad.²⁶

Here, Eucken emphasized that the process of capital formation could be traced back to the judgments of firms, whose desire for lending capital should be understood as reflecting the prevailing conditions of the market. If a firm invests poorly, “existence is threatened” Eucken wrote, and therefore the call for more foreign loans should be seen as having validity as the first sign of capital’s requirements. It was therefore shocking to him that precisely at that moment the Reichsbank would have moved to limit the availability of such loans. He reiterated that the coverage ratio of the Reichsbank could not be the only guideline for determining the proper controls on foreign exchanges. What the central bank should above all be concerned with, in the first instance, is the stability of the exchange rate, especially with respect to the United States, “and, in this framework to search for the possibility of preventing the fluctuation of the price level.”²⁷ He emphasized that the reinstatement of foreign credit in 1926 only had a very small effect on prices. That was the main lesson of recent years, according to Eucken. The price shifts were so low, he argued, that runaway inflation was now less expected than the loss of capital inflows that might precipitate an outright deflationary crisis. Furthermore, the effects of monopolistic cartels, which, “by the way,” he wrote carefully, “have not ruled over all the markets for long,” should not be estimated too highly. Thus there should be no serious monetary policy resistance to the relaxation of capital inflows.²⁸

²⁶ Walter Eucken to Hjalmar Schacht, 10. February, 1929, Nachlass Alexander Rüstow BA N1169-2, p. 412.

²⁷ *Ibid.*, 410.

²⁸ Eucken to Schacht, 10. February, 1929. Nachlass Alexander Rüstow, BA N1169-2, p. 411.

Far from an isolated exchange, Eucken's writings on Schacht were a topic of discussion with Alexander Rüstow, then a lobbyist at the Verband der Deutschen Maschinenbau-Anstalten (VDMA). The sociologist was to become, in the post-Second World War period, a colleague of Eucken's on the editorial board of the *Ordo Jahrbuch*. The two exchanged letters in the aftermath of Eucken's review in the *Magazine der Wirtschaft*; Eucken hoped that with Rüstow's position at the VDMA, they could bring pressure on the Reichsbank to relax its restrictions in the interest of investment. Eucken asked Rüstow if he might contribute report to the VDMA to this end. Eucken kept Rüstow informed of his correspondence with Schacht, and sent copies of the letters exchanged the two to Rüstow himself.²⁹ This should indicate that theoretically, Eucken's orientation during this period was squarely focused on remedying the political fallout of deflation and its value-destroying effects principally on German industry. This is in fact the origin of the connection between Rüstow and Eucken, who were at the time drawn together from distinct political and disciplinary formations to confront this central crisis of German capitalism.

What was clear was that Eucken was already now moving in a direction away from the prevailing historicism embodied by his teacher Hermann Schumacher. It can be said that the confrontation with Schacht spurred the young economist to closer collaboration with Rüstow, and the by the beginning of the next decade, they were both making the first steps toward developing a theorization of the state, and a methodological approach that was one of the earliest forms of what was to later be understood as neo-liberalism.³⁰ Already in February of 1928, Eucken mused in a letter to Rüstow about the rearticulation of economics. A new approach

²⁹ For discussion of this exchange, see also Sala, "Methodologische Positionen und soziale Praktiken in der Volkswirtschaftslehre: Der Ökonom Walter Eucken in der Weimarer Republik," 25.

³⁰ Klinckowstroem, "Walter Eucken: Eine biographische Skizze," 76.

should neither be too abstract, he wrote, nor full of political jargon. By October of that year, Eucken wrote to Rüstow that it would be imperative to develop a method equally useful for theory and practice.³¹

Politically, Rüstow and Eucken were also close, both writing at this register in parallel Christian journals: Eucken in the *sui generis* mode of “ethical activism” of his father’s Eucken-Bund, and Rüstow as a Christian socialist. What was the direction of Eucken’s intellectual development during the late 1920s? Articles published pseudonymously in *Die Tatwelt* in the mid-1920s offer a clue.³² In these polemics, he saw the contemporary European world as defined by a “spiritual crisis” that was the outcome of the rationalization of life no longer based on tradition, but on an a mentality of “economic management and rational technique” compelled by a great explosion of urban density.³³ The socialist response, whose main tendency was Marxism, was, in its proximity to the enlightenment, also economic in its thinking and “could not overcome the inner emptiness of our time.” Marxism’s success within socialist circles was a clear indicator of the magnitude of the crisis. Mises had shown decisively why a socialist economy, in doing away with market exchange and a price signal, was untenable. More importantly for Eucken, Nietzsche had shown that socialists and the democratic movement, “wanted to create a worldly variant of Jesuitism: every man a tool and nothing else, for what purpose is not yet discovered.” In their efforts at leveling, they would bind aristocratic and free

³¹ Eucken to Rüstow, Nachlass Rüstow, BA N1169-2, p. 304.

³² *Die Tatwelt* was the house journal of the Eucken-Bund, the society honoring Rudolf Eucken. Among the contributors to this journal were Edmund Husserl and Eucken’s wife Edith Erdsiek, also writing occasionally under the pseudonym, Janus.

³³ Walter Eucken [Kurt Heinrich, pseud.], “Die geistige Krise und der Kapitalismus,” *Die Tatwelt* II. 1/3 (Januar/März 1926), 14-15. Of the Soviet Union, Eucken wrote that “the destruction of capitalism caused an immeasurably startling decline in production, and forced the creation of a kind of state capitalism.”

individuals to the state: the rule of the many over the few. But however effective both the liberals and Nietzsche had been in refuting Marxism, they still began their analysis “from worldly life, and are thus related finally to Marxism.”³⁴ Eucken held rather that “man belongs to two worlds, a given existence [*Dasein*], and a creative world of action [*schaffenden Tatwelt*].”³⁵ It was only from this *Tatwelt* that the spiritual crisis of the present could be overcome; the naturalistic conceptions of culture, mankind, community progress and equality that were the points of departure for Marxism must be abandoned.

It may have been that a certain level of abstraction was a side-effect of writing as Kurt Heinrich.³⁶ By 1930, Eucken’s politics had taken a decidedly liberal turn. He complained to Rüstow that Germany was insufficiently liberal. “It is senseless,” Eucken wrote, to conduct foreign trade and free trade while having a “half-socialist social policy, as we now do.” He continued, “I do not draw the inference that at the moment free trade is occurring.”³⁷ This was because contemporary social politics was “madness.” Unemployment insurance was a major weakness because it hindered the “flexibility of labor” by keeping workers on payrolls past the time at which he was most productive.³⁸ The problem was extended further through anti-liberal

³⁴ Walter Eucken [K. Heinrich, pseud.], “Zur Kritik des Sozialismus,” *Die Tatwelt* I. 4. (April 1925), 40-2.

³⁵ *Ibid.*, 42.

³⁶ In 1927 Eucken did write an article *Die Tatwelt* under his given name, memorializing his father. No less stridently anti-Marxist, it referred back to one of Kurt Heinrich’s articles denouncing the efforts at fashioning a Marxist ethics. See Walter Eucken, “Vom Radikalismus sozialistischer und Euckenscher Prägung,” *Die Tatwelt* III., 1/3 (Januar/März 1927), 46; Cf. Walter Eucken [Kurt Heinrich, pseud.], “Über den Versuch, den Marxismus zu ethisieren,” *Die Tatwelt* II. 7/9 (Juli/Sept. 1926), 96-99.

³⁷ Eucken to Rüstow, Nachlass Rüstow, 21. Feb. 1930, BA N1169-2, p. 205.

³⁸ *Ibid.*, 206.

wage policies which were “as senseless as the customs policy.”³⁹ Indeed, although protecting wages theoretically could be justified as defending against the impoverishment of the labor force, flights of theory brought no benefit. And in fact,

One can simply be a trained theorist and defend this scandal. It is thus only socialist-political dogmatism, which here once again wins over theoretical thinking.⁴⁰

Eucken’s considerations ranged further into political theory, however. In a striking passage, he conceded to Rüstow that “*all* democracies pursue [*treiben*] unsystematic protection policies.” Implementation of free trade made sense as a systematic economic policy, but Eucken argued that only monarchies and aristocracies were suitable politically for sustaining either such a systematic regime of protective tariffs, or conversely one of free trade. Democracies only supported *unsystematic* protective tariffs, but, precisely because of their partial and unsystematic nature, nothing else. The political implication was very clear: free trade could not be sustained so long as democracy was respected.⁴¹

By 1931, at Rüstow’s prompting, Eucken and Rüstow had formed a political group called the German *Bund* for Free Economic Policy, which was to function as a “gathering point for all forces in theory and practice representing...an economic-liberal position.”⁴² The economist Wilhelm Röpke was also won over to participate at this time. As Klinckowstroem has written,

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Eucken to Rüstow, 21 Feb. 1930, BA N1169-2, p. 207. Reflecting on the conjuncture, Eucken wrote that “we are sliding into this pitiful protective tariff policy, and we will so long as we have democracies, which is assuredly the case for several decades to come.”

⁴² Cited in Klinckowstroem, “Walter Eucken: Eine biographische Skizze,” 76. See also Nachlass Rüstow, BA N1169-2, p. 70.

this became the first properly neo-liberal formation in German economics, inaugurated by the Eucken's essay "Staatliche Strukturwandlungen und die Krisen des Kapitalismus" of 1932, and Rüstow's lecture "Freie Wirtschaft—Starker Staat" delivered at the meeting of the Verein für Sozialpolitik in Dresden that year.⁴³ These texts inaugurated a new sequence in the pre-history of ordo-liberalism, signifying both a methodological and political turn that was to reverberate far into the future, indeed into the present moment. For Eucken's work, taken up in this chapter, the focus of must be understood as having developed into a profoundly anti-democratic theory of economic management, informed by an anti-socialism hitherto only addressed in part. At the same time, Eucken's "Staatliche Strukturwandlungen und die Krisen des Kapitalismus" was a profound contribution to the theory of capitalist crisis, and which would find its most highly developed expression in his work of 1934 *Kapitaltheoretische Untersuchungen*. Capitalist crisis of the early 1930s thus provoked a new phase of liberal theorization. These important texts will be discussed in detail in what follows.

A Theory of Capitalist Crisis

The world economic crisis that broke out in 1931 spurred Eucken to develop an account of the internal contradictions of capitalism. Eucken's theoretical contributions should be seen as highly political: they were in their own way a response to the critique of political economy against which he had argued through the 1920s, but their main impetus sprung from political theory and philosophy. Carl Schmitt and Max Weber were references. As Eucken understood it, the questions posed by the crisis of the early 1930s – questions of its origins, whether unforeseen

⁴³ Klinckowstroem, "Walter Eucken: Eine biographische Skizze," 76.

mutations and difficulties would come to pass, whether a “planned economy” could be an appropriate response – were not purely economic questions, but rather fundamental political questions whose answers, Eucken promised, could only be found by consulting “universal history”: the connections offered by historical example of the course of events concerning the fundamental shape of the state, the development of technical means of production, and the relation between state and society that formed the groundwork of capitalism’s existence.⁴⁴

When Eucken wrote “Staatliche Strukturwandlungen und die Krisis des Kapitalismus” in 1932, he also was beginning to outline a normative theory of the state and the market. One focus of Eucken’s approach emphasized the rise of pluralistic interests in democratic societies as a hindrance to the pure competition required to preserve the correct function of price signaling. Eucken wrote with strikingly vitalist language: the entrepreneurship that characterized the great industrial expansion of the previous century was simply “dying out,” as a “change in economic mentality” oriented more toward rational thinking suppressed the “daring, spirit of speculation essential in order to grasp and carry out innovation.”⁴⁵ Instead, firms were ruled over by a prevailing culture of security and stability. Big industry, under the protection of cartels, established itself, Eucken argued, as though it were part of the civil service, and no longer knew “real capitalist, forward-driving spirit of entrepreneurship” so that “therefore today we lack the real motor of economic development.”⁴⁶ Under such monopolistic conditions, the power of competition had broken down and atrophied. The longer such conditions prevailed, the more the

⁴⁴ Walter Eucken, “Staatliche Strukturwandlungen und die Krisis des Kapitalismus,” *Weltwirtschaftliches Archiv* Bd. 36 (1932): 297, 320.

⁴⁵ Walter Eucken, “Staatliche Strukturwandlungen und die Krisis des Kapitalismus”: 298.

⁴⁶ *Ibid.*

character of enterprises would change: they would become bureaucratic. In industries such as iron production, cement, chemistry, potassium mining, where the “whip of competition was missing...the torpor or feudalization of entrepreneurs prevails.”⁴⁷ This was the precise opposite of what was required of a well-functioning capitalism, where the continual appearance of new commodities on the market meant firms had to abide by the injunctions of adaptability and flexibility or perish. Still, Eucken conceded that the pace of technical innovation had nevertheless increased. This appeared as a paradox. While the “heroic age of the inventor” was clearly over, the period was witnessing constant and systematic rise in technical improvement.

What, then, was the source of the problem? On this count, Eucken was firmly on known territory of political economy. The increasing pace of technical improvement was itself dependent on the price system to be economically meaningful. Within the existing price system, he noted, that is, “on the basis of calculating profitability,” many technical improvements would remain either unusable or economically irrelevant.⁴⁸ Eucken noted that where previously, it was standard practice to calculate the amortization period of machinery use of equipment, with only some very specific exceptions, in the conjuncture of the early 1930s, amortization took place far more rapidly because machinery grew obsolete far more rapidly. Claims that the age of innovation were somehow gone could not then be squared with the direct evidence of this increased pace of technical advance. Was this a sign of some retreat to a low-growth or low-profit capitalism that should be interpreted as a sign of its supersession? Eucken’s own use of the word “feudalization” to describe the systematic transformations afoot appeared to suggest that he

⁴⁷ Ibid.

⁴⁸ Eucken, “Staatliche Strukturwandlungen und die Krisis des Kapitalismus,” 300.

himself had entertained the thought. But he in fact rejected this. Such predictions, Eucken reminded his reader in an offhand comment, were to be expected ever since Marx and Sombart, though he did not reconstruct what these predictions precisely were in this 1932 essay. Capitalism was not fading as a mode of production, Eucken wrote; it persisted, but was undergoing fundamental economic changes in its organization. Since the first world war, the relation of state and society under capitalism had been transformed.⁴⁹

Eucken's argument of 1932 was arrived at by way of the classic German liberal interpretation of the development of state and inter-state relations over the course of the modern period. This view, which Eucken adopts wholly and for which he used the right-wing liberal Friedrich Meinecke as his main source on social and diplomatic history, held that the period after the end of the thirty-years' war was mostly politically stable. With the exception of the French Revolution, the entire period from the beginning of absolutism through the rise of capitalism, up to the late nineteenth century, was characterized by a strict, fundamental division of the spheres of state and society. This period of the "liberal state" was, according to Eucken's recapitulation of this standard account, the floor on which capital could develop. The division of private and public in this case meant that the private sphere, unlike in the period of mercantilism, developed and expanded along liberal lines. Democratic demands for suffrage and other encroachments on the sphere of state were not yet, until the late nineteenth century, directly reflected in the operations of economic policy. In a process first visible in France, and then later Germany and England, European civilization reached a turning point in the 1880s, as state and society grew closer together.⁵⁰ Eucken's understanding of this critical juncture was that it represented the

⁴⁹ Ibid., 301.

⁵⁰ Eucken, "Staatliche Strukturwandlungen und die Krisis des Kapitalismus," 303.

politicization of economic transactions, and the muddling of the line between public and private spheres. German unification under Bismarck had entailed the assertion of reason of state to move towards protective customs nationally (by the end of the 1870s); the consolidation of the German empire, made possible by the integration of works and other interest groups, led to the founding of the health insurance law. Bismarckian Germany therefore was characterized by a shift away from liberalism, and toward an interpenetration of political actors and the function of the state. Interest groups, whether on the labor or employer side, Eucken argued, compelled the state to intervene in the functions of the market at a gradually increasing pitch. Such economic intervention was undertaken, not, Eucken stressed, to challenge or eliminate capitalist preferences or to undermine capitalism as a system coordinating the social relations of these actors. In this sense, petitions for state intervention, and the final interventions undertaken by the state itself, did not constitute a political movement or project with long-term or strategic goals for transforming property relations or the organization of capitalism. Rather, it was the very conditions of capitalist competition among firms especially, which drove them to seek out individual protections where they could from state actors.⁵¹

This process of integration of market and government had been refined in the decades leading up to the capitalist crisis of the 1930s. It was not, however, restricted to the intersection of enterprise and state; it also could be detected in the labor market. Here, Eucken was acutely sensitive to the politics of the workers' movement. Unlike the interrelation of private capital with public administration taking the form of cartels and their bureaucratic lackeys, the organization of labor as a collective force acting in its own interest to extract reforms within capitalism veered

⁵¹ Eucken, "Staatliche Strukturwandlungen und die Krisis des Kapitalismus," 304.

perilously close to an anti-capitalist politics proper. Grievances articulated at this register appeared to gain momentum precisely with the development of capitalism and constituted a historical fact “of great significance” because in this struggle, its gains would be expressed as influence over the state. The workers’ movement’s origins, motives and potential for hegemony presented a further problem, precisely because, in Eucken’s view, the development of capitalism did not lead to pauperization, a decrease in living standards, or any of the points raised by the anti-capitalist opposition. By some measures, quality of life had never been higher among the bulk of the population. What was the source of the spread of mass opposition to capitalism? The answer was spiritual, a problem of “modern man” and of the contradictions of modernity.⁵² Still Eucken saw in the anti-capitalist movement of the time a peculiar inflection. Far from agitating around a aim stateless society—in this way it was distinct from the writings of the young Marx—it in fact incorporated the existing state into its aims and demands, and modeled the anti-capitalist endpoint after a national economy. This was not, according to Eucken, an effort to use national politics, or the corresponding state, as a “tool” for generating further developments against capitalism abroad or internationally. Rather, the aim of contemporary anti-capitalism was to reshape and reorient the state itself, but to leave its basic infrastructure and apparatuses formally unscathed. Eucken explained this transformation of the anti-capitalist opposition as a tracing the demise of religious community in Germany since the beginning of the eighteenth century. As the sense of togetherness afforded by a community of believers ebbed over the course of the nineteenth century. Objectively, social relations were gradually transformed by commerce, but in terms of belief, only the state could match the images generated by religion

⁵² Ibid., 305.

among the masses. The result was the rise of belief in a “total state” as a future endpoint. It was a belief in an all-powerful governing being, standing above humanity, against which no individual could assert any right but which required the passion of devotion: it was from any perspective, clearly a *Religionersatz*.⁵³

The politics to emerge from this belief were, in Eucken’s view, not intuitively or logically submission to natural or divine law, but rather a perhaps contradictory mélange of “economic interest, anti-capitalist sentiments, national-political aspirations, and quasi-religious convictions” which reached full expression in the democratic charge of imposing social order by taking the economy directly into the hands of the people.⁵⁴ In the several decades leading to the crisis of the 1930s, individual economic hardship was less often understood as an unalterable outcome; precisely because the state was bestowed culturally with such great power and meaning, particular economic outcomes were understood as alterable by appeal to it. The post-Bismarckian state was in an “ever-weakening” position to resist this drift toward state intervention. As these general cultural and intellectual currents cohered into a more refined politics, they developed institutions of their own in the form of “organized masses,” or interest groups. This signaled a fundamental transformation of the state: no longer liberal capitalist, it was now more properly categorized as an economic state.

On this point, Eucken followed Carl Schmitt’s argument in *Der Hüter der Verfassung* (1931), that the coming of the economic state (cast as a “total state”) entailed unforeseen consequences at multiple registers of politics and social life: the growth of subsidies, quotas,

⁵³ Ibid., 306.

⁵⁴ Ibid.

tariffs, import restrictions, state arbitration in all spheres of economic transaction, manipulation of revenues and incomes, dramatic rise in taxes.⁵⁵ Unambiguously, this entailed an expansion of state activity. But Eucken stressed that the *expansion* of the state did not in fact carry over into a *strengthening* of the state. In fact, conditions indicated rather the opposite. The state, now more intertwined than ever with the fate of economic life generally and the narrow and short-term political interests immediately dependent upon its largesse, was in fact severely weakened. This was plainly the case during the economic depression, where economic shocks were registered immediately at the state level. The immediacy of the economic crisis as a crisis of state suggested to Eucken that the two terms had now finally ceased to exist in any meaningfully differentiated spheres. Notwithstanding acute world-historical crisis, however, the state's position from a constitutional and legal perspective should also likewise be understood as weakened, when compared to its liberal forbearer. Its conduct was determined by economic groups so that it began to resemble nothing more than an appendage of them. Such groups placed contradictory claims upon it; the state therefore found itself under unprecedented pressure to mediate these rival pressures which yielded its decadence and probable dissolution. As expectations of it among particular groups expanded, the state's internal coherence, as well as its role as a guarantor—or regulator—of capitalism buckled. However, as undifferentiated the state and the economy had become politically and institutionally, analytically some distinction could still be offered. Eucken identified the most severe of the deformations unleashed by the rise of the economic state: the distortion of prices in every sphere due to their politicization. No longer mediated through aggregate decisions of buyers and sellers, prices were now regulated directly

⁵⁵ Ralf Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft* (Wiesbaden: Springer Fachmedien, 2004), 37.

through a state by political claims. As distribution of goods and services increasingly came to be contingent on the preferences of power groups, economic life grew increasingly disordered.

The structural transformations characterizing the late nineteenth and early twentieth centuries were not limited to internal economic development. Eucken was careful to emphasize the importance of international trade and inter-state (international) relations, and their phases. Largely following Meinecke's schema, Eucken argued that the period of capitalism's ascent, in its liberal period, should be characterized as international peace and stability, with only one notable exception, that of the great war. The "peace principle"—a system of "equality, independence and security" as Metternich described it—held fast over the course of the nineteenth century, since the end of the Napoleonic wars; but its origins, in fact, reached back at least to the treaty of Utrecht in 1713. The Congress of Vienna in this sense was actually the summation of an effort by the European powers to revive the diplomatic principles of a balance of powers, and against a "European universal monarchy" as embodied by the French Empire.⁵⁶ Far from a naïve or idealized picture of this equal balance of forces, Eucken understood perfectly well that the interstate system of the nineteenth century had integrated into itself and was in fact guaranteed by the sea power of the British empire. This order was maintained, even through the latter half of the century by Bismarck, who never sought any fundamental reorganization of international relations even in his attempts to answer "the German question." It was not a coincidence, then, Eucken wrote, that the nineteenth century witnessed the strongest expansion of capitalism, the intensification of the division of labor developing simultaneously under conditions of international order and general peace.

⁵⁶ Eucken, "Staatliche Strukturwandlungen und die Krisis des Kapitalismus," 310.

On the count of international relations, what changed? As with new sequence domestic corruption of the state-society relation, the problem with diplomatic degeneration also began with democratization. Democratic—in this case national—“passions” exerted an unrivaled and novel force on foreign policy. Unlike the settlement following 1871, undertaken to preserve the liberal international order and to maintain a balance of power on the continent, new principles—and clearly Eucken is referring to the democratic principles invoked by the victors of the First World War – revived those of the French Revolution and carried onward by Napoleon until he had been stopped in his tracks. The treaty of Versailles in this sense was the most exalted effort of this type; from Eucken’s vantage of 1932, it was the longest-standing and most significant victory of the democratic revolution at an international level. At the diplomatic register, democratic principle meant simple liquidation of the enemy: the destruction of Germany as a great power through territorial and military oversight and crippling reparations. The deep political truth of this settlement was, in Eucken’s words, “the fragmentation of the Continent under the establishment of French hegemony [*Hegemonie*] and under the formation of numerous new dangers.”⁵⁷

The destruction of the principle of international equality and balance of powers modeled after the Congress of Vienna spelled an unraveling of the belle-époque regime of capitalist expansion. With the end of this order, and the passing of international stability that was the precondition for a virtuous widening of global trade, European history entered a new era. This was no longer properly liberal, but rather a period of growing uncertainty, where assets could be confiscated suddenly at popular whim. As risk grew, investment abroad shrank and international trade was interrupted. Where capital accumulation could continue, it took increasingly

⁵⁷ Eucken, “Staatliche Strukturwandlungen und die Krisis des Kapitalismus,” 312.

speculative forms, mainly as short-term credit. Under aleatory conditions of restricted trade, high risk and democratically politicized economies, trade in credit was far easier to withdraw at moment's notice should conditions for profit-making worsen. Eucken diagnosed extreme problems for Europe. If it was true that it had entered into a new post-liberal period of economic development, politically now hardened by the strictures of the Versailles treaty, it was likely more or less now irreversibly stuck there. Europe should thus be categorized as an "old capitalist" zone that would face a dangerous future or declining dynamism. Along with slowing capital accumulation, Eucken foresaw a period of decreasing investment, lower employment (in fact mass *unemployment*) and general economic stagnation. In Eucken's reading, a world-historical process had reached its "third stage"—after mercantilist and liberal, now state-economic—only in Western Europe. Western Europe was the most advanced zone, then, but here it had developed to a point of sclerosis.

What of the rest of the world? Most of it remained pre-capitalist, but there were two great exceptions. These were to be found in the alternative models of development in the United States on the one hand, and Russia on the other. Eucken, in the true spirit of the Reichsbank's American strategy, was extremely sanguine about the United States. It was a country endowed with rich natural resources, colonized by a population with a "capitalist attitude," ripe for the development of firms and which furthermore had already experienced economic development following a classical liberal pattern.⁵⁸ Russia was altogether foreign to this path. It was mainly agrarian economy, whose population historically was accustomed to producing to satisfy its own needs, and not for the market. Although its ideology was anti-capitalist, objectively, as an economic system, it resembled more the developmental phase of old Europe, that is

⁵⁸ Eucken, "Staatliche Strukturwandlungen und die Krisis des Kapitalismus," 316.

mercantilism, under state-capitalist guidance, than any other. It was thus false to see it as a departure from the world-historical logic of the “three phases of capitalism” and could expect to encounter the same difficulties and crises. Russia was, suffice to say, no model for the old capitalist world, which had already succeeded the two earlier phases of development and which could not be expected in any meaningful way to beat back a path to their origins by way of the Russian (or, for that matter, American) models.

Eucken wagered that the “old capitalist countries” could follow only two possible paths of further development. Either they would continue, under mass pressure, to suffer impoverishment and decline through increased planning advocated by the “literati,” in which case an unmistakable regression to older forms of commerce could be expected; or, states would recognize the danger of their convergence with the economy and would “find the power to free themselves from the influence of the masses,” clear the ground for replacing the Versailles system with a stable interstate system, thereby paving the way for a new sequence of virtuous capitalist development.⁵⁹ Essential to this transformation would be an ideological overhaul. If the catastrophic reorganization of the European order had been the result of the unleashing the forces of democratization, what could be definitively concluded was that these forces—of enlightenment, stemming from Spinoza, via the French Revolution—had erected a dangerous illusion of the “natural harmony of peoples” organized through a federated system of democratic alliances. Eucken contended that the experience in Europe since 1919 had proven this to be a pure falsehood once and for all. Likewise, the destruction of the liberal state at the behest of mass pressure—spurred by the cultural disorder, a symptom of the spiritual lack and the illusory goals of a democratically planned economy—had now been confirmed as a catastrophe.

⁵⁹ Eucken, “Staatliche Strukturwandlungen und die Krisis des Kapitalismus,” 318.

Interventionists, who strove to build a stronger state to order the national economy had ended up, in fighting the liberal state, leading Germany into a national economy with a weaker state and a thoroughly disorganized political economy. These ideologues, however, were incapable of seeing how planned economies led to chaos.

At this ideological register, Eucken envisioned two fundamental remedies. First, a refounding of theoretical-economic education, though not aimed at the laity. The purpose of this refoundation would be to restore the conceptualization of the price system to the base of the idea of economic order. Eucken was appalled at the misunderstanding among economic thinkers which held that a unregulated economy, with a non-interventionist state, was necessarily anarchistic, disordered, and unruly. The critique of capitalism that held that as a system it tended toward general overproduction “had long since been disproved by Say”; and likewise for the list of objections that it could not provide anything other than superficial and nonessential needs (here the price was clearly the best indicator of judging social need) among others. This needed to be changed at once ideologically and culturally. Secondly, Eucken stressed that the question of the role of the state, ideologically, must be encountered head-on. Was such a state capable of making the calculations necessary for steering an advanced national economy? Eucken was clear: the ideology of state intervention simply underestimated the magnitude of the information and the ability of central planning to cognize and bring order to complex economies as those in Europe. They instead asserted, implausibly, the existence of an omniscient entity but failed to reconcile its disastrous concrete historical record with its promise.

“Staatliche Strukturwandlungen und die Krisis des Kapitalismus” was a landmark essay in Eucken’s intellectual development. For the first time, under his own name, he had systematically articulated the limits of contemporary political economic analysis and the

necessity of a refounding of the tradition to shift ideology (in the concluding “ideological excursus” section). Methodologically, he opened up a new vantage: against historicism, which took specific historical periods as effectively *sui generis*, in need of high-resolution description, Eucken pressed historical thinking into the service of broad claims about change over time. What was more, these transformations were dependent on certain invariant categories, namely the market and its degree of development and independence from the state. In other words, Eucken had begun to fashion a theory of historical change that claimed to isolate, analytically, specific driving factors. Qualitative study of their expression could now be undertaken as a program for scientific research.

In the year following the publication of Eucken’s essay, 1933, two middle-aged jurists, Franz Böhm and Hans Großmann-Doerth, joined Eucken’s faculty at the university of Freiburg. Böhm had left the Reichswirtschaftsministerium in Berlin where he had been an adviser to its cartel department; Großmann-Doerth from Prague, where he had been a professor of civil and commercial law after serving briefly as a district judge in Hamburg.⁶⁰ The three shared certain basic areas of interest in commercial law and its overlap with constitutional questions. Böhm’s work on private law society and competition (the subject of the following chapter) should be seen as especially relevant to Eucken’s own thoughts. The three began to formulate curricula and seminars, training students usually taken as the starting point of the Freiburg School, a collaboration which came into its own during the Nazi period as a dynamic source of collaboration between economists and jurists that continued until 1944 (the year of Großmann-Doerth’s death). The seminars spawned a series of journal articles that would, in the post-war period, form the intellectual and organizational basis of the *Ordo Jahrbuch* (1948).

⁶⁰ Klinckowstroem, “Walter Eucken: Eine biographische Skizze,” 84.

Eucken's major work of 1934 reflected this new ambition, and should be seen as his first effort to raise speculations undertaken over the course of the 1940s to the height of systematic and sustained argument. The work, *Kapitaltheoretische Untersuchungen*, also marks Eucken's most in-depth treatment to date of capitalism as a system. In this study, he offered a series of striking new formulations that opened up a new focus for conservative-liberal economics in Germany, and marked the first appearances of the ideas that become the basis for much of the work following his landmark work of 1940, *Die Grundlagen der Nationalökonomie* and his post-war writing. Out of this small book, it can be said that much of what has become known as ordoliberalism springs. What are its major features? Firstly, *Kapitaltheoretische Untersuchungen*, anticipating the 1936 document written with Großmann-Doerth and Böhm in 1936 "Unsere Aufgabe" (our task), frames scientific inquiry as the only mode of achieving true knowledge: *epístamai*, not *doxa*. In his introductory essay, Eucken wrote of a "national-economic theory" and enumerated its several goals and characteristics. *Kapitaltheoretische Untersuchungen* was the first volume of a series edited by Eucken himself, and featured a programmatic statement of Eucken's Freiburg School method, most clearly stated in his framing introductory essay, "Was leistet die nationalökonomische Theorie?"

First, this national-economic theory would seek to define a systematic approach and method that would be based in a "radicalism" of its questioning. In other words, nothing in the approach would share anything in common with the "naïve" theorizations of the "laity." It would rather seek the natural laws of motion of economic life, so to speak, understanding the movement of prices, by way of example, as having fundamental causes not apparent to casual observation. It would therefore, secondly, throw itself into renewing the scope and range of economic facts, as astronomers and chemists of the past had, in order to overcome a naïve view of the world. But

crucially, Eucken qualified the conceptualization of this fact-world, which he did not take for granted as worthwhile knowledge itself. Scientific knowledge, he very clearly argued, was much more than a collection of facts, though based fundamentally on them. Eucken invoked Hegel: “A collection of knowledge does not constitute a science.” And quoted approvingly from the naturalist Henry Poincaré’s metaphor, that a science, like a house made of stones is built on facts; but that a pile of stones is not a house, just as a pile of facts does not make a science.⁶¹ The status of national-economic theory as a science had to be emphasized. The prevailing methodological and intellectual consensus was a subjectivism. The scientific progress achieved in the eighteenth and nineteenth centuries had effectively been substituted by a thoroughgoing skepticism, on the one hand, and a reductionist positivism on the other. For Eucken, Marx had failed to resolve the status of economics as a science because he emphasized class struggle and class perspective—rather than a neutral objective viewpoint—as the only valid standpoint of economic inquiry. Class consciousness was, in this sense, only a particular position, not a universal one, according to Eucken. Nietzsche and the tradition of *Existentialphilosophie* carried on by Heidegger in Freiburg, on the other hand, had simply emphasized the pure subjectivity of knowledge, purged even of its social meaning. With these intellectual forbearers determining the main currents in contemporary intellectual life, Eucken argued that the situation gave rise to an either/or choice for his generation of economists. Were they to hitch their fate to the scientific heirs of Plato, who secured the existence of science, or to the latter-day Sophists, who fought against the condition of truth? Science as such in fact was predicated on fidelity to the philosophical assumptions of the former. But in the intervening millennia, one factor had surely changed: each differentiated sphere of knowledge, as represented by the academic disciplines

⁶¹ Walter Eucken, *Kapitaltheoretische Untersuchungen* (Jena: Gustav Fischer, 1934), 1-3.

had developed its own research methods. These, in turn, determined, as much as the logician did for philosophy, the course of new discoveries which were true in any rigorous philosophical sense. Scientific experts must therefore enter into the struggle of asserting the objective truth content of their work, and not be content with merely building up a body of research predicated on contradictory opinions. If national-economic theory could free itself from the tangle of subjective ideas, it would be worthy of science. For Eucken, it was only acceptable that an affirmative answer be delivered to the question of whether national-economic theory could objectively register the relations of concrete reality.⁶²

This meant that such an economic theory would have to employ both rational and empirical approaches. Eucken held that these two apparently discrete modes of inquiry were unjustly divided as competing camps, impoverishing the capabilities of each of their adherents. The so-called rational tradition, which included the classics of political economy from Ricardo through the landmark texts of the thinkers of marginal revolution, was characterized by its orientation toward hypothesis and formulation of generic conditions holding the relations within a given system of prices or exchange in suspension. The empirical tradition, on the other hand, tacked more closely to observable facts, which it accumulated, according to the dictum from Wilhelm Dilthey, “with an insatiable appetite” viewing with mistrust any theorizing that broadened into hypothesis, as with Sombart. Emblematic of this school were the historicists: Gustav von Schmoller, Wilhelm Georg Friedrich Roscher, Bruno Hildebrand, Georg Friedrich Knapp.⁶³ Methodologically, it sought to fulfill the task of science in two stages: first, by

⁶² Eucken, *Kapitaltheoretische Untersuchungen*, 5.

⁶³ *Ibid.*, 8-9.

supplying the factual basis of distinct social forms. Regarding nations, empiricist national-economy supplied the broad facts of the matter, religious and cultural details, forms of government and their development. Secondly, empiricism emphasized individual differences and specificities at a smaller scale. This was in contrast to the rationalist tradition, which could work mainly with definite and uniform qualities. Empiricism described and ordered the economic relations as they really existed, without drawing too much by way of theoretical extrapolation. It strove towards building a “living perception of the entire economy.”⁶⁴ It was a science based in showing the meaning of its object of inquiry by offering examples of it, and categorical judgments about the conditions of their actual existence, rather than “general, hypothetical and apodictic certainty.”⁶⁵ The rational approach was not immune to defect. Rational approaches were particularly at risk of assuming the results of their inquiry from the beginning, either by allowing definitions to drive their inquiries, or by allowing particular aims to orient their findings. These were cardinal faults of this line of approach, whatever its strengths. Eucken was clear. Even the hypothesizing of this rationalism would have to be driving, and build out from facts as they were found in reality. Nevertheless, Eucken emphasized that grasping reality concretely was possible so long as it followed the form of generalization known since Plato. This entailed a process of reduction he described as follows:

The conditions set by the researcher must therefore be reductions into pure cases from actual data, and may be by no means arbitrarily or one-sidedly chosen.⁶⁶

⁶⁴ Ibid., 10.

⁶⁵ Ibid.

⁶⁶ Ibid., 20.

Such reduction, reminiscent of Husserl's eidetic process, but for which Eucken cited only his father's *Prolegomena zu Forschungen über die Einheit Gesteslebens* (1885), presupposed operating from an "Archimedean point." The process would mean extrapolating from approximately equal forms across history to deduce the general tendencies or, as he would later describe them, "morphologies" of economic life. The reduction thus rested on the raw data of historical fact, but built up around them generic forms. This differed from classical political economy insofar as it strove to be as comprehensive as possible by accounting for the totality of social relations across time. Eucken emphasized that classical political economy had developed in response to the needs of societies of the eighteenth century; its methods were appropriate for this historical era. However, the emergence of scientific method in this period did not mean that it was simply confined to addressing the questions posed by that era. This was "the error of historicism and relativism."⁶⁷ Eucken's national-economic theory thus promised a breakthrough in the understanding and even prediction of economic life. It also promised a way of conceptualizing history. It would affirm the scientific validity of economics on the so-called rational-theoretical basis pioneered by the classicals, but would at the same time build out from eidetic reductions of historical fact.

The purpose of this new method was not mere academic exercise. Eucken was serious about finding a political application of this new method, and, as he wrote, contribute to an explanation of the effects of mass unemployment on the political movements of the masses and on the "revolution of 1933."⁶⁸ Comparing himself to Galileo and Kepler, Eucken pledged to overcome the astounding incomprehension prevailing in contemporary economic science. With

⁶⁷ Ibid., 41.

⁶⁸ Eucken, *Kapitaltheoretische Untersuchungen*, 44.

this he opened up a new collection of considerations on capital and interest, savings and mechanization.

The series of studies Eucken launched in 1934 was begun at a particularly turbulent time within the Nazi apparatus. The wave of terror unleashed by the SA within the German-speaking world was a source of alarm not only for the party's conservative aristocratic backers, but also for Adolf Hitler's inner circle. Agreements struck between Hitler and Ernst Roehm to moderate SA violence went unheeded, and tensions peaked within the cohort, leading to the night of the long knives, the decisive purge of the Nazi leadership in June of that year. Economically, the German economy appeared to be finally on the upswing, though it is doubtful that the NSDAP's so-called Battle for Work program—though a tightly choreographed propaganda effort to showcase a clean break with the downturn—had much to do with this. As Adam Tooze has shown, though public spending drove to a large extent the recovery in investment that began to shape the recovery. Although this recovery may not have wholly been the result of Nazi policy, its character was definitively shaped by it, since it took the form of increased military spending (by orders of magnitude) and a centralization of public spending, wresting it away from local governments, so that even civilian spending meant a restructuring of the German state.⁶⁹ Though the recovery was likely a result of this cyclical process, it took on this specific political-economic form during the military build-up and centralization of the first years of the Nazi period. Nevertheless, Germany was entering into a new period of deep uncertainty and turbulence in 1934, with currency and gold reserves drained and a slump in exports.⁷⁰

⁶⁹ Tooze, *The Wages of Destruction*, 59-66.

⁷⁰ *Ibid.*, 72-74.

It is not clear to what extent Eucken sought to contribute directly to the policy surrounding the early years of the Nazi regime. Although he wrote, taught and studied at a distance from the regime, with the exception of participation in the *Klasse IV* advisory committee of the Reichsministerium, extant correspondence reveals little of his thoughts on the question of direct political matters in this period.⁷¹ Nor has any clear statement of Eucken's position on the *Machtergreifung* emerged to date. Indeed, aside from the programmatic and highly charged call for a transformation of economic methodology found in the preface to *Kapitaltheoretische Untersuchungen*—"Was Leistet der Nationalökonomische Theorie?"—this 1934 publication is in fact rather far removed from the immediate matters seizing German economics of the day. Its first chapter, dedicated to capital and interest largely follows the framework of Böhm-Bawerk's 1884 *Capital and Interest*, however, does include a worthwhile definition of capital. Eucken understands capital as having a double character: first, it exists in the role played by consumer goods as represented in the money economy; or, in a slightly less convoluted formulation, "the power, in the money economy, to dispose of consumer goods, insofar as it is in the hands of the entrepreneurs."⁷² A second aspect of capital was as means of production, appearing in its fixed form as raw material, machines or tools. Eucken referred to aspect of capital as "real capital" or "capital goods" again following, as he freely admitted in a footnote, the examples set by Turgot and Böhm-Bawerk a generation prior to his own formation.⁷³

⁷¹ Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 61-72.

⁷² Eucken, *Kapitaltheoretische Untersuchungen*, 125.

⁷³ *Ibid.*, 126.

What was the purpose of Eucken's rather basic intervention on this point? As he argued, simple scientific definitions of the problems must learn from the concrete or even lived experience of business practice. Eucken held that there is a structural predisposition of firms to achieve a balance of their expenditures and earnings, as is clear in the composition of a balance sheet. For the firm, capital appears as the capacity to consume—in this sense it appears to the capitalist most immediately as money. Eucken did not view this, clearly, as incorrect, given his definition above. But what was did this “naïve” understanding of capital—effectively the purchasing power of the capitalist—offer the scientific endeavor? And what was its relation to the second understanding of capital (capital as fixed capital—tools, machines, plant)? Eucken argued that the economic theory must also strive to calculate the balance, but here taking into consideration its full circuit. National economic theory should in this sense emulate the reflexive inclination of the economizing capitalist. This meant calculating, on the demand side, whether, primarily consumption balanced out with production. Were workers, in other words, producing enough value to offset the satisfaction of their needs? This was the type of question an adequate understanding of capital could afford the scientific economist. “In the praxis of measuring economic success,” Eucken wrote, “capital determines how and to what extent needs are aligned. This is the sense of balance. Praxis complements and consequently controls the cost accounting in which it operates to continually compare losses and gains. With justification, it can be considered that the main idea of modern national-economic theory is the attempt to explain needs from economic events.”⁷⁴ This was the practice of business drawing up its balance sheet. It was necessarily backwards-looking. But the second understanding of capital, as raw material, capital goods and machines, itself had something to offer national-economic theory. It was necessarily

⁷⁴ Eucken, *Kapitaltheoretische Untersuchungen*, 130.

forward looking. What it revealed was the relation between the capitalist [*Unternehmer*] and the means of production—how much of it he might be able to purchase, and how much power over it he had. In a country where there is no capital shortage, where there is no lack of suitable labor power (where a part of the labor force and part of the means of production is unused), firms lack “power to dispose” of consumer goods. Under these conditions, firms will direct production toward plant and equipment, building up productive capacity (in the form of buildings and machines) until they mature into consumer goods, at which point the power of firms over consumer goods is tangible.⁷⁵

Most of *Kapitaltheoretische Untersuchungen* proceeded as a restatement of the work of Menger and Böhm-Bawerk, Schumpeter, with emphasis on the methodological quarrel with Schmoller and the narrow empiricism of the historical school. The theory of savings conformed to this approach. In it Eucken identified two forms of savings methods observable throughout history recapitulated using Defoe’s fable of Robinson Crusoe. The first was method of saving was defined principally by limiting consumption of goods, in this case fish, and investing in greater production capacity [in the form of a larger net]. The second method was defined by extending the period of limited consumption over to more frequently planned blocs of time. Analogous processes of savings existed in an economy incorporating a full society (rather than one lone producer as in the Robinson Crusoe ideal-type). Whether it was a as a natural-exchange society or a more complex market society, however, these social economies were not able to sustain the type of highly deliberate and planned savings processes without a central command structure. This was because savings rates in market economies were interdependent, and furthermore determined by the willingness of waged and other income-earners to freely loan a

⁷⁵ Ibid., 131.

portion of their income to firms. Thus, savings resulted in a loss of demand from the consumer goods market.⁷⁶ This was in essence the theory of savings articulated by Ricardo. But Eucken saw this fact as only as one side of the reality of the savings process. The other side of savings from reduced demand for consumer goods was the potential of expansion of production. Savings, in other words, meant that firms could buy the “productive services of workers and landowners. They use these towards a prolongation of the production path; that is, the payments will—instead of immediately finding their way to the consumer goods market—be invested as new capital.”⁷⁷

Eucken continued:

So therein lies the power of saving: It enables the extraction of production factors and means of production from such points of the production process that are located near the mature consumer goods, and uses at other points in greater distance from mature consumer goods, thus increasing their productivity.⁷⁸

Of course this was not always the case with savings. Problems arose when, for example, consumption declined but no compensatory investment could be observed. This was, however, according to Eucken, categorically not in fact a phenomenon that should be conceptualized as savings proper, but rather as hoarding. It arose over the course of deflationary crises, where shortages of money inhibited both spending, and falling prices discouraged investment. Under such conditions, loss of credit and the volume of money in circulation should be combatted in order to restore the “money-character” of savings accounts.⁷⁹

⁷⁶ Eucken, *Kapitaltheoretische Untersuchungen*, 143.

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*, 144.

⁷⁹ *Ibid.*, 153.

When Eucken approached the question of the “machine problem” he tackled a question that had suggested itself in his analysis of the advantageous stimulus to production entailed by higher savings rates. What was general effect of the expansion of machine production that was the result of new capital-intensive investment? It was a pressing, timely question given the mounting unemployment level in Germany in the early thirties, not yet addressed in substantively by the Nazi government, arms build-up and Battle for Work efforts notwithstanding. In this major section on technique and the “machine problem,” Eucken clearly demarcated the area of research of concern to national-economic theory. Too often in the past, political economy had confused the general expansion of scientific knowledge with the expansion of the applied science oriented toward production. It was on the latter category of knowledge, however, that economists should now focus. Within this category of applied scientific knowledge, labor-saving technique should be of the greatest concern, on fairly obvious grounds.⁸⁰ Was the so-called “machine problem” necessarily one framed by technical unemployment, the replacement of human labor with automation? Eucken presented an argument close to that of Jean-Baptiste Say: the greater efficiency of afforded by new production technique would mean greater supply—and therefore it would produce a higher demand to meet it.⁸¹ New supply, in other words, would create new needs for new commodities, as well as induce workers to learn new skills, thereby raising the general skill level of the population. However, the classical theories of technical improvement were not without their blind spots, Eucken argued. This was mainly because, schematically valid as they were, their very abstract coherence made

⁸⁰ Eucken, *Kapitaltheoretische Untersuchungen*, 167.

⁸¹ *Ibid.*, 169.

them difficult to apply to the concrete historical circumstances of, for example, Germany's actually existing historical experience right up to the moment in which Eucken composed his study. Under monopoly conditions—trusts and cartels on the supply side, price setting and state regulation of the labor market on the demand side—the balancing forces of the market sketched by Say and others did not hold. This meant that classical theory would have to be modified to fit the particular circumstances of national economic life in its reality.⁸² This was, not to mention, the suspicion of classicals such as Ricardo or his Ricardians such as John Ramsay McCulloch, that the improvement of technique did in fact lead to an expansion of production. For the Ricardians, improvement of production technique ultimately meant a decline in demand: “Building up of machines” for the Ricardian school meant “a transformation of circulating capital into fixed capital and this process...caused a decline in yearly production.”⁸³ Investment in fixed capital was drawn from capital in circulation; this produced a new structural condition: less circulating capital, production with radically reduced need for labor, and sinking costs. This meant firms could cut down on their work force and reduce production.

Eucken saw Ricardian theory as clearly contradicted by the intervening century, which had produced unimaginable rise in production volume.⁸⁴ However, he insisted that the present moment was in fact not characterized by the virtuous effects of productivity gains caused by improvements in technique of production. This was because the situation “before his eyes” was characterized by a fall-off in competition due to monopolies and their rents. The practical

⁸² Eucken, *Kapitaltheoretische Untersuchungen*, 170.

⁸³ *Ibid.*, 174.

⁸⁴ *Ibid.*, 175.

consequence of this was the lower rate of investment in new technologies, since capitals subsisting on monopoly rent had hardly any incentive to improve the productivity of labor. Such conditions also meant that the acceleration of the turnover period in production predicted by Ricardo was likewise not a reality in the actual economic history. The lesson to be drawn from the present moment, in Eucken's view, was that the machine problem in economics, and that of technology more generally, was fundamental to good political-economic theory. There was no general rule governing the machine's effect on economic factors such as productivity and wage growth. Rather, the relation between technical improvement and the position of workers, just for example, was crucially dependent upon the economic system—the institutions compelling and enjoining economic actors—as well as the state of the existing market, if there even was one. The point was simply that the social and political conditions under which technology was deployed determined the direction of these fundamental economic indicators. Technology did not have a particular social content of its own.⁸⁵

Taxonomy of Market Forms

Throughout the Nazi period Walter Eucken worked on developing, along with Franz Böhm, a program of national economic theory at Freiburg. In 1937, the pair co-edited, with Hans Großmann-Doerth, a series of papers, *Ordnung der Wirtschaft* which included the famous text *Unsere Aufgabe (Our Task)*, written in 1936 and translated in into English in 1989 as “The Ordo Manifesto.” *Unsere Aufgabe* recapitulated, now in strident polemical form, the problems besetting economics in Germany under the sway of historicism, only the mirror-image of Marx's fatalism. It called for the reassertion of a political vitalism, embodied in “men of science.” These

⁸⁵ Eucken, *Kapitaltheoretische Untersuchungen*, 186.

were not however, understood to be modeled after the Nietzschean *Übermensch*, but rather rational-enlightened men of action taking after Prussian aristocratic general or statesmen who would never abandon truth for relativism. Jurisprudence, the economic constitution, rejection of fatalism and relativism became the watchwords of the group's four-point program.⁸⁶

Around this time, in the spring of 1937, Eucken and F.A. Hayek, now based at the LSE, began a collegial correspondence on the possibility of future intellectual collaboration. The correspondence would continue until Eucken's death in 1950, and, during the war, was two-thirds of the triumvirate of Eucken-Hayek-Röpke, which eventually, slightly more than a decade later, gave rise to the first volume of the *Ordo Jahrbuch* in 1948, for which Hayek served as contributing editor. In mid-1937 through 1939, paramount concerns were undertaking the genealogy of economic planning, which, Hayek suspected, could be traced back to St. Simon and Auguste Comte.⁸⁷

Eucken was turning his attention in 1938 toward fashioning his great work the *Grundlagen der Nationalökonomie*, but the questions that were to appear there he first developed in the short book *Nationalökonomie Wozu?*⁸⁸ The book was the first to conceptualize the conflict plaguing economic theorizing as a so-called "great antinomy": between the individual-historical approach (rendered as the "economic everyday" in 1938) and a general economic theory that could illuminate the general forms of determining economic life. But the year 1938 can also be

⁸⁶ Walter Eucken, Franz Böhm, Hans Großmann-Doerth, "The Ordo Manifesto of 1936," in Alan Peacock and Hans Willgerodt (eds.), *Germany's Social Market Economy: Origins and Evolution* (London: Macmillan, 1989), 22-25.

⁸⁷ Hayek to Eucken, 7. May 1937 and 13. June 1939. Nachlass Walter Eucken.

⁸⁸ Klinckowstroem, "Walter Eucken: Eine biographische Skizze," 82. Lenel, "Walter Eucken: Leben und Werk," 22.

read as a watershed for the history of neo-liberalism: the historic conference called to celebrate the translation into French of Walter Lippmann's *The Good Society* took place in August in Paris of that year. Organized by Louis Rougier, editor of the Librairie de Médicis who brought it into French as *La cité libre*, the book was the organizing point around which American, English and exiled German and Austrian neo-liberals met to discuss building a international movement in defense of their endangered program. Called "neo-liberalism" by Rougier, the conference brought together Hayek, Röpke, Rüstow and Mises, but curiously not Eucken.⁸⁹

Grundlagen der Nationalökonomie thus appeared under transformed intellectual circumstances when it was first published in November of 1939. Whatever position Eucken was taking with respect to historicism, its perspective was now consciously coordinated across at least three major European languages and among North American, British and continental outposts of the new liberalism. The text in fact did not propose much new by way of theoretical development or conceptualization. But it approached the major themes of the methodological "antinomies" of historicism and taxonomy far more systematically; and, in what occupies the bulk of the text, it attempts a reconstruction of given historical examples according to a new taxonomy measuring degrees of market conforming properties. This is the centerpiece of Eucken's work. It struck both a methodological and historical point. The methodological point, derived from the eidetic reduction learned from Husserl, was to construct ideal-type economic forms: a morphology of market forms. In Eucken's schema, this was to be analyzed by measuring five degrees of market openness: competition, partial oligopoly, oligopoly, partial

⁸⁹ Louis Rougier, "Avant-propos," *Programme du colloque Lippmann*, reprinted in Serge Audier, *Le colloque Lippmann: Aux origines du "néo-libéralisme"* (Lormont: Éditions BDL, 2012), 409.

monopoly and monopoly (individual or collective).⁹⁰ These could be observed along both demand and supply axes. But the ideal-type or “pure forms,” Eucken promised, were themselves based in historical reality. This was, in his view, the key methodological innovation which distinguished his approach from that of the historical school. Based in historical fact, yet succumbing neither to a fatalistic understanding of the development of history nor the isolation of a given historical period from general tendencies and patterns of development, Eucken could lay claim to a scientific framework of market forms that worked to organize all economic systems across history in a comprehensive taxonomy. But it would also work deductively. As a morphology it could be applied to given historical examples, and used to classify and diagnose its political-economic composition, with the hope of understanding the point at which the market form was weakest.

However, as Eucken clearly put it in the foreword to the first edition, *Grundlagen der Nationalökonomie* “was not a methodological book.” Rather “economic reality was its object.”⁹¹ Eucken clearly intended for *Grundlagen* to be something more than a standard economics tract, although, in the post-war period it was to become a textbook in higher education. During the process of translation into English in 1948, in correspondence with Terence Hutchison, its translator, the broader meaning given over to certain economic concepts indicates something of the social and political content Eucken attempted to convey. He wrote to Hutchison in March of 1948 that the term *Bedarfsträger* should not be rendered as “consumer.” But neither should it be understood as mere “bearer of demand,” a plausible but perhaps restricted translation. Rather,

⁹⁰ Walter Eucken, *Grundlagen der Nationalökonomie* (Berlin: Springer, 1989), 111. For the English, see Walter Eucken, trans. T.W. Hutchison *The Foundation of Economics* (Berlin: Springer, 1992), 332 n. 28.

⁹¹ Eucken, *Grundlagen der Nationalökonomie*, ix.

Eucken insisted that the meaning of the word was something close to “bearer of needs”; though literal, it could in this manner compete more clearly with the rival claims of those advocating a non-market planned economy, adopting the terms of economic planning in order to overcome their postulates.⁹² The correspondence with Hutchison likewise illuminates something of what Eucken understood by the use of the term *Ordnung*. While it could easily be rendered as “regulation” or “organization,” Eucken made plain to his translator that it should be taken as “order”:

Das Wort “Ordnung” würde ich mit “order” übersetzen und möchte vorschlagen, nicht das Wort “organization” zu wählen. [I would translate the word *Ordnung* as “order,” and I would recommend not choosing the word “organization.”]⁹³

Eucken’s approach in *Grundlagen* in this sense was a direct attempt to clear the way for a universal, normative economics that could address fundamental social questions without recourse to any system of historical progress or class struggle. The book outlined a closed methodological system to be deployed by elite economic scientists and then transmitted into an ordering framework for political action. This is why it appealed to thinkers like Heinrich von Stackelberg, the aristocratic SS man who later emigrated to Spain in 1944.⁹⁴ Stackelberg, in his 1934 work *Marktform und Gleichgewicht* (Market Structure and Equilibrium), had in fact worked very much in the same vein as Eucken, setting forth a table of market forms as a

⁹² Walter Eucken to Terence Hutchison, 22. März, 1948, Nachlass Walter Eucken.

⁹³ Ibid.

⁹⁴ Gottfried Bombach, “Walter Euckens ‘Grundlagen der Nationalökonomie’: Botschaft und Verpflichtung,” in *Über Walter Euckens “Grundlagen der Nationalökonomie”: Vademecum zu einem Wegbereiter der modernen Theorie in Deutschland* (Düsseldorf: Verlag Wirtschaft und Finanzen, 1990), 51.

morphology in order to better predict the patterns of interference in price formation.⁹⁵ The British proponent of ordo-liberalism Alan Peacock observed in 1950, that Stackelberg had understood the inherent instability of oligopolistic and monopolistic market structures.⁹⁶ The insight here, and what was also clearly the political thrust of the analysis put forward both by Stackelberg and Eucken at the time, was not only that market equilibrium was difficult or impossible to achieve under conditions of oligopoly or monopoly, but that the market in fact tended toward this state, rather than toward equilibrium, left on its own. The position represented by Eucken and Stackelberg both by 1940, was thus a recognition that the “self-regulating market” in fact required a strong state to maintain the conditions hitherto described as its essential features. The point was that these features were no longer naturally-occurring products of market forms, but rather products of the scientifically discoverable conditions, which could be constructed, politically, it might be added, if a proper morphology of such forms was outlined. For Stackelberg, instability under monopoly conditions would develop internally within different fractions of the monopolistic or oligopolistic firm, on the supply side, or in its corollary on the demand side. A pro-market state could therefore fulfill the role of maintaining a stable market society by introducing taxation on monopolies, for example. Politically, it meant the state should be charged with ensuring competition—above the mere support of protecting the short-term interests of capital.

⁹⁵ Heinrich von Stackelberg, *Market Structure and Equilibrium* (Berlin and Heidelberg: Springer, 2011), 3-5.

⁹⁶ Alan Peacock, “Recent German Contributions to Economics,” *Economica*, Vol. 17, No. 66 (May, 1950): 181.

Stackelberg held Eucken's *Grundlagen der Nationalökonomie* in very high esteem. The two maintained collegial correspondence as far back as 1940 through Stackelberg's death in Madrid in 1946, and offered critique of each other's work through the Nazi period.⁹⁷ There were differences between the two, however, and these should help to illuminate some of the specificity Eucken's approach, and what set him apart from Stackelberg. These differences were not, importantly, mainly political, but rather methodological. In this respect, Eucken, although he accepted Stackelberg's description of the phenomenon of admixtures of monopoly and market conditions could produce unique outcomes (undesirable, it goes without saying), the procedure for identifying these led Eucken to significantly different conclusions. For Eucken, abstraction based on formal modeling had led Stackelberg astray. When starting out from real historical conditions, what was observed was not hybrid forms of partial monopolies, but rather emergent forms with specific properties in their own right. This meant that the behavior of the real economic actors should be understood as coordinated or set by the behavior of firms. The system as a whole, therefore, obtained the character of its leading firms, and it was this totality of relations among firms which should be conceptualized as the most salient object of scientific inquiry.⁹⁸

What emerged in Eucken's conceptualization was a curious, and perhaps even contradictory standard by which economic categories and ideas were deemed properly scientific. Such scientifically—analytically—useful categories were abstracted from history but observed

⁹⁷ Bombach, "Walter Euckens 'Grundlagen der Nationalökonomie': Botschaft und Verpflichtung," 51. Stackelberg to Eucken 21. Jan. 1943; 18. Jan. 1944; and 14. Sept. 1946. Nachlass Walter Eucken.

⁹⁸ Walter Eucken, *Grundlagen der Nationalökonomie* 1. Auflage (Jena: Fischer, 1940), 124. In the English translation: Walter Eucken, *The Foundation of Economics: History and Theory in the Analysis of Economic Reality*, (Berlin and Heidelberg: Springer, 1992), 150-151.

across it. They were in this sense transhistorical categories in the most concrete rendering of the term: actually-existing in history, but universally distributed and everywhere present. Capitalism, socialism and communism were emphatically not such categories, since they were the product of specific historical determinants and therefore limited in duration and application. Such categories, Eucken wrote, “cannot help the economist in his task.”⁹⁹ What should be used, as their replacements, were the ideal types appropriately derived from historical research:

The ideal type of "exchange economy" is simply a pure elemental form (just as is that of the centrally directed economy), which is to be found at all periods of human history, and which is arrived at from precise observation of particular economies and by abstracting their significant characteristics.

An exchange economy of the pure type is made up of firms and households which are in exchange with one another.¹⁰⁰

So long as a society used a “scale of calculation” or unit of account on the one hand, and so long as exchange could be said to be predicated on supply and demand, the conditions of an exchange society could be said to have been met. It is striking that for Eucken, as revealed in his critique of Stackelberg’s morphology, the fine distinction must be rigorously enforced between an ideal-type derived from pure abstraction, and those abstractions into “pure forms” which took as their basis historical data. This entailed a stringent policing especially of the terminology (some of which has already been discussed above, in Eucken’s instructions to Hutchison to render *Bedarfträger* as bearer of needs rather than bearer of demands in order to generalize the meaning of the term). The terms one should use to denote given actors—firms and managers,

⁹⁹ Eucken, *Foundations of Economics*, 129.

¹⁰⁰ *Ibid.*, 129.

rather than enterprises and entrepreneurs—were recommended because the latter were considered to have too much of “a particular historical nuance about them suggesting too exclusively the capitalist period.”¹⁰¹ Not previously averse to employing the term capitalism or capital, what was the basis now of this finely tuned conceptual distinction? Clearly one effect was to assume that, as a “pure form” existing outside of the history of capitalism itself, the market as a defining feature of social life could not be isolated in time, as one mode of production among several. This universalized what can only be understood as the defining feature of capitalism, while at the same time purging the concept of its historical rootedness in capitalism itself. The fact is crucial, because Eucken was not merely positing that markets had always existed in some form, but in fact that all societies in some form were market-based. In this reading of world history, social relations were not determined by the morphology found in Stackelberg, but rather actually rendered even more stark. Either societies were “open” or “closed”: within “open” societies, the forms of the market, its division into monopoly, partial monopoly or oligopoly, could be determined by the calculations of each actor based on the degree of competition to which he was subjected. It was, in other words, not a matter of determining the homogeneity of the firms or the comparable size or number. Competition as observed practice was the crucial means of judgment for Eucken.¹⁰²

According to Eucken’s taxonomy, market economies could exist as well in so-called closed forms (These closed market economies were a distinct still from mode planned of planned economies, which also found expression at various degrees of planning and represented a

¹⁰¹ Eucken, *Foundations of Economics*, 129.

¹⁰² *Ibid.*, 150.

separate species altogether).¹⁰³ The location of the “closure” in such economies, Eucken argued, could likewise occur at supply and demand sides of exchange and ran the spectrum of government regulations—required training for workers, patents required for all production in a particular line, territorial boundaries between states—all could qualify as closing off competition to one degree or another.¹⁰⁴ Historically, closed market forms were far more numerous than the exceptional open forms. Most examples of markets, whether the labor market under the guild system, or the allocation of certain geographic areas to particular crops did not eliminate markets, nor competition; but they regulated and reduced what could have been purely “open” exchange. They were therefore oligopolistic in character. But such restrictions on exchange, though described using the same terminology as their counterparts in so-called “open” systems, were distinct in that supply and demand had closed off either through a direct prohibition by a government, or due to the “customs and opinions of the people.”¹⁰⁵ Rather than a cascade of effects initiated by power a given firm commanded on the market (which would qualify as a case of an “open” oligopoly, for example), closed oligopolies or monopolies took on an organized and often political quality. Even in a case where no direct government intervention had taken place, a system of exchange could be said to be closed if monopolies or cartels acted in concert to prevent newcomers from entering a given line.

The conceptual framework Eucken had erected here accomplished at least three objectives. First, most mundanely, but also proving its scientific merit, it formed the bedrock of

¹⁰³ Ibid., 119-122. Cf. Keith Tribe, *Strategies of Economic Order: German Economic Discourse, 1750-1950* (Cambridge: Cambridge University Press, 1995), 216.

¹⁰⁴ Eucken, *Grundlagen der Nationalökonomie* 1. Auflage, 126-127.

¹⁰⁵ Eucken, *Foundations of Economics*, 152.

Grundlagen's lasting contribution to ordo-liberalism, by expressing in precise terms the taxonomy of markets. This was the great achievement of the book, lent it the heft and clarity that made the study a standard university economics textbook during the post-war period. Secondly, by removing planned economies to a conceptual realm outside of market life altogether, Eucken focused his analysis on market exchange and its deformations, rather than the more predictable division between non-market (planned) and market economies. This meant that, thirdly, market forms themselves underwent an implicit critique. This came not so much from the degree of their concentration, but in the *fact* of their politicization. In other words, an open market system enduring the effects of monopolies of either supply or demand would have to be distinguished from a monopoly consciously maintained through political means. The taxonomy thus gave rise, implicitly, to the a novel combination, that of a system of "closed competition": competition enforced either by custom or by government policy.

The distinction had a very clear political utility for Eucken and the Freiburg circle in its assessment of the prospects for the Nazi economy. What remained ambiguous for the neo-liberals was precisely the degree to which the Nazi war economy could be considered a market economy. The varied contributions to the Walter Lippmann Colloquium, and Lippmann's work itself, could leave a superficial impression of an anti-fascist politics. But stray anti-fascist statements must be weighed against the fact that, for example, Marcel Bourgeois could underwrite both Jacques Doriot's Parti Populaire Français and the Librarie de Médicis which brought out the French edition of Lippmann's *Good Society*, just as Rougier himself later advised Pétain, even after denouncing the threat to liberalism posed by right and left alike.¹⁰⁶ In

¹⁰⁶ Audier, *Néoliberalisme(s)*, 140. François Denord, "French Neoliberalism and Its Divisions," in *The Road from Mont Pèlerin*, 51.

the German scene, Eucken and his Freiburg colleagues participated in the Klasse IV group of the Akademie für Deutsches Recht, the arm of the NSDAP, organized by Jens Jessen for the purpose of Germanizing the law.¹⁰⁷ Eucken's participating was contemporary with the composition of *Grundlagen der Nationalökonomie*, and was extensive indeed. The group at Freiburg was one of three discussion groups under Klasse IV designation (the other two locations were at Cologne and Bonn). Chaired by Erwin von Beckerath at Bonn, the meetings took place between 1940 and 1943; a special issue of the economics journal *Weltwirtschaftliches Archiv*, a Akademie für Deutsches Recht-published book titled *Der Wettbewerb als Mittel volkswirtschaftlicher Leistungssteigerung und Leistungsauslese* and records of meetings survive as a testament to this participation.¹⁰⁸ In the years 1942 and 1943, Eucken and his colleagues contributed to the sense that peacetime conditions would have to be dramatically altered in order to conform to a market order. At the outset, however, the group turned its attention to the application of its scientific discoveries in the context of the Nazi economy as it existed. Eucken's most important and widely-read study, *Grundlagen*, therefore must be read as part of the phase in which he was most intensively working on behalf of the Akademie für Deutsches Recht, and well before the years in

¹⁰⁷ Tribe, *Strategies of Economic Order*, 224 and Ralf Ptak, "Neoliberalism in Germany: Revisiting the Ordoliberal Foundations of the Social Market Economy" in Philip Mirowski and Dieter Plehwe (eds.), *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge: Harvard University Press, 2009), 117. Ludolf Herbst has also discussed the relation between the Klasse IV and the Nazi economy: the "ordo-liberal demarcation between the state and the economy, which the majority of [the Klasse IV participants] represented," he writes, "seemed capable of concretizing the vague National Socialist conceptions of 'economic management,' and to conceive a relationship of state control and free market which was able to achieve the desired increase of living standards." See Ludolf Herbst, *Der Totale Krieg und die Ordnung der Wirtschaft* (Stuttgart: Deutsche Verlags-Anstalt, 1982), 148.

¹⁰⁸ Tribe, *Strategies of Economic Order*, 226-227; Ptak, "Neoliberalism in Germany," 115. See also Christine Blumenberg-Lampe (ed.), *Der Weg in die Soziale Marktwirtschaft: Referate, Protokolle, Gutachten der Arbeitsgemeinschaft Erwin von Beckerath 1943-1947* (Stuttgart: Klett-Cotta, 1986), *passim*.

which the Klasse IV discussion groups in which he partook had concluded that the economy was no longer market conforming (although this fact does not in itself represent dissent either). Eucken's masterwork of 1940 was also written at a stage in the war in which Nazi victory was not unambiguously doomed. The core contention of Eucken during the late 1930s through *Grundlagen*, cannot be interpreted as anything other than a vision of liberalism where a strong state would be mobilized to crush democratic forces whose activity disrupted market competition.¹⁰⁹

By the end of 1943, Eucken was turning his attention to the post-war world, and had in large part left his morphological studies behind (though *Grundlagen* would undergo six revised editions before his death in 1950). Eucken's shift in attention can be observed in the topics by the working group of Erwin von Beckerath, which by that year concentrated on the prospects for rebuilding the German economy in peacetime. Eucken's focus is initially, as a group with Franz Böhm, Constantin von Dietze, Adolf Lampe and Erich Preiser in September of 1943 and analysis of Keynes's proposal for the International Clearing Union and the foundation of the Bancor currency in November of that year. Regarding Keynes's proposals, not unsurprisingly, Eucken understood them as characterized by an "aspiration" to a centrally planned economy, notwithstanding a mixture of elements of an exchange economy. What set Keynes's proposals apart was the fact that it was, far from simply a technical currency instrument an extensive "world-economic regulation plan."¹¹⁰ Such an effort to shape the order of the world economy would necessarily require a comprehensive steering mechanism, and was

¹⁰⁹ Ralf Ptak, "Neoliberalism in Germany," in *The Road from Mont Pèlerin*, 114.

¹¹⁰ Walter Eucken, "Bemerkungen zum Währungsplan von Keynes" Referat Eucken 26.-28. November 1943, in Blumenberg-Lampe (ed.), *Der Weg in die Soziale Marktwirtschaft: Referate, Protokolle, Gutachten der Arbeitsgemeinschaft Erwin von Beckerath 1943-1947*, 272.

therefore less than ideal. But Eucken imagined that it was not in fact fatally flawed, and so as early as late 1943 was reconciled to some version of the Bretton Woods system as it began to emerge from the Anglophone world.¹¹¹

More than 1945, it is the year 1943 that marks the break in Eucken's thinking between a conservative-liberal Schmittianism and the re-orientation toward peacetime liberal regulation that was to take on the form of Christian Democracy finally in the post-war world. Eucken, along with his Freiburg colleagues Dietze, Dietrich Bonhoeffer, Lampe and others had at that time had also begun to develop a working group that produced the memorandum *Politische Gemeinschaftsordnung. Ein Versuch zur Selbstbesinnung des christlichen Gewissens in den politischen Nöten unserer Zeit* (Political Community Order: An Attempt at Contemplation of the Christian Conscience in the Political Troubles of Our Time), to which Eucken contributed *Wirtschafts- und Sozialordnung* (Science and Social Order).¹¹² Lüder Gerken has described this work as qualitatively of a part with the resistance against Hitler, and therefore the working-group meetings that were its basis took were highly risky, attracting the attention of the Gestapo.¹¹³ It should be mentioned, however, that at the time, Stackelberg's contributions to the Beckerath group signaled no departure from his NSDAP politics. Eucken's correspondence with Stackelberg continued during this period. In October of 1944, Eucken asked Stackelberg about lessons to be learned from the Spanish model.¹¹⁴ Stackelberg, for his part, writing from the German Embassy in Madrid, was disappointed that there was no properly national-economic

¹¹¹ Ibid., 274.

¹¹² Gerken, *Walter Eucken und Sein Werk*, 93-94.

¹¹³ Ibid., 95.

¹¹⁴ Stackelberg to Eucken 18. Januar 1944, Eucken Nachlass.

theory in Spain, and lamented that, under the influence of the German historical school, Spanish economics had hardly developed its own school from which German economists could learn lessons with an eye toward the post-war peace. On the other hand, its politics offered some promise. The journal *Revista de Estudios Políticos* included an excellent national-economic section. Founded out of the new political department at the University of Madrid, Stackelberg recommended the interdisciplinary journal to Eucken highly and invited him to collaborate with their editors. He also promised to include Beckerath, as well as Lampe, Dietze and others from the Freiburg circle.¹¹⁵ Indeed, it was through Beckerath that Stackelberg had heard of the Eucken's latest work, which he refers to as the "Freiburg lecture" — for which he attempted to solicit a draft version as a paper that could be published in Spain.

By 1944, Eucken began to imagine the post-war world, in all likelihood one where the Nazi forces had been defeated. Correspondence with Rüstow, Röpke and Hayek during after 1944 is written in an oppositional mode to the forces of the far-right, and anticipates the end of the Third Reich. Neo-liberalism was a diffuse social and intellectual movement, arrested by the war years and informed by patently non-liberal strains with which Eucken had unsuccessfully attempted convergence and symbiosis. In some ways, however, with the defeat of Nazism, Eucken's liberalism was liberated from the burden of this embarrassing recent admission to the anti-communist ideological arsenal. Under the Nazi regime, Eucken and his Freiburg colleagues were pressed—some more enthusiastically than others, it must be said, but still—into the economic service that was probably most unsuitable for their particular focus and innovations. A mixture of ethical and methodological speculation, Eucken's philosophy was at its most fecund and productive in an intellectual environment where it was set in opposition to historicism on the

¹¹⁵ Ibid.

one hand (at the register of method) and communism, politically, on the other. As wartime command-economic conditions subsided, Eucken was also well positioned to go on the ideological offensive, no longer forced to concede that, for the good of the nation, central planning, rationing and the great sins of the command economy could indeed be the indispensable judge of value, unmediated by the market. These wartime conditions had meant that Eucken was forced to twist his understanding of the free market in unexpected, but sometimes transparently instrumental apologies for the Nazi regime.

The crisis that beset the German economy in the immediate post-war period has been discussed at length elsewhere, but it must be emphasized that it was not until 1948 that the social market idea began to take hold. Inflation, geopolitical pressure from the occupying Russia forces and the Europe-wide strike wave threatened to undermine the liberal promise now from the left.¹¹⁶ This watershed year was also the defining emergence of neo-liberalism in Germany, on the heels of the first Mont Pèlerin Society meeting in 1947. Rather than defensive, the Society, heir to the Walter Lippmann Colloquium, should be seen as the first ideological-political shot fired against the successful workers' movement in the post-war period. Out of this meeting came conceptual touchstones of the neo-liberalism in Germany. Its influence over the Christian Democratic Party in the election year of 1948 was profound, and forms the prelude to the foundation of ordo-liberalism as a distinct political-economic tradition, tightly bound up with Adenauer's campaign of 1949.

¹¹⁶ See Robert Brenner, *The Economics of Global Turbulence* (London: Verso, 2006), 68.

Ordnungspolitik: Walter Eucken's Regulation Theory

Although the term “social market economy” as political slogan was coined by Alfred Müller-Armack in 1947, and only later picked up by CDU/CSU election in the summer of 1949, in one its election-year reports,¹¹⁷ as an economic concept, it must also be understood in relation to the more general term *Ordnungspolitik*, of which Eucken was a principal exponent. Together, the social market economy as regulative idea and the German tradition of *Ordnungspolitik* in modified form, form the touchstones of what was to become ordo-liberalism in the post-war period. Here, I would like to discuss this latter term. Closer study of social market economy as concept will appear in Chapter 5, which takes Müller-Armack's intellectual development as its focus.

The concept *Ordnungspolitik* is not unique to ordo-liberalism, but rather a standard sub-discipline within German economics with a lineage stretching back to cameralism. Literally “order-policy,” it translates into something approaching the English-language concept of an economic regulatory policy or governance. In the hands of the ordo-liberals, however, the semantic weight falls on economic order as a presupposition of political liberty,¹¹⁸ and this unique understanding of the concept is clearly evident in the manner in which the word appears in Eucken's milieu as he was fashioning his own contribution to the tradition. By the end of 1945 Eucken was employed as an expert adviser to the French military government in Baden-Baden, and worked, along with his Freiburg colleagues Dietze, and Lampe. The three worked at the time in advising the French occupiers on currency reform, the nationalization of private banks,

¹¹⁷ Tribe, *Strategies of Economic Order*, 204.

¹¹⁸ *Ibid.*, 212.

industrial concentration and decartelization.¹¹⁹ By the end of 1947, Eucken had become an official adviser in the economic advisory council whose report *Sanierung der deutschen Wirtschaft – Grundsätze eines wirtschaftspolitischen Sofortprogrammes* (Rehabilitation of the German Economy: Principles of an Immediate Economic Action Program) made its way directly to Ludwig Erhard.¹²⁰ At the time, Adolf Lampe of the Freiburger circle had proposed to Eucken and the Beckerath working group the founding of a journal in 1947 with the title *Wirtschaftsordnung*.¹²¹ The goal of this journal would be to supply a theoretical corollary to political praxis in the context of shaping a new German society out of the chaos of the immediate aftermath of the war. The orientation would be a theoretical formulation studying the failure of the private economies in the inter-war period, subjecting the concept of the economy to critical scientific scrutiny. This clearly had antecedents in the Freiburg tradition which at that point was at least a decade old in this particular articulation. The journal would relate the theoretical advances achieved during the Beckerath working group during the war year to end of shaping a new economic world. This would, above all, take place under the sign of a spiritual and social renewal, broadening the focus of methodological and epistemological discoveries.¹²² This meant that the Freiburg group founding the journal would work with commercial interests, firms and capitalists to address the practical conjunctural concerns, but at the same time it would balance these with the general interests of the class—its “overarching objectives.”¹²³

¹¹⁹ Gerken, *Walter Eucken und sein Werk*, 99.

¹²⁰ *Ibid.*, 100.

¹²¹ Lampe to Dietze and Eucken, 17. December 1946, Nachlass Eucken.

¹²² *Ibid.*

¹²³ *Ibid.*

Eucken's new focus on policy, not high political or economic theory, required can be seen most clearly in the formulation of his *Ordnungspolitik*. Grounded in a Christian ethics ("Ordnungsethik" in Hans Willgerodt's understanding)¹²⁴ of individual responsibility matched with an emphasis on market exchange, the new formulation took on a sober and self-styled realist (anti-utopian) perspective. Christian ethics worked at the level of the individual, ensuring a certain decency to the market exchange. This was not an idealized or even revolutionary proposal nor a call to arms as with the work of the 1920s. It was, rather, a moderating and placid conservative defense of commodity exchange to be arrived at through a sense of respect of individual and human worth. At the register of the individual, it meant above all a system which could assure the coordination of actors in a market economy by regulation of monopolies, without at the same time curtailing individual consumer choice.¹²⁵ The point was to devise a regulation of economic and the attendant state form appropriate to the task, that would not lead to the imposition of a direct steering mechanism of as in a command economy.

By 1948 Eucken had turned his attention to collaboration with Franz Böhm on the *Ordo Jahrbuch*, published continuously since the year of its founding. In his contribution to that inaugural volume, "Das Ordnungspolitische Problem," Eucken articulated the new practical aims of the journal's editorial orientation.¹²⁶ It set out the basic problem facing economics: the

¹²⁴ Hans Willgerodt, "Christliche Ethik und wirtschaftliche Wirklichkeit," Lüder Gerken, Joachim Starbatty, and Tadeusz Donocik, eds., *Schlesien auf dem Weg in die Europäische Union: Ordnungspolitik der Sozialen Marktwirtschaft und Christliche Gesellschaftslehre*, Marktwirtschaftliche Reformpolitik, Bd. 6 (Stuttgart: Lucius & Lucius, 2001), 106. Cf. Hans Willgerodt, *Werten und Wissen: Beiträge zur Politischen Ökonomie* (Stuttgart: Lucius & Lucius, 2011), 19-20.

¹²⁵ Walter Eucken, *Ordnungspolitik* (Münster: Lit Verlag, 1999), 10-11.

¹²⁶ During the immediate post-war period the founding of a journal aimed at a general-educated readership was a going concern of not just the Freiburg school ordo-liberals, but also Wilhelm Röpke,

qualitative transformation of economic life since the time of traditional small-scale production, and the difficulty in calculating human needs by direct estimation. Industrialization, in contrast to the “family economy of 30 heads” brought with it new demands for such mediation; where economic planning was conceivably efficient and just under small-scale production, it simply was unsustainable in a modern industrial economy.¹²⁷ This was not a new argument for Eucken. As the complexity of economic society grew, and with it productivity and the division of labor, the question stakes of attempting to impose upon it a steering mechanism grew higher. Should a politically decision be made to move toward developing and applying such a steering mechanism, it would have major social consequences since it would by necessity require a total process of social transformation and political coordination. Industrial economic life was objectively unified, but its participants were blind to the totality of social relations and took their cues from the prices, which signaled to each producer the necessary adjustments. This was what Eucken referred to as “the interdependence of all economic phenomena.” Eucken conceptualized this interdependence as an objective process, but one that could only be partially cognized by any given observer, and, at that, when perceived, never directly, without mediation.¹²⁸ Nothing in this argument was strictly new. Eucken had in fact posed the question of economic planning in this way since the mid-1930s, although, as discussed above, the Nazi period was more devoted to the

who living in exile in Geneva. As early as June 1945 Röpke had attempted to recruit Eucken to contribute to the polyglot journal *Occident*, planned as an international overview of the culture of liberalism, with an eye to its revival. It was to include contributions and editorial collaboration from Benedetto Croce, Eucken, Rüstow Luigi Einaudi and others, though disputes over finances doomed it. Letter from Röpke to Eucken .14. November, 1945, Nachlass Walter Eucken. See also Burgin, *The Great Persuasion*, 82-5 and Plickert, *Wandlungen des Neoliberalismus*, 127-32.

¹²⁷ Walter Eucken, “Das Ordnungspolitische Problem,” *ORDO: Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft* Bd. 1 (Opladen: Middelhaue Druckerei, 1948): 57.

¹²⁸ *Ibid.*, 63.

analytical morphology of market life than of the impossibility of planning. “Das Ordnungspolitische Problem” should, then, be seen as somewhat of a return to the arguments outlined in Eucken’s inter-war work, but now written at with the far greater clarity, distilling central claims into a series of numbered thesis-like paragraphs. Combined with Friedrich von Hayek’s “Wahrer und Falscher Individualismus” which preceded it in the same volume, the presentation was altogether a more potent and ambitious articulation. It was, at the same time, free of the intra-disciplinary squabbles on method that had concerned so much of Eucken’s polemics from the previous period of engagement with the so-called “steering” question.

The regulation theory Eucken developed in the inaugural volume of the *Ordo* journal, emphasized a this interdependence economic conditions above all else. Should a policy in the agricultural or any other sector tolerate monopoly conditions and concentration, for example, a cascading effect would determine the quality of the industrial sector:

The overall context of the economic process makes it necessary to see every economic policy act in connection with the general process and its governance [*Lenkung*], that is, with respect to the economic order. For example, foreign exchange legislation or regulation of price control can lead to novel steering methods for the distribution of raw materials, and therefore reshape the entire economic order.¹²⁹

The obverse held true: the same economic policy could have varied meaning based on the *overall* economic conditions. This is characteristic of Eucken’s thought: the general and specific are analyzed with respect to one another; the scientific determination of tendential qualities of the economic system as a totality was paramount, because it gave the best approximation of the likely effects of any local policy. If market conditions prevailed and price signal operated undistorted, for example, anti-cartel measures could be very effective indeed. But attempts at

¹²⁹ Eucken, “Das Ordnungspolitische Problem,” 65.

breaking up of the large cartels meant nothing if the distribution of goods in any sector were to be entrusted to a centralized office of the state. Qualitatively, the economy would function unchanged.

On what categories did Eucken's analysis rest, and what were the operative categories for distinguishing these tendencies? Eucken's basis of judgment concerned mainly the question of "economic power," as he put it [*wirtschaftliche Machtstellung*], which must be taken to mean a form of economic power that expressed itself politically as access or convergence with a state body. The implications for this approach were as follows: partial reforms either in one line or in one state office were insufficient for overcoming the steering problem. Eucken argued that many experts in 1948 believed in reforming agrarian policy or corporate law, or any other single branch in piecemeal fashion. But these were woefully insufficient given the totality of economic and political relations. The economic situation therefore called for far more thoroughgoing, fundamental measures to preserve the market economy and with it the operation price mechanism.

Because the steering problem was simultaneously economic and political in nature, Eucken was compelled to outline a theory of the state. Eucken's Weimar-era skepticism of parliamentary democratic procedure was now brought into conformity with emerging "democratic" consensus in the Allied occupied zones. Whereas Eucken's 1932 essay "Staatliche Strukturwandlungen und die Krisis des Kapitalismus" had resolved this question by recourse to a Schmittian vitalism and decisionism, now Eucken argued for a constitutional federal state of a highly decentralized character. The "modern state" defined by its "marked federal character"

[mit betont föderalistischem Charakter]¹³⁰ would in this sense displace democratic pressure onto a series of institutional mediations, and interrupt the tendency of politicization of economic life through constitutional means. Eucken had now transformed the role of the economic expert from the heroic figure rescuing science from historicism and relativism, into an apparently more moderate form. The wartime economy had compelled authorities toward building highly directed and centralized economic state. Given the danger of private concentration, the question presenting itself now in peacetime was how to avoid a return to the experiments in centralized economic planning on the one hand, and the accumulation of economic power among various interest groups on the other, with its likely destabilizing effects. The understanding of this double problem was described as follows in a series of lectures delivered at the London School of Economics in the spring of 1950, published a year later as *This Unsuccessful Age*:

Keynes and others thought that the ideal size of an organization unit of industry lay somewhere between the individual and the modern state, and that the recognition of semi-autonomous bodies within the framework of the state represented a step forward. He and others believed that these bodies or groups could work for the common good. German experience has not confirmed that hope... ‘group egoism’ tends to expand, because groups have power... their representatives struggle against other groups, and against the state, in the real or supposed interests of their own group. In the language of the economist there arises an antagonism of bilateral monopolies, in which only an unstable state of equilibrium tending towards disequilibrium is achieved. ‘Group anarchy’ – inter-group conflict – is the result. We have lived through a great deal of that in Germany.¹³¹

¹³⁰ Eucken, “Das Ordnungspolitische Problem,” 68.

¹³¹ Walter Eucken, *This Unsuccessful Age; or, The Pains of Economic Progress* (New York: Oxford University Press, 1952), 33-34. Eucken collapsed and died suddenly while delivering these lectures. The title of the work once published in book form was not found in his papers; it was likely assigned given by his widow, Edith Eucken Erdsiek. See Walter Oswalt, “Editorische Vorbemerkung,” in Walter Eucken, *Wirtschaftsmacht und Wirtschaftsordnung* (Berlin: Lit Verlag, 2012), 7.

The remedy for this tendency toward greater disequilibrium caused was the constitutional state to protect “individual rights and liberties” against “violation by fellow-citizens on the one hand and by the state on the other.”¹³² Because technical change opened the way to increased competition, and in fact entailed a state of future “perfect competition,” it provoked a reaction-formation from interested parties. Tariffs, import prohibition, control of foreign exchange holdings – these were “interested prohibitions” that reflected “a vast system of private and state measures designed to weaken or destroy the tendency towards perfect competition in the modern economy.”¹³³ Economic concentration (oligopoly and monopoly) was thus a legal and political process, not economic. Ad hoc responses were inadequate: what was needed was an “intelligent co-ordination of all economic and legal policy.”¹³⁴

When Eucken died suddenly of a heart attack at the age of 59 in 1950 while delivering a lecture at the London School of Economics, the prospects for a Germany, let alone a world constructed along ordo-liberal lines, would have been judged unlikely. Despite the policy victories of Adenauer’s currency reform in 1948 and the victories accorded to Erhard in the British-American bizon, the conjuncture reflected a highly open and indeterminate politics. It was not until the end of the decade that ordo-liberalism, a term which scarcely existed at the time of Eucken’s death, would come to dominate German economic thought. But it was not at the register of ideas that Eucken’s heirs and colleagues made their impact. Rather, it was in the field

¹³² Eucken, *This Unsuccessful Age; or, The Pains of Economic Progress*, 39.

¹³² *Ibid.*, 48.

¹³² *Ibid.*, 54.

of legal studies and in the legal formulations of Franz Böhm, who aimed to apply the lessons of Eucken's *Ordnungspolitik* to the new state bureaucracy of the Federal Republic.¹³⁵

¹³⁵ Eucken's posthumous *Grundsätze der Wirtschaftspolitik*, edited by his widow Edith Erdsiek and student Karl Paul Hansel, and first published in 1952, became the only systematic treatment of the two sides of his thinking, that of social, religious and cultural life on the one hand, and his theses on economic competition, published under his name. In it he addressed the social question, the extent to which the state might develop an active labor market policy, the importance of the church. See Walter Eucken, *Grundsätze der Wirtschaftspolitik* (Tübingen: Mohr Siebeck, 2004), 11, 16 for discussion of the social question and the consequences of "massification"; 316-7, 321 on social security and the dangers of full employment policy.

Chapter 2: Franz Böhm, Jurist of Economic Regulation

When Walter Eucken's student Leonhard Miksch (1901-1950) introduced Franz Böhm (1895-1977) at the Seelisberg meeting of the Mont Pèlerin Society in July of 1949, he reminded those gathered of the difficulty facing the newly-founded liberal international. Miksch, a bureaucrat in the British Occupied Zone and a close adviser to Ludwig Erhard since 1948, took a sober view of the return to a market economy across the capitalist world and in Germany. "We have achieved the abandonment of a few perfectly senseless corrupt and inefficient economic regulations and price controls," he conceded. But, "[w]e are still far removed from the market conditions of 1928 or even of 1914. I do not believe that we shall ever be able to reach them unless there is a very considerable strengthening and deepening of liberal ideas." What would this entail? Miksch put it frankly:

If we want more than this temporary re-establishment of the market, if we want a world economy in which liberty is permanently assured, in which private and public power is limited, in which the price system makes possible optimum production and a just distribution, then we must found liberalism all over again. We must moreover, specially emphasize the line of division between our liberalism and classical liberalism... We must think in long periods of time.¹

Miksch saw the main challenge as preserving the present "liberal reaction" (the term was used approvingly) through strengthening a failed "liberal economic constitution."² Natural order, and the corresponding natural law, was, as Miksch saw it, the raw material of a free society. As the

¹ Leonard Miksch, "Attempt of a Liberal Program," Nachlass Franz Böhm, ACDP Konrad-Adenauer-Stiftung I-236 055/7, p. 1.

² Ibid., 2

“expression of man’s original freedom” it was the substratum of a just society, but it was not sufficiently developed to be a moral order unto itself. This meant that the rule of law – law recodified “as the unified pre-condition of competitive order” should be the immediate political goal of liberalism. The unending and highly detailed political work necessary to bring this about, taking place at the register of economic policy, would have to be attempted through the imposition of a new legal framework.³

Böhm’s address, titled “Labour and Management” made clear that the political challenge of such a legal framework was in addressing the social incoherence engendered by class society. The class nature of contemporary German society, however, though indeed riven by contradiction, did not express itself through open class conflict. Rather, class society gave rise to a generalized inertia and parochialism. Each major class in Böhm’s schema, consumers, entrepreneurs and workers, was essentially conservative in its natural orientation. Consumers were “indolent” – objectively a social group but “nowhere in the world organised” as such.⁴ “Entrepreneurs,” meanwhile were in principle interested in a free economy, but had every interest in maintaining the “riskless affair” of monopolies and trusts. Under fully competitive conditions, entrepreneurs were paradoxically constrained as individuals by economic difficulties arising from an atomized and competitive position with respect to each other. A planned economy, or aspects of it, could therefore present an attractive alternative to firms where the risk of competition was too high.

³ Miksch: “Economic policy must therefore strive to create, by means of the legal framework, the conditions for complete competition.” Ibid., 4. Further discussion of Miksch as a major figure within the Freiburg School can be found in Nils Goldschmidt and Arnold Berndt, “Leonhard Miksch (1901-1950): A Forgotten Member of the Freiburg School,” *American Journal of Economics and Sociology*, Vol. 64, No. 4 (Oct., 2005): 973-998.

⁴ Franz Böhm, “Labour and Management,” Franz Böhm Nachlass, Konrad Adenauer Stiftung I-236 055/7, p. 1.

What of the worker? The working class's opposition to free competition was the result of an educational programme, in place since the end of the nineteenth century, which taught it "to be adversaries of the competitive order." Was such opposition necessary? Böhm thought not. This opposition, a product mainly of culture though surely with some economic source, was potentially reversible. It was true: a competitive order naturally put workers at a disadvantage compared to entrepreneurs and consumers, since "once the worker has made his contract he is subordinated to the entrepreneur and becomes the servant of an economic plan made by others"⁵ a condition experienced by no other class. At the same time, however, workers, precisely because they had been the forefront of efforts to plan economic life, and precisely because this had resulted in a monopoly-like conditions within the labor market, were the first to see its limitations. Because the labour movement "is proud of what it has achieved so far" rallying workers to embrace a "competitive order" ("an important and worthwhile task for the Mont Pèlerin Society") this overcoming would have to take place among individual workers, not workers as a class-conscious collectivity. Böhm stressed Eucken's argument regarding the progressive – that is, competition-enhancing – effects of technical change.⁶ Developments in communications technology and of "technical knowledge" had radically altered the capacity of *individual workers* to compete freely with each other on the market. They could therefore seek out better positions for themselves, should they make use of this technology to strike out on their own.

To this end, Böhm suggested that "the Mont Pèlerin Society one day should put forward concrete proposals" to create

⁵ Böhm, "Labour and Management," 1-2.

⁶ *Ibid.*, 3.

[A] “stock exchange like” [*sic*] transparency of the labour market and a “stock exchange like” [*sic*] mobility of the labour supply. They do not exist now. It is the task of the entrepreneur to continuously watch the commodity- and labour market. The worker however, as long as he works in a factory, cannot watch the markets. And it is in any case difficult for him to compare offers he may get, because the structure of wages in an enterprise is now more complicated than the structure of governmental salaries... Here lies a great task for the trade unions and here is a possibility to make the worker more favourably inclined towards the competitive order. In addition there is the problem how the worker can overcome his inhibitions to change his job and to move to some other place, inhibitions arising out of his love to [*sic*] his home town...

We must realise that if we want to restore a competitive order we must ask the workers to renounce what they have so far achieved, achievements of which they are very proud – such as their monopolistic position in the labour market, their rights to participate in the conduct of an enterprise, and the ideal of full employment.⁷

Where enticements of greater individual competitiveness did not suffice to sway the class, certain collective compensations could be offered. Workers, Böhm speculated, would not in fact undergo decomposition as a class; rather, codetermination rights won through collective action on the shop floor, once abolished to make way for a flexible mobile labor force, could be transferred to the state agencies charged with ensuring competition through legal means. Workers, now “strengthened as much as possible as individuals” in order to break up the monopoly of the labour markets, would find civic and cultural identification in these state bureaucracies.⁸

⁷ Böhm, “Labour and Management,” 3.

⁸ Ibid., 3. “If we try to convince the worker that it is not in his interest to tie himself to one enterprise, that therefore he should renounce largely his right to participate in its conduct and that he should insist on a maximum of mobility he will naturally ask: How can we as workers exercise any influence on the competitive order? I believe there is room for active participation of the workers in the competitive order. The workers should be asked to take part in the tasks which the establishment and the preservation of a competitive order present i.e. the control of monopolies, the legislation relating to commercial policy,

As the foregoing remarks demonstrate, Böhm's objection to the political power of monopolies and cartels in 1949 contained within it a theory of social change and of a frankly transformational, even utopian vision for a renewed liberal society. As a colleague of Eucken's, Böhm is often remembered as a jurist specializing in ant-cartel law. Indeed, as a political official who served in both the Weimar and BRD legislative bodies (from 1953 until 1965). Beginning in 1949, Böhm was one of the central political actors instrumental in drafting the legislation that eventually became the charter of the Federal Anti-Cartel office (*Bundeskartellamt*). The legislation, originally known as the Josten Draft, circulated first within the CDU, and in 1958, in somewhat diluted form, finally overcame lobbying by major industrial powers.⁹ But Böhm's conceptualization of competition was counter-intuitive. It was far more broadly cast than the traditional anti-trust viewpoint of American progressivism, in that it included trade unions – “labor market monopolies” – as a target for dismantlement. It simultaneously understood the working class as the key agent in transforming a disorganized, riven society into a neo-liberal (or renewed liberal) competitive order. This was political as much as economic. Constituting the majority, the working class was to be integrated into the competitive order successfully, or there would be no competitive order at all. As with his Freiburg colleagues, especially Eucken, Böhm understood the cultivation of economic competition as the primary political task, but to the end of an ultimate depoliticization of working-class consciousness, and the integration of the class

patents, taxes and the like, in short in all activities required for the establishment and preservation of conditions which must be fulfilled if the competitive order is to function adequately.”

⁹ David J. Gerber, *Law and Competition in Twentieth Century Europe*, (Oxford: Oxford University Press, 2003), 264; 276-277. See also Niels Hansen, *Franz Böhm mit Ricarda Huch: Zwei Ware Patrioten* (Düsseldorf: Droste Verlag, 2009), 264-8.

into the neutralized bureaucracy which was to oversee the separation of economic and political spheres.

Böhm understood this type of society to be a “private law society.”¹⁰ How did Böhm come to develop his theory of juridical separation of economics and politics? Forthrightly a political endeavor, where did it find its ultimate legitimacy (*iura dominationis*)? It will be argued here that Böhm’s major intellectual achievement is to have articulated a sophisticated political vision of institutions designed to regulate capitalism through law.

From Private Power to the Private Law Society

Franz Böhm’s 1928 article “Das Problem der privaten Macht” – The Problem of Private Power – originally published in the journal *Justiz*, set out to tackle the problem of monopoly power and its distorting constitutional-legal effects.¹¹ “Das Problem der Privaten Macht” began from the starting point set forth by the apparent political-economic problem the necessity of monopolies. Böhm understood that monopolies often presented themselves in the first degree a matter of technical necessity, unavoidable side-effects of technological change and development. Such ideas, argued by contemporaries Herbert von Beckerath in his 1928 work “Reparationsagent und Deutsche Wirtschaftspolitik.” This prevailing view, according to Böhm, simply held that the natural monopolies must be tolerated, given the risk to a total reordering of society should any legal meddling occur. Böhm argued, on the contrary, for a plan for legal

¹⁰ See Franz Böhm, “Rule of Law in a Market Economy,” in Alan Peacock and Hans Wilgerodt (eds.), *Germany's Social Market Economy: Origins and Evolution*, (London: Macmillan, 1989), 46-67.

¹¹ Franz Böhm, “Das Problem der privaten Macht,” in Ernst-Joachim Mestmäcker (ed.) *Franz Böhm: Reden und Schriften* (Karlsruhe: Verlag C.F. Müller, 1960), 25.

intervention, calling for a halt to the neglect of cartel regulation then prevailing in German jurisprudence. Because the existing jurisdiction of the state in the Weimar period extended recognized only the contract-relation between private trusts and the state, it could not adequately face the macro-economic problem posed by the existence of monopolies. Böhm understood the imperative as preserving a exchange predicated on private property. The intervention of the state in regulating exchange was suspect: it was seen by its opponents as imposing civil and penal sanctions on the objective workings of free trade. While Böhm clearly understood these suspicions and perhaps even sympathized with them, he was opposed in precisely on these grounds to limiting the state's capacity to intervene at an economic level, given the dangers posed by high levels of economic concentration.

Under ideal conditions, each exchange in a market economy would be a contract between two individuals. Böhm's contention was that positions of power within the exchange economy must be understood as themselves embedded in relations whose dynamic positions of power must be were politically inflected. Monopolies by definition make it effectively impossible for trading partners to find better offers outside the circuits of the monopolistic firms, and the main outcome in the aggregate is to hit at the capacity for improving output and productivity. This effect, Böhm wrote, "is not the offering of advantage, but rather the infliction of disadvantage."¹² The state of jurisprudence recognized this destructive tendency of monopolies, and generally prohibited them when they could be shown to have no necessary purpose; they were "immoral" or the relation between their means and ends was not justifiable. Such general, broad consensus recognized the capacity for monopolies to have a deleterious effect on the general condition of economic life.

¹² Böhm, "Das Problem der privaten Macht," 29.

However, Böhm was not satisfied with merely regulating the growth of monopolies as they occurred sporadically in various lines. He proposed in fact a general legal theory to comprehend the level to which the monopolies themselves, not simply their capacity to extract coercive exchanges, could be tolerated in a liberal economic order. Böhm's conceptualization took a general view: the "general and important question of law," he wrote, had not been given anywhere near the exhaustive and systematic treatment required.¹³ In terms of discipline, it lay not only on the border between political economy and jurisprudence, but more also between private and public law. What was this general, important question? Böhm understood it to be private power and private coercion on a large scale.¹⁴

Private power and the capacity for private individuals to forge contracts was a fundamental good that should be protected at all costs. It was in essence the basis of the free market society Böhm thought was under threat everywhere. But as a general good, private law related itself structurally to questions of public order and constitutional law.¹⁵ This was because, in addition to the narrow good of preserving the relative equality of private actors in the process of exchange against the deleterious economic effects of monopoly power, such power also set itself above the ordinary processes of civil law and the exercise of state power more generally.

¹³ Böhm, "Das Problem der privaten Macht," 31.

¹⁴ *Ibid.*, 31.

¹⁵ In this sense Böhm's discussion of the *Gesetz* at this early date reflects the contemporary observations of Carl Schmitt. With respect to the nature of *Lex Fundamentalis* or the term "Basic Law," Schmitt held that among its several meanings, it was a "unified principle of political unity of the entire order." Emphasis on the idea of unity "stands out" when "consciousness of political existence" becomes "vibrant again." There is no doubt that Böhm, in his work on private power, is posing the very political question of interpreting the general will and the unity of the entire order, which would necessarily include the concept of the regulation of the state's jurisdiction as well as the articulation of its limitations. Schmitt's work on this concept also was published first in 1928. See Carl Schmitt, *Constitutional Theory* (Durham and London: Duke University Press, 2008), 94-95.

Exchange relations between “economic power-holders” and private actors could not but be understood as a form of the exertion of force of the former over the latter, with only the minimal appearance of consent. Such transactions constituted a form of formal freely-negotiated legal contracts that in actuality concealed a fundamental unfreedom. Such an impasse shaped the basis of a society, and so reorganized its character. It therefore became a question, not just of statute or of economics, but of justice.

The only social institution capable of matching the scale of the problem – political power as a general problem derived from market concentration – would be the state. Rationale for the state authority for combatting monopoly power at this foundational level could be found in something analogous to a basic legal principle, as Böhm put it: a *Rechtsgrundsatz*.¹⁶ This principle could be articulated as *jus publicum privatorum pactis mutari nequit* (“the right of the public cannot be changed by private agreement”). And such a principle constituted part of the state’s sovereign right. Since the growth of monopolies, sovereignty had devolved to private traders, and the result was a something close to constitutional crisis, or anarchy. The point was that public legal foundations were necessary to protect the security of private actors, and to maintain a framework of public economic order against the threat of practices tantamount to anarchy, where privileged traders, like medieval guilds before them, wrested political power from the rightful sovereign. This type of state intervention, then, would not be in contradiction with the principle against standing intervention in free trade; rather, it was the obverse: it was

¹⁶ Böhm, “Das Problem der privaten Macht,” 39.

“an intervention to protect freedom of trade, and an intervention which the state was not only allowed, but obliged, to make.”¹⁷

Böhm thought a campaign within the sphere of the juridical, designed to illuminate the sovereign right of the state to protect private exchange could very well have an effect of transforming the legal viewpoint necessary to bring about a political transformation, and thereby a new orientation of the state with respect to economic power. Ultimately, Böhm took the major theoretical risk of arguing that economic power, in the form of market concentration and monopoly control, should now be cast as a political rival. Answering the question of monopoly would thus simultaneously answer the question of the composition and identity of the sovereign itself. Far from a mere scholastic question of political theory, however, the question was posed with an eye to the practical realities of life in the Weimar Republic. Böhm addressed a deficiency in democratic and republican constitutional theories, holding that they had underestimated extra-parliamentary power. Although Böhm shared the basic assumption of republican and liberal social contract theories that the rights of private individuals formed the basis of the major worthy innovations in the West, he underscored at the same time the contradictions entailed by the restriction of the state, as implied or directly stated in such formulations. A free society based on freely contracting individuals could experience two main types of threats to its constitutional order: an “overextension of the legislature” on the one hand, or a danger arising within the private sphere itself, namely in the economy.¹⁸

¹⁷ Böhm, “Das Problem der privaten Macht,” 41.

¹⁸ This was a view Böhm was to hold consistently well into the years of the Bonn Republic. Cf. Franz Böhm, “Democracy and Economic Power” in Institut für ausländisches und internationales Wirtschaftsrecht, ed., *Kartelle und Monopole im Modernen Recht* (Karlsruhe: Verlag C.F. Müller, 1961), 35.

Since 1925, Böhm had served as an adviser to Kartellabteilung of the Reichswirtschaftsministeriums in Berlin.¹⁹ Theoretical contributions on the question of political sovereignty and economic power could therefore be seen as a direct expression of the contradictions then manifested within the bureaucratic structures charged with redressing the injuries caused by monopoly power. But Böhm's approach to the "problem of private power" signified a more ambitious remaking of the state, and was a clearly brilliant formulation unrestrained by the typical imperatives of bureaucratic logic. Indeed, it shared in some sense the ambition of a radical critique of political economy, in that it aimed to expose the political composition of so many private economic transactions, even theorizing the extent to which the state's own conduct would reflect these social relations. However, the political orientation and aims of Böhm's analysis set off in the opposite direction, taking the internal contradictions of capital accumulation – and the political meaning of "purely" economic power – as a theoretical basis for the preservation of capitalist social property relations, and the renewal of a liberal order.²⁰ In the assertion of a law-giving sphere outside of the legislature which nevertheless

¹⁹ Niels Hansen, *Franz Böhm mit Ricarda Huch: Zwei Wahre Patrioten* (Düsseldorf: Drosten, 2009), 25. In fact Böhm knew and worked with Alexander Rüstow, then a lobbyist, during this time.

²⁰ Indeed, the overlap of Böhm's perspective with a radical critique of capitalism constituted an intellectual convergence of some moment. From 1950-1969, Böhm was the Chairman of the Supervisory Board at the Institut für Sozialforschung in Frankfurt. He wrote, in his later life, of competing visions of a market economy, one of the Left and one of the Right as the possibly "only way of bringing about an effectively...working market economy." In 1971, on the occasion of the death of Friedrich Pollock, assistant director of the Institut für Sozialforschung, Böhm wrote movingly to the Institute's director, Max Horkheimer, of the "mutual theoretical controversy that constituted the point of departure of our thought." For further discussion of these themes, see Hermann Kocyba "Die 'Eigenartige Nachbarschaft' von Ordoliberalismus und Frankfurter Schule: Michel Foucault über das 'Deutsche Modell'" i-lex, 21, 2014: 75-95 (<http://www.i-lex.it>). For the above quotations, see Franz Böhm, "The Market Economy and Socialism" in Wolfgang Stützel, Christian Watrin, Hans Willgerodt, Karl Hohmann, eds., *Standard Texts on the*

issued its judgments to the end of preserving a republican form, Böhm's theoretical viewpoint shared much with Schmitt's contemporary understanding of Machiavelli's dictator from the latter's *Discourses on Livy*. The people were essentially irrational, in Schmitt's reading of Machiavelli, so that reason "cannot negotiate...or forge contracts." Rather – and in this it was in accordance with Aristotelian scholasticism and Renaissance Platonism, reason "does not argue; it dictates."²¹ The isomorphism here is suggestive, but Böhm is not so decisive as Schmitt's Machiavelli, since the decision in Böhm is displaced back onto the market processes which in the last instance are responsible for dictating the general course of action in society. In this respect, already in 1928, we see the core legal theory underpinning Böhm's work. Extra-parliamentary powers work to preserve the republican form through political action exempt from an existing constitution. Such offices of state would be capable of intervening to reshape the parameters of private power as a legitimate expression of state sovereignty, and in the name of the private individual. Furthermore, although economic transactions are understood as transparently political in nature, and so any effort to regulate them will itself be a political act, the expression of political reason is not found in the decisions of these officeholders themselves directly. Rather, those offices of the state capable of reducing concentrated economic power simply preserve the

Social Market Economy: Two Centuries of Discussion (Stuttgart: Gustav Fischer, 1982), 365; See also Böhm to Horkheimer, 19. Feb. 1971, Nachlass Franz Böhm ACDP, I-200-00 1/4.

²¹ Carl Schmitt, *Dictatorship* (Cambridge: Polity, 2014), 7. Böhm's understanding of the role of officials to set the limits on economic power through regulation likely would qualify, in Schmitt's understanding, as a power analogous to commissarial dictatorship, as derived from Jean Bodin's concept. In his preface to *Dictatorship*, Schmitt refers approvingly to Böhm and Eucken's Freiburg colleague Erwin von Beckerath as having written a "clear and prudent book" (*Wesen und Werden des faschischichtischen Staates*, 1927) offering a prognosis on the growing appeal of an "authoritarian state." See Schmitt, *Dictatorship*, xxxv. It should be noted that Beckerath was later a key figure in the wartime formulation of what was to become ordo-liberalism. By 1943, Böhm, Eucken and Stackelberg (the latter had habilitated under Beckerath) were attending the so-called *Arbeitsgemeinschaft Erwin von Beckerath*, an outgrowth of the *Klasse IV* advisory branch of the *Akademie für Deutsches Recht* which persisted after the official advisory committee had been disbanded.

economic free exchange on the market. It is therefore the market itself, under the right conditions given by the state, which will constitute the articulate expression of reason.

By the end of 1931, Böhm left his government position to write a dissertation in Freiburg, where he would become one of the key figures of Eucken's Freiburg school. He received his doctorate in 1933 for a dissertation on "Der Kampf des Monopolisten gegen den Außenseiter als wettbewerbsrechtliches Problem" (The Struggle of the Monopolist against the Outsider as Competition Problem) and within the year had composed a Habilitation under the direction of Hans Großmann-Doerth: *Wettbewerb und Monopolkampf* (Competition and Monopoly Struggle), his first significant book-length work.²²

At Freiburg and Jena, Under the Third Reich

Böhm's arrival in Freiburg in the fall of 1931 marked the beginning of the first systematic investigation into the state theory and jurisprudence capable of understanding the mechanisms of competition and monopoly, and their political upshots. Roughly contemporary with Eucken's "Staatliche Strukturwandlungen und die Krisis des Kapitalismus" and Rüstow's address "Freie Wirtschaft—Starker Staat" at the Verein für Socialpolitik, the fruit of his work, *Wettbewerb und Monopolkampf* was the first major articulation of what was to become the ordoliberal position on monopolies and the state's relation to the market. Its significance for the group was twofold. First, Böhm's study deepened and radicalized the critique of the state that had already been proposed by Rüstow and Eucken. The former will be discussed in a subsequent chapter, but we have already seen how Eucken's work until 1932 was mainly methodologically and morally driven. "Staatliche Strukturwandlungen und die Krisis des Kapitalismus" was the

²² Hansen, *Franz Böhm mit Ricarda Huch*, 38-39.

essay form of an attempt at a theory of state, though it was hardly as comprehensive as Böhm's 1933 work. Böhm's study, unlike Eucken's, exposed the concrete limits of a democratic state that had attempted to control cartels and monopolies since 1923, when cartels were placed under state supervision. The unintended outcome was that the number of cartels in fact increased to 2,500. The lesson Böhm drew from this was that partial attempts to regulate the behavior of cartels and monopolies was not only insufficient, it was irrelevant to the question of the political power such entities could have over both a government as an independent social force.²³

Secondly, Böhm's 1933 study functioned as a touchstone for the legal-constitutional approach that was essential to the Freiburg school framework of political problems. The Freiburg school, over the course of the 1930s, developed in part as a coherent legal advisory group under the *Akademie für Deutsches Recht*. Böhm's critical analysis of the constitutional implications of economic power constituted therefore a theoretical pillar for the group as a whole. In the post-war period, the practical consequences of the Freiburg group's theorizations were immediately made clear in the period in which the British-American bizonal administration was staffed by its proponents, including Böhm himself. During the 1930s, Eucken and Großmann-Doerth learned from Böhm the importance of the legal limitations on monopoly power, and the interpenetration of legal, political and economic spheres.

The Freiburg years of the 1930s through the early 1940s also constitute the basis of much of what was to become the ordo-liberal self-presentation as a liberal outpost resisting the Nazi state. Some of this is surely based upon Böhm's experiences during the period, when he was hounded out of his teaching post in Jena in 1938 after denouncing the Nuremberg laws, put on

²³ A.J. Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany, 1918-1963* (Oxford: Clarendon Press, 1994), 46.

trial, and then banned from teaching in 1940. Organizing on his behalf was a going concern of the Freiburg group after this date, and Böhm in fact voiced reservations in a long letter to Eucken about the political trajectory of Carl Schmitt and Heidegger.²⁴ This is his only mention of Schmitt in this correspondence.

The Freiburg phase of Böhm's career signaled a retreat from the daily political practice of the regulation of cartels within the Economics Ministry, but produced the first monograph-length work to emerge within the Freiburg circle. Böhm's work during this time was divided into two major projects, one, a sober analytical *Habilitationschrift* which proposed the systematic reorganization of the constitutional order, and upon departing for Jena in 1937, a shorter and more pungent political intervention into the same political-economic problem. These two major texts, *Wettbewerb und Monopolkampf* (1933) and *Ordnung der Wirtschaft* (1937) are permeated by such political and categorical ambiguities, which may explain the perhaps unexpected polemics and sanction they received from opposite ends of the political spectrum. *Wettbewerb und Monopolkampf* proceeded thematically, taking stock of the forms and degrees of existing competition and monopolies existing under capitalism, considering the subjective goals of competition and monopoly, before passing over into the legal formulations of competition, and then finally considerations on the constitutional order that might be constructed to guarantee an economic system of market exchange. Its main contemporary theoretical sources are Schmitt's *Verfassungslehre*, Eucken's "Staatliche Strukturwandlungen," Rüstow's "Der Weg durch Weltkrise und Deutsche Krise" and Heinrich Kronstein's work on trusts. Austrians, whether of the generation of Eugen Böhm-Bawerk, Carl Menger, or of Böhm's rough contemporaries Ludwig von Mises and Hayek, go unmentioned, as do Stanley Jevons, Léon Walras, and Alfred

²⁴ Franz Böhm to Walter Eucken, 17. December 1940. Nachlass Walter Eucken.

Marshall.²⁵ One major effect of the study was to underscore the structural necessity of competition to any functioning capitalist economy. But a structure of competition is fundamental for Böhm throughout for what he calls its “psychological mechanism.” In other words, Böhm’s account frankly begins with the subjective component of competition. Its immediate effect was to render individuals economically powerless, and was therefore a “psychological predicament.”²⁶ Here one finds the essential motive for solidarity in capitalism: it is a reaction-formation against the political powerlessness of a competitive society. This is one of the tendencies of a competitive market order, according to Böhm, but it must be understood that in the upshot of such competition is the prosperity for the “wider masses” as well as capitalists.²⁷ Given the competitive pressures driving the accumulation of capital, and capital searches for higher productivity, competition therefore ultimately leads to rising wages. It for this reason that Böhm inveighs against the socialist critique, recapitulating Smith’s contention that through expanding economic activity and increasing economic progress [*zunehmenden Wirtschaftsfortschritt*], the yield on capital would in fact sink, while workers’ wages and ground rent would rise clearly to the benefit of peasants and workers. In other words, Marx was

²⁵ This was in a sense against the grain of the intellectual trends in Germany in the inter-war period. Alexander Nützenadel has noted that beginning in the first decade of the twentieth Century, the importation of marginalist and formalist economic theories or their precursors formed an “important indication” of a new awakening in German economics. This included the translation of Antoine Cournot, Enrico Barone and Jevons. It is therefore curious that in Böhm’s *Wettbewerb und Monopolkampf*, which makes so much of the subjective factors in economic valuation and obviously of the significance monopoly, duopoly and oligopoly formations, Cournot is nowhere mentioned, nor are the marginalists, whether they would be German language sources in translation or indeed the Austrian contingent of this movement. Alexander Nützenadel, *Stunde der Ökonomen: Wissenschaft, Politik und Expertenkultur in der Bundesrepublik 1949-1974* (Göttingen: Vandenhoeck & Ruprecht), 45.

²⁶ Franz Böhm, *Wettbewerb Und Monopolkampf: Eine Untersuchung Zur Frage Des Wirtschaftlichen Kampfrechts Und Zur Frage Der Rechtlichen Struktur Der Geltenden Wirtschaftsordnung* (Berlin: Carl Heymanns Verlag, 1933), 20.

²⁷ *Ibid.*, 23.

mistaken, Böhm argued, because he had understood development of free economic exchange as benefiting principally industrial capital, when the opposite tendency was observed.²⁸

Böhm took the problem of competition through its various historical iterations: it is a problem probably as old as economic life itself, he argues, but competition and private power do have distinct phases of development and a morphology. Economic power had always been recognized as a danger, but at least since the middle ages through the modern period, it was regulated according to traditional values:

In medieval and modern economic history, until the introduction of free trade, the system of monopolized productive primacy was modified through prevailing principles of moderate government control and a limited freedom of consumer choices. In the heyday of this economic period the danger of degenerating principles and of antagonism was mitigated by the spirit of tradition and a patriarchal community life. In the masses, however, when this spirit began to weaken, the system declined into ossification and dissolution.²⁹

The breakdown of this order had resulted in the long upswing of mercantilism, a system based on state privilege. But the declining productivity and dynamism of this system was met by a powerful opposition movement, beginning with the physiocrats in France (Quesnay) and the flowering of classical political economy in Scotland and Manchester. They were the first to

²⁸ Böhm's misreading of Marx is without reference to any particular passage (as is, likewise, his reference to Smith). It is perhaps the case that Böhm here was referring Chapter 32 of the *Capital Volume I*, "The Historical Tendency of Capitalist Accumulation," which, far from predicting a long-term tendential benefit to industrial capital derived from technical change and accumulation, articulates rather a contradictory movement, whereby, along with greater concentration, "the economizing of all means of production" yields the socialization of labor, still amidst capitalist social-property relations. See Karl Marx, *Capital: A Critique of Political Economy Volume One*, trans. Ben Fowkes (London: Penguin Books in association with New Left Review, 1976), 928-929.

²⁹ Böhm, *Wettbewerb und Monopolkampf*, 97.

support an alternative system, the free market system. The lesson to be drawn from the birth of political economy in the eighteenth century was that “all the large economic states of the Earth, within a short interval, had introduced what had hitherto been a secondary principle, the principle of competition, and raised it to the primary principle of economic order.”³⁰ This was a principle Böhm took to mean as follows: a combination of the principle of radical powerlessness of producers in the market, and the principle of radical sovereignty of producers in firms. This principle should not be misrecognized, in other words, as a claim about the equivalence of natural law and economic life. Such a misconceptualization of the basic meaning of free exchange was perhaps forgivable on a traditional small scale economy of direct producers or small markets where traders knew each other by name and reputation. The modern period, however, defined by anonymous exchange, required something else to enforce this basic principle: a strong state authority.³¹

Once this economic-historical background had been rehearsed, it remained to transpose given impasse into legal terms. Without a groundwork of a competitive order built into jurisprudence as a central political-economic precept, specifying a freedom of exchange and the free mobility of property – but above all protecting against the degeneration of competition itself – Europe would be faced with two alternatives. Either the economy would be ordered by competition directly, or it would be ordered by society. Böhm was however clear that a society ordered by competition without an economic constitution supporting it would lead to disorder or economic chaos. This was the present condition in Europe, he argued; in Russia, a dictatorship had emerged corresponding with the conceptualization of an economy “ordered by society.” But

³⁰ Böhm, *Wettbewerb und Monopolkampf*, 101.

³¹ *Ibid.*, 103.

the Russian dictatorship intervened directly in economic matters as a “state-guided economic dictatorship,” while in Europe the familiar battles of interest groups set it on a course of socially destructive indecision, neutralization and “naked individualism.” Under such conditions, the principle enshrined in Section 826 of the *Bürgerliches Gesetzbuch* (the Civil Code), specifying the liability of private persons who cause “damage contrary to public policy,” clearly indicated the legitimate role of the state in acting to defend economic order against any usurpation by private power. Böhm argued this constituted a general principle, together with the existing unfair competition law, *Gesetz gegen den unlauteren Wettbewerb* (UWB), and that these together indicated that the kind of constitutional question envisioned by Carl Schmitt in his *Verfassungslehre* applied to the economic question of a competitive society and of monopoly power. These were latent meanings of the law with respect to the functions of the state which constituted something far more fundamental than a “specialized domain” of the law:

In actuality, however, it does not concern a special procedure, but rather a new law. The introduction of freedom of trade is an act of solemn constitutional and constitutionally historic meaning; it initiated an era of economic life that – far from propelling it to an imminent end – is still in its first beginnings with all crises typically found of an early period.

From the perspective of constitutional law, the system concerns itself with economic freedom regarding a constitution of economic life in the positive sense; the introduction of this system means consequently a “total decision” over the type and form of economic-social cooperative processes in the same sense in which Carl Schmitt designates the state constitution as a “total decision over the type and form of political unity.”³²

³² Böhm, *Wettbewerb und Monopolkampf*, 107.

As can be seen from the foregoing, Böhm read the legal mechanisms of the German Civil Code as drafted at the end of the nineteenth century as lending themselves to the type of dictatorial or “constitution-making” powers Schmitt had analyzed in his *Verfassungslehre* and *Diktatur*. Although Böhm does not specify the typology of dictatorship, whether it would be commissarial or sovereign, the text remains ambiguous, using Schmitt’s schema. This is because Schmitt understood commissarial dictatorship as delimited in advance. Yet Germany had only recently passed through a period of post-revolutionary “sovereign dictatorship,” according to Schmitt: a dictatorship of the National Assembly after the February constitution of 1919 (operating under the “provisional Reich constitution.” Because the National Assembly, though elected democratically, faced no restrictions on its decision-making capacity, “it could have changed and violated” this provisional constitution “through a simple majority.”³³ Furthermore, because it was the “sole constitutional magistrate of political unity and the only representative of the state” unlimited by separation of powers, without any framework of constitutional norms binding it, the National Assembly was not a commissarial but a sovereign dictatorship.³⁴ Since the dissolution of the National Assembly in the summer of 1919, however, Schmitt noted that [t]here was now...only a Reichstag grounded on the new constitution with jurisdictional areas that were regulated and limited constitutionally.³⁵ Under this new condition, the constitution-making power now rested with the German people as a nation.

To recapitulate these crucial passages: Böhm drew a strict typology of the two types of economic systems reigning in the world – a Soviet state-guided economic dictatorship and the

³³ Schmitt, *Constitutional Theory*, 109.

³⁴ *Ibid.*, 110.

³⁵ Böhm, *Wettbewerb und Monopolkampf*, 110.

disordered, rapidly degenerating naked individualism of competing interest groups in the rest of Europe. He followed this schema with a discussion of the legal basis for public intervention against private power. These elements of the German legal code form the background to Böhm's reading of Schmitt. Here, Böhm's presentation of Schmitt would seem to diverge from the author: given the civil code, it would seem that delimited power of the defense of order, in the public interest, is left an open question, according to Böhm. This can only be understood as the conceptual basis for the type of commissarial dictatorship Schmitt rejected as a possibility in his *Verfassungslehre* after Weimar Constitution of August 1919 came into existence. In contrast with Schmitt, Böhm appears to be arguing that, not only would such a commissarial power be desirable, but it would have a basis in the existing civil code.

What of Böhm's commentary on the charged immediate political context in which *Wettbewerb und Monopolkampf* appeared in 1933? In his foreword to the volume, Böhm noted that the purpose of the text would be to approach the task from a mixture of legal and national-economic or political-economic perspectives, in order to "translate the doctrine of classical economic philosophy out of the language of political economy and into the language of law."³⁶ But the promise of such a purely scientific endeavor did not mean that, as with ordo-liberal outlook generally, *Wettbewerb und Monopolkampf* would shrink from its political task. It is a profoundly political book, relayed as a theoretical contribution to the restoration of order in the aftermath of a decade-long economic and social crisis which has threatened the legitimacy of the ruling powers. The "social and moral accusations against the capitalist...or liberal, individualistic economy," when met with the tactical responses given by various interest groups

³⁶ Böhm, *Wettbewerb und Monopolkampf*, IX. See also Nützenadel, *Stunde der Ökonomen*, 43.

in the context of the whole economy, Böhm wrote, had an effect “not much different than if one lashed the sea.” Various such measures, he continued, sometimes may have surprising results, but the economy always responded in a “more or less laconic manner.”³⁷ The point of his study was to provide an account of not only the underlying causes of this worrisome phenomenon, but also to afford economic policy some alternative to the two customary paths between which it normally was forced to choose: that of a planned economy on the one hand, or of ceding its ground to the legally-legitimized sphere of the extra-political and extra-state forces of a pure “economic mechanism.”³⁸ Böhm sought an upheaval in the approach to jurisprudence on this count. It still bore the imprint of the physiocratic imperative that “natural law should account for state law.” He lamented the fact that over seventy years had elapsed since the legislative act proclaiming “commercial freedom” along these principles, and yet jurisprudential debate had scarcely paused to consider the whether such a simplistic foundation for relating the state to social and economic was still in fact valid.³⁹ Böhm contended that it was precisely under this juridical paradigm that a complete degeneration of the legal-political establishment’s relation to the economic sphere had taken place. Conceding that the book was composed in a period before the recent “upheaval” (as he described the *Machtergreifung*) of 1933, Böhm nevertheless saw the Nazi seizure of power as an event that qualified as a “commencement” [*Inangriffnahme*] of a corporative economic constitution. His characterization was optimistic: discussions of the corporate state in recent years, including that found in the Pope Pius XI’s encyclical

³⁷ Böhm, *Wettbewerb und Monopolkampf*, VIII.

³⁸ *Ibid.*, VIII.

³⁹ Böhm, *Wettbewerb und Monopolkampf*, X.

quadragesimo anno “On the Reconstruction of the Social Order” of 1931, offered a promising new orientation for economic organization. This new model of the corporate state, Böhm emphasized, was reflected in *Wettbewerb und Monopolkampf*, since it was at once clearly hostile to the Left but at the same time recognized the dangers of concentrated economic power.⁴⁰ The experience of the previous decade had demonstrated that interest groups and economic associations had learned to build up their ideological and political power, and had often done so under the flag of “liberal entrepreneurial freedom.” Such was the case with even the best ideas, as with the corporate state, which Böhm tentatively embraced. Reordering the position of the state vis-à-vis the cartels would require a kind of political struggle against the tendency interest groups and associations in the private sphere. Of the Nazi state itself and its organization, Böhm was hardly reluctant to anticipate with some enthusiasm its possibilities. Although the hard core of the party ideology had its deleterious effects, “rending the people...destroying its feelings of attachment” and its creativity, on the trade organization side, much was praiseworthy. Here, the occupational structure organized each “national comrade [*Volksgenossen*] at the natural...point in the colorfully-grouped unity” and “offered its capacity in the service of the state and nation.”

⁴⁰ Pius XI’s encyclical, “On Reconstruction of the Social Order,” which Böhm cites approvingly, recommended the “founding of a civil authority...as a juridical personality in such a manner as to confer on it simultaneously a certain monopoly-privilege.” It continued: “Anyone who gives even slight attention to the matter will easily see what are the obvious advantages in the system We have thus summarily described: The various classes work together peacefully, socialist organizations and their activities are repressed, and a special magistracy exercises a governing authority... We are compelled to say that to Our certain knowledge there are not wanting some who fear that the State, instead of confining itself as it ought to the furnishing of necessary and adequate assistance, is substituting itself for free activity; that the new syndical and corporative order savors too much of an involved and political system of administration; and that (in spite of those more general advantages mentioned above, which are of course fully admitted) it rather serves particular political ends than leads to the reconstruction and promotion of a better social order.” See “Quadragesimo Anno: Encyclical of Pope Pius XI” (Libreria Editrice Vaticana, 1931), http://w2.vatican.va/content/pius-xi/en/encyclicals/documents/hf_p-xi_enc_19310515_quadragesimo-anno.html.

What was more, this erased the “natural contrasts” among professions and classes within the polity and thereby resulted in a “harmonious complementarity among the professions.”⁴¹ The mission of the corporate state, given this, would be to open the eyes of “millions of working people” to this achievement, still possible in a great modern economy. Böhm warned that should the corporate model fail, however, the “old parties and classes” could return with the “class-hatred” and “hatred of the market.” The danger of renewed strife under such conditions would mean that the national community would split, and such groups would replace economic groups and the corporate state.

Even by 1937, Böhm’s guarded optimism regarding the Nazi corporate structure, as he saw it, had not subsided. A co-author along with Großmann-Doerth and Eucken to the *Unsere Aufgabe* statement regarding the new task set for “men of science” to renovate the discipline of academic economics in Germany and to reclaim it from historicism, Böhm was also the author of a striking text from 1937 for which the editorial statement served as a preface.⁴² Titled *Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtschöpferische Leistung* (The Order of the Economy as Historical Task and Law-making Capacity), it was the first of a four-volume series published at Freiburg during the late thirties when Böhm had just taken up a teaching position in Jena. *Ordnung der Wirtschaft* was frankly addressed to the Nazi state as political and economic counsel. In a characteristically careful yet ambitious manner of Böhm’s constitutional argument

⁴¹ Böhm, *Wettbewerb und Monopolkampf*, XII.

⁴² “[M]en of science,” the statement reads, “by virtue of their profession and position being independent of economic interests, are the only objective, independent advisers capable of providing true insight into the intricate interrelationships of economic activity.” See Franz Böhm, Walter Eucken, Hans Großmann-Doerth, “The Ordo Manifesto of 1936,” in Peacock and Willgerodt (eds.), *Germany’s Social Market Economy: Origins and Evolution*, 15-16. The date of the original given in the English translation is incorrect, and translation of the title is misleading. The title of the text should be rendered “Our Task”; it served as a preface to a 1937 book, as noted above.

the project drew simultaneously on positive-legal tradition, citing precedent, and on Schmittian concept of the political nature of the constitution-making powers of the state. For the former point, regarding the enforcement of the competitive principle, Böhm drew on statute: in the interest of preserving competition and in combatting interest groups, the Economics Minister was empowered to nullify economic contracts and break up cartels. He could draw on the Industrial Code [*Gewerberordnung*] of 1869; the Anti-Trust Regulation Act [*Kartellverordnung*] of 1923; and the *Gesetz* of July 15th, 1933, which had on that same day brought into being the Compulsory Cartel Act [*Zwangskartellgesetz*].⁴³ This latter statute granted the Economics Minister the right to, unambiguously, authoritatively take such action. But it also allowed the Reichswirtschaftsminister to take what Böhm called “positive state market steering” [*Positive staatliche Marktlenkung*] action. The powers accorded to economics ministry under the 1933 Compulsory Cartel Act were decisive on this count. Under conditions where a market had become entirely “cartelized” by private power, the Economics Minister could, where he saw it fit, subject the market to “authoritative market regulation [*einer autoritativen Marktregelung zu unterstellen*].” Article 1 of the *ZwKG* specifically articulated this power as one afforded to the Economics Minister to the end of preserving and fostering the needs of enterprises, the economy as a whole and the public interest.⁴⁴ It is not therefore hard to see, how the type of constitutional power granted to the economic ministry was in this case, though delimited by its in its office, still very much within the sphere of the dictatorship powers described by Schmitt. In fact, Böhm noted, approvingly, that according to Article 3 of the *ZwKG*, the Economics Minister had the

⁴³ Franz Böhm, *Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtschöpferische Leistung* (Stuttgart and Berlin: W. Kohlhammer, 1937), 95-96.

⁴⁴ Böhm, *Ordnung der Wirtschaft als geschichtliche Aufgabe und rechtschöpferische Leistung*, 96.

power to assume direction, not just of the process of general market regulation, but also of the various cartels, syndicates and legal agreements themselves, and furthermore to decide on their market conduct or those of their agents. The intervention rights of the Economics Minister in this regard were “formally unlimited.”⁴⁵

Böhm’s intellectual and political life, as noted above, suffered through a five-year interruption in the shadow of the Nazi state. His criticism of the Nazi racial laws exposed him to the reconnaissance of an SS captain, Richard Kolb, who was then circulating among the economic discussion groups in Jena during 1938. A resulting denunciation led to disciplinary proceedings, surveillance and harassment, and then, in 1940, eventual expulsion from his teaching post.⁴⁶ Although Böhm continued to meet with the Freiberg circle in the private seminars of the working group of Erwin von Beckerath from this time until the end of the immediate post-war period, his publication was limited to one contribution to the *Akademie für Deutsches Recht* report in 1942, on the topic of competition as an “instrument of state-economic steering.”⁴⁷ But rehabilitation in the post-war period was rapid. By the spring of 1945, Böhm had reassumed a lectureship in Freiburg. In October of that year he became a Minister for Culture and Education for the federal state of Hessen and an adviser to the US-British Bizone administration on the question of antitrust legislation. Elected to the Bundestag on the CDU ticket 1953, where he served until 1965, Böhm was also a member of an expert scientific advisory council to the Federal Economics Ministry from 1948 until his death in 1977. The

⁴⁵ Ibid., 96.

⁴⁶ Hansen, *Franz Böhm mit Ricarda Huch*, 88-94.

⁴⁷ See Franz Böhm, “Der Wettbewerb als Instrument staatlicher Wirtschaftslenkung,” in Günter Schmölders (ed.), *Der Wettbewerb als Mittel volkswirtschaftlicher Leistungssteigerung und Leistungsauslese* (Berlin: Schriften der Akademie für Deutsches Recht, Heft 6, 1942), 51-98.

legislation which eventually passed, founding the Bundeskartellamt, bore his influence: one of the initial drafts for the legislation was produced by the Josten-commission in 1948 was the original post-war legal source of the founding of the office ten years later. Böhm served as the leader of the first trade delegation to Israel in 1952, becoming the first ambassador to it from the BRD and became celebrated as a heroic resistance figure given his persecution and furtive participation in the Beckerath group.

A sympathetic reading of Böhm's trajectory from the his position in the Weimar cartel department from 1925-1931 through his trials and post-war reintegration into the intellectual and political institutions of the BRD would emphasize the split in Böhm's economic and juridical theories of a strong state prerogative under a private law society, and the moral dimension of his thought, expressed in his honorable dissent from Nazi racialism. There are two categorical challenges to this understanding of Böhm and his place within the ordo-liberal thought-world of the 1930s. First, the ethical dimension of Böhm's thinking was secondary to his jurisprudential work. In the Nazi period he published one article, "Recht und Macht," in the Eucken Bund's *Tatwelt*, in 1934. Böhm's central argument in this article was to underscore the creative and productive meaning of Christian occidental culture.⁴⁸ This human creativity was fallible: it developed alongside severe epistemological limitations, and so required a legal framework for preserving the capacity private individuals to enter freely as equals into contracts, the irreducible element of communal life. In a mass society, the only coherent means for preserving such arrangements would be to regulate the imbalances of private power. This is the moral basis of Böhm's private law society legal theory. However, as we have seen, Böhm's moral system was

⁴⁸ Franz Böhm, "Recht und Macht," *Die Tatwelt: Zeitschrift für Erneuerung des Geistes* Bd.10 (1934): 115-132;169-193, *passim*. See especially 188, 128.

not inimical to either a strong state of the type suggested by Pius XI's Catholic corporatism, nor did develop any positive anthropology of human needs or the like. Rather, it is in essence, despite allusion to occidental Christianity, a fundamentally formalist account which leaves open the questions of the shape of society on the one hand, but reserves for economic experts, in this case Böhm and his Freiburg colleagues, extraordinary powers of decision. This is the nub of Böhm's work going into the post-war period: it presents itself as morally agnostic on substantive matters, and delegates ultimate judgments to the aggregate transactions taking place on a mass scale. This is the source of ultimate moral judgment. But on the question of scientific knowledge and jurisprudence, Böhm was simultaneously prepared to advocate for unlimited commissarial powers in order to preserve the conditions under which market judgments could be rendered. Indeed, although Böhm writes in "Recht und Macht" that mysticism has no place in resolving the question how contradictions of modern industrial societies should be ordered, the rational element of the image of the state as guarantor of private, juridically equal individuals, is in fact subservient to a faith in the veracity of the market to adjudicate human need. We can see that by the late 1940s these strains of thought had mostly been shorn of their corporatist inflection. However, the deeply and frankly admitted political effort to neutralize collective action, remained an essential component of Böhm's thinking and was incorporated into the ordo-liberal repertoire readily. Indeed, the first issue of the *Ordo Jahrbuch* in 1948, edited by Böhm and Eucken, included the theological meditations of former NSDAP member Alfred Müller-Armack.

Into the Post-War Period

Böhm had returned to Freiburg in 1945, but quickly entered politics, becoming a Minister of Education and Cultural Affairs in federal state of Hessen, before moving to an academic chair at University of Frankfurt am Main where he remained until his retirement in 1962. As a CDU

member of the Bundestag from 1953 to 1965, his greatest achievement was direction of the anti-trust law, which a continuation of the official work he had conducted at the Reichsministerium in the 1920s. Through his death in 1977 he was an active editor of *Ordo*, a member of the *Wissenschaftlicher Beirat* – the Academic Advisory Board in the Federal Economics Ministry – and an active adviser and participant in the *Aktionsgemeinschaft Soziale Marktwirtschaft*, the main publicity arm of ordo-liberalism in the policy sphere, founded by Alexander Rüstow. Throughout this period, he wrote extensively on the *Mitbestimmung* – codetermination – policy in German labor relations, calling for their reform, although his efforts were largely ignored. Böhm also worked to negotiate with the State of Israel reparations for the Judeocide, and collaborated with the Frankfurt Institute for Social Research on a 1953 publication, *Gruppenexperiment*, part of a series of empirical studies of mass psychology and public opinion directed by Max Horkheimer and Theodor Adorno and edited by Friedrich Pollock. Böhm’s social thought of the period therefore should be seen as defined by a broad interest in Cold War politics and anti-totalitarianism, as well as the promotion of a “free economy” which he hoped would carry over to the SPD initially, before his thought swerved into a crude and open anti-Marxism in his last years, amidst the disarray of the mid-1970s.⁴⁹

The complex ensemble of Böhm’s activities, and the range of his professional, quasi-official and Federal responsibilities in the post-war period merit a full-length study in their own right. The broad contours of the intellectual dimension of these various activities reveal a striking

⁴⁹ See, for example, the 1953 essay “Marktwirtschaft von links und von rechts,” in *Reden und Schriften*, 157. Encouraged by signs of the SPD’s turn to a market economy six years before the Godesberg program made it official, Böhm wrote of the promise of “fruitful” political competition between “‘bourgeois’ and labor parties” that might be the only way of bringing about a good market economy. For the English translation, published in 1979, see Franz Böhm, “Left-Wing and Right-Wing Approaches to the Market Economy,” in *Zeitschrift für die gesamte Staatswissenschaft / Journal of Institutional and Theoretical Economics*, Bd. 135, H. 3., 448.

eclecticism. However, Böhm was unwavering in his adherence to the *Rechtsstaat* model, and the warmth with which he received the movement of the SPD toward abandoning its last ties to Marxism should not be read as a weakening of his political worldview. The acceptance of a “market economy of the left” as a political antagonist of Christian democracy was welcome, but the politicization of the constitutional order itself was out of the question. Even something that resembled the welfare state could be accepted so long as it was restricted by this constitutional framework. The upshot of this was far from esoteric, although its thesis was often expressed by recourse to a more specialized legal idiom. The orientation of Böhm’s writings were no less political for it, however.

After the anti-cartel Josten Draft of 1948 failed to be adopted as law, Böhm was selected by Erhard for a diplomatic mission to America, the source of the first anti-cartel rules of the post-war period, imposed by Allied forces.⁵⁰ The long period of time that elapsed between this first attempt at controlling cartels in West Germany and the eventual law that bore Böhm’s influence, was a result of the inertia and political resistance by economic powers in big combines, on which Erhard often was politically dependent. From a neo-liberal perspective, therefore, the articulation of the case for economic restrictions on these trusts over the course of the 1950s opened difficult constitutional and political questions. Briefly stated, what is important to register is that Böhm did not flinch from these implications, but rather underscored their political meaning and proposed an advanced and adaptive theoretical solution to the new legal and constitutional realities. The anti-trust law, because of its relation to private power, was really a question of whether Germany would be a constitutional state. In 1953, Böhm argued that a restriction of

⁵⁰ Nicholls, *Freedom with Responsibility*, 330.

such private power and the economic corruption of the legislature represented a “constitutional and fundamental decision of a solemn and most important kind (in the sense of Carl Schmitt).”⁵¹ Such a question was more important than what exact form the bearer of executive power took. It was imperative to draw a strict division between state and society. Once achieved, under a constitutional state, a qualitative shift in the nature of law took place, so that it resembled something more like customary law. The pledge was taken to abide by certain basic rules, and the law formed itself as a language “in which all members of the legal community participate,” and which took on a cumbersome but “apolitical” process, by Schmitt’s standards. Complications of course arose under contemporary conditions of differentiated social strata, and so did ultimately require a means for repressing habitual right; the guardian of the constitutional state against “excessive politicization,” Böhm, argued, required measures that codified this principle. However, this was not really a law-making endeavor, but rather one that *discovered* and determined the meaning of law as an authoritative academy would judge and determine the structure and meaning of a language.⁵² Seven years later, at a 1960 conference on international cartel law held in Frankfurt, Böhm spelled out the relation among these three terms – democracy, civil society, state – as follows: “Rule of the people within the state, rule of private law within the society and rule of law as link between society and the state – these are the three great political principles which together constitute democracy in the Western sense.”⁵³ Disruption of the balance by politicization risked the prospect of “refeudalization”: direct political control over

⁵¹ Franz Böhm, “Der Rechtsstaat und der soziale Wohlfahrtsstaat,” *Reden und Schriften*, 97.

⁵² *Ibid.*, 98.

⁵³ Franz Böhm, “Democracy and Economic Power,” 35.

economic matters, “indistinct dependent relationships” a “weak state which – to quote a statement by Carl Schmitt, Professor of Public Law – can longer cope with its responsibilities and meddles in everything.”⁵⁴ Competition, acting as natural strike-breaker, must be secured.

Not only cartels, but *Mitbestimmung*, the German practice of codetermination which guaranteed the right of workers’ representatives to sit on corporate boards and the like, also threatened this delicate balance. The danger here came from the concept of economic democracy, “an immature idea, more a doctrine than a full analysis” of political-economic problems, he claimed in 1952.⁵⁵ The recommendations of the German Federation of Trade Unions, taken up as law in the spring of 1948 in Hessen – against which he had also militated – and then taken up for debate at a federal level in 1950, suggested to Böhm a form of dual power as advocated by Trotsky. This could very well lead to a new period of class struggle, the opposite of the peaceful social partnership that was promised.⁵⁶ Well into the 1970s, Böhm was still warning of these dangers, co-editing a volume in which he described the practice as a “Pandora’s box,” a “subjectless right” – pertaining neither to private subjects, individuals – nor to public institutions.⁵⁷ ⁵⁸ A succession of *Mitbestimmung* laws continued to expand the practice, and by 1974, Böhm was warning of a full-on socialist assault on the market system derived from the

⁵⁴ Ibid., 43.

⁵⁵ Franz Böhm, *Das wirtschaftliche Mitbestimmungsrecht der Arbeiter im Betrieb* (Düsseldorf und München: Verlag Helmut Küpper, 1952), 40.

⁵⁶ Ibid., 40-1, 48. Böhm: “Trotsky tries to prove that dual power is ‘not constitutional but a revolutionary fact,’ characterizing a ‘prerevolutionary period’...”

⁵⁷ Franz Böhm and Goetz Briefs, “Einleitung,” *Mitbestimmung- Ordnungselement oder politischer Kompromiß* (Stuttgart: Seewald Verlag, 1971), 7.

⁵⁸ Franz Böhm, “Mitbestimmung als Gleichberechtigung von Kapital und Arbeit oder als Vertragsanspruch der Arbeitnehmer aus dem Arbeitsverhältnis,” *Mitbestimmung- Ordnungselement oder politischer Kompromiß*, 226-9.

Marx, “master of propagandistic strategy.” The polemic, published by Mohr-Siebeck, promised a revelation of the propaganda instruments that were politically now overtaking the study of *Nationalökonomie*: the doctrine of the inescapable law of history; the demonization of the market mechanism; cloaking the goal of decisive concentration of state power and disarming its liberal enemies via insidious appeals to Hegelianism, the concept of false consciousness and psychoanalysis.⁵⁹

Böhm’s post-war excursions into social theory and geo-politics were informed by a Cold War anti-totalitarianism. He found common ground with the empirical work of the Frankfurt Institute, whose *Gruppenexperiment* exposé of hidden anti-Semitic and crypto-fascist tendencies among surveyed West Germans alarmed him. The 1955 study had discovered a “second currency” of mass opinion, Böhm wrote in his introduction to it: not “public opinion” but rather the unspoken “non-public opinion” – the phrase impressed Adorno – ubiquitous and shared, but hitherto unknown.⁶⁰ At a diplomatic level, he called for a common front with Israel against Arab socialism. A 1953 reflection on the geo-politics of the Luxembourg Agreement, revealed something of this dimension of Böhm’s thinking. Aside from a moral imperative of the West German state to make reparations on the order of three billion deutschmark, the BRD should position itself with Israel against the Arab states, Böhm argued. These states had demanded partisan support from West Germany in their denial of the “right of existence to the State of Israel” and had indecorously “pointed out that if the West does not betray Israel, a communist revolution” in the Arab world might very well take place. Here, Böhm saw the hand of Stalin,

⁵⁹ Franz Böhm, *Wirtschaftsordnung und Geschichtsgesetz* (Tübingen: J.C.B. Mohr, 1974), 19, 29.

⁶⁰ Franz Böhm, “Geleitwort,” in *Gruppenexperiment: Ein Studienbericht Bearbeitet von Friedrich Pollock* Bd. 2 (Frankfurt: 1955), xiii. Cf. Theodor W. Adorno, *Critical Models: Interventions and Catchwords* (New York: Columbia University Press, 2005), 92, 284.

who had “long stoked this turn of events” and fashioned a foreign and domestic policy designed to “stir up and support anti-Zionist passions among the peoples of the Near East” so that “Russia...is today the best horse in the stable of the very far-right governments of the Arab States.”⁶¹ In a 1958 lecture on anti-Semitism to Congress of the German Societies for Christian-Jewish Cooperation, the sentiment took on a more cultural inflection, where he traced the transformation of religious persecution of Europe’s Jews into racialist exclusion; with some sensitivity, he warned that a similar process of racial degradation [*Deklassierung*] now threatened another of Europe’s nomadic peoples, its Romani, and emphasized, by way of concluding with Old Testament scripture, the common orientation of Christians and Jews.⁶² For Böhm there was no truck with the peace movement. He denounced the anti-nuclear marches of that year, openly sparring with Habermas in the pages of a Frankfurt student newspaper, and charged the 20,000-strong student protest of May, held against the nuclear armament of the Bundeswehr, as a threat to democracy and decency itself.⁶³ In a contribution to the *Aktionsgemeinschaft Soziale Marktwirtschaft*, meeting in the spring of 1957, the orientation of was very starkly put: “I emphasize once again that the most serious danger that threatens us is

⁶¹ Franz Böhm, “Die Luxemburger Wiedergutmachungsverträge und der arabische Einspruch gegen den Israelvertrag,” *Reden und Schriften*, 228.

⁶² Franz Böhm, “Antisemitismus,” *Reden und Schriften*, 256.

⁶³ Böhm’s 1958 contribution to the student newspaper in Frankfurt, *diskus*, is relayed by Hansen triumphantly: “Böhm was involved in the heated disputes over nuclear participation of the Bundeswehr in 1957/58, cautioning that the angry reproaches of the peace movement against the Federal Government (“Struggle against Nuclear Death”) should be tempered....He crossed swords with Jürgen Habermas in June 1958 in the Frankfurt student newspaper 'diskus.' There, he criticized the May protest of 20,000 students and teachers as panic-mongering and bowing before dictators and oppressors, as class-struggle agitation, as an incitement to the decay of political decency and the constitution, which paved the way for a new dictatorship. Böhm fought with no holds barred.” See Hansen, *Franz Böhm mit Ricarda Huch: Zwei Wahre Patrioten*, 241.

not the danger of the atomic bomb, but the danger of the totalitarian state, which today is the only reason why we must tremble at the danger of the atomic bomb. So we are dealing not only with a dangerous thing, but with two dangerous things. The second dangerous thing is society, or more precisely, a certain form of human society, which we call the state...”⁶⁴ The lecture was titled “Will the free world decompose, or will communism decompose?” Böhm pressed on in this spirit for the next twenty years.

The close relation between the Freiburg School’s economic and legal studies and the moral and sociological assertions on which they were predicated, probably had no greater exponent than the sociologist and economist Wilhelm Röpke, a Marburg-based colleague of Böhm and Eucken who had fled to Istanbul in 1933. Within ordo-liberalism, it was Röpke’s exalted and even utopian theories of a federated world economy which made the greatest impact outside of Germany. Among germanophone neo-liberals, Röpke’s literary and polemical style was probably only second to F.A. Hayek in its popular appeal. Röpke’s work illuminates the substantive political and anthropological foundation on which the much of ordo-liberal legal and economic policy, as articulated by Eucken and Böhm, was based. The following chapter will attempt to examine Röpke’s understanding of the primacy of politics in economic life.

⁶⁴ Franz Böhm, “Zerfällt die Freie Welt oder Zerfällt der Kommunismus?” in *Hat der Westen eine Idee?* ASM Tagungsprotokoll Nr. 7M (Ludwigsburg: Martich Hoch, 1957), 43.

Chapter 3: Röpke, Economist of Occidental Liberalism and Decentralization

In January of 1942, the German economist Wilhelm Röpke, exiled in Geneva since 1937 at the Graduate Institute for International and Development Studies (he had left Germany for Istanbul in 1933), wrote to Friedrich von Hayek in London: “I am now thinking of working on an analysis of the complicated structure of the international economic order up to 1914 for a joint programme of researches undertaken by the professors of our Institute...I thought it would not be a bad thing to show to all who are now so busy to draft the outline of a new international order...how the problem has already been solved and what the internal prerequisites of this solution—besides which I still see no other one—really are. It seems to me high time to point out that you cannot deal with the national order in terms of collectivism and with the international order in terms of liberalism.”¹ Hayek’s response was altogether more modest, but also more despairing, on this count. He wrote: “I find it almost impossible to form even the vaguest picture of the post-war world.”²

Röpke was active until his death in 1966 as an academic, polemicist and journalist, firing off colorful articles in the pages of the *Neue Zürcher Zeitung*, *Schweitzer Monatshefte*, *Schweizerische Bauzeitung* on international trade, monetary policy and social theory. Among the most prominent of ordo-liberal intellectuals in conservative-liberal German politics in the post-war period, Röpke’s was warmly received as an expert in the BRD: from his post in

¹ Röpke to Hayek, 16/1/1942, Nachlass Röpke, Ordner 7, 216-129.

² Hayek to Röpke 8/2/1942, Nachlass Röpke, Ordner 7, 214-215.

Geneva, he was a respected adviser to Ludwig Erhard, and an intellectual mainspring of Alfred Müller-Armack's. Translated into English already by the 1930s, Röpke offered not only a systematic defense of capitalism, planned for dissemination among an international cadre of liberal intellectuals, and for which he had attempted to found a multi-lingual journal the late 1940s in collaboration with his Mont Pèlerin Society colleagues, but also a utopian vision of the institutions and culture required for the restoration of a liberal international order. This corpus is one of the more exalted, dynamic and sustained articulations of ordo-liberalism as a political force.

Born in 1899 in the village of Schwarmstedt, north of Hannover, the son of a country doctor and pastor's daughter, Röpke was, like Eucken, a prodigy in German economics. After seeing combat on the Western Front, he took a doctorate in 1921 in economics and sociology, and a *Habilitation* in 1922 on business cycles and trade, both from Marburg.³ He first taught in Jena as professor of economics (*Nationalökonomie*) from 1924, before returning to Marburg, where he remained until 1933.⁴ Röpke's academic career was thrown into chaos at the beginning of the Nazi period, due to his lectures warning of the dangers of Nazi supersession of liberalism; this activity brought censure and then forced retirement at the age of 34. Exiled as a result, Röpke found his way to the University of Istanbul, where he joined for a time his colleague Alexander Rüstow. By 1937, he was in Geneva, at William Rappard's Institut de hautes études internationales, where he would remain for the rest of his life in relative independence from the German university system.

³ See Wilhelm Röpke, *Die Konjunktur: Ein Systematischer Versuch Als Beitrag Zur Morphologie Der Verkehrswirtschaft* (Jena: Gustav Fischer, 1922).

⁴ Sara Warneke, *Die Europäische Wirtschaftsintegration aus der Perspektive Wilhelm Röpkes*. (Stuttgart: Lucius & Lucius, 2013), 5-7.

The period between 1937 and 1966 is marked by the publication of several major works on trade and monetary policy, among them the triptych of the 1940s that constitutes the main statement of his thought: *Gesellschaftskrisis der Gegenwart* (1942), *Civitas Humana* (1944), *Internationale Ordnung – Heute* (1945).⁵ What common features of these works may be identified, if only to place them within the larger context of the development of post-war ordo-liberalism? Unlike the national-economic and legal-juridical focus of Eucken and Böhm, respectively, Röpke's work is constituted by a social theory of money and the features of social geography required to preserve and strengthen liberalism. They are above all international in orientation, and operate at a register wholly foreign to the national categories that have likely constricted and limited the spread of much of ordo-liberal thought.

Starting with an analysis of trade policy and protection, Röpke's earliest works should be seen as a defense of the legacy of the European *Zollverein* (customs union) and the free trade of the mid-nineteenth century. Röpke's historical-economic analysis of the period was brought on to conceptually to the multiplying crisis of the inter-war period, as they conspired to produce in the latter 1920s an irreversible decomposition of the integrated world order established over the course of the previous century. Already by the 1920s, Röpke had identified a main component of the breakdown in specifically German commercial policy as the steel and iron cartels in the industrial sectors, on the one hand, and much of the agricultural sector, in particular rye and other grain production. The latter was studied in detail in the late 1920s by Röpke, as was the

⁵ The titles were published in English as *The Social Crisis of Our Time* (1942), *Civitas Humana* (1948), *International Order* (1954).

methods by which the state could be mobilized to enact a form of “liberal intervention.”⁶ The contention of these early writings emphasized the dangers of non-liberal intervention, or “anti-capitalist” intervention in Röpke’s words. A case-in-point for Röpke’s argument with respect to the catastrophic effects of such interventions, even if undertaken with good intentions, was best illustrated by the rapid introduction of tariffs and protectionist measures in the 1880s, in the wake of the crisis brought on by a world glut in grain supply which had brought on the crisis of the 1870s. The instructive example of productive, liberal intervention was that set by the Danish approach of the 1880s and nineties, which redirected agricultural production away from rye and grain and toward dairy and meat products. Such a policy, despite whatever intervention into market processes it required, was thereby taking price signals as the ultimate source of verification of the worthiness of a given line. The German – and to a great extent other European – responses, represented just the opposite. Instead of exiting a line for which oversupply and falling prices was the defining characteristic, German commercial policy responded by attempting to block the import of non-German rye; by requiring the use of rye more widely – by law, and by subsidy to advertising. It thereby also by inculcated in the public a totally misguided sense of patriotism, Röpke argued, the ideological error was also responsible for the resurgence of the main error of the period, which mistook autarky for national interest. The short term result of this protectionism was the inflation of the price of rye and of other grains, also required to produce pork, butter, and dairy products. By the 1930s, these inflated prices had undercut not only the capacity for production, but had produced knock-on effects in

⁶ Wilhelm Röpke, *German Commercial Policy*, Publications of the Graduate Institute of International Studies, Geneva, Switzerland 12 (London; New York; Toronto: Longmans, Green and Co., 1934), 44, 51. Röpke, in 1934, attribute this term to his colleague Alexander Rüstow. The concept underwent a mutation in later years, becoming “market conforming” intervention.

these goods for urban populations; when the industrial crisis hit, the urbanized German nation was thus far more vulnerable to the drop in its purchasing power.

The underlying point of Röpke's schematic analysis of the *longue-durée* from 1879 through the centenary of the *Zollverein* in 1934, could be captured in opposition both to anti-capitalism of the Left, expressly named, and also to the conservative radicals of the *Tat-Kreis*, who had argued in the 1920s for total self-sufficiency of German agriculture. The *Agrarstaat* of this latter position, Röpke argued, was synonymous with an autarkic state. Röpke rather favored a thoroughly international and industrialized state subject to the world market which had an equilibrating force over the national economy:

[T]he demand for "*Nahrungsfreiheit*" is still very popular in Germany... This demand for self-sufficiency is based to-day not only on military arguments but also on the idea that the necessity of importing foodstuffs involves also a sort of *economic* dependence. Needless to say that this idea is like other similar ideas in being just as wrong as it is popular. If Germany is dependent on other countries in the import of foodstuffs, those other countries are dependent on Germany in the import of industrial products. It is just that mutual dependence involved by the division of labour which is the basis of our total economic and social system, and this sort of dependence is obviously less intolerable than that awaiting us if we would make, like the Hindoo peasant, our bare subsistence dependent on the mercy of the weather.⁷

The second feature of Röpke's conceptualization of agrarian political economy was its emphasis on the western peasant farmer who owned his land. This was a figure who "sticks to his soil under any circumstances whatsoever" so long as he owns his soil. By contrast, and this was borne out dialectically by the history of Germany industrialization of all things, it was the primitive latifundia of Germany east of the Elbe, mainly responsible for the protectionism of the contemporary moment in which he was writing, which had, through their big estates, thrown off

⁷ Röpke, *German Commercial Policy*, 47.

surplus agricultural laborers who either could not bear the “social and economic pressure connected with the big estates” or “withheld the soil for which the farmers’ sons were longing.”⁸ These laborers had either found their way into the new big cities, or had joined the pioneers of America through emigration. It was therefore this retrograde system in the East supplied the population required for the industrializing drive of the big urban centers in the nineteenth century. Röpke understood that the lesson of this history: protection of big agricultural estates, traditional in the retrograde East and analogous to the drive for autarky with respect to agricultural policy in the aftermath of the Great War, would could very well have unintended consequences, as in the previous period.

Economic Lessons

The first significant theoretical entry in Röpke’s body of work *Die Lehre von der Wirtschaft* of 1937. Written in exile in Turkey and brought out in Austria by Julius Springer Verlag, it was translated into French three years later (in 1940 by Librairie de Médicis then under the editorship of Louis Rougier and charged with combatting subversive theories and promote liberalism). In total, between the year of its first publication and 1961, it went through nine German-language editions, its third, of 1943, in Switzerland, adding substantially to the references and social theory of a text that was originally conceived in as a “pedagogical experiment” with two tasks. The book first was to be a comprehensive scientific course of the state of national political economy; it was then was meant to confront the crisis of society and economy in the West, thereby demonstrating at this higher register the stakes of a careful study

⁸ Ibid., 46.

of economic questions and its social meaning. The text proceeded as follows: it moved beyond close analysis of international trade in an attempted synthetic conceptualization of the world order that was required to carry on a liberal political economy, and was composed in exile between Istanbul and Geneva. It set out a system of this political economy that aimed to bring out the order underlying complex modern economies, whose participants no longer had direct contact with the fruits of their activity.⁹ It sought to do this by mediating the basic problem of distribution of scarcity – here conceptualized as the ever-present concern of economic thought – through analysis of the division of labor, money and credit, commodities and the sphere of production, markets and prices, poverty and wealth. Its concluding chapters, given over to discussion of disturbances in economic balances and crises, rounded out the conspectus with a concept of the global economy as the frame of the national one.

As with Eucken, Röpke understood in 1937 that problems arising within distribution of scarcity were deformations of the coordinating function of a complex modern economy. The central feature of this economy was specialization and the division of labor that characterized modernity. Röpke did not concern himself with the origins or trajectory of specialization, the development of which he understood as the “main principle of cultural progress” as recognized by sociology and economic history. Rather, he took it as a historically given fact that meant a leap forward in productivity of labor, operating at both vertical and horizontal axes: specialization across distinct lines of production, and at the same time a specialization within a given line, as in the materials and fixed capital that formed the prerequisites for the assembly of

⁹ Wilhelm Röpke, *Die Lehre von der Wirtschaft*, 9. Auflage (Erlenbach-Zürich und Stuttgart: Eugen Rentsch Verlag, 1961), 16.

any commodity.¹⁰ The complexity of specialization naturally required coordination, and this is where the importance of money and money policy was most relevant.

Röpke was not entirely content to let pass by the implications for the history of political economy, however. Discussion of the given reality of a highly specialized and complex world of production did invite comparison with the prognostications of Malthus. It was, along with overseas expansion of the major colonial powers, effectively disprove Malthus's concept of the natural economy, with its built-in biological limitations on population growth. The trajectory of population growth in the industrialized countries clearly had refuted this theory. But was Malthus entirely worthless as a thinker? Röpke thought not. He followed a certain form of analytical Malthusianism, not concerning the prognoses of a natural limit, but the question of whether population growth could be deleterious for society. Röpke launched his inquiry with this inflection, remarking that the most populous countries also witnessed a "radicalism" in their foreign and domestic politics. He concluded that this had a feedback-effect on the coherence of the division of labor process itself: "It is unfortunately true, that mass civilization rather loosens the foundations of order and security on which the intensive division of labor rests."¹¹

One implication of this social factor of the coordination of production, Röpke emphasized, was that the socialist promise of advances in technology to ward off the pressures of population could not simply be counted on as a consistent remedy for the rise in demands on production. It was not the case that population growth could simply continue uninterrupted. There would be material consequences of the capacity of a society to coordinate the division of labor as its population grew.

¹⁰ Röpke, *Die Lehre von der Wirtschaft*, 67-9.

¹¹ *Ibid.*, 88.

Focus on coordination in Röpke's *Lehre von der Wirtschaft* required an extensive analysis of money. Money functioned not just as the means of exchange for products, but also as a "entrance ticket to the social product"¹² and thereby was an institution of great social significance. Money should be understood as the universal means of exchange, and this function, not its particular substance, gave it its character. Money was, and here Röpke referred to Schopenhauer, the "absolute good" and met not merely a concrete need, but need itself in the abstract.¹³ The prerequisite to this, no matter the substance itself, was the unity of any given money system for capital payments and exchanges. Such a system of exchange could be underwritten internationally through a gold standard, which during the period of the late nineteenth and early twentieth century had been a guarantor of the stability of value. By comparison, the contemporary world of 1937, lacking such an international currency, had suffered a terrible retrogression.

Paper money presented a particular problem for Röpke. Unlike precious metals of whatever stripe, it was wholly dependent upon the policies banks to regulate its volume, and therefore its value. The interlocking system of various paper currencies, regulated by banks, was built up on nothing but trust and custom.¹⁴ It could therefore easily be subjected to wild swings in confidence of depositors, as had indeed been the case only as recently in 1931. Shocks could arise suddenly and without notice; although they were extraordinary events, they nevertheless revealed the inner workings of this system. The other side of modern banking, Röpke argued,

¹² Röpke, *Die Lehre von der Wirtschaft*, 116.

¹³ *Ibid.*, 119.

¹⁴ *Ibid.*, 130.

was credit creation. The most important task of monetary policy was therefore the regulation of its volume or scarcity, so as to protect its value.¹⁵

The painful reminder for Germany of the mid-1930s in this regard was the runaway inflation of 1920-23. Its causes were not entirely the effect of mismanaged monetary policy, but also two further factors: the effect of so-called “wage inflation,” symptomatic of the growth of the power of trade unions to influence the labor market and to render its signals distorted via policies meant to curb unemployment. Secondly, but relatedly – because it was the upshot of such social policies leading to wage inflation – was the phenomenon of imported inflation. Such was the name given to the effect of foreign countries’ loose monetary and social policies, and the importation of “excess” money into economies exporting to them. This observation of the mid-thirties would come to have greater purchase on the features of world capitalism in the post-war period, but *Lehre von der Wirtschaft* thus stakes out these three basic zones of understanding of the pitfalls of capitalism on and the risks of misguided attempts to regulate it.

What of production? This was no hidden abode in Röpke’s text, but the subject of lengthy analysis, and in that regard set him off from the traditions of mainstream political economy of the English-speaking world, and to a large extent his German colleagues in *Volkswirtschaft*. Yet, what passed for analysis of the production process in fact was more or less conceptualized as an additional level of exchange – but in this case with nature: “Production is in its basis nothing other than the continuous exchange with nature, with which we search to exchange our expenditures with the products produced under the most advantageous conditions.”¹⁶ It could therefore also be said that exchange was qualitatively no different from production, as an

¹⁵ Röpke, *Die Lehre von der Wirtschaft*, 138.

¹⁶ *Ibid.*, 174.

obtaining of goods once a given expense was laid out; and that the entire social division of labor was predicated on the most economical means by which goods could be exchanged.¹⁷

Given this apparatus of exchange underpinning all of political-economy – predicated on the factors of production – what was meant by the term capital? Röpke conceded that “the difficulties begin here” since capital as a concept was not as transparent in its meaning as the two other elemental factors of production, labor and land (or nature). Capital, for one, was distinct in that its most concrete manifestations did not immediately present themselves as fully independent factors of production the way the other two did. Why should fixed capital – machines, seeds, beasts of burden etc. – be awarded their own character as separate factors of production from nature and labor? Drawing on Eucken’s *Kapitaltheoretische Untersuchungen* and Hayek’s *Preise und Produktion* Röpke effectively resolved this question by recourse to the labor-saving quality of capital itself as fixed capital. The added productivity it gave to the laborer, and thereby the added value it supplied to the production process, yielded the end effect of increasing profits.¹⁸

Most of the ensuing discussion in Röpke’s *Lehre von der Wirtschaft* recapitulated more or less standard political economic lessons – indeed, it was in this sense a remedial lesson, which he referred to as “Nationalökonomie für Imbezille” – political economy for imbeciles.¹⁹ But, it did outline nevertheless in its final chapters some of the contours of the “third way” economics that was elemental for the neo-liberal international meeting in Paris at the Walter Lippmann Colloquium a year later. This alternative to “collectivism” and to the laissez-faire liberalism of

¹⁷ Röpke, *Die Lehre von der Wirtschaft*, 174. Elemental production factors were labor and land (nature).

¹⁸ *Ibid.*, p. 177-9, and n.9, p. 186.

¹⁹ Hennecke, *Wilhelm Röpke: Ein Leben in der Brandung* (Stuttgart: Schäffer-Poeschel, 2005), 109.

the previous century that had proven itself crisis-prone and inadequate to sustaining the liberal order. What Röpke developed in these concluding chapters was the social theory of deproletarianization and the requisite measures for ensuring a society that could construct and preserve an order of competition with its vital social components.²⁰ These were the extra-economic measures that avoided the planning characteristic of socialist states, yet preserved the social-property relations of capitalism. Such a regime could only be developed via means of legitimation in harmony with human needs. What made this regulation characteristic of the emerging neo-liberal viewpoint was, however, its departure from the direct confrontation with consumption via counter-cyclical demand management or the politics of social democracy. For Röpke understand the origin of crisis in capitalism as, paradoxically, arising from the mismanagement of the inevitable contradictions posed by a market society. This mismanagement had the effect of distorting the price mechanism, so that political pressure exerted to stabilize the business cycle, for example, very easily could lead to exaggeration of up- and downswings in investment. As Röpke formulated it, “the more stabilization, the less stability.”²¹ In the contemporary *Crises and Cycles*, published “at the initiative of Ragnar Nurkse,” an Estonian economist then at the League of Nations, Röpke had argued something similar but with greater historical specificity. In this text, he underscored the importance of business cycles, where “over-speculation and over-production” were the proximate causes of instability – in the case of the depression beginning around 1920 – that themselves had grown out of the “very high pressure from the demand side” during the First World War. Spending that outran savings produced an unknown pitch of productive advances, but at the same time engendered this effect

²⁰ Röpke, *Lehre von der Wirtschaft*, 264.

²¹ *Ibid.*, 290.

that “might aptly be called the *Paradox of Capitalism* [emphasis original], and which has to be faced by every economist no matter how orthodox his views.”²² The point was that “the causation of the crisis and of the depression must be traced back to the mechanism of the boom”; but, as the crisis of the 1930s showed, “under certain circumstances,” this depression could “grow to dimensions quite out of proportion to the preceding boom, so that it loses more and more its function of readjustment and degenerates into a *secondary depression* [emphasis original]” with its own tendency toward the contraction of total demand.²³

The “third way” Röpke proposed to meet these challenges in his *Lehre* entailed measures that were more fundamental than the quantitative efforts at such economic stabilization by short-term expansion of credit. Rather, Röpke’s concluding articulation of the economic lessons of the crisis of the period in effect departed the sphere of economics strictly speaking. This path would be expressly set against the Marxist thinkers of the period, whom Röpke saw as proposing the “unavoidable development of legislation of the economy.” The alternative to their politics would mean answering in succession four basic questions: the question of order [*Ordnungsfrage*]; the social question; the political question of distribution of power; and the “moral-vital” problem.²⁴ The problem of order could be understood as a problem of a rule-based system of free exchange, ensuring regularity through a market and its freely determined price-setting. This was a social

²² Wilhelm Röpke, *Crises and Cycles*, trans. Vera C. Smith (London; Edinburgh; Glasgow: William Hodge and Company, 1936), 47-8. This English-language book was adapted from a shorter manuscript written in 1931, published in 1932, *Krise und Konjunktur*, with substantial additions made in English. In the preface to it, Röpke regretted that the book had already been set in type when Keynes’s *General Theory* had been published, but felt that “the reader will be able easily to discern where and why the bold views of Mr. Keynes do not coincide with those set forth in the present book.” See *ibid.*, “Preface,” vi.

²³ *Ibid.*, 119, 122.

²⁴ Röpke, *Lehre von der Wirtschaft*, 318-9.

order that could be understood as leading to a natural one and entailed a predictable market framework, a “healthy” monetary and credit system and a carefully thought-out legal system. This would have to be the task of the state, as would the basic task of concerning itself with the social question of security, and a social policy that would indeed ensure the protection of the weak. The political distribution of power, in this work was treated with scarcely a line: it would be folded into the general conditions of the competitive, and so therefore, curiously, derived from the most economic principles Röpke posited at this time. The main focus of this concluding meditation, in *Lehre von der Wirtschaft* was in fact the moral-vital one. Here, it was paramount that the society of the third way should mean the cultivation of a population that was moral and spiritual. Such a society would have to avoid the dangers expressed by the “mechanization, depersonalization, proleterianization, familial disintegration, massification and all the other liabilities of our urban-technical civilisation.”²⁵ Because these were real effects of a market society, rejection of the market economy in fact could be said to have a respectable motive. The market could not itself provide an answer to the deleterious social consequences of which it was admittedly the cause. Rather, the “third way” – neither regulating market relations via direct decree or planning, nor letting it develop of its own accord – would require some other form of economic policy. This was a path of “proportion and measure” that would return society and humanity, now living in an epoch of the triumph of technology, endless growth and progress to its “rootedness.” It was a remedy that would entail breaking up industrial cities; reviving the dignity of work. This was to be undertaken in order to restore what had been forgotten: “the soul,

²⁵ Röpke, *Lehre von der Wirtschaft*, 323.

its drives, nerves and organs.”²⁶ Röpke here envisioned a future society based around small producers in agriculture and artisanal lines, but that would integrate heavy industry, though distributed among smaller firms in order to return such technical lines to their properly human scale, which reason and critical faculties might finally be able to measure and comprehend.

This conspectus concluded *Lehre von der Wirtschaft*, but it signified one of the pillars of Röpke’s thought: the sociological dimension of economic life that could restore trust in economic transactions and eliminate the proletariat, the class that, with its growth in industrial society, spelled destruction of any restoration of a manageable economic order. The charge for Röpke and his readership was to resist being dragged down in the whirlpool of the cultural crisis of the present moment and to heed the advice of Napoleon I: one can only rely on that which gives resistance. The perspective Röpke had outlined in his *Lehre von der Wirtschaft* was to shift over the course of his major works of the 1940s. These were in one way or another developed as the mature social theory of a “humane order” and at the same time broadened their economic considerations by analyzing in greater depth the international dimensions of economic life, as well as the political and diplomatic structures in which international commerce must be embedded if it was to preserve a social order that might guarantee the stability of the reproduction of private property and attendant social relations.

The Humane Order: Against Economies of Scale

Röpke’s writing on international matters extends back to the inter-war period, treated at length in 1923, in his article “Zum Problem der deutschen Wettbewerbsfähigkeit auf dem Weltmarkte” – “On the Problem of German Competitiveness on the World Market.” The themes

²⁶ Röpke, *Die Lehre von der Wirtschaft*, 324.

of this short article contain the germ of the later works: at the root of the problems encountered by German firms dependent on exports he discovered dirigiste policies in export markets that unleashed inflation, unpredictability, and that had interfered in the working of price signaling. They thus they had a deleterious effect on even those economies organized according to free market principles.²⁷ In a study whose germ was a Rockefeller-supported conference in the summer of 1936 in southern France, and developed subsequently with the imprimatur of the Graduate Institute of International Studies in Geneva, where he was later to settle.²⁸ During the mid-1930s, though based at the University of Istanbul and living in the picturesque Marmaran city of Kadiköy under Atatürk, Röpke cut off by language and, with few like-minded exiles other than Alexander Rüstow, made frequent summer visits back to Europe: Austria, Switzerland, England, Holland and Yugoslavia, even visiting Germany, which must have been a great risk.²⁹ By 1937, he was back in Europe, based in in Geneva at the invitation of William Rappard. He would remain at the Institute there until his death in 1966.

As the first major work of this turbulent period was finally brought out by Macmillan English in 1942, *International Economic Disintegration* foregrounded the “human (vital) problem” of the “radical dissatisfaction of the working classes” for which wage fixing was no remedy.

²⁷ Wilhelm Röpke, “Zum Problem Der Deutschen Wettbewerbsfähigkeit Auf Dem Weltmarkte,” *Weltwirtschaftliches Archiv* 19. Bd. (1923): 253-254.

²⁸ Röpke had, in 1934, delivered a lecture on German commercial policy under the Geneva institute. The text, *German Commercial Policy*, was published in 1934 English by Longmans, Green and Co., corrected by Jacob Viner, who, along with Frank Knight was among the founders of the Chicago School in the 1930s and militantly opposed to Roosevelt’s New Deal. Like most of Röpke’s English-language books, this was published by a commercial house. See Wilhelm Röpke, *German Commercial Policy* (London; New York; Toronto: Longmans, Green and Co., 1934).

²⁹ Hennecke, *Röpke: ein Leben in der Brandung*, 107

Laissez-faire in social policy, being acknowledged as untenable, has yielded to social reform, which tries to solve the problem by wage fixing, shortening of the working day, social insurance and protection of labour. Much has been done in this field which everybody will regard, in principle as a real advance over *laissez-faire*. Yet, not only does this policy of social reform easily develop into a heavy burden for other sections of the population which happen to be less well organized...but...it has increased, rather than diminished, the menacing dissatisfaction of the workers.

[...]

We are to-day tending more and more to realize that the real cause of the discontent of the working classes is to be sought in the devitalization of their existence so that neither higher wages nor better cinemas can cure it. To be herded together in giant factories like sheep or soldiers; to devote the vitally important hours of life to work under heteronomous regimentation and without fully realizing the sense and dignity of individual labour; to be uprooted from all natural bonds; to return to gloomy slums and to seek recreation in amusements as senseless, mechanized and devitalized as their work itself; to be dependent every minute of the day on the anonymous forces of society; to live from one pay-day to another—these and many other facts constitute the real problem of the proletariat.³⁰

The experience of the proletariat should be compared, Röpke continued, to that of the peasant or craftsman, who “lead a fuller, more dignified and human life than the proletarian under present conditions. Social science – and this was the task in part of the study at hand, and the research program at the Geneva institute sponsoring it – should be revitalized itself, in order to combat the specialization that had sacrificed knowledge of the “whole body” of human experience for narrow understanding of it. The paradigm of such specialization belonged to a period in world history in which basic constitutional questions, pertaining to fundamental social coherence of institutions such as the law were taken for granted. Now that they were shown to be

³⁰ Wilhelm Röpke, *International Economic Disintegration* (London; Edinburgh; Glasgow: William Hodge and Company, 1942), 3.

in doubt, a new period in world history, which Röpke was to compare to the breakdown of the Roman empire or the rise of national mercantilist states at the end of a period of “medieval internationalism” meant that a synthetic analysis based on interdisciplinary humanistic learning and science would be required.³¹

The quantitatively established fact of decreasing trade was of less concern to Röpke in his *International Economic Disintegration* than the qualitative transformation of the world economy since 1929, and the immeasurable loss of potential benefits that would have shaped the world economy had integration, instead of retreat into autarky, been sustained in the period. Röpke thereby approached the problem mainly from a qualitative or normative vantage – here the impact of Walter Lippmann’s *Inquiry into the Principles of the Good Society* of 1937, and the international colloquium held in Paris the following year in its honor, undoubtedly can be felt. This methodological distinctiveness from much of political economy was evidently important enough to Röpke that it required sustained treatment over the course of the text. Röpke held that his method in *International Economic Disintegration* was both rejected emphasis on ideology critique of that found in Sorel, Marx and Freud, but also descriptive and quantitative analysis. Once the empirical fact of international economic disintegration had been established through recapitulation of declining trade volumes in a sector-by-sector discussion, the study devoted itself to the instrumental and socio-economic reading of the conjuncture.

What were its main findings? The text is striking in its synthesis of several lines of inquiry, each of the three main sectors of the world economy. What it laid out was a structural

³¹ Röpke, *International Economic Disintegration*, 7, 19. On this last point, Röpke referred to R.F. Wright’s study on the medieval church in the West. See R.F. Wright, *Medieval Internationalism: The Contribution of the Medieval Church to International Law and Peace* (London: Williams & Norgate, 1930).

transformation of global capitalism since the end of the First World War. The development of the world economy in the belle-époque was to be read as a “spatial extension of capitalism.” This meant not just “incorporation of additional square miles, but of additional men living and working in them” viz. a population increase “within the orbit of the old trading area.”³² A reversal of this trend signified that the world market, “virtually a unit” in the period up to 1914, had entered a new phase of disintegration. The two pillars of this system – most-favored nation or open-door trade and the gold standard – were further evidence of the qualitative difference between this period of capitalist crisis and the last. Röpke noted that the depression of 1875-1895 did not affect the “financial mechanism of the world economy” as had the current one, and with it factor mobility.³³ The first was the identification of the breakdown of the monetary system in the aftermath of the first world war as the distinct and decisive feature of the period, and carried with it a number of implications. The destruction of a *de facto* world money, gold, was the corollary to the *ordre public international* and also reinforced and was constitutive of it. Nationalism in this regard was a fraternal arrangement, rather than a “red-hot passion.” Even the conduct war obeyed “fixed rules and norms” analogous to the codes of chivalry and other moral and legal customs, so that there could be said to have been a community of the different nations. This was “the nearest approach to an international super-state” distinct from the existence of the *Pax Britannica* whose role in the development of this system was, for the moment in Röpke’s writing, left unexplored. Indeed, the role of empire in *International Economic Disintegration* and the correspondence between the terms of *imperium* and *dominium* was largely cast as a symptom

³² Röpke, *International Economic Disintegration*, 14, 76.

³³ *Ibid.*, 19.

of the contemporary nationalism of the breakdown of the international order and the rise of autarky and economic imperialism,³⁴ with its rival spheres of influence and the bellicosity they engendered at a world scale. Here, Röpke freely understood these developments as indicating “the primacy of politics” as cause of this transformation. “With the exception of the Napoleonic period,” he wrote, “there was no imperialistic struggle for world hegemony, and after the battle of Waterloo the European state-system, based on the balance of power, was restored.” The gold standard was the culmination of the holy alliance, and “made the world practically a payment community, and in doing so it established a universal confidence in the solidity of the basis of international economic transactions” and was “more than a technical arrangement,” but a “vital force”; “moral institutions” or “the electric battery that supplied the current” and which had been “allowed to run down.”³⁵

Following Lippmann, Röpke emphasized, within the limited parameters of the instrumental analysis of the military aspects of the growth of nationalism. Here, it was the transformation from limited war of the nineteenth century to a total war³⁶ that, following the “wholesale democratization of our society” meant the dissolution of the norms prevailing in that period which clearly distinguished the diplomatic necessity of war in its own sphere from the all-encompassing economic character of total war. For Röpke, the sheer scale of the labor requirements of total war were historically unprecedented and could not come about spontaneously. War under such conditions therefore entailed a politicization of the economy in

³⁴ Röpke, *International Economic Disintegration*, 96.

³⁵ *Ibid.*, 76.

³⁶ Röpke credits Ernst Jünger’s *Die totale Mobilmachung* with the first identification this phenomenon and the derivative concept of totalitarianism. See Röpke, *International Economic Disintegration*, 98.

the form of planning of production, distribution and consumption, but also in the total mobilization of the population. It required “autarky and planned development,” and was fundamentally in conflict with economic liberalism.³⁷

Separately, the policy of agriculture occupied a special place in Röpke’s analysis, one that dovetailed with the socio-economic considerations that lay at the basis of his highly political understanding of the breakdown of the world economy. For Röpke, agriculture was a peculiar line in that it resisted specialization and, compared with industry, required a “lower optimum size of the unit of production”; but that at the same time it reflected an “organic process” of the application of labor and capital, subject to the unchanging patterns of the seasons.³⁸ Because of these distinct features, the two main types of agriculture, the “European type” represented by the peasant farm and the “colonial,” Röpke contended, had knock-on effects at all levels of social life. Agriculture was, more than any other line, a “way of life” – this was what Röpke referred to as its sociological peculiarity. By European agriculture, Röpke had in mind the self-sufficient and diverse farming. The colonial form of agriculture was characterized by specialization, market-dependency, mechanization and technical innovation. Farmers in the European tradition were more conservative and traditional, and were “bound by more than mere considerations of profit.”³⁹

Historically, and coeval with the First World War, was the emergence of a severe agricultural aspect of crisis. Above all, it was a crisis of overproduction of grain and cotton:

³⁷ Röpke, *International Economic Disintegration*, 99.

³⁸ *Ibid.*, 112.

³⁹ *Ibid.*, 116.

At the same time there was, in the industrial countries on an agricultural import basis, an intensification of agriculture up to and even beyond the pre-war level. This development was furthered by the resumption of agricultural protectionism, which was intensified the more the tendencies toward overproduction in the agricultural-export countries and the cost-decreasing effects of the new techniques of production made themselves felt on the world market.⁴⁰

In Röpke's reading, this development had produced in the 1920s to an agricultural nationalism that led to a cascade of difficulties: agricultural export countries attempted to compensate for the raising of tariffs by further rationalization of their staple products, in part, and by production of more refined products. This meant a shift towards industrialization, and thereby a collapse in credit issued to the main agricultural producers in the world economy. Agricultural nationalism was in this view a fundamental cause of the general breakdown of the international order. The "third way" Röpke suggested as a remedy was, though sympathetic with this agricultural nationalism would mean a partial rationalization of agriculture, but also a recognition of its costs. Above all, it would have to resist the temptation of agricultural planning on the one hand, and the demolition of peasant production on the other through the introduction of capitalist land reform. For Röpke, the social significance and value of the peasant must be preserved. The European peasant was the last great island "not yet inundated by mass society" and "the solid rock of a form of human life and work which is inherently stable and vitally satisfying," and one which just happened, by "miraculous coincidence" to be the "optimum structure" for agriculture in industrialized countries.⁴¹

⁴⁰ Röpke, *International Economic Disintegration*, 119.

⁴¹ *Ibid.*, 158.

What of industrialization? Röpke's enthusiasm for peasant production found no corollary in a denigration of industrialization at this stage of his thought. True, newly industrialized countries would put pressure, and require "painful adjustments" in the core industrial ones, but this was generally a progressive movement ("a progressive diffusion of the production of consumption goods"), and indeed did not entail disintegration. Rather, such world-wide industrialization should yield "the final result of a more intensive world economy."⁴² It was an open question whether newly industrialized countries would develop along autarkic lines by means of protectionism, or whether they would develop with increasing reliance on international trade. The question was likewise not yet resolved if the development of the entire world economy towards greater industrialization would therefore leave primary production more profitable, as manufacturing industry ("the industrial superstructure") grew out of proportion to primary products.⁴³ Röpke's discussion of the development of manufacturing was skeptical of the concept of the possibility of its universalization, and even wagered a global redundancy in these lines as a possible future contradiction of its emerging from the transformation of all national economies into advanced industrial ones. But the account left these matters open, and remained descriptive at this point in his analysis.

Inquiry into the monetary-financial system, by contrast, could not have carried more weight in Röpke's account, and in fact got to the heart of the causal argument he was attempting to sustain throughout *International Economic Disintegration*. Röpke, as has been shown, was conscious of the limits of mere description. In his attempt to illuminate the causes of the crisis of the conjuncture of the 1930s, as was often the case, the analysis of the monetary system was

⁴² Röpke, *International Economic Disintegration*, 182.

⁴³ *Ibid.*, 187.

central. But here, it indexed more than explained, and thereby assumed a profound ambiguity in the flow of causality. Was the abandonment of gold standard a cause or an effect? It was both. The breakdown of the gold standard in 1931 had altered trade and commercial policy on a world scale, but more importantly had brought about “deep change” in the “national money and credit systems which, even if still adhering to an essentially liberal organization” had lost their capacity for self-adjustment. The loss of this self-correcting mechanism in turn spurred a deepening of economic planning on a national basis so that it could be said that “the breakdown of the gold standard ... appears both as cause and effect.”⁴⁴ The nationalization of money that was the result of free exchange system and the abandonment of monetary stability. These exacerbated tendencies towards short-term calculations, not only in private investment, but in international affairs as well, as national governments were discouraged from arranging for “long-term commercial treaties in a liberal spirit.”⁴⁵ The logical end of this would be regional currencies minted at a provincial level with free exchange rates toward each other, which was indeed the condition of Germany prior to its unification in 1871. Clearly, Röpke saw abandoning the gold standard as a retrogression. But what of the promise of the study to offer explanation of this global disintegration? The skein of interlocking relations of economic sectors, overlaid by a moral or sociological meaning in the case of agriculture and monetary regimes proved a challenge for clear understanding. Röpke had modulated the focus of inquiry, only to reproduce the descriptive research program against which he warned in the opening pages of *International Economic Disintegration*. But in the studies last chapters, he registered its insufficiency, and insisted that “our outlook must be made still wider.” Incongruously, the “wider” outlook required

⁴⁴ Röpke, *International Economic Disintegration*, 191.

⁴⁵ *Ibid.*, 196.

focus on the changes of the internal structure of national economies, since “all threads of causation will ultimately lead us to a fact which is both trivial and important”: the breakdown of the old liberal order within national settings, where it was giving way to a “new order characterized by conscious direction of the national economic process” either through direct planning, or monopoly. The effect was a politicization of economic life.⁴⁶

Did this insight into the social and political basis, at a national level, in fact offer a breakthrough? In proposing new “ways of research” Röpke at times expressed as much reluctance about the clarity of causal direction as an analysis of the international scene itself (“a vicious circle of intertwined causes and effects: international economic disintegration and internal structural change.” And “we arrive at the conclusion that one of the causes of the present national changes is to be sought in international economic disintegration itself.”) Even once the subject is broached, Röpke still permitted himself speculation on the ultimate effects of newly industrialized countries such as Japan upon the world market (would they export primarily to not-yet-industrialized colonial zones? Would regional trade blocs be the norm from now on?) But it was national changes that were the “really strategic factor” and that were “ultimately responsible.” What were these national factors? They were more or less outgrowths of capitalist development: growing concentration of firms and plants; the emergence of monopolies with all of their secondary effects on the capacity of the system to adapt to change. Socially, a premium was put on social policies responding to the “problem of the proletariat.”⁴⁷

Clarity of Röpke’s conceptualization is finally achieved in these ruminations on the period. It was one of a revolutionary upheaval in the “sociological foundation of economic

⁴⁶ Röpke, *International Economic Disintegration.*, 220.

⁴⁷ *Ibid.*, 224-5.

phenomena.” These apparent background conditions were really underlying ones: research into the present “pathological condition of society” would consist of analyzing different layers to be uncovered one after another until this sociological one was reached. The main feature to be charted would be to register the world-making event of the formation of the masses.⁴⁸ An inquiry into this degenerative process would have to follow the psycho-sociological literature, as pioneered by Ortega y Gasset, Lippmann, Rüstow, Croce, Freud, but also von Beckerath and others.

Between 1942 and 1945, Röpke published three book-length studies on the topic, three of which were conceived of as a trilogy *Gesellschaftskrisis der Gegenwart* (*Social Crises of Our Time*, 1941), *Civitas Humana* (with two English editions, an untranslated title and one brought out under *Moral Foundations of Civil Society*, 1944), and his 1945 work *Internationale Ordnung – Heute*. Röpke’s English work *International Economic Disintegration*, of 1942, discussed above, may be seen as a precursor to this highly sociologically-oriented project, especially in its concluding musings on a future research program, and the sociological essay appended to it by Alexander Rüstow. The trilogy repays close study on the questions of the social and political dimension of ordo-liberalism as it relates to the state during the Nazi period. Röpke’s framework within these texts is consonant with ordo-liberalism’s requirement for a strong state capable of enforcing competition and thereby the price mechanism. Like Eucken, Röpke called for an international payment community based on hard money, anchored by convertibility to gold; he understood the breakdown of the nineteenth century liberal order—at this economic register—to be a result of the politicization of economic policy, especially in the farm sector. He rejected

⁴⁸ Röpke, *International Economic Disintegration*, 238-9.

bilateral trade agreements, comparing them to co-prosperity spheres which enforced exchange controls, and necessarily restricted the capacity of weaker states in these agreements to trade freely (Röpke favored instead Most Favored Nation treatment).

In tracing the origins of the breakdown of multinational trade regimes in the nineteenth century, Röpke's work, as with Rüstow's⁴⁹ turned toward analysis of the social basis of capitalism and with what he saw as the failure of laissez-faire liberalism. It is notable that Röpke uses the term capitalism, not as a term of derision but as one of praise. Röpke's trilogy, however, makes much of the history of ideas, where his previous studies, *Lehre von der Wirtschaft*, *Crises and Cycles*, *German Commercial Policy* and finally *International Economic Disintegration*, were in form political-economic analysis, supplemented by sociological inquiry, raised more as a question. Now, in the trilogy, the ideological and social thought of Röpke was expressed in a sustained fashion as never before.

What were the main features of this trilogy? First, it was a run-down of the history of political economy itself. Röpke held that Adam Smith and the classicals had overlooked the tendency of the greater concentration in the market because they had inherited from the physiocrats a mystical belief in natural equilibrium (this was a kind of deism whose lineage stretched back to Heraclitus and Pythagoras). Smith had mistaken liberal social values as dependent on liberal economic policies of laissez-faire. Röpke and Rüstow reversed this hierarchy. In fact, it was rather liberal-Christian ethics which sustained the *parallel* rise of economic liberalism. Only under a regime of *pacta sunt servanda* within a secularized *Respublica Christiana* – accompanied in the nineteenth century, the British empire – could something like most favored nation treaties, the foundation of expanding capitalism, survive. For

⁴⁹ Alexander Rüstow, *Die Religion der Marktwirtschaft* (Münster: Lit Verlag, 2001), *passim*.

Röpke in the *Social Crisis of Our Time*, it was this *Pax Christiana*, first and foremost, that characterized the liberal nineteenth century. In *International Economic Disintegration*, English sea power was not the main determinant of it, but the rather the participation of all civilized nations in this “unwritten international order” along with the gold standard, that had maintained it. But liberal capitalism undermined the social base which sustained it.⁵⁰ Economic freedom and competition, by themselves, only led to political attempts to subvert the logic of the market in the interest of profit. The politicization of the economy distorted the price signal, the social consequences of which were disastrous: proleterianization, from which collectivist fantasies sprung.

The national state, then, should assume a social and educating function, in addition to its purely economic one. It was to ensure not only the depoliticization and neutralization of economic life, but also the moral foundations for a “natural international order” of many states bound by international law. Each state would direct its energies toward maintaining the internal conditions favorable to this international scenario: States would develop “fresh non-proletarian types of industry...” that is, “forms of industry adapted to peasants and craftsmen; to the natural furtherance of smaller units of factories and undertakings as well as to sociologically healthy forms of life and occupation, approaching as closely as possible that ideal border-line of peasant and craftsman.” The state would break up “the big cities and industrial districts,” and move toward “properly-directed country planning.”⁵¹

⁵⁰ Röpke, *International Economic Disintegration*, 73. See also Alexander Rüstow, “Appendix” in Röpke, *International Economic Disintegration*, 268-74.

⁵¹ Wilhelm Röpke, *Civitas Humana: A Humane Order of Society*, trans. Cyril Spencer Fox (London; Edinburgh; Glasgow: William Hodge and Company, 1948), 154. For the German see Wilhelm Röpke,

In *Civitas Humana* (1944) Röpke argued that, through a progressive tax on inheritance,⁵² a “minimum of property” could be guaranteed to every citizen within the form of the *pater familias*, “letting [each] have a house and garden of his own,”⁵³ in towns numbering no more than fifty or sixty thousand inhabitants—not least because the “modern *big city*” was a “monstrous abnormality” as he put it.⁵⁴ On the demand side, the state would educate consumers about specific goods: citizens, “confused by advertising,” should be “trained” to be discerning consumers, “perhaps even in his school period...”⁵⁵ So long as a strict division between Imperium—the operations of the state—and Dominion, property ownership—was respected, the role for the state could be very extensive indeed.⁵⁶ The cumulative effect of these measures was to equalize life chances and to let the market decide winners and losers.

If such a regional, provincial, moral and economic order could be enforced, only the adoption of a convertible currency—convertible to the gold standard, or some other common metal—would be required to ensure a just distribution of goods. Even the natural unequal distribution of raw materials across the globe could be overcome with sufficient depoliticization of private

Civitas Humana: Grundfragen der Gesellschafts- und Wirtschaftsreform (Erlenbach-Zürich: Eugen Rentsch Verlag, 1944), esp. 270-86.

⁵² *Ibid.*, 158.

⁵³ Alexander Rüstow, “Appendix,” 159.

⁵⁴ *Ibid.*, 161, 162.

⁵⁵ Wilhelm Röpke, *The Social Crisis of Our Time*, trans. Annette Jacobsohn and Peter Schiffer Jacobsohn (Chicago: University of Chicago Press, 1950), 234, 251 n. 18. For the German, see Wilhelm Röpke, *Die Gesellschaftskrisis Der Gegenwart* (Erlenbach-Zürich: Eugen Rentsch Verlag, 1942), 374 and 398 n. 18.

⁵⁶ Wilhelm Röpke, *International Order and Economic Integration*, trans. Gwen E. Trinks, Joyce Taylor, and Cicely Käufer (Dordrecht-Holland: D.Reidel Publishing Company, 1959), 79. For the German, see Wilhelm Röpke, *Internationale Ordnung – Heute*, 2. Auflage (Erlenbach-Zürich, Stuttgart: Eugen Rentsch Verlag, 1954). The first edition was published in 1945.

ownership: “We have in fact reached a point in history, where the earth (at any rate economically) has become a unit,” Röpke wrote in *International Order* (1945). Taking the relations between economically unequal Swiss cantons as a comparandum, Röpke argued that: “*The problem of a just distribution of raw materials is therefore no political problem of a new territorial order or an international organization, but an economic problem of the new world-economic order*, and in fact a problem of one such as is alone worthy of this name, i.e. the liberal one.”⁵⁷ Nevertheless, empire was charged with enforcing this liberal order. Just as the *Pax Britannica* was responsible for the peace and prosperity of the liberal nineteenth century, so too must today’s empires – curiously formulated in the plural – recognize their duty “to all mankind”: “The unrest of countries standing outside these empires can only be stilled, if the great empires give palpable proof that they have understood the responsibility towards all mankind (the earth today having become an economic whole) which their colossal scope places upon them.”⁵⁸ However, the free movement of raw material and goods had no equal in the free movement of people. As far as mass-immigration was concerned, every nation had the duty “to subject it to a *qualitative* control, which protects the spiritual patrimony, the political tradition, the ethical, linguistic character and the social structure of the country from an immigration undesirable from these points of view.”⁵⁹

⁵⁷ Röpke, *International Order and Economic Integration*, 127.

⁵⁸ *Ibid.*, 124.

⁵⁹ *Ibid.*, 148.

The Wartime Trilogy: The Double Character of Capitalism

The wartime trilogy was characteristically synthetic for Röpke's work, and aimed at a general analysis of the totality of social relations. It began, has already been discussed in part, from a psychological and sociological inquiry into the moral and spiritual substance "which pagan antiquity and Christianity have handed down to us as their joint heritage." Over the course of its secularization, this heritage had informed the concepts of progress, rationalism, liberty and humanity, but had withered – with "no alternative sources of faith and certainty" arising to take their place.⁶⁰ This first work of the trilogy, published in Switzerland in and then brought out in English in 1950 by the University of Chicago press, was mainly an interpretation of the urgent crisis overtaking the West since 1929. Rather than a systematic and "exhaustive diagnosis" of this world crisis, *Social Crisis of Our Time* offered a "preliminary clarification and orientation" of the problem.⁶¹ What it mainly did was to offer a mixture of *Kulturkritik* and *Begriffsgeschichte* to account for the contradictory development, over the course of the eighteenth and nineteenth centuries, of mass society. The mass society described by Ortega y Gasset was unhealthy: structureless, anonymous, amorphous, purveying a "cult of youth" and beset by "pseudo-integration":

The place of a genuine integration created by genuine communities, which requires the ties of proximity, natural roots and the warmth of direct human relationships, has been taken by a pseudo-integration, created by the market, competition, central organization, by "tenementing," by ballot papers, police, laws, mass production, mass amusements, mass emotions and mass education, a pseudo-integration

⁶⁰ Röpke, *Social Crisis of Our Time*, 7.

⁶¹ *Ibid.*, 5.

which its climax in the collectivist state. The more tightly individuals are packed together and the greater their dependence on each other, the greater is their inner isolation...⁶²

This was intolerable, but its origins could be traced to the dawn of the early modern period. Developments over the course of the two centuries preceding the age of democracy had paved the way for this social crisis. This “fountain head” both political and economic: it consisted of two revolutions: the political, of 1789, on the one hand, and the economic one of the emergence of capitalism. The conditions to which each had responded, as the outcomes or potentialities unleashed by them, were not settled. There was, as Röpke wrote in *Civitas Humana*, an important conceptual distinction to be drawn between the historical capitalism – capitalism in its historical setting – and the “permanent element” of the market.⁶³ Each had a dual character.⁶⁴ It was characteristic of his thinking in this period to emphasize this aspect of pre-capitalist economies, and politics, as well as what Röpke calls revolutionary bourgeois politics and its heirs to have features worth retaining:

The world would not be in its present hopeless state, nor would this book ever have been written if the errors of rationalism—more fatal than all misguided passions—had not caused all the great and promising beginnings of the eighteenth century to end in a gigantic catastrophe of which we can still feel the effects: the French Revolution.⁶⁵

⁶² Ibid., 10.

⁶³ Röpke, *Civitas Humana*, 5.

⁶⁴ Ibid., 108. Here, Röpke speaks of a “dual character of Feudalism” outright.

⁶⁵ Röpke, *Social Crisis of Our Time*, 41.

The French Revolution was a “dichotomous event exhibiting that ambivalence characteristic” – “at one and the same time liberation and disintegration,” precisely because “the pre-revolutionary period itself had been no less ambivalent” and the features of what worth preservation in the Ancien Régime: its “order and internal coherence...authority and hierarchy.”⁶⁶ Röpke understood the political revolution of the eighteenth century to have its origins not in enlightenment, but in the liberation movements of the French peasantry, as parallel developments in America and Switzerland – co-operatives of the valleys of the alpine peasants, town meetings in America – had made clear. In this way, the French were exceptional in the rapidity of their bourgeois-liberal revolution, whereas the Anglo-Saxons, the Dutch, the Swiss and the Scandinavians had experienced a healthier, slower and organic growth of the institutions of democracy imposed suddenly in the French case.

Nevertheless, Röpke argued that, the economic transformation of the eighteenth century could not have developed without the growth of the commercial-industrial burghers. Only the political transformation of the late eighteenth century could have unleashed suddenly the cumulative technical innovations that had hitherto existed furtively since the renaissance. Mechanization and then industrialization, were the results, with known double characteristics. This held as much for the rational and scientific thought that had informed these technical developments. Rationalism itself could undergo aberrations and distortions, especially if it attributed to history itself and the social process “rational motives.” The liberating capacity of reason should not be “taxed beyond its capacity” or assume, as in the case of political economy, a *homo oeconomicus* that was capable of calculation independent of sociological and historical context. Reason must be “confined to its proper sphere,” and it was one of the fundamental errors

⁶⁶ Röpke, *Social Crisis of Our Time*, 42-3.

of socialism to have attempted to assert the absolute autonomy and universality of reason when applied to society. “In the fields which concern us here,” Röpke wrote, “reason simply is not autonomous and unfettered, it does not exist in a vacuum, nor is it entitled to spread its wings, but is obliged to recognize the barriers and conditions set by the circumstances of our existence.”⁶⁷ But it was not just socialism, but also the economic liberals of the nineteenth century who were responsible for a “supreme disregard for the organic and anthropological conditions which must limit the development of capitalist industrialism” and which was 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.”⁶⁸ The nineteenth century “cult of the colossal” and the brutality of reason intoxicated with numbers and with enormous dimensions standing outside and above humanity.⁶⁹ This process, beginning in the 1840s, had meant a “withering of the soul.”⁷⁰ The “dismal life of the nineteenth century” could be observed in every sphere, from “prudishness and somberness of its male attire” evincing the “gloomy Puritan attitude” to the history of art, where the contrast between genuine grandeur of Mozart and the Russian-influenced music of the nineteenth and twentieth centuries. In architecture, too, *Völkerschlacht*

⁶⁷ Ibid., 48-9.

⁶⁸ Ibid., 52.

⁶⁹ This was the title of an article Röpke had written in the *Neue Zürcher Zeitung* in 1941, and the subject of correspondence with the Swiss playwright and novelist Arnold Kübler, also from that year. Wilhelm Röpke, *Briefe: 1934-1966*, (Erlenbach-Zürich: Eugen Rentsch, 1976), 45-50. The importance of art history in these circles is evident. In a circular from Hayek to the Mont Pèlerin Society Membership of December 1949, the former relays a recommendation from Karl Popper that Ernst Gombrich be invited to join the Mont Pèlerin Society, as it would be germane to the society’s program at its next meeting. Hayek to Eucken, 12 December 1949, Nachlass Walter Eucken.

⁷⁰ Ibid., 67.

Memorial in Leipzig was emblematic of the colossal scale that, as with its contemporary movements in the visual arts, aimed at external mass reaction, and abandoned human values. In this way Röpke, explained, “*art pour l’art*” found its parallel in the positivistic spirit of science for science’s sake: a “frightful disease of modern art.”⁷¹ The same could be said of automatic machinery of production under capitalism, which, though it liberated human labor and cheapened production, in fact entailed hidden liabilities, such as the “renunciation of the enjoyment of goods in the present” via expenditures on machinery itself; the price of bad investments and experiments in new production that has failed; the increase in the cost of education and training; monotony of life in an age of mechanization and the costs of new amusements required to compensate for boredom; and the self-evident loss of quality of its products, as well as the outright destructiveness of war made possible by such machines. The spirit of nineteenth-century capitalism, its “techno-scientific rationalism,” reached paroxysm in socialist politics and especially the scientific socialism of Marxism. The scientific organization of society in this sense meant “vitamins, microscopes, logarithms, slide rules, atomic fission, psychoanalysis, physiology, mathematical statistics, hormones” where human life was dominated by the “false solicitude of the posters of the pharmaceutical industry.”⁷²

The long-term reforms of which Röpke dreamt in 1941-2, outlined above, were also accompanied, however by short-term practical measures, and found articulation in his suggestion for what he called the “counterweights to power of the state” in his *Civitas Humana*. In that

⁷¹ Röpke, *Social Crisis of Our Time*, 79. These notes to the English edition were probably added at a later date.

⁷² *Ibid.*, 111, 157-8. “In this conception of the world men occupy a rank not higher than that of the dogs on which the Russian physiologist Pavlov carried out his famous experiments...”

study, with preamble dedicated to Luigi Einaudi, Röpke also denounced the cult of analysis (as opposed to synthesis) in intellectual inquiry. He militated against positivism and quantitative and technical thought.⁷³ Among Röpke's works, this perhaps provided the most clear articulation of the manner in which he conceptualized history. On the one hand, there were really-existing instances of different forms: a social regimes "historical setting." On the other, existed certain "permanent elements" or social organizations of an ideal types (referred to by Röpke alternatively as economic orders, principles, or essences), against which real historical development could be measured. The elementary problems suggested by these nearly transhistorical categories all "demanded some sort of solution...to the ultimate question; how are the means of production over which society disposes to be used? Shall we produce this or that?"⁷⁴ In this way, really-existing capitalism – in the text rendered between quotation marks, and reluctantly – was very bad example of a market economy.⁷⁵ Although of In stressing the dual aspect of feudal society, which he admired for its decentralization, although it was authoritarian. Amidst the repetition of these familiar, however, themes was a striking set of remarks about the nature of civil society – the counterweights to the overbearing state, and

⁷³ Röpke, *Civitas Humana*, 54. "This quantitative scientific type of thought revolving round number, mechanics, curves, laboratories, and empiricism and which is now inflicting itself upon social and spiritual life, was to be encountered even in the seventeenth century with a fanaticism which could induce a Malebranche to break with an old friend because he happened to notice lying upon his writing table so useless a book as Thucydides!"

⁷⁴ *Ibid.*, 4.

⁷⁵ The taxonomy was here rather similar to Walter Eucken's, and drew a further distinction, at a higher register, between the undifferentiated, self-contained economy, and a differentiated one. For the former, a pure instantiation would be the free peasant economy; a degenerate form of it, the feudal. For the differentiated, market economies could either exist purely, as competitive ones, or degenerate into monopoly-based economies. The specter of a "coercive economy," viz. "collectivism" knew neither pure nor degenerate forms in this schema, being itself evidently corrupt.

Röpke's understanding of the development of capitalism in Europe; and the distinctive importance of this society's Christianity, in its several denominations.

Underwriting the legitimacy of a state – one “which disposes of an inner moral title of right” and recognized by the population without any spectacular deployment of external force – was its decentralization, as “described by an expression of Catholic social doctrine as the *Principle of Subsidiarity*”⁷⁶ where “original right” lies with lower ranks, from individuals upwards, unless tasks are beyond these ranks' capacities. This was a principle which lay at the basis of liberalism: a principle government “which sets the necessary limits to itself.” It also required association, or community, as a moral foundation, since true human communities could only be found at scales smaller than that of the nation, organized from below upwards.⁷⁷ These all amounted to counterweights to the state. But what of Christianity? In a striking passage, Röpke emphasizes not just the formal or functional aspect of the informal community engendered by Christian faith, as in his discussion of the effect of a *de facto Pax Christiana* on international relations. Rather, Christianity was in its specific doctrinal features and developments, and in their own internal social composition, a determining factor for the specific features of Western civilization that would have to be relied upon to stem the tide of positivism, scientism, mass society and proletarianization.

The “exceptional position of Christian civilization” was firstly due to the theological emphasis on individual “endowed with an immortal soul” within the Catholic social teaching.⁷⁸

⁷⁶ Röpke, *Civitas Humana*, 90.

⁷⁷ *Ibid.*, 47.

⁷⁸ *Ibid.*, 102. Röpke was himself brought up as Protestant, but in these passages, as elsewhere the importance of Catholicism, in both its theological and institutional facets, is readily apparent.

But it was the sociological context of its development, along with this theological innovation, that had made it a world-historically distinct formation. Institutionally, due to the celibacy of its clergy, and with no overtly political program in its foundational texts – here the basic teaching of the faith was distinct from the Koran – Catholicism had never developed a political class, let alone a hereditary one. Comparison with the “intolerant Caesaro-Papism of the Sultans” and the civil power of the Eastern Church was instructive on this count. As a vessel of classical culture in the medieval period, the Western Church had prevented Europe from becoming “a mere peninsular of Asia,” and had, in its rivalry to the state formed one of main counterweights to it. Protestantism’s shattering of its universality had inaugurated the era of absolutism and the dominance of state institutions, previously checked by this co-equal power. What of the theological and institutional features of Protestantism? For Röpke, the determining factor here, redounds to the position of the relative strength. First, the sociological conditions of this theological content were to be given emphasis, Röpke argued, in any future study. What was apparent in any cursory overview, however, was that Lutheranism was “unsuited to be a counterweight to the state.”⁷⁹ This was, admittedly, not the case in Scandinavia, because there under Gustavus Wasa it had to enlist the peasantry in fighting a Catholic Pretender, the Pole Sigismund. German Lutheranism, however, had spread after the “backbone of the German bourgeoisie had been broken by the destruction of German town civilization,” and thus became a great adjunct to Prussian absolutism. Calvinism, yet again by contrast, because of the effects of developing out of a repressed minority, had developed as a civil check on the state, advocating for the latter’s toleration and limitation, and thereby “modified its theological content in a

⁷⁹ Ibid., 103.

Liberal [*sic*] sense.”⁸⁰ These were the Christian sources of counterweights – but so too were the western inheritances of Roman Law and the Germanic feudal spirit that had brought down the Roman Leviathan. To the former could be credited a distinction between public and private law, as well as the recognition of natural law, Stoicism and the Christianity that had transformed themselves into the human and civil rights of the individual. German feudalism, although authoritarian, had above all operated under the principle of decentralization, and therefore its own dual character should be recognized and this worthy aspect recovered:

Although we are under no illusions about the challenging character of feudalism we are not blind to the possibilities which it contained of functioning as a counterweight to the state and as a hindrance to state absolutism. Indeed we would go a step further and say that feudalism is at the same time hierarchical and also in this respect has two aspects. Hierarchical in the sense of power relationship and hierarchical in the sense of that vertical class structure of society, and its leadership by an élite and legitimate minority, which differentiates an organic, healthy, stable, and well-balanced society from one which becomes the prey of the masses and eventually of tyranny.⁸¹

This ruling class was formed from rooted families, through which occupation would be inherited. The strength of this rootedness, Röpke, held, was that the status of such propertied individuals, was determined by a social process, as opposed to the “vague individual leanings, unbridled ambition and a thousand other influences far more arbitrary than birth.”⁸² Other counterweights to the leviathan of the state could be found in the strata of intellectuals, Benda’s

⁸⁰ Röpke, *Civitas Humana*, 104-5.

⁸¹ *Ibid.*, 108-10.

⁸² *Ibid.*, 111.

“clerks” – drawn from the ranks of scientists (the leading representatives of the secularized clerks), justices, and the press, who nevertheless should operate under some legal restraint so as to prevent irresponsibility. Otherwise, the liberal spirit of this element – which, historically, was peculiar in the range of its “moral and spiritual qualifications” – would be a suicide pact.⁸³

The operations of decentralization, deproletarianization and decongestion, would take place via town and country planning, as discussed above. It would entail the restoration of property and of the monogamous couples with a nuclear family centered around the hearth of a garden-home. The social structure was meant to encourage vitalism, and one of the main symptoms of the decadence of large cities and mass society was the burden of child-rearing.⁸⁴ The genuine decentralization in this structure, spatially would mean that “countrified garden-homes” would support large families, but also eliminate both the expensive requirements of holidays and fruit and vegetables by reducing or eliminating the frequency of these requirements and indeed bypassing the market price of certain staples.

Internationale Ordnung – Heute, the 1945 conclusion to the trilogy to a much lesser extent discussed the tissue of social life on this scale. As with its English counterparts with their origins in the late 1930s (*Crises and Cycles* of 1936 and the Rockefeller lectures of that period brought out as *International Economic Disintegration* in 1942), a book with more technical ambition. This could be seen as anticipations of those practical challenges facing political economy in the period of the immediate post-war period. Here, in the first edition, few new concepts were introduced, but the book in this way launched Röpke into the context of the post-

⁸³ Röpke, *Civitas Humana*, 125.

⁸⁴ *Ibid.*, 160.

war period, where he would write regularly for the *Neue Zürcher Zeitung*, on topical matters, and become a close adviser to Ludwig Erhard, and leading assistant in the economics ministry, Alfred Müller-Armack, both fellow members of the Mont Pèlerin Society, of which he would briefly serve as president, from 1961-1962. As Müller-Armack was to write, in his warm review of the trilogy in the pages of the *Ordo Jahrbuch* of 1950, *Internationale Ordnung* had spot-lit already in 1945 the difficulties of Keynesianism undertaken on a national scale would pose for international coordination and integration.⁸⁵

The most distinct additions to Röpke's oeuvre in this text, however, were the scattered meditations on nationalism, war, diplomacy and empire. Here, the growth of nationalism had yielded a degree of sovereignty that had "burst all bounds and become 'total'."⁸⁶ What this "absolute sovereignty" meant was that the lack of requisite balance of power along the lines of the Congress of Vienna model had put at risk the world economy. This was by far the most urgent in the case of the expansionist "Communist 'pseudo-Islam.'⁸⁷ It lurked, however, in the international effects of the political interference undertaken by the "step-by-step removal of the liberal principle" separating economic and political spheres, especially via trade union strikes: they represented the "nationalization of man" in their demands for direct controls of economic life and took place on a necessarily national basis; but they were paradoxically internationally coordinated, and so all the more threatening in their reach and corrosive effects at this world

⁸⁵ Alfred Müller-Armack, "Deutung unserer gesellschaftlichen Lage: Zu Wilhelm Röpkes Trilogie: Gesellschaftskrisis der Gegenwart, Civitas humana, Internationale Ordnung," *Ordo Jahrbuch* Bd. 3. (1950): 261.

⁸⁶ *International Order*, 24.

⁸⁷ *Ibid.*, 60.

level.⁸⁸ This was the origin of the constant inflationary pressure, and its chief mechanism of concealment, the imposition of exchange controls. These controls were one manner in which collectivism – whether Keynesian or socialist – could deal with the inflation, but they produced further distorting effects, in a process Röpke understood as “repressed inflation.” These problems were monetary in nature, and, since the earth had become a unit, any deviation from a unified monetary and credit system would lead to imbalances.⁸⁹ The solution on this count was a common currency or its convertibility to gold. Interestingly, the *Res Publica Christiana* was the familiar political corollary, but here the nineteenth century British empire was characterized as “by no means unwholesome measure” that had been added to it.⁹⁰

Indeed, the geo-political framework of *Internationale Ordnung* was altogether colored by the Cold War liberalism that emerged in its revised edition of 1953, but little in the basic texture of Röpke’s thinking was to undergo much revision in the post-war period. In his foreword to *Maß und Mitte* of 1950, he characterized his efforts by way of musical analogy: the book was “variations on a theme of his trilogy.”⁹¹ Whereas previously, he could entertain the critique of capitalism as itself a distortion of the “pure market” and even describe his own work as “anti-capitalist” in that sense, and one which should be convincing to Marxists, the post-war writings were modulated to face the “Communist imperium” under threat of nuclear annihilation, where European neutrality was to be scorned in full embrace of American security. Hiroshima, he noted in the second edition of *International Order*, had been obliterated a few weeks after the

⁸⁸ Ibid., 95.

⁸⁹ Ibid., 102, 202.

⁹⁰ Ibid., 75.

⁹¹ Wilhelm Röpke, *Maß und Mitte* (Erlenbach-Zürich: Eugen Rentsch Verlag, 1950), 7.

publication of the first. The lesson was that the technical knowledge that had yielded scientism and positivism had produced the atom bomb – and in its deployment of mathematical formulae, “this brain-power had forgotten the meaning of justice, truth, freedom, political wisdom and love.”⁹² Now, Communism was at the doorstep of the West and Europe was well on its way to integration. This was a fateful moment for a process that had taken two major contributions of Röpke’s. European integration would have to proceed, but it must avoid the common tariff of the Rome Treaty separating out the inner Six France, Germany, Italy and Benelux, from the rest of the world. Röpke recommended a European integration by maintaining a hard currency, shunning the popular demands for welfare policies and maintaining central bank independence, to guard against chronic inflation, fiscal inflation, and, at the world level, the imported inflation that would inevitably hit countries based on export-led growth. The European Coal Steel Community was not the ideal organ for this, not least because it called for a harmonization of labor costs and social policies, meaning the “leveling upwards” way beyond the appropriate market judgment of the productivity labor. These were political pressure, and were a “mainspring of inflation” leading to losses in foreign reserves of gold, crises in balance of payments, and further distorting political interventions such as “import restrictions, export subsidies, and the devaluation of the franc.”⁹³ In *Jenseits von Angebot und Nachfrage – Beyond Supply and Demand*, translated into English as *A Humane Economy* – Röpke reiterated the point

⁹² Röpke, *International Order*, 20.

⁹³ *Ibid.*, 264.

in striking formulation: “Independent central banks seem to be among the *Bastilles* which give our modern Jacobinism no peace until they are razed to the ground.”⁹⁴

By 1958, in an article published in the September issue of *The Banker*, and appended to the English edition of *Internationale Ordnung*, he plumped for the OEEC-led and EPU-led path for European integration, since the former was of an “open” character, and the latter could gradually be “extended to the dollar area” and therefore formed into a system of free convertibility “by, for example, increasing the amount of debit balances payable in gold.”⁹⁵

The Persistence of Occidental Moralism

Röpke’s post-war output consisted of musical variations on a theme outlined in his trilogy and inter-war work, as he put it in *Mass und Mitte* of 1950. But the new international order and the European integration yielded a surprising new dynamic of expansion. Was all good there? Although Röpke was never to return to Germany, he nevertheless was active in advising the top of the CDU party hierarchy, and the Christian Democracy of Italy, with Erhard, Müller-Armack and Einaudi taking him his a guiding light. *Jenseits von Angebot und Nachfrage* and *Maß und Mitte* were nevertheless hardly new territory for Röpke intellectually; and while they recapitulated the trademark occidental moralism of *Civitas Humana* and *Gesellschaftskrisis der Gegenwart*, no such systematic study of the world economic structure was ever again attempted

⁹⁴ Wilhelm Röpke, *A Humane Economy: The Social Framework of the Free Market*, trans. Elizabeth Henderson, Liberty Fund Inc., 1971 (Chicago: Henry Regnery Company, 1960), 196. For the German, see Wilhelm Röpke, *Jenseits von Angebot und Nachfrage* (Düsseldorf: Verlaganstalt Handwerk, 2009), 261.

⁹⁵ *International Order*, 262-3, 268: “If there can be no free trade area then let it be recognized that the path chosen by the Rome Treaty has been a mistake. We could then press forward with greater energy for the integration of Europe along the OEEC path. Such a renunciation would have to be called for in the name of European integration, of which the most vocal supporters have been the architects of the common market.”

in his lifetime. Rather, the topical interventions were issued in shorter interventions in the *NZZ*, the pages of *ORDO* and in the *Schweizer Monatsheft*, though just as often Röpke could devote attention to such topics as the meaning of boredom as a social phenomenon.⁹⁶ Political-economic reflections during the Korean boom years of the *Wirtschaftswunder* were best memorialized by works such as *Die Deutsche Frage* of 1945 and its expanded *Solution to the German Problem* of 1946, in which he recommended a German confederation, and stressed the political reconstruction along neo-liberal lines – not, pointedly along those found in the Beveridge plan and the like.⁹⁷ A collection of Röpke’s writings and lectures from the 1930s through the early 1960s, it including short topical writings for the *NZZ* and other *Gegen die Brandung*. Here, important contributions from across the post-war period give a glimpse at the consistency of Röpke’s thought, and the application of his basic moral argument for decentralization, hard currencies, the threat of mass culture and inflation. In 1947, Röpke would denounce the discussion of the Marshall Plan as setting in train a dangerous process of price controls.⁹⁸

Not only was contributing editor to Eucken and Böhm’s *ORDO*, but he had attempted to jump start a trilingual journal of culture and politics, *The Occident*, with the aid of Hayek and

⁹⁶ Wilhelm Röpke, “Langeweile Als Sozialphänomen,” *Schweizer Monatshefte : Zeitschrift Für Politik, Wirtschaft, Kultur* 36, no. 5 (1956-1957).

⁹⁷ See Wilhelm Röpke, *The Solution to the German Problem*, trans. E. W. Dickes (New York: G. P. Putnam’s Sons, 1947). The conservative sensibility that informed this social thought is revealed clearly in a letter to Eucken from July of 1945: “In August I expect the Crown Prince Rupprecht to come to me, who is staying in Italy and with whom I have been in touch for years. I have a very high opinion of him, and I hope he will soon be able to ascent to his father’s throne. It would certainly be the best solution for Bavaria.” Röpke to Eucken, 26. July, 1945. Nachlass Walter Eucken.

⁹⁸ Wilhelm Röpke, *Against the Tide*, trans. Elizabeth Henderson (Chicago: Henry Regnery Company, 1969), 125-6.

Eucken, although it was never published.⁹⁹ Established at the Institute of International Studies, Röpke was an active member and briefly president of the Mont Pèlerin Society, though in a bitter split within the Society, he sided with the mercurial and unpopular Albert Hunold and resigned from his post; a long-standing friendship with Hayek was also a casualty of this bureaucratic and personal squabble of little substantive moment, but with some implications for the structure and tenor of this society, now bent toward its American, and American-based academics such as Milton Friedman and Hayek, with Böhm and Röpke losing a powerful institutional friend. What remained constant in Röpke's thought was militancy against inflation, whether repressed, imported or via wage growth, and the absolute incompatibility of the welfare state, and the Keynesian technocracy that now threatened to exceed the emergency mandate of the inter-war crisis years, in which every reasonable economist could agree to some counter-cyclical measures.¹⁰⁰ In 1961, Röpke offered detailed discussion of balance-of-payments crisis and the importance of the emerging importance of shifting relative values of currencies. In a synthesis of the world situation, then focused on the urgent diplomatic side of geo-politics, Röpke highlighted a dynamic that would come to have greater purchase in the years after his death. This was the growth of external balances in Germany, politically determined by the demand-side policies of, above all, the United States:

The second meaning of the American demand is that it establishes a link between the balance-of-payments difficulties of the United States and the opposite ones of Germany. The deficits on one side and the surpluses on the other are, in fact, inseparable parts of one and the same world-wide economic process that seriously upsets the balance of international

⁹⁹ Röpke to Eucken, 29. June 1945, Nachlass Walter Eucken. See also Burgin, *The Great Persuasion*, 56, 82-3.

¹⁰⁰ Röpke, *A Humane Economy*, 202-3; Röpke, "D-Mark and Dollar," in Röpke, *Against the Tide*, 171-2.

payments, a sort of earthquake in the world economy with the United States and Germany as the two epicenters, not for the first time in modern economic history.¹⁰¹

Röpke saw the West German external surpluses as evidence of a further peculiarity of the dawn of the 1960s. Although always inflationary, America had experienced a dollar shortage so long as the recovery of Europe and Japan had not yet taken place. But once caught up in competitiveness, there would now be a “dollar flood.” This would not impair European growth by dragging its trading partners down through borrowing, but rather, because fed by American deficits and wage-driven inflation, American policy was pushing a European boom into overheating and over-employment. For Röpke, this arrangement was the dysfunctional result of an anarchic and “cynical” strategy of Kennedy to encourage a parallel policy of stimulating demand in Europe, which advised should be Röpke refused. The policy of Bonn should be to push for revaluation of the D-Mark with the hope that it would restore some discipline to this axis of the global economy. Neither the boom nor conservative policy in Germany was sufficient: the problem was, as ever, one of global political imbalance.

¹⁰¹ Röpke, *Against the Tide*, 237.

Chapter 4: Alexander Rüstow, Sociologist of Market Ethics

Formation and Biographical Overview

Born in 1885 in Wiesbaden, Alexander Rüstow developed the most sustained anthropological theory in the ordo-liberal canon. He was the most intellectually dynamic of the first generation of ordo-liberals, producing cross-cutting philosophical and political-economic work. Politically, he migrated from a stridently anti-liberal ethical socialist movement of the 1920s to a leading light of Christian neo-liberalism. He coined the latter term in 1938 at the colloque Lippmann, a designation meant to convey the full recognition of the limitations of the political corollary to capitalism, which he equated with a degraded market economy. Rüstow began intellectual life as a student of philosophy and mathematics, with studies in the Bismarck-Gymnasium in Berlin focused on the pre-Socratics and Hesiod. A 1908 dissertation at Erlangen followed a philological method in an investigation of *Der Lügner* – the liar – for which Rüstow applied algebraic and formal logical proofs to ancient Greek through renaissance and modern texts, alternatively setting them off with historical accounts, and which took as a main concluding focus the set theory of Russell's paradox. A habilitation planned on Parmenides, and begun in 1911 in Munich, was interrupted by the First World War, into which he was conscripted as a field artillerist, thereafter moving to Göttingen where he underwent a more definite politicization under the influence of the leftist youth movement.

Rüstow's Munich years had already meant fraternization with various heterodox figures of late Wilhelmine culture, such as gestalt psychologist Max Wertheimer and Käthe Kollwitz.¹ His first marriage was to the elder sculptor and painter Mathilde Herberger, and by 1918, he had become socialist, and participated in the November Revolution of that year. This practical activity yielded a significant short intellectual entry of 1919, his first essay of topical social and political theory, in which Rüstow sought to resolve the failure of the uprising in which he had participated by recourse to religion, arguing in the social democratic *Sozialistischen Monatsheft* that the revolution's spiritual and religious deficiencies had explained its ultimate failure.² That same year, he took up a post as a scientific fellow at the Reichswirtschaftsministerium, advising on the nationalization of the coal industry in the Ruhr valley. By the 1920s, he had become active in the religious socialist movement, a brand of reformism of a basically moralizing stamp centered around Eduard Heimann, Adolf Löwe, Carl Meinicke and Paul Tillich, forming the *Kairos-Kreis* which brought out the journal *Blätter für Religiösen Sozialismus*.³ This group sought a socialist ethics as a waypoint or "oases in the desert of capitalism," and in this regard basically overlooked a critique of political economy. Writings from the early and mid-twenties for Heimann's journal show a young writer conceptualizing a Christian socialism set against that of Marx – pointedly against a politics of class struggle, which along with all of the economic categories presenting themselves as given facts, was likewise just an "idea" derived from a

¹ Dankwart A. Rüstow, "Alexander Rüstow (1885-1963): Eine Biographische Skizze" in *Kölner Zeitschrift für Soziologie und Sozialpsychologie*, 23 (1981), 369.

² Alexander Rüstow "Geistige Bewegung," in *Sozialistische Monatshefte*, Bd. 52, Heft 4/5 (1919): 185. For further discussion of this text, see Dieter Haselbach, *Autoritärer Liberalismus und Soziale Marktwirtschaft: Gesellschaft und Politik im Ordoliberalismus* (Baden-Baden: Nomos, 1991), 185-6.

³ D. Rüstow, "Eine Biographische Skizze," 370, and Werner Schußler, "Tillich's Life and Works" in Russell Re Manning, ed., *The Cambridge Companion to Paul Tillich* (Cambridge: Cambridge University Press, 2009), 6.

chiliastic tradition of Jewish prophets. Marx represented the high point of this tradition in the modern period, Rüstow held.⁴ In a 1921 lecture to the Hannover meeting of the group, reproduced in the winter issue of *Blätter für Religiösen Sozialismus*, Rüstow classified Christian socialism by its three main tendencies: this new Chiliasm, a related religion of holy war based on class struggle, and thirdly a politics based on Eros. The millenarianism of Marx and the politics of class struggle should be replaced with a more suitable and humane one from the standpoint of a general humanity: a politics of *die religiöse Erotik*, and informed by “brotherly love.” It would be a politics of Eros against Agape.⁵ On the one hand it is easy to dismiss these religious injunctions as a simple idealism and mystification, but Rüstow saw ethical socialism as having been developed from a sober analysis of social life, and even from careful scientific and sociological study. In that regard, politics was a struggle over particular alternatives appearing as ideas that were themselves shaped by religion. These were, broadly, the concepts of market struggle, class struggle, or struggle for the ideal of community.⁶ In 1926, in the *Blätter*, this theory was rendered particularly clearly: social forms derived from religious streams as illuminated by comparative sociology. This was a point rather consistently maintained through Rüstow’s academic and political writings until his death. Politically, it yielded an entirely instrumental deployment of religious lessons. Class and class struggle, just like any other economic concepts, were sociological phenomena, “albeit with a strong economic foundation” to

⁴ Alexander Rüstow, “Der Religiösen Charakter des Sozialismus,” *Blätter für Religiösen Sozialismus*, Bd. 2 Nr. 11/12 (1921): 41.

⁵ Alexander Rüstow, “Der Religiösen Charakter des Sozialismus”: 42. See also Alexander Rüstow, “Sozialismus als Ziel und Sozialismus als Weg,” *Blätter für Religiösen Sozialismus*, Bd. 2 11/12 (1921): 45.

⁶ Alexander Rüstow, “Offener Brief an Prof. E. Heimann,” *Blätter für Religiösen Sozialismus* 7 (1926): 117-118.

which essential sociological-psychological elements must be added, since they were by no means identical with the economic substructure.⁷ For Rüstow, sociology had revealed that distinctive features of given religious traditions shaped social systems. The argument traced that of Max Weber's in part, but with two important differences. Rüstow made finer distinctions of the differences within Protestantism, and normatively, though of Lutheran upbringing, he clearly favored Catholicism as a progressive force that might yield the overcoming of capitalism. For Rüstow, the Anglo-Saxon or Puritan will-to-power was defined by the extent of personal enrichment, not domination or the personal dependence of the subject, as Weber had rightly observed. This went some ways in explaining the "democratic relations between workers and superiors, especially in America."⁸ But Weber was limited in his analysis where he ignored the particular character of German Lutheranism, whose analogous will-to-power was predicated on the "joy of subjection of a foreign will under its own." This was a "constitutive element of capitalism...the most destructive form of power, and one of the most important reasons why the proper class struggle is centered in Germany and in fact in northern Germany." This is what gave Germany, in other words, its particular character: it was the site of both Lutheranism and a workers' movement informed by a Jewish prophet. Although Rüstow left it undeveloped here, the two terms would later be linked in his thinking, so that there was, rather than accidental symmetry between the two, historically determined theoretical and cultural continuity between the Judaic prophetic chiliasm, as represented by Marx, and Lutheranism, both taking class struggle as the central social category since the latter was directly derived from the latter. Catholicism, however, escaped this dynamic entirely:

⁷ Rüstow, "Offener Brief an Prof. E. Heimann," 117-118.

⁸ Ibid., 117.

The will-to-power of the Catholic entrepreneur is based on the employment of power for personal consumption, more humanely and sensitively than the Anglo-Saxon ascetic form, if far less so and not so directly as the Lutheran, and culturally perhaps more pleasant than both.⁹

During these years, Rüstow was employed simultaneously at the economics ministry, until 1922 considered fastness of social democracy. But two years later, with nationalization plans in tatters, he took off for a lobbyist post at the VDMA, the main group for machine tools. His son, the sociologist Dankwart Rüstow, would later characterize this as a turning point in his father's formation, as it marked the retreat from socialism and the first turn to liberal politics.¹⁰ The main challenge of the VDMA was to challenge the big trusts of the east-Elbian Junkers, and thereby the thrust of Rüstow's activities in the lobby was to convince the economists at the economics ministry in Berlin that introducing greater competition into the market would be a worthy policy. We have already seen, in the correspondence with Eucken from 1928 on, that Rüstow, as with Eucken, attempted to influence Schacht's policy on lending, as both were concerned about the stringent monetary policy of the Reichsbank that they feared had yielded a capital shortage choking off lending required to jump-start capital accumulation. In a *Magazin der Wirtschaft* article from 1926, Rüstow wrote of the commodity shortages that had resulted from the reparations policy; its inflationary pressures domestically via compulsory exports that had, in fact provoked among interest groups in importing countries, a movement towards protectionism. Finally, noting that German workers on average worked an hour daily in production to fulfill Germany's obligations under the reparations plans, Rüstow looked to a

⁹ Rüstow, "Offener Brief an Prof. E. Heimann," 118.

¹⁰ Dankwart A. Rüstow, "Alexander Rüstow (1885-1963): Eine Biographische Skizze," 371.

political settlement that might take into considerations the problems identified in the Dawes Report.¹¹ The theme was taken up in at a more theoretical level when addressing his fellow Christian socialists in the pages of the *Blätter*. There, he wrote forcefully in the mid-1920s against tariffs and barriers to free trade, seeing no threat to agrarian development from the world market, and every possible downside to the drive for autarkic development – in its effects preserving cartels, and in the threat of retaliatory customs penalties that would above all hurt the development of heavy industry and drive up domestic prices, hitting workers' living standards:

In the previous stage of capitulation, everything in the last instance ends with wages. Quidquid delirant reges, plectuntur Achivi. This is simply because, among the capitalist production elements, labor is far less mobile and free than capital. The worker is, so to speak, the victim of the motto, "stay in the country and feed yourself honestly."

And this fatal retaliation on the protective upon the wage level and the aggregate economic position of the proletariat now seems to me to be the decisive reason why we today as socialists must also be practical free-marketers (apart from a few insignificant and narrowly defined exceptions).¹²

Theoretically, Rüstow held that the way from feudalism to liberalism did not lead upwards, but rather was very much a downward movement, and that nothing like a law-like or automatic progression governed the development from one to the other, as Marx had taught (*die automatische Notwendigkeit des Wiederansteigs bei Fortsetzung dieses Weges*).¹³ With this, Rüstow, proclaimed, he and Eduard Heimann were in agreement. But Heimann was in error to

¹¹ Alexander Rüstow, "Reparation und Weltwirtschaft," *Magazin der Wirtschaft*, Bd. 2 Nr. 31 (1926): 971, 974-5.

¹² Alexander Rüstow, "Zollpolitik und Sozialismus," *Blätter für Religiösen Sozialismus* VI, (November/Dezember 1925): 89.

¹³ *Ibid.*, 90.

hold, as he had in his essay “Grundsätzliches über Weltwirtschaft und Handelspolitik” that there was still a strict division between a politics of free trade and that of socialism. At the present moment, socialists must be free-traders on social-political grounds, “without however having the liberal opinion that with the assertion of economic freedom everything that is desirable has already been achieved, and also, that in a distant future, perhaps God will one day fight for the social economy [*Gemeinwirtschaft*] against free trade again.”¹⁴

Contemporary with such lofty meditations on the social worth of free trade, Rüstow’s the time, Rüstow’s employment at the VdMA pushed him into more prosaic lines of work, at which he excelled. The original mission of the VdMA lobby was to free up machine builders from the strictures imposed on them by the cartels of heavy industry, both in exports and in their purchases. When Karl Lange hired him as his de facto chief of staff in 1922, Rüstow moved to expand the statistical branch of the lobby, recently relocated to Berlin from Düsseldorf. But rather than a technical undertaking, the VdMA was principally a publicity and political one. It was a “policy-shaping association” working on behalf of “small and medium-sized firms” in the words of two of its historians. Rüstow’s good relations with elements inside his former employer, the economics ministry, with the major press organ and the force of a system of ideas could be supplemented by conventional advertising.¹⁵ Rüstow had joined on in this important post as its membership was booming, and as coal and other raw material shortages had thrown

¹⁴ Rüstow, “Zollpolitik und Sozialismus,” 90.

¹⁵ Gerald D. Feldman and Ulrich Nocken, “Trade Associations and Economic Power: Interest Group Development in the German Iron and Steel and Machine Building Industries, 1900-1933,” *The Business History Review* 49, no. 4 (Winter 1975): 425.

the advantage to producers, and required an organized response from primary consumers such as machine builders.

As a participant in the historic 1928 *Verein für Socialpolitik* meeting in Zürich, in which Eucken and Werner Sombart were the keynote speakers, Rüstow, came into contact with future colleagues of the Walter Lippmann colloquium of 1938 and its successor organization the Mont Pèlerin Society, just shy of a decade later. But these contacts were largely sustained by letter in this period, as the Rüstow family had relocated to Istanbul after a Gestapo raid on his Berlin home. From 1933 to 1949, Rüstow lived in Kadiköy, taking a post as professor of economic geography and history at the University of Istanbul, so that, with the exception of the company of his close colleague Röpke, also in exile there, and short visits to Europe, Rüstow was generally cut off from his European contacts, Eucken, Hayek, Mises, Böhm, and those who had emigrated to the New School in New York. These years saw the beginning of composition of his life's work: a triptych of "universal history," *Orbestimmung der Gegenwart* – "determination of the location of the present," published at the height of the Federal Republic's boom years (it was translated as *Freedom and Domination* in its condensed English version, brought out by Princeton University Press in 1981). It was a work of breadth and ambition comparable with Weber. It took as its subject forms of rule from antiquity through the present. A major figure of the Bonn Republic, not just in academic life – Rüstow taught at the University of Heidelberg where he held a chair in politics, but also in publications such as *Ordo* and as an active member of the Mont Pèlerin Society, a founder of the Aktionsgemeinschaft Soziale Marktwirtschaft, and a trustee of the Frankfurter Allgemeine Zeitung.¹⁶ In his last years, he turned his attention more

¹⁶ Dankwart Rüstow, Biographische Skizze, 375.

seriously to theology, as with an essay published in the *Schweitzer Monatsheft* in 1963, “Von Abraham bis Paulus.”

Weimar Social Theory and Machine Tools

The work of the 1930s inaugurated Rüstow’s political liberalism. Four lectures delivered at the Verein für Socialpolitik in 1932 offer the clearest articulation of the liberal political theory that had developed. Perhaps the best known was his “Freie Wirtschaft – Starker Staat” (Free Economy – Strong State) lecture, given in Dresden in November of that year. Here, Rüstow outlined the pitfalls of the Manchester school approach of “letting things take their course” and that of a “forlorn and fateful” approach of interference to prevent the natural operations of the economy. The answer Rüstow supplied was to advocate a “third type of attitude which would be the correct and modern mode of procedure” – intervention “not contrary to the laws of the market but in conformity with them.”¹⁷ This would entail “the creation of a completely different state” from the “total state” identified by Carl Schmitt and Ernst Jünger.¹⁸ This total state was,

¹⁷ Alexander Rüstow, “Freie Wirtschaft – Staarker Staat,” in *Schriften des Vereins für Socialpolitik*, No. 187 (1932): 64-65. The English translation can be found under the title, “Liberal Intervention” in Wolfgang Stützel, Christian Watrin, Hans Willgerodt, Karl Hohmann, eds., *Standard Texts on the Social Market Economy*, (Stuttgart: Gustav Fischer, 1982), 184-85. The similarity between Rüstow’s lecture and Schmitt’s lecture of that year has been noted by Wolfgang Streeck. See Streeck, “Heller, Schmitt, and the Euro,” 363 n. 6. Schmitt’s lecture, “Starker Staat und gesunde Wirtschaft” – Strong State and Healthy Economy – was delivered scarcely two months after Rüstow’s. In it, Schmitt describes the dangers of “the total state” in which “all the spheres of human existence” are subordinated to a state that no longer knows a “state-free sphere”; in this way, it is total in a “purely quantitative sense, in the sense of mere volume,” but not of “intensity and of political energy.” This was the weakness of the total state that prevailed in Germany of 1932. See Carl Schmitt, “Starker Staat und gesunde Wirtschaft,” in Carl Schmitt, *Staat, Großraum, Nomos: Arbeiten aus den Jahren 1916-1969* (Berlin: Duncker & Humboldt, 1995), 74-5.

¹⁸ Rüstow, “Freie Wirtschaft – Staarker Staat,” 66. In a 1983 interview, Karl Schiller, the powerful Minister of Economics and Finance in the BRD during the late sixties grand coalition and Willy Brandt’s chancellorship, relayed to A.J. Nicholl that he was in attendance, and, as with others present, “Rüstow’s words certainly made a great impression.” The young Schiller was decidedly far right at the time. He

rather than one of omnipotence, a state of total impotence, pulled apart by interest groups which took the state as prey, in a process guided by the what Schmitt had termed in his 1931 *Der Hüter der Verfassung*, “pluralism.” What would be required for this new state would be to reverse the condition of the state from “suffering object” to “subjective agent” that would move the state away from its form as a planned economy. Importantly, such a planned economy for Rüstow was virtually synonymous with the democratically planned economy as proposed by Carl Landauer. This, Rüstow, intoned, was a “contradiction in terms” or “more or less precisely what we have already experienced.”¹⁹

In his reminiscences, the one-time president of the Mont Pèlerin Society Albert Hunold was to refer to this speech as the “founding text of neo-liberalism.”²⁰ It was slightly expanded into an article, “Interessenpolitik oder Staatspolitik?” in the journal *Deutsche Volkswirt*, in which the independence of a strong state was given greater prominence, as was the contrast with the Manchester school and its derivative policy. The rudimentary philosophical claim about the state subject and object had been given more practical direction and imagery to go along with it. The strong state would guarantee market freedom and fair competition and would stand above interest groups. This transformed state – assertive but limited – would be the prerequisites to its independence and strength. The state should no longer drift in airless space, but should rather “support something definite.” This transformation would naturally lead to the “most fundamental

joined the SA the following year, though Nicholls describes him as “loyal to the fundamentally liberal economic views he had developed in the 1930s when he had heard Rüstow calling for a strong state to regulate the market and protect it from greedy special interests.” See Nicholls, *Freedom with Responsibility*, 48, 318.

¹⁹ Rüstow, “Freie Wirtschaft – Staarker Staat,” 67.

²⁰ Albert Hunold, “How Mises Changed My Mind,” in *The Mont Pelerin Quarterly*, No. 3, October 1961, 16.

questions of state psychology and state sociology” to be left to another study.²¹ A year later, Eucken and Rüstow, who had corresponded in the late twenties in discussions on the reparations question and how they might convince Hjalmar Schacht to plump for a looser monetary policy so as to remedy the capital shortage they were convinced was deleterious for German recovery, now turned their discussion to such questions as the inner structure of the state as broached in the exactly contemporary essay by Eucken, “Staatliche Strukturwandlungen und die Krisis des Kapitalismus.” Rüstow expressed his full agreement with Eucken on the question of the role of the masses, who, in their “amorphous” form, lacking organizing hierarchical structure, had been the fundamental cause of the undoing of the inner structure of the state.²² Likewise, the effect on foreign policy had been similar. The point Rüstow wanted to underscore, and what he praised in Eucken’s work, was that that sociological designation of this disarticulate mass an important analytical distinction from “interests.” It was not just the well organized monopolies and trusts that had yielded a powerless total state, but also the social character of mass society and the pressures from below.

Rüstow’s insight was a fundamentally sociological one. One of the main errors committed by economists, he would later argue, was a sociological blindness (*Soziologieblindheit*), that deprived them of the capacity to see the social formations driving economic and political matters. They would therefore remain ignorant of the essential requirements of the integration process at the foundation of any liberal market regime:

We are of the opinion, in opposition to the traditional conception which is still widely held to-day, that the boundless over-evaluation of

²¹ Rüstow, “Interessenpolitik oder Staatspolitik?” *Deutsche Volkswirt* 6 (1932): 172.

²² Rüstow to Eucken, 25. January 1933, Nachlass Rüstow ACDP N1169-2, pp. 8-9.

economics is one of the symptoms of the disease of the nineteenth century and one of the mistakes of the old liberalism. It is time that economic activity, in spite of its evident importance, is relegated to the subordinate position which it has always held except in the nineteenth century. Man does not live by bread alone. It must also be recognized that even within the economic sphere itself the vital and anthropological aspects which cannot be measured are more important than the essentially one which can.... This fundamental truth is one of those which the old liberalism overlooked because of its "sociological blindness"....²³

A major influence on Rüstow's thinking along these lines can be traced to his meeting with the sociologist Franz Oppenheimer, a medical doctor turned sociologist whose seminars in the 1920s helped to impress upon his students – Rüstow's close associates in the Kairos-Kreis, Adolf Löwe and Eduard Heimann – a sociology of the state in historical perspective, that researches the relations of force among between dominated, vanquished social groups and their victors, the nomadic peoples that have historically conquered sedentary peasant societies and exploited them. These have taken form of either territorial states or maritime.²⁴ For Oppenheimer, whose own teaching was derived from the work of Ratzel and the Polish anthropologist Ludwig Glompowicz in large part, these archaic antagonisms determined the shape of the state and its culture – the "summation of privileges and dominating positions brought into being by extra-economic power"²⁵ and the shape of class society. This theory of historical development was no doubt Rüstow had in mind when he characterized Russia as a state in which "a few million industrial workmen (or people who were once laborers) are now

²³ Alexander Rüstow, "General Sociological Causes of the Economic Disintegration and Possibilities of Reconstruction," in Röpke, *International Economic Disintegration*, 279; and also in Alexander Rüstow, *Das Versagen Des Wirtschaftsliberalismus*, 2. Auflage (Godesberg: Helmut Küpper vormals Georg Bondi, 1950), 52-3.

²⁴ Kathrin Meier-Rust, *Alexander Rüstow: Geschichtsdeutung und liberales Engagement*, (Stuttgart: Klett-Cotta, 1993), 24-27.

²⁵ Franz Oppenheimer, *The State* (New York: B.W. Huebsch, 1922), xiv, 15.

ruling in a tyrannical and autocratic fashion over a hundred million peasants, who in any case have been used to this treatment for many centuries.”²⁶

The address at the Dresden meeting of the *Verein für Socialpolitik* resulted in a determinate break with Rüstow’s colleagues of the Kairos-Kreis, with whom he only resumed correspondence in 1946.²⁷ The intellectual divergence from his socialist colleagues had already begun in 1929, with a lecture delivered at the Berlin Deutsche Hochschule für Politik, titled “Diktatur innerhalb der Grenzen der Demokratie” – Dictatorship inside the Limits of Democracy” in which, in a similar vein to the contemporary writings of Böhm and Eucken, Rüstow mobilized Schmitt, just as Böhm was to do in 1933, in support of a temporary chancellor-dictatorship to reverse the order of deliberation and decision.²⁸

In this regard, it was meant the turn to form the *Deutsche Bund für freie Wirtschaftspolitik* along with the directors of the VDMA. Relatively quickly thereafter, however, he grew alarmed at the rise of the NSDAP, and was despairing of the Papen economic plan. A Gestapo raid on his home meant that an invitation in early 1933 from the physician Philipp Schwartz and Albert Malche, a Swiss adviser to Kemal Atatürk organizing the modernization of Turkey’s university and school systems, and became part of a small wave of German emigration to Istanbul. In exile for sixteen years, it was here that Rüstow began to compose his

²⁶ Rüstow, “Freie Wirtschaft – starker Staat,” 67.

²⁷ Meier-Rust, *Alexander Rüstow*, 64.

²⁸ See Alexander Rüstow, “Diktatur innerhalb der Grenzen der Demokratie,” reprinted in Waldemar Besson, “Zur Frage Der Staatsführung in Der Weimarer Republik,” *Vierteljahrshefte Für Zeitgeschichte* 7. Jahrg., no. 1. H. (January 1959): 99. See also Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 38.

Ortbestimmung der Gegenwart, in “political and human exile,” hoping for a post supported at the Rockefeller Foundation in Geneva, which never materialized.²⁹

A sometime employee in Istanbul of the Office of Strategic Services, the precursor to the CIA, for which he worked on organizing German opposition to the Nazi government and arranged a meeting between von Papen, German diplomat in Ankara and a Portuguese representative of Roosevelt’s; he developed a hardened anti-communism, predicting that the Bolshevik viewpoint would engender a conflagration between the USSR and the USA: it would be a third world war that would force a choice between a *pax Americana* and a *pax Bolshevistica*.³⁰

Coordinates of the West

Rüstow’s *Ortbestimmung der Gegenwart* comprises a sustained universal history – modeled after Alfred Weber of *Kulturgeschichte als Kultursoziologie*, but taking on the “scientific tools of the sociologist as they have been developed from Karl Marx to Max Weber.”³¹ Sketches of it had already appeared as an appendix to Wilhelm Röpke’s *International Economic Disintegration* of 1942, in which the common themes of the two thinkers are emphasized: primacy of the political, and the unsustainability of a liberalism applied only to the economic sphere.³² There, the political charge was to show how the disintegrating pressures of

²⁹ Meier-Rust, *Alexander Rüstow*, 70-1.

³⁰ Meier-Rust, *Alexander Rüstow*, 76.

³¹ Alexander Rüstow, *Freedom and Domination: A Historical Critique of Civilization*, ed. Dankwart A. Rustow, trans. Salvator Attanasio (Princeton: Princeton University Press, 1980), xxv-xxvi.

³² Rüstow, “General Sociological Causes of the Economic Disintegration and Possibilities of Reconstruction,” 267.

pluralism, democracy and the “sub-theological pseudo-universalism” that took the self-correcting mechanism of the market as automatic. This error in the liberalism of eighteenth and nineteenth century liberalism had meant that in the twentieth, clearly anti-liberal parties had been admitted into a liberal political system, yielding a fateful crisis of parliamentarism as interested parties undermined the strong state required to limit and maintain market competition.³³ The sociological, political and institutional basis of liberalism was thus revealed in the disintegration of the liberal order, internal to the state but also at an international register, where tariffs and free trade were undermined by these same pressure groups.

Despite running three volumes at over a thousand pages and deepening the foregoing analysis, the viewpoint of *Ortbestimmung der Gegenwart* was likewise political at its core. It was, Rüstow assured his reader in 1949, a project designed to “inquire into the specific character and the historical origin of every tyranny that threatens us today, and into the origin and changing fates of that tyranny-opposing freedom whose defense has been entrusted to us.”³⁴ Its basic structure was an exploration of the Neolithic origins of stratification – *The Origins of Domination* – in volume one in an anthropological mode. The second and longest volume, *The Path to Freedom*, constructed high-resolution portraits of the several societies across the history of the West that formed the precursor to a future neo-liberal – free – one. The third, subtitled *Herrschaft oder Freiheit? – Domination or Freedom? –* was designed to bring out in great detail the tendencies of this polarity as it pertained to Rüstow’s present. This self-described “radical critique of civilization” where “radical” was taken, as with Marx, to mean getting the roots – relied on the methodological innovations of nineteenth century ethnography, and in particular

³³ Ibid., 274-6, 278.

³⁴ Rüstow, *Freedom and Domination*, xxix.

the work of geographer Friedrich Ratzel. The significant heirs to Ratzel were those followers of Wilhelm Schmidt and his student Wilhelm Koppers who founded the Vienna School centered around the journal *Anthropos* at the fin de siècle. The innovation among Ratzel and his intellectual descendants was to introduce a theory of historical development and diachronic analysis into geographical study of the migrations of peoples. In this way, the features of a culture could be discovered scientifically as if piecing together the evolutionary history of a family tree. The importance of migration – and the foundational violence and relations of force thereby revealed through such study – informed what Rüstow understood as the superstratification, first conceptualized by the fourteenth century Arab historian and demographer Ibn Khaldun. Rüstow posited that the rise of nomadism, referred to above in the work of Franz Oppenheimer, as the result of geologic features of the last ice age, dated from forty-five thousand to twenty-five thousand years ago, whose effects cut off hunters from the bulk of humanity. Among these nomads developed a culture predicated on the mobile cultivation of great herds of animals on which they subsisted: a cool, strategic, rational outlook, with “neither time nor repose for metaphysical speculation and meditation.”³⁵ The close of the ice produced a distinctly peasant (or pre-peasant) high culture of the late Neolithic in central western Asia, predicated on an equilibrium between the patriarchal nomads and the gloomy oppressive planter culture (which was matriarchal). Rüstow’s understanding was that this fundamental equilibrium “united the good features of all hitherto existing cultures, but without their drawbacks. Everything that has been achieved in cultural advances beyond this high point has up

³⁵ *Freedom and Domination*, 17; Alexander Rüstow, *Ortbestimmung der Gegenwart: Eine Universalgeschichtliche Kulturkritik*, Bd. 1. (Erlenbach-Zürich und Stuttgart: Eugen Rentsch Verlag, 1950), 48.

to now always been achieved at the cost of the calibrated equilibrium, stability, and health of the life situation [*Vitalsituation*] that had been achieved in the peasantry.”³⁶

The decisive event initiating historical development out of the mists of prehistory was the superstratification that resulted from the “superimposition” of nomadic herdsman in the fourth millennium over this peasantry. The conquering herdsman, likely “Semitic spearhead groups”³⁷ and Turkic horsemen, so Rüstow argued, was the fount of the classical civilizations of the Mediterranean and Levant. By the end of the second millennium BC, successive waves of warrior-riders made their way through Central Asia, issuing in the basic features of the Old World, running over the peaceful peasant societies, and installing themselves as a ruling layer extracting surplus value from them, and developing for the first time the features of a lordly class with all of its cultural refinement. This was the origin of high culture that existed in the West down to the end of the Medieval period. All of the prohibitions of the nomadic ruling class against the temptations, Rüstow maintained, was a recognition by these nomadic peoples of the superiority of the settled peasantry: evidence here, taken through Mannheim and Fritz Kern, are passages from Genesis cursing physical labor, which Rüstow understands as “nomadic depreciation of the peasantry.” Prohibitions of alcohol among Arab Bedouins constituted for Rüstow a basic morphology of the nomadic incumbency in these early great civilizations, spanning the second and first millennium BC. This social process set in train unmistakably catastrophic psychological processes, symptoms of which were observed by Freud – and also had their origin domination of the majority a commanding minority of alien usurpers that transmuted itself into the asceticism and sadism medieval cultures. The process, which Rüstow termed the

³⁶ *Freedom and Domination*, 19; Rüstow, *Ortbestimmung der Gegenwart* Bd. 1, 55.

³⁷ *Freedom and Domination*, 24; *Ortbestimmung der Gegenwart* Bd. 1, 65.

“feudalization of life and feeling” “feudalization of the family” and a “feudalization of self-consciousness,” attempted an important revision to psychoanalytic theory. Rüstow’s speculations on the deprecation of sexuality in medieval asceticism set the process in its historical and social context. The social sadistic attitude of the superincumbent ruling class – whether through marriage by abduction, or the institution of the harem – eventually permeated internal relations within the class itself, where tender relations between family members were segregated from the erotic ones of which they once were a part, due to the incest taboo. The effect of this was the elevation of a male-supremacist character of love relations and the shunting off of erotic exchange between equals into homosexuality.³⁸ Asceticism was the reaction this process had engendered: a categorical refusal of a debased erotic life, rather than a reconstruction of one based in tenderness and humaneness. Here, Rüstow sought to demonstrate that the debasement of love life observed by Freud was a product of a particular historical relation between rulers and ruled:

Freud believes that sexual asceticism and renunciation of instinctual gratification is the prerequisite of a high civilization. In truth, the instinctual renunciation still expected from us today by a cultural tradition bearing the impress of Christianity goes far beyond what would really be requisite to culture. Classical Greek culture proves that a considerable degree of individual freedom is reconcilable with the highest civilization. The tragic antinomy posed by Freud, therefore, is not at all inevitable, and it rests rather upon a particular pathologically flawed development of our present-day culture.³⁹

Asceticism was however by no means confined to sexual matters, but also, in the West, a basic feature of the attitude toward the instincts and all physical pleasures and sensations in

³⁸ *Freedom and Domination*, 63; *Ortbestimmung der Gegenwart* Bd. 1, 147.

³⁹ *Freedom and Domination*, 64; *Ortbestimmung der Gegenwart* Bd. 1, 149.

general. But it was surely distinct in its severity and ubiquity in the West. The proximate and systemic source, as with all asceticism rising to the level of a doctrine, was the fraction of the superincumbent class taking the form of a priesthood – in the case of the West, it was this stratum that taught a deferral of worldly gratification. Though asceticism was no stranger to ancient cultures or to Islam, Indian and those of China, each also displayed a countervailing tendency of hedonism, if not in equal measure to its prohibitions, at least given something approaching a rival theorization in sacred texts. That could not be said of Christendom. Why should this be so? Rüstow again lay claim to a deep-rooted historical linkage to the ancient world, in this case to the particular historical transformation of Jewry. The monotheism of ancient Judaism, combined with the belief in Jews as the chosen people, had yielded a universalism and intensity of belief in the elect, as well as the exaltation of the priesthood, because it alone could discern the meaning of events – including political failures and catastrophes – in light of divine intent, as opposed to, in the case of polytheistic tribes, the various rivalries among various gods favoring them. However, the history of the Jewish people – at its apex a “petty state of the third or fourth rank” neighboring the most brutal conquering empire, the Assyrian, had produced in it a reaction-formation: “Under the terrible pressure of the cruel Assyrian dominion there developed among the little people of Israel the eschatological revenge dream of its own world rule at the end of time...”⁴⁰ This was only the first such experience in a long line of foreign domination, down to Rome, and so deepened its pathos. It persisted with such consistency, in fact, claimed Rüstow, that in its ennobled and now

⁴⁰ *Freedom and Domination*, 66. See also *Ibid.*, 529, where Rüstow makes the argument that German nationalism had undergone a similar intensification and perversion as a result of Napoleon’s conquest; *Orbestimmung der Gegenwart Bd. 1*, 153.

systematized form – and “the failure to recognize its poisonous character, it could become an uncontested component of Christian and hence modern Western culture.” He continued,

At the same time, the reversion to less sublimated, more primordial and brutal forms was open at any time when favorable circumstances arose, with the spiritual grandeur of the sublimated version serving as an ideological cloak, as justification of hypocritical disguise. The concept of election was renewed along these lines notably by Calvinism and served as the religious ideology of Anglo-Saxon imperialism. Fichte’s *Addresses to the German Nation* claim it for German nationalism, in which its aftereffects lingered until just yesterday, and it later directed itself especially against the people to whom it owed its origin.⁴¹

This resolution of the problem set out by asceticism had endangered the book’s publication with Rentsch Verlag in Zürich. Röpke had attempted to shepherd this along, and reported to Rüstow that the publisher was concerned about the “anti-Christian” notes in your book.”⁴²

Asceticism and monotheism also prepared the ground for “knowledge for its own sake” and therefore for pure science and rationalization. Rationalization had a double character as a result of the social stratum out of which it grew: an ascetic priesthood that developed a theology that was both an auxiliary to despotism as founding myth, but which was at the same time a motor for the independence of systematic rational thought. Nevertheless, theology was the main fetter to medievalism and feudalism, “despite forward thrusting forces.”⁴³ Movement beyond it was not automatic. This was more often the rule, proved by only rare exceptions in Rüstow’s

⁴¹ *Freedom and Domination*, 67. *Ortbestimmung der Gegenwart* Bd. 1, 154. Röpke, in his 1945 correspondence with Fritz Neumark, chronicler of fellow German exiles in Istanbul, expressed a similar thought about a “lack of tact” among Jews who would then suffer in the French occupied zone for it, and the poor reception of his *Deutsche Frage* among “Jewish communists (naturally).” See Solchany, *Wilhelm Röpke, l’autre Hayek*, 128.

⁴² Quoted in Meier-Rust, *Alexander Rüstow*, 79.

⁴³ *Freedom and Domination*, 126-7. *Ortbestimmung der Gegenwart* Bd. 1, 255-6.

schema of a “universal history.” What he termed “the breakthrough to intellectual freedom” was an exceedingly rare occurrence. Most high cultures had developed from their archaic forms at the expense of subjection and domination; the great civilizations of India, China and Egypt had been arrested at a feudal stage. The West was distinctly superior on this fundamental measure of “freedom versus unfreedom” and it owed its superiority unambiguously to the Hellenic culture of the Ionian migration, which developed out of a position of landed incumbents a network of small trading and artisanal production posts across the north west coast of Asia Minor, exceeding the Greek mainland, including Athens, in this respect until the end of the fifth century BC.⁴⁴ What were its main features? Rüstow, in his second volume of *Ortbestimmung der Gegenwart, Der Weg der Freiheit*, locates this in the polis, with its “amazingly dogged adherence to small industry” and “autonomous perfection of artisan techniques” of production.⁴⁵ It was upon this basis that the unique “Ionian liberalism and intellectual freedom can be understood as the intellectual superstructure to the economic substructure of a plutocratic, patrician way of life based on trade with distant lands.”⁴⁶ This culture was the synthesis of this trading network with the spirit of a self-conscious peasantry, as expressed in Hesiod, equally celebrating this class and savaging the “parasitic, ruthless and violent feudalism” – “a sharp and classical definition of the peasant ethic” he was “also a precursor of Christianity, meriting the honorary title of a Christian before Christ before Socrates or anyone else.” This “democratic spirit” was above all to be observed in Hesiod’s great achievement: his attack on Homer’s anthropology in *Works and Days*

⁴⁴ *Freedom and Domination*, 144-6. Alexander Rüstow, *Ortbestimmung Der Gegenwart: Eine Universalgeschichtliche Kulturkritik*, 2. Auflage, Bd. 2 (Erlenbach-Zürich: Eugen Rentsch Verlag, 1952), 29.

⁴⁵ *Freedom and Domination*, 147. *Ortbestimmung der Gegenwart* Bd. 2, 32.

⁴⁶ *Freedom and Domination.*, 163. *Ortbestimmung der Gegenwart* 2. Auflage, Bd. 2, 59.

that simultaneously guided the small peasant on “how to achieve wealth in a honorable, peaceful, non-feudal way.”⁴⁷ The achievements of the sixth century were, however dashed with the invasion of the Persian empire, and traces of the importation and regression into feudalistic culture informed the later corruptions of Hesiod’s poetry. The Hellenic principles so prized by Rüstow were only restored in the midst of repelling this empire, under the leadership of Pericles, heir to Solon “the first great figure of Attic literature and politics” and “the first democratic-liberal statesman” of antiquity⁴⁸ and Cleisthenes, so that by the middle of the following century, Athens had been able to dismantle what Rüstow insists was the dominant feudal structure. This was achieved, by Solon, through importation of the Ionian “spirit” transplanted to Athens; more concretely, with Cleisthenes, through a land reform process that reduced the holdings of influential families, ownership of which political rights were now predicated, thereby diminishing and undercutting hereditary power based on blood lines; and by Pericles, who in the last third of the fifth century, in the words of Thucydides, “restrained the multitude while respecting their liberties.” For Rüstow, the admiration of Thucydides for Pericles upheld precisely as the restrainer, “the ideal of truly democratic leadership.”⁴⁹ Degradation of this order did not come only from the Persian invaders without, but also from within: overpopulation, a main symptom of which was the rise of Sophists, whose “Machiavellianism,” so Rüstow,

⁴⁷ *Freedom and Domination*, 165. *Ortbestimmung der Gegenwart* 2. Auflage, Bd. 2, , 64.

⁴⁸ *Freedom and Domination*, 179; *Ortbestimmung der Gegenwart* 2. Auflage Bd. 2, 93.

⁴⁸ *Ibid.*

⁴⁸ *Ibid.*

evinced a “massification” and dependence upon grain imports “from what is today southern Russia” and the beginning of the imperial era to secure vital sea lanes.⁵⁰

The simplicity and economism of the concepts in *Ortbestimmung der Gegenwart* – effectively rendering tens of thousands of years of world history intelligible by way of the balance of two terms, superstratification and the feudalism issued from it – are the striking feature of Rüstow’s triptych. Although a work of erudition, it leaves the impression of an author who never flinched from the use of historical analogy stretched to the limits of credibility, of whatever register, social, economic, intellectual, and bordering on pure anachronism, as in the transposition of “Machiavellian” to describe Sophists, the claim of Hesiod as forerunner of Christian humanism, and his anti-feudalism as a prodrome of the slogans of the French Revolution. The price of the elegance of such minimalism in conceptualization, however, meant that over the course of the gigantic study, the charge of these terms could often be reversed, with no accounting for it. That is why Röpke’s publisher, and Rüstow’s, eventually, could be concerned about the surprising vehemence of Rüstow’s anti-Christianity in the text, for passages where he traced the asceticism of Calvinism to Jewish monotheism. But, without any apparent hesitation, Rüstow could present Hesiod as the precursor of a Christianity to be taken as the model for a vital peasant morality. Likewise, though Fichte’s metaphysics, and the nationalism issuing from it, is consistently, across the first and second volumes, held as a degeneration of the German Enlightenment and the achievements of Kant, it is only in the second volume given as a reversion to secularized theology, and therefore Christian dogma, derived from “the earlier revival of Spinoza” by Lessing and Jacobi. In this sequence, “the debacle French Revolution” is the touchstone. Rather than heir to Ionian culture, it is the bearer of the despotism of an

aristocratic priesthood.⁵¹ In this way, romanticism and the sequence in philosophy from Fichte through Hegel was a setback, to the enlightenment of the mid-eighteenth century.

It is this transformation of communities into societies, the “fateful linkage” between “peoples most of whom do not know each other,” a cumulative process leading directly to the atomization and individualism of modern urban life and the mass society appropriate to it, with all of the psychological injuries incurred by life and social evolution over hundreds of generations brutal class domination. The centrality of religion for Rüstow’s analysis is notable. Not a direct cause, but the main super-structural vector of stratified high culture, its effects could be felt by the nineteenth century not only in philosophical abandonment of the Enlightenment, but also in the culture generally with which it converged and which in turn exacerbated this tendency. In culture, the secular trend could be observed in the visual arts, where the solitary individual represented in German romanticism of Caspar David Friedrich, called forth a solitary viewer “who contemplates the picture in solitary concentration.” In literature, it was older, reaching back to Petrarch before a flowering in the nineteenth century – in a movement anticipated by Rousseau – with given its most exalted expression in Goethe’s *Werther* and Flaubert, where the theme of atomization finally reached into the nuclear family.⁵² Religion could be broadly differentiated as having salvational and natural forms. So-called natural religions highlighted through rites and celebrations, the natural events of the life-cycle corresponding to general organic developments: primitive religions, but importantly those of Greek antiquity, were in this category. But salvational religions contributed to atomization and

⁵¹ *Freedom and Domination*, 361-2, 366. *Ortbestimmung der Gegenwart* 2. Auflage, Bd. 2, , 461-2, 471.

⁵² Rüstow quotes his colleague in Exile here, Auerbach; for Rüstow, Flaubert’s *Madame Bovary* is a critical intervention, not symptomatic as with the romantic artists that exalted the loan figure.

individualization because they were confessional, putting individuals in a one-to-one relation to divine power. They sought to dissolve natural and organic social bond “so as to secure, as it were, a monopoly for their new form of religious integration The most devastating effects could be observed in Calvinism and Lutheranism, predictably enough, whilst Catholicism “tended to limit or neutralize these isolationist tendencies.”⁵³

Atomization at the level of the individual yielded, by the nineteenth century, a wholly new mass society that had based itself around the industrial revolution. In a striking passage, Rüstow sees the essential analysis of Marx as a basically valid reading of capitalism. It is this latter term, however, that Rüstow rejects as a necessary corollary to liberalism and the market economy of “perfect competition.” For Rüstow, “Marx, too, was caught up in the quasi-theological superstition of inevitability that was characteristic of liberalism itself and that in Marx’s case came to be reinforced by influences from the prophetic tradition of the Old Testament.”⁵⁴ What Marx observed, correctly, in Rüstow’s view, was the tendency of late capitalism toward concentration and monopolization, thereby laying the groundwork for collectivization. In this way, because Rüstow wrote that “we can very largely subscribe to the socialist criticism of this capitalist economy and even to the Marxist thesis that this ‘capitalist’ economy, carried further, must perforce lead to communism and collectivism.”⁵⁵ Capitalism was a degenerate form of the market economy – degradation of labor, the separation of the worker

⁵³ *Freedom and Domination*, 429. Alexander Rüstow, *Ortbestimmung der Gegenwart: Eine Universalgeschichtliche Kulturkritik*, 3. Band, *Herrschaft oder Freiheit?* (Erlenbach-Zürich und Stuttgart, 1957), 109.

⁵⁴ *Freedom and Domination*, 458. *Ortbestimmung der Gegenwart* Bd. 3, 164.

⁵⁵ *Freedom and Domination*, 459-60. Rüstow: “One might even speak of ‘late capitalism’ as an unconscious and inconsistent form of protocollectivism.” *Ortbestimmung der Gegenwart* Bd. 3, 165-6.

from his means of production, destruction of archaic social forms such as the family; loss of work as a meaningful part of daily life, and the monotony of it due to its specialization: these were all unmistakable, disastrous effects of capitalist development.

In this third volume of *Ortbestimmung der Gegenwart* of 1957, Rüstow saw the rationalist excess in thought as the basis of the politics of absolutism and Jacobinism alike. These strains – the French revolution as a response to the feudalist regression of the second half of the reign of Louis XIV – were continued up through the Napoleonic era, and had led to the obliteration of geographical particularity and any mediating strata between the masses and state power itself. The salvational cult of contemplation within Christendom after the Reformation, had meant that the politics and mode of thought characteristic of the modern pluralism should be traced to the rationalist fanaticism for equality, a secularized form of “the Christian idea of men’s equality before God.” Before the Reformation, the church had “provided a counterweight to the secular rulers’ claims to exclusive, absolute sovereignty.”⁵⁶ For Rüstow, the cult of the rational as a “mystical-religious sanctification of knowledge” capsized into irrationalism – “reason had not been stabilized at a position adequate to human nature and to the nature of things.”⁵⁷ Pluralism in modern democracy was the simultaneous capture of the state by particular interest groups and had meant a weakening of it as an independent organ mediating social life in the spirit of social solidarity, but its strengthening as a vehicle for the imposition of the atomized masses, as Schmitt had observed in the 1930s, and Rüstow and his ordo-liberal colleagues had brought out in their contemporary writings. In this argument of 1957 very little had changed, but,

⁵⁶ *Freedom and Domination*, 463, 471. *Ortbestimmung der Gegenwart* Bd. 3, 171, 185.

⁵⁷ *Freedom and Domination*, 471. *Ortbestimmung der Gegenwart* Bd. 3, 185.

as distinct from his closest intellectual colleague Röpke, emphasis was laid upon the institutional framework specifically of the medieval church as a moderating influence. The medieval church in this regard had actually performed a social function in opposition to the content of the theology it purveyed, since public opinion itself could be traced back to the Christian catechism and the concept of the consensus within the community of believers.⁵⁸ For Rüstow, secularization had been a disaster, not because it weakened the mystical and religious content of Christianity, but because it had weakened the institution of the Church and its “cultural heritage” that had imbued in social relations a sense of social solidarity and served as a counterweight to the state. In its absence, the state had assumed an ever greater role in society, as absolutist, Jacobin (or Napoleonic, for they were equivalent in Rüstow’s view) up through to the total state of mass democracy and its pluralistic degeneration. In the same year, Rüstow published an article in *Junge Wirtschaft*, in a section devoted to “Das christliche Gewissen und die neoliberale Marktwirtschaft” – Christian conscience and the neo-liberal market economy.” In Rüstow’s contribution, “Paläoliberalismus, Kommunismus, Neoliberalismus,” extended the line of thought on the pseudo-theological character of rationalist excess to paleo-liberalism of Adam Smith, as well as communism. Here Rüstow argued for the “third way of neo-liberalism.” This would require the further development market operating within boundaries – *Marktrandes* – because such a market framework provided a humane zone, and this feature was “one hundred times more important than the market itself.” The market was a means to an end, would require

⁵⁸ Röpke had cited R.F. Wright’s work of 1930, *Medieval Internationalism: The Contribution of the Medieval Church to International Law and Peace* which had sought to demonstrate that the main features of the twentieth century world, from finance to diplomacy, and especially on that count the League of Nations, had been anticipated by the medieval church. Röpke’s use of this text in his *International Economic Disintegration*, a work that more than any bore the imprint of Rüstow’s scholarship in his *Ortbestimmung der Gegenwart*, is the sole citation of it; elsewhere, Röpke’s fondness for the Pax Christiana is less concerned with specific institutions.

something more, based in the concept of *Vitalpolitik* – a politics of vitality. And though the Catholic position was clearly different from that of the neo-liberal, it was no “essential difference” aside from the neo-liberal conceptualization of a new anthropology that would be constructed from biological through to ethical, aesthetic and religious registers. Here Catholicism would not converge with it. But with paleoliberalism, because it was a “deistic-stoic theology of pre-established harmony,” no common cause could be made (likewise with communism, an “atheistic eschatology of predestined and foreseeable world revolution”).⁵⁹ Rüstow’s ambivalence on this count was already apparent over the course of his composition of *Versagen des Wirtschaftsliberalismus als religionsgeschichtliches Problem*. In correspondence with Eucken dating to the autumn of 1941, Rüstow observed these deleterious social effects of Lutheranism on political economy, and indeed discussed in some detail with his colleague the distancing from the “great mental intensity” of Christian piety impressed upon him by his mother, in an intellectual tradition for which he was both thankful, but to which he could now subject to sharp critique.⁶⁰

These deformations and imbalances were all excesses of rationalist tendencies felt in response to a stratified, feudal order. They had, however, also engendered irrationalist countertendencies, beginning in the conservative reaction to the French Revolution and, in Germany, finding a home within the mostly Protestant Prussian-German defense of feudalism. Many of the same thinkers understood as emblematic of rationalist excess were here invoked as figures of irrationalism. Its features were, however slightly altered. The spur to irrationalism of

⁵⁹ Alexander Rüstow, “Paläoliberalismus, Kommunismus, Neoliberalismus,” *Junge Wirtschaft: Zeitschrift Für Fortschrittliches Unternehmertum* 8, no. 2 (February 1960): 50.

⁶⁰ Alexander Rüstow to Walter Eucken, 23. Oct. 1941, Nachlass Rüstow ACDP, N1169-3, p. 306.

the nineteenth century was also the salvationist religions. But their irrationalist deformations were firstly a product of the political romanticism engendered by feudal nostalgia and finding no outlet in rediscovery of the medieval Christian order. Rather, paradoxically, “the faith of the Middle Ages and its ecclesiastical embodiment, fought and overcome by Luther, was by no means attractive to Protestants” who looked back behind this period to pre-Christian paganism, the source of “race fanaticism.”⁶¹ Romanticism, the cult of the genius, the cult of the ruler – all sprung from this general exaggeration of individualism. The promise of the *Jugendbewegung*, a movement of the German aristocracy understandably rejecting the oppressive customs of education, had, through an “erratic expansion” foundered in the era of the Weimar decline. By the 1920s, it had been absorbed by Communism and National Socialism, since, in a hopeless effort at self-education, its had never gotten a good read on the political realities of the time, and the efforts of various Pied Pipers to lead it astray. This is why it became “a reservoir of idealistic youthful energies” for national socialism, when in had begun as a promising effort to reconstitute meaningful social bonds and the species relationship to nature.⁶² In his lengthy treatment of Marx in this third volume, Rüstow, evinces much of the ambiguity that resulted in his inclusion in both the discussion of rationalist and irrationalist tendencies in nineteenth century Western thought. The treatment oscillates between dismissal – Marx, Rüstow contented, was no materialist but a utopian, more in common with the Old Testament prophetic tradition, his thinking product of a “wish-dream” – but also a the author of a theory of “unidirectional

⁶¹ *Freedom and Domination*, 486-7. *Ortbestimmung der Gegenwart* Bd. 3, 207.

⁶² *Freedom and Domination*, 508. *Ortbestimmung der Gegenwart* Bd. 3, 242-3.

mechanical causation” elevating a “partial truth into a metaphysical absolute.”⁶³ Still, Marx was unsurpassed in his theory of social determination, the “not unlimited freedom of will and decision” representing a great accomplishment of historical sociology. For Rüstow, Marx’s system was nevertheless too dependent upon the concept of technical progress as an independent variable, the “only uniform and continuous line of progress in history.” Still, Rüstow concedes that this reading of admiration of Marx’s economic thought, one which elsewhere he could admit was based in a sound critique of capitalism (though the latter was only a degeneration of the a competitive market economy, and not its equivalent or prerequisite). In this mode of Rüstow’s thought, Marx represented the capstone of liberal thought: as the bearer of an extreme liberalism, the comprehensiveness and brilliance of the mature Marx’s economic system was showed him to be “the most important successor of Ricardo” and “the greatest universal historian of the nineteenth century.”⁶⁴ But he had suffered from not just an excess of rationalistic systematizing, but was, at last, overtaken by the Marx as a “power politician” and by his heirs, whether social democratic or Bolshevik, as agents of a politics based in a “complete world view.”⁶⁵ Although even his youthful writings could be revisited with profit, and the demand for classlessness reexamined in light of advances in comparative ethnography, but it was too much a symptom of an “emotional attitude of German socialism.”⁶⁶ Its Russian variant was all the more

⁶³ *Freedom and Domination*, 543-5. *Ortbestimmung der Gegenwart* Bd. 3, 296-99, 301.

⁶⁴ *Freedom and Domination*, 546. *Ortbestimmung der Gegenwart* Bd. 3, 302.

⁶⁵ *Freedom and Domination*, 562. This held just as much for Bernstein’s reformist Social Democrats as for the non-Marxist Fabians. Both, Rüstow, wrote, deserved the warning from Hayek that “these experiments, even against the will of their sponsors, may turn out to be so many ‘Roads to Serfdom.’” *Ortbestimmung der Gegenwart* Bd. 3, 324.

⁶⁶ *Freedom and Domination*, 566. *Ortbestimmung der Gegenwart* Bd. 3, 351.

virulent for having inherited the theological structures of the Orthodox Church, based on a “dogmatic form of late Platonism” and never functioning as an independent counterweight to the state, but rather as an adjunct to it. Stalinism had unambiguously replaced it with a dogma of its own, devoted to crushing any heresy – and the favor with which he showed irrationalism of Lysenko’s Lamarckian biology was one effect of this. For Rüstow, Bolshevism’s main distinction as a superstratifying movement was simply its attack on the peasant layer.

Rüstow’s efforts were in some ways part of a tradition of revisionism as systematically illuminated by Domenico Losurdo. Indeed, the animating spirit of this third volume of his “universal history” is to show the symmetry – what Rüstow called “family resemblances”⁶⁷ – between the deviations from a social market liberalism on the extreme right and left, and their origins in Jacobinism and, in Germany, the latter’s politics combined with Lutheran metaphysics, and the presence of a particularly sadistic Calvinism among strata in the upper class.⁶⁸ Nazism was an effort at superstratification, a Bonapartism plus massification and the depletion of culture high culture; a totalitarianism lacking a strong ideological system of the Left. This explained the revival of race supremacy, which Rüstow had identified as a primitive sociological development in the earliest expressions of the super-stratified empires of Neolithic and ancient worlds. It was a movement based on the particular character of Adolf Hitler, substituting glorification of

⁶⁷ *Freedom and Domination*, 644 Rüstow: “National socialism adopted the negative, brutal, and cynically subversive tendencies of communism and also its technocratic-totalitarian enthusiasm for a centrally planned economy. This lent some justification to the claim that the Nazis were a National ‘socialist’ movement.” *Ortbestimmung der Gegenwart* Bd. 3, 478.

⁶⁸ *Freedom and Domination*, 630-1. “The conversion of the elector of Brandenburg to Calvinism in 1613 produced a potent social constellation of an activist, sadistic upper class ruling over a quiescent, masochistic, Lutheran lower class. Bismarck’s conquests spread and enforced throughout the remainder of Germany this earlier Prussian ideal of lower class obedience.” The third volume of *Ortbestimmung der Gegenwart*, published in 1957, bears the dedication “Den Ungarischen Freiheitskämpfern” – “To the Hungarian Freedom Fighters.” *Freedom and Domination*, 454.

violence, primitive race supremacy, with no rational aim except the realization of the revenge of its leader. This is what mad Nazism distinct, but, like all totalitarian movements, it had to conceal its worst crimes, and isolate itself from any outside influences. Here, it was typical of totalitarianism, Rüstow argued, and a tacit admission that “democracy...by and large is the form of government natural to man...”⁶⁹

The concluding passages to Rüstow’s *Ortbestimmung der Gegenwart* offer some of the most concise statements of the general frame through which so much of his historical inquiry had taken place, and their political significance. The most recent threat to freedom and humaneness had been vanquished, but it was always parochial. Because fascism was nationalist in its form, it was “inherently particularist” and was always therefore precluded from attaining a “universalistic goal.” The danger confronting Western civilization for Rüstow was that now, along with the technical development of warfare and communications, such a universalist totalitarianism was a real possibility. A further danger was that the blowback effects of five centuries of Western colonialism – not, in the last instance determined by thirst for knowledge, but mostly by “greed, lust for power, sadism” had prepared the ground for an “inconceivable hatred and vengefulness” among non-European peoples that “only await the spark of bolshevism to be detonated.”⁷⁰ The pseudo-religion of Marxism was the major threat. A particular difficulty in countering it was that Marxism, now triumphant in two global powers covering one fourth of the earth and a third of its population, could only be opposed by recourse to a Western cultural tradition in the mode of classical antiquity and Christianity, of which Marxism and bolshevism

⁶⁹ *Freedom and Domination*, 645. *Ortbestimmung der Gegenwart* Bd. 3, 479.

⁷⁰ *Freedom and Domination*, 662-3. *Ortbestimmung der Gegenwart* Bd. 3 508-9.

themselves had originated. These social and intellectual currents informing Marxism made it a supreme danger for liberalism. As a movement of “counter-superstratification” it drew on a comprehensive intellectual foundation, with a legitimate claim to the full range of achievements of Western culture, whose central concept – “the idea of humanity” – had been cheapened over the course of the nineteenth century into “a sentimental, superficial, vague notion of kindness.” The vitalism Rüstow tasked as the political response to Marxism was in fact a realization of humanity “in its fully human form” from the bodily through to religious spheres.⁷¹ Only the systematic development of a politics based in this new anthropology could hope to compete with the formidable intellectual system of Marxism. It was a humanism drawing on the insight of Saint Paul, the attitude of reciprocity and cooperation, a “human script” illuminated by an inner “natural light.”⁷² The answer to the comprehensive science of Marxism and was therefore a self-evident Christian humanism; Rüstow’s; politically, however, Rüstow could afford more concrete prescriptions. All vestiges of Western colonialism must be wiped out, and that included withdrawal of any association with white settlers in South Africa. It was an open question whether English parliamentarism, barely functional in France or Italy, could be so rapidly imported into the newly decolonized zones. What was clearer was that a market economy could prepare the way for democratization. In these special zones, economic would follow social policy. The simplest means by which to achieve such development would be a policy directed toward strengthening the one-family farm, modeled on peasant agriculture; every measure should be taken to ensure that no “innerworldly asceticism” of Protestant stamp be imported under cover

⁷¹ *Freedom and Domination*, 664. *Ortbestimmung der Gegenwart* Bd. 3, 509.

⁷² *Freedom and Domination*, 665. *Ortbestimmung der Gegenwart* Bd. 3, 509

of technical and economic advances. The tendencies and counter-tendencies it engendered were too volatile.

Federal Republic Years

The swerve toward unflinching cold war politics of anti-totalitarianism in the third volume of Rüstow's *Ortbestimmung der Gegenwart* indicated something of the new circumstances in which it was composed. Once leaving Christian socialism behind, Rüstow had been characteristically uneasy in the application of Christianity to politics, as he conceded to Eucken in his private correspondence. Neither was democracy by that point any great priority, with the chief concern, typically among the inter-war neo-liberals, its limitation, rather than the discovery of its basic principles in the hearts of men. By 1933, the theoretical touchstone for Rüstow, as for Röpke, was Ortega y Gasset. For Rüstow then, the "decisive political question" was how reinstate a natural hierarchy once massification had taken place, but with a minimum of domination and violence. Where Ortega y Gasset had erred, wrote Rüstow, was only in the fact that, like most conservatives, he forgot that the violence of insurrection was a counterstrike against an existing oppression, though he was of course correct in identifying such politics of leveling as a "sin against the spirit and nature [*eine Sünde wider den Geist und die Natur*]." ⁷³

It was precisely the concept of a natural order of a self-correcting market that had so concerned Rüstow already in the early 1930s. In Smith, a scarcely concealed numinosity had led him to the misconception of the laissez-faire principle of traditional liberalism. It was precisely on this basis that Rüstow had written about the renewal of liberalism, and insisted on a rupture

⁷³ Rüstow to Eucken, 13. Juni, 1933 Nachlass Rüstow ACDP, N1169-3, p. 505.

with it, so that something under the name neo-liberalism would have to be developed instead.⁷⁴ His return from exile in 1949, Rüstow confronted a totally transformed political situation. With the adoption of the social market economy slogan in 1948, the circle forming around the *ORDO Jahrbuch* was enjoying its finest hour. Colleagues Röpke and Eucken, close to Erhard and his adviser Alfred Müller-Armack, now found themselves, first in the important Bizone administration council in Allied-occupied lands, and had influenced the charter of the CDU. Although he continued to revise editions to *Ortbestimmung der Gegenwart* until his death in 1963, Rüstow had taken a post in the Lehrstuhl für Sozial- und Wirtschaftswissenschaften at Heidelberg, where he cultivated a school of sociology. By the end of his life, and enjoyed the unction of the BRD establishment: Verdienstkreuz mit Stern (1956); the Hamburg Stein Prize (1962), two honorary doctorates and a *Festschrift* featuring tribute by the sitting president and FDP founder Theodor Heuss.⁷⁵

In his address to a conference in Mailand of 1955 and brought out in print two years later in the collection *Masse und Demokratie* edited by Mont Pèlerin Society president Albert Hunold, some of the measures taken to combat massification and its relation to democratic pressures are more clearly brought out. In the context of the Federal Republic and the Cold War. Pared of the Schmittianism of the inter-war years, this lecture, “Vitalpolitik gegen Vermassung” offered some of the trademark politics of Christian Democracy. A secular moral structure of vitalism based

⁷⁴ Rüstow, *Das Versagen des Wirtschaftsliberalismus als religionsgeschichtliches Problem*, Istanbul Schriften Nr. 12, 1945, 20, 26. See also Rüstow’s contributions in the minutes at the 1938 congress, found in *Le Colloque Walter Lippmann*, “Causes Psychologiques et Sociologiques, Causes Politiques et idéologiques du Déclin du Libéralisme,” (Paris: éditions Le Bord de L’eau, 2012), 468-9.

⁷⁵ Meier-Rust, *Alexander Rüstow*, 84-5.

around the family should be developed to combat the anonymity of the gargantuan state as had grow up in the Soviet Union and China, but which also threatened life in the West.⁷⁶ Nothing could be more fundamental than the nuclear family structure, based on monogamy. A more humane culture was to be based on its renewal. This was, Rüstow assured his reader, based in sound zoological research as carried out by Adolf Portmann; such a renewal would roll back the calcified nineteenth century structure of urbanized and proletarianized life, to return to the “eternal family” with its small plots of land, as prevailed in southern Germany and Switzerland. Northern and northwest Germany were particularly vulnerable on the count of this proletarianized, massified and anonymous modern family structure in need of reform.⁷⁷ Under the principle of subsidiarity, it was this smallest unit of biological importance that was the foundation of *Vitalpolitik*. This meant that such small social units set in a “*Vitalsituation*” of “house, garden and field” would consist of a interlocking social levels, arranged in pyramid structure: internal to the sector of the living community would be integrated upwards into a group, settlement community, neighborhood, and municipality.⁷⁸ Such integration should be undertaken with the aim of avoiding two dangerous alternatives: the “pseudo-integration” of the totalitarian state, which by command structured life around dictates of the state with no autonomy of the family and localities, and, on the other side, the dissatisfaction engendered by the great industrial firms of the nineteenth century. Such developments in the West had produced the politics of class struggle, a spontaneous, and understandable if “emergency” form of social

⁷⁶ Alexander Rüstow, “Vitalpolitik gegen Vermassung,” in Albert Hunold, Hrsg., *Masse und Demokratie* (Zürich und Stuttgart: Eugen Rensch Verlag, 1957), 216.

⁷⁷ *Ibid.*, 222-3.

⁷⁸ Rüstow, “Vitalpolitik gegen Vermassung,” 224.

solidarity undertaken in response to the unhealthy form of social relations that characterized the nineteenth century. Along with the reorganization of family and city, in the world of work, proletarianization could be combatted in part by registering the success of the workers' movement itself, through cultivating a sense of *Betriebsolidarität* – company solidarity – among workers. Such efforts could rid the production process of its class politics and attendant mistrust and resentments.⁷⁹ The right balance of a meaningful work life, and high enough wages that could keep workers content. This was a matter of social policy, and should entail considerations of a social and psychological nature, not limited to wage levels alone. Rüstow left the mechanism of such decision-making open, and understood that, though the aim of the policy should be the life satisfaction of workers, everything should be done to avoid the wage-price inflation spirals that could be the result of too deferent a policy. The point was to remake society along traditional, but not feudal, lines, so that no worship of the rising standard of living would trigger such a race to acquisition of consumer goods. Yet at the same time, this was not a call for asceticism. It was rather one for frugality, combined with social integration.

Although not included in the first issue of *ORDO*, the magazine put out a special edition book of Rüstow's in 1949, titled *Zwischen Kapitalismus und Kommunismus*. This work repays close study, as it represents an extended formulation of the “third way” slogan under which Rüstow worked in the inter-war period, now updated for the Cold War and given the imprimatur of the post-war *ORDO* editorial board. It was a rigorous short entry of ordo-liberal political economy, foregrounding the problem of endogenous crisis in capitalism, as an effect of the over-investment in fixed costs, that compelled capitalists to protection through monopoly control in order to maximize profits and minimize risks. This was grist for the socialist mill, and seemed to

⁷⁹ Ibid., 230.

indicate the necessity of a socialization of production.⁸⁰ Here Rüstow recapitulated the social theory that was to be published a year later in the first volume of *Ortbestimmung der Gegenwart*; against *Vermassung* and atomization, and a plea for the renewal of the vital social bonds of the peasant family as theorized by ancient philosophy.⁸¹ Human beings were naturally social and could not be satisfied strictly through material means, but also required psychic and emotional bonds that were supplied through the family structure; the latter was however put under strain in modern industrial conditions. The slight variations from the basic formula are noteworthy. Here, pressure upon the family structure is given a much more direct economic cause: the father's long working days and the effect of feminine employment, compounded by regimented school life of the children, all meant a breakdown of its nuclear structure, which, besides, now more or less was set in the big city, so that direct contact with nature was also rare. Under such conditions it was exceedingly unlikely that a feeling of "community integration, security, warmth of social embeddedness" would thrive. The experience of market risk and market-induced insecurity was to blame, but, importantly, this was not only an affliction that affected proletarians, but also more generally all who were market dependent.⁸²

Such conditions explained the particular lure of a planned economy. Its proponents, though promising a democratic organization, would in fact deliver the population over to dictatorship; there was no such thing as a costless means by which to achieve full employment. The effort, in accordance with the "four freedoms" of the Atlantic Charter, would simply mean

⁸⁰ Rüstow, *Zwischen Kapitalismus und Kommunismus* (Godesberg: Helmut Küpper, 1949), 14-15.

⁸¹ *Ibid.*, 20. Rüstow: "Der Mensch ist, wie Aristoteles es klassisch formuliert hat, seiner Natur nach ein Gemeinschaftswesen. Nicht nur physisch und materiell ist er auf Gemeinschaft, auf gegenseitige Hilfe, angewiesen, sondern noch mehr psychische, gleichzeitig und in einem auf das vollkommenste befriedigt."

⁸² *Zwischen Kapitalismus und Kommunismus*, 20-21.

slavery to the modern state, because “absolute security” – by definition was the quality only of slaves, domestic animals and children. Independence without responsibility, freedom without risk, did not exist.⁸³ It would require the regulation by the state bureaucracy not only of production, but also of consumption, and that meant a centrally organized command economy, synonymous with totalitarianism. Rüstow proposed here a “third way” – with the typical rundown of what has already been discussed. What stood out in this analysis was the emphasis on the strong state thesis already operative in 1932; the urban policy of a decompression and deproletarianization, in order to cultivate a sense of belonging and home for families now renting apartments in large cities and traveling long distances to workplaces; and the market police element recommended to break up big combines. These measures must be taken to avoid the pitfalls of *spätkapitalismus* and at the same time the loss of civil freedom assured under any planned alternative. This must be predicated on prosperity and education, though not entirely socialized. Here, the English Butler Act under Ellen Wilkinson could be instructive, as the legacy of the Catholic Church – affording universal, conservative access for the population.⁸⁴ Such a basis could support a society of small family businesses under the conditions of a strict delimitation of the market sphere, deliberately shaped to ensure competition.⁸⁵

What did such social policy look like in its practical aspects? Rüstow’s participation in the Aktionsgemeinschaft Soziale Marktwirtschaft, a think-tank founded in 1953 as an extra-parliamentary check in the service of the social market economy, for which he served as chair

⁸³ Ibid., 24.

⁸⁴ *Zwischen Kapitalismus und Kommunismus*, 51.

⁸⁵ Ibid., 56.

from 1955-1961, gives some indication of the importance of following through the comparative sociology with more applied politics. The organization held meetings with the leading thinkers and politicians of the CDU and its sympathizers, and its proceedings were organized and published as a series by Böhm and Röpke and Rüstow.⁸⁶

The conferences took up topical problems such as pension reform, but were designed to directly influence policy. These meetings, and the published books that issued from them, indicate that the ordo-liberals and their liberal allies were active in shaping public opinion at multiple registers in the early years of the BRD.⁸⁷ The publications were clearly aimed at a more general readership, and Rüstow's experience as lobbyist and publicist was no doubt showcased in the coordinated publicity for CDU. A typical publication of the proceedings could feature, in addition to Rüstow's opening and closing remarks, participations from acting ministers in the cabinet, comments in at least one instance by Adenauer, and extended thanks given to the Bundespräsident Heuss, as well as token participation from the opposition SPD. In the 1959 proceedings, given the title *Sinnvolle und sinnwidrige Sozialpolitik – Sensible and Nonsensical Social Policy* – Rüstow took as a focus “social policy on both sides of class struggle.” The year was to be a significant one for the SPD, as it gave up its last ties to Marxism at the Bad Godesberg conference in November of that year, adopting the Godesberg Programm. In that same city, with the unction of Adenauer presented by telegram, Rüstow launched a frontal attack on the heirs to Marxism and a politics derived from class struggle. For them, Rüstow warned,

⁸⁶ Still active today, the think-tank has several subsidiary organizations, but it produces a steady output of hardback monographs, also under the imprint of the Schriftenreihe der Aktionsgemeinschaft Soziale Marktwirtschaft, and in cooperation with Stuttgart publisher Lucius & Lucius.

⁸⁷ For further discussion of the founding of the ASM, see Dieter Haselbach, *Autoritärer Liberalismus und Soziale Marktwirtschaft*, 213-216.

there was no overall consideration of the national economy, but the particular interest of employees. It was not just communists who might subscribe to this mode of thought, but also “crypto-communists, half communists” whose groups stretched into the left wing of the Social Democrats. The majority of Social Democrats were sensible, but even among reasonable workers and their trade unions discussions about wage levels might very easily show the presence of a completely outdated surplus-value theory “in its most primitive form.”⁸⁸ The challenge for social policy would be to find a way to rid these negotiations of this tendency. Such a theory, and the culture it purveyed, was also responsible for the far too high social welfare bill. Indeed, this was a period in which modestly rising wages off the boom year of 1955 given way to a small recession of 1958.⁸⁹

What relation, did these political campaigns have on Rüstow’s thought in his last decade of life? Politically engaged since his youth, Rüstow’s politics and thinking evince a powerful consistency over his long life. To take only “Sozialpolitik Diesseits und Jenseits des Klassenkampfes” as exemplary, here, what appeared an expertly timed anti-communist raid into the enemy camp while it faced geo-political structural pressures to abandon its ties to Marxism, was absolutely consistent with Rüstow’s Weimar-era Christian Socialist writings of the early twenties. Already in 1921, in a lecture reproduced in the pages of the *Blätter für Religiösen Sozialismus*, he spoke against a politics based in class struggle as conceptualized by Marx, and

⁸⁸ Alexander Rüstow, “Sozialpolitik Diesseits und Jenseits des Klassenkampfes,” *Sinnvolle und sinnwidrige Sozialpolitik: ASM Tagungsprotokoll Nr. 12* (Ludwigsburg: Martin Hoch, 1959), 15.

⁸⁹ Giersch et al., *The Fading Miracle*, 68-70.

called for replacing it with the Christian principle of universal brotherhood.⁹⁰ This early political intervention bears too on another characteristic of Rüstow's work: the general level at which, for all its importance in his anthropological armature, religion was entirely instrumental and subordinated to politics. As with Röpke, the majority of Rüstow's writings and addresses on religion took the latter as worthy insofar as it could be of aid in a struggle against class politics; it was damaging where, under the influence of "salvationist" and prophetic strains, it purveyed individualistic or atomizing, on the one hand, or the latent combustible "revenge dream," of a monotheism paired with the idea of its followers as a chosen people, now and expressed in Christendom. Rather than any particular theology, it was rather the medieval church and other pre-reformation Christian institutions, that should be held as the model, being counterweights to the state. This was of course a notable formulation for a Lutheran, whether Christian Socialist or Democrat.

In 1963 the last year of his life, however, Rüstow produced a striking essay for the *Schweizer Monatshefte*. Titled "Von Abraham bis Paulus," it was a slightly condensed presentation of a meditation in his posthumously-published revised and expanded second edition of the second volume of *Ortbestimmung der Gegenwart, Weg der Freiheit*. "Von Abraham bis Paulus" was a unique entry in Rüstow's body of work. Its aim was to set Old and New Testament texts "in profane historical perspective." The method was close reading of holy texts, rather than sociology of their institutions, as causes or effects of crisscrossing civilizations. Here, continuity between Old Testament scripture was emphasized, not as the dangerous recessive gene responsible for Calvinism, but as a foundation of a democratic culture that built up a

⁹⁰ Alexander Rüstow, "Sozialismus als Ziel und Sozialismus als Weg," *Blätter für Religiösen Sozialismus* vol. 2 (1921), 45-6.

religion based on contract with their God. Now, the status of “chosen people” meant that the people of Israel saw their misfortunes as “educative punishment” in what constituted a “Copernican turn” in ancient consciousness.⁹¹ The courts of David and Solomon produced an Enlightenment of its own, as understood by Gerhard von Rad: an age of the awakening of humanistic self-consciousness and a flowering of literature as in the accounts preserved in the books of Samuel and Kings. These works, read like modern novels, “seem incomparably more contemporary to us today, than Herodotus of 500 years later.”⁹² True, with the rise of Saul, this ancient kingdom was not much distinct from other oriental despotisms, but for one crucial exception: the threat of divine punishment standing above the earthly authority, which meant a “higher norm” prevailed on Earth. This check on earthly authority, as laid out in the prophecy of Nathan, “determined the entire history of the people of Israel, and if one likes, one could even consider the founding of the present state of Israel as the last link in this chain of fate.”⁹³

What was more, the fourth and third centuries BCE saw a gradual Hellenization of Israel. The emergence of Jesus of Nazareth in the first century CE, a representative of one of the tiny Jewish sects, rescued by the learned Paul. Trained as a rabbi, and a Greek-speaking Roman citizen, this singular figure, Rüstow argued, committed himself to a battle against rival “oriental pseudoscience,” asceticism and Gnosticism, mobilizing all the force of Hellenistic-Roman rationalism. This was the fount of Western Civilization, the concepts of Christian natural law.⁹⁴

⁹¹ Rüstow, “Von Abraham bis Paulus: Alt- und Neutestamentliches in profangeschichtlicher Sicht,” *Schweizer Monatshefte* Bd. 42, Heft 10 (1962-1963): 5, 8.

⁹² *Ibid.*, 6-7.

⁹³ Rüstow, “Von Abraham bis Paulus,” 8.

⁹⁴ *Ibid.*, 15.

To register the importance of this figure, this development should be compared with the other followers of John the Baptist, who never benefited from Paul's direction, and thereby fell prey to "Iranian-Syrian Gnostic and other oriental tendencies."⁹⁵ This appreciation of Paul constituted a reversal from a previous discussion, in the first edition of his analysis. In the a footnote to the 1963 excerpt reproduced in the *Schweizer Monatsheft*, Rüstow retracted earlier assertions that the Periscop of Romans 13 1-7 had justified the submission of subjects to governing authorities, but it was the product of anachronism, Rüstow now had concluded: an answer to a question Paul had not asked, the meaning of which could not be applied to periods of constitutional crisis in any case, given the relative stability of the legal order of Paul's own time.⁹⁶

Were these meditations and suggestive revisions of the linkages between ancient Judaism, Christianity and the culture of antiquity merely academic exercises? The political engagement of Rüstow up until his last days suggests they were not. The context of Christianity for the CDU had changed. Franz Böhm was at the time negotiating payment of "reparations" to the state of Israel throughout the 1950s, which the BRD recognized diplomatically in 1965, two years after Rüstow's death. The unity of a Judeo-Christian West, distinct from Islamic and Greek Orthodox worlds, was here emphasized, and the revisions in the second volume underscore this, whereas the first volume of the text had seen Paul as a Judaic prophet of a salvationist religion, consistent with the writings from the 1920s through the first volume of the trilogy. A thinker of great depth and range and an erudite writer, Rüstow's achievements were never without their political commitments, and at least this respect were in violation of Weberian principles of

⁹⁵ Alexander Rüstow, *Ortbestimmung der Gegenwart: Eine Universalgeschichtliche Kulturkritik*, 1. Auflage, Bd. 2 (Erlenbach-Zürich: Eugen Rentsch Verlag, 1952). 224-5.

⁹⁶ Rüstow, "Von Abraham bis Paulus," 20-21.

scientific inquiry. Even when wading into the holy texts, the Rüstow was a political thinker; and in his open political activities, he was never averse to descending into the realm of publicity.

Chapter 5: Alfred Müller-Armack: From National Socialism to Christian Democracy

Among the first generation of ordo-liberals, Alfred Müller-Armack achieved greatest prominence within the state bureaucracy of the BRD and the nascent Europe-wide institutions. Like his colleagues in the Freiburg School and Röpke and Rüstow, he moved swiftly through academic life, taking a doctorate in 1923 at the age of 22, and within two years lecturing at the University of Cologne after a *Habilitationschrift* on the economic theory of trade cycles and over-production. A professor by 1934, and member of the NSDAP for which he published the Hitlerian pamphlet *Staatsidee und Wirtschaftsordnung im Neuen Reich* in 1933, he became chair of economic policy at Münster in 1941, then founder of a research group on textiles.¹ Rehabilitated without hesitation by the conservative-liberal establishment after the Second World War and published in the inaugural issue of the *Ordo Jahrbuch*, and a contributor to it up to the end of his life, Müller-Armack also worked within the CDU party apparatus, coining the social market economy concept in his 1946 book *Wirtschaftslenkung und Marktwirtschaft*, before it was adopted into the CDU's Düsseldorf program in the run-up to the August 1949 federal elections, for which it served as a political slogan.² By 1951 he was back in Cologne, as a professor of economics and founder of the Institute for Economic Policy. The following year,

¹ Christian Watrin, "Alfred Müller-Armack – Economic Policy Maker and Sociologist of Religion," in Peter Koslowski, ed., *The Theory of Capitalism in the German Economic Tradition: Historism, Ordo-Liberalism, Critical Theory, Solidarism* (Berlin ; New York: Springer, 2000), 192-3.

² Tribe, *Strategies of Economic Order*, 204.

Müller-Armack became the head of the Central Policy Unit in Ludwig Erhard's Economics Ministry,³ and in 1958 was appointed Under-Secretary of State for European Affairs, and then directed the European Economic Community's Committee on Business Cycle Policy from 1960-1963, after which he continued in his teaching duties and served as Coal Commissioner and served on the Board of the European Bank.⁴

Born in Essen in 1901, this son of a Catholic Krupps manager studied sociology mainly in Cologne, where he earned a doctorate in sociology under supervision of Leopold von Wiese in 1923.⁵ The founder of the Cologne school of Rhinish sociology of capitalism was distinct from his ordo-liberal colleagues in two main respects. Among the first members of the neo-liberal Mont Pèlerin Society, and with his strategic position in the West German government throughout its boom years, he was unmatched in his proximity to state power and to a social layer of the West German political class and CDU party officialdom that sought to embellish the originality and efficacy of the ordo-liberal canon, for which he is given much credit in transposing into practice. Whether Müller-Armack really did accomplish this is not a question that can be answered here, but it reflects back on the quality of his thought, written for a mixture of official and publicity purposes, and which had the particular political utility of presenting a coherent "third way" ideology in unique proximity to the state apparatus.⁶ Secondly, Müller-Armack operated at distinctly European register: in his conceptualization of capitalism he was from the

³ Watrin, "Alfred Müller-Armack – Economic Policy Maker and Sociologist of Religion," 193.

⁴ Ibid., 194.

⁵ Müller-Armack appended his Protestant mother's given name, Armack, to his own at the end of the 1920s.

⁶ Both Ralf Ptak and Keith Tribe have emphasized to varying degrees the use of Müller-Armack's concept of a social market economy in this political-instrumental manner. See Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 212 and Tribe, *Strategies of Economic Order*, 206.

start oriented toward the questions presented by post-war recovery and continent-wide integration through its trade policy and its attendant contradictions. In an official capacity, meanwhile, Müller-Armack was directly active in on behalf of the West German government in its real economic diplomacy. Owing in part to trajectory of his relatively long life – he died in 1979 – his activity and exposure to the requirements of the BRD’s foreign policy afforded him a particularly concrete experience of European integration and diplomatic efforts of Ostpolitik, to which his memoirs attest. As with the generation of ordo-liberals with whom he shares credit for the shape of academic life in the post-war Bundesrepublik, Muller-Armack was also a Christian Democrat who prized above all the methods of comparative sociology of religion as the means by which to render intelligible logic of economic development in the West; as with his colleagues, this inquiry was conducted basically in a Weberian mode, and its politics were of an instrumental quality, emphasizing the social effects of the structures of religious beliefs rather than the veracity or lessons of scripture. Müller-Armack was close in outlook and worldview to colleague and sometime-collaborator Ludwig Erhard, with whom he shared a professional and class background. Of the founding five ordo-liberals, all but one, Röpke, had at one point worked in some capacity as publicists or advisers to commercial forms or governments, whether as research director for the machine tools lobby or advisers at some remove to the Nazi government as in the case of the Freiburg school. But no other figure was so consistently bound to research of a commercial nature, while working in official capacity, either as NSDAP propagandist or within the BRD federal bureaucracy and the European treaties that were the groundwork for the European union, as Müller-Armack. Yet, at the same time, up to the end of his life, Müller-Armack’s writings on economic method and its relation to a philosophical anthropology, which

he insisted must be based in a metaphysics and guided by “irenics” made him a consistently ambitious thinker, if not always an original one.

Crisis Theory and the *Volksstaat*

While Müller-Armack’s work of the 1920s dealt with trade cycles, two major articulations of his theoretical reflections published in the 1930s indicate a comprehensive social theory, with the characteristic authoritarian and nationalist features of the conservative liberal economists of the period. The first significant statement of the period was his work of 1932, *Entwicklungsgesetze des Kapitalismus* – Laws of Development of Capitalism – a study in an anthropological mode that sought an answer to the best form of regulation of capitalism in a secularized world. The burden of Müller-Armack’s theoretical project was an “immanent critique of Marxism,” and the focus on this object betrays a familiarity that lacking in his contemporaries. Müller-Armack saw the finer historical and systemic distinctions that gave capitalism its particular features, allowing that “modern capitalism is productive capitalism in opposition to mere trade and political capitalism” around which revolved the regime of free labor, a product of the separation of workers from their means of production. It was this development in production which gave capitalism its world-making character and out of which the character of modernity had developed.⁷ One of the main purposes of this, so Müller-Armack argued in his outline of his method, was to be able to explain the development of economic systems by recourse to their total anthropological meaning, and to supplement a social scientific analysis with a cultural one. This method was to have the effect of avoiding the conceptualization of the social development

⁷ Alfred Müller-Armack, *Entwicklungsgesetze des Kapitalismus* (Berlin: Junker und Dünhaupt 1932), 4-5, 11.

process as entailing one “causal determinant” or as having a definite movement toward an end.⁸ In identifying these social-historical developments, Müller-Armack nevertheless wrote that he accepted the basic discoveries of Marx, and saw his achievement as a genuine historical-sociological and scientific breakthrough. The problems with Marxism according to Müller-Armack were as follows: first, although it proposed the right questions, it failed in developing its solutions to the social problems arising from its research into capitalism; secondly, it had restricted its analysis to the laws of motion of economic matters along lines modeled on natural science. Müller-Armack’s remedy was to reverse the tendency in Marxism to find law-like properties of development, and to refer back to the layer of the “sociological structure.”⁹ Each economic system over the course of European history had entailed a development with its own internal structures and law-like tendencies, but which nevertheless was delimited by its own unique set of property relations or class structures. Each historical regime could be understood on a rational basis and understood as its own dynamic system in relation to its environment, as Marx had with capitalism. But the passage between such regimes or environments, Müller-Armack contended, was not governed by any rationality or systemic tendency in the movement of this history generally; the transition between regimes of class structures was rather pure historical contingency, and derived from “the spontaneous character of cultural development.”¹⁰ The point of this inquiry in for Müller-Armack was to understand the particular formation of the class composition and stratification under capitalism, and the role, if any of any primitive accumulation at its birth. Müller-Armack was interested in the question of class formation

⁸ Müller-Armack, *Entwicklungsgesetze des Kapitalismus*, 16.

⁹ *Ibid.*, 15.

¹⁰ *Ibid.*, 21.

mainly because one purpose of his study was to be able to distinguish among the different registers of development: historical development that inaugurates a regime, and the reproduction of a given regime. Here, Müller-Armack was clear about the role of violence as falling into the former category:

By no means are the upper social strata dismissed as functionless structures only sustained by direct violence. There can be no question of the use of force in a purely formal market order, which is already sufficient to produce capitalist stratification. But the violent character of this seemingly natural form of economic activity appears only more clearly, though in a different sphere. The irrational moment of power does not lie in the capitalist environment, in which the upper class proves itself to be a structure which is established by necessary functions, which would arise every day if one were able to eliminate it without altering the environmental form. The intervention which ultimately aims at the theory of power lies before the emergence or constitution of this environment itself.¹¹

For Müller-Armack, an “irrational moment of power” stamped an historically accidental environment with the decision of the ruling class – this was a “preliminary decision” based in the character of the environment itself, after which this historical victor may maintain its political power without direct action.¹²

Müller-Armack understood this line of inquiry, although in one respect a question of method, as directly applicable to the political questions of the day. It was in effect an attempt at reconciling the real sociological or naturalistic theories of the origin of capitalism with the idealist or spiritual factors, and in this way an attempt at a reconciliation of the sociology of Weber with the discovery of the inner logic of capitalism in Marx. The idealist factors, which

¹¹ Müller-Armack, *Entwicklungsgesetze des Kapitalismus*, 56.

¹² *Ibid.*, 57.

had been most closely articulated by Max Scheler, and the “real sociological ones” suggested to Müller-Armack capitalism were a unity of these two factors, out of which grew an “historical life process” that affected of all spheres of life.¹³ The implications of this schema for a general theory of capitalist development were as follows: First, in terms of historical change and a theory of historical development, Müller-Armack’s thesis could only mean that the internal development of capitalism – or, presumably any mode of production – could not yield any new social order based on the terms of its own immanent logic. Transitions from one regime of social property relations to another were the product of an exogenous “environment” surrounding a given social order, shaping the irrational and accidental decisions of a class that through force, left an imprint on its rivals and eventually through its class position, on the social totality. The character of this ruling class in its moment of wielding force was more or less purely voluntaristic, but it was informed by the spiritual and intellectual composition of this external environment. Secondly, the theory had bearing on the question of class struggle, which is among the main points of focus of Müller-Armack in this text and in his important political pamphlet of 1933. Class struggle was a really-existing feature of capitalism in its current phase, but it was fundamentally a real-sociological fact, not a mode of politics that could be held as responsible for transforming or remaking an economic regime. That process would require a concept far more broad and universal to be come intelligible. It would be based in something like universal anthropological values that transcended any given set of social property relations. These anthropological theories were fundamental to Müller-Armack because they dictated the types of politics that could be developed to remedy the decomposition of the capitalist state: that of the development of the total state as observed by Carl Schmitt, a product, so Müller-Armack saw, in

¹³ Müller-Armack, *Entwicklungsgesetze des Kapitalismus*, 72-73.

its own way, of the material processes at work along Marxian lines – pauperization, tendencies of concentration and accumulation, and the observable facts of secular rhythms of the business cycles now accepted by most economic thinkers.¹⁴

Once the role of class struggle was to be quarantined as a process internal to the logic of capitalism but not a force that could conceivably reorganize production itself, the political meaning of Müller-Armack's method and theory of capitalist development begin to take form. Müller-Armack's analysis of capitalist development is constructed very much in opposition to Marxism as he understand it, both as analysis and above all in its politics. The frequency with which he returns to Marx in his *Entwicklungsgesetze des Kapitalismus*, in one form or another appearing in nearly every section, attests to this. What is important for Müller-Armack is to show that the economic process of capitalist development is not purely or ever an economic process, but always a dynamic combination of the two spheres. In this regard, Marxism only saw this relation in the moment of revolution, whose conditions were determined by the end-phase of a run of productive relations; it was in this way more advanced than the liberalism that always concealed the politics behind economic development.¹⁵ Marxism had, however, over-estimated the autonomy of the economic process from the political, according to Müller-Armack. What was suggested, at the broadest theoretical level, was that the capitalist development process consisted of two essential qualitative social determinants: "self-realization and open form." This was another terminology for the combination of spontaneous impulses – occurring neither with any pre-conceived purpose nor entailing any systematic development. These basic factors were the pre-economic and pre-political categories that accounted for the qualitative relation between

¹⁴ Müller-Armack, *Entwicklungsgesetze des Kapitalismus*, 73-4.

¹⁵ *Ibid.*, 100.

economic and political spheres and their historical transformations, within capitalism. The lesson to be learned, for Müller-Armack, was that if the factors of openness and spontaneity of exchange process were preserved – and this was to be achieved itself through political means ultimately – intervention by the state into economic matters could overcome the apparent limitations of capital accumulation, and likewise the political antagonisms thrown up by the any given arrangement between the two spheres. As with the extreme liberals, so Müller-Armack argued, Marx had underestimated the extent to which state intervention had made economic life already highly politicized, and this was no more apparent than in the contemporary economy of German capitalism with its cartelization and the influence over parliamentary process exacted by interest groups. Given the fact of intervention in this parliamentary system then, the qualitative distinction to be underscored was that between a weak interventionist state and a strong one:

Whoever surveys the employment of this intervention system must, with astonishment, realize how little attempt there is to harmonize the functioning of this system of market relations. The parliamentary compromise and the ambition of state functionaries have, by the fusing of the whole, collaborated more as a central political will. That this situation occurred is essentially codetermined through the employment of strata, who in this mechanism participated together.¹⁶

The problem in the current moment was that either the liberal tendency of partial measures or the socialist one of transforming the state as a transitional organ for a future society, would misrecognize its potential. What *Entwicklungsgesetze der Kapitalismus* had hoped to achieve, wrote Müller-Armack in his concluding remarks, was to lay the groundwork for discovering the “inner discipline and method” of intervention. This had not yet been found, since the conjuncture of the 1932 could be described as an early stage of an “unmastered

¹⁶ Müller-Armack, *Entwicklungsgesetze des Kapitalismus*, 217.

interventionism.” He continued: “economic theory and practical-political leadership, have not met the special conditions of our present basis of life.”¹⁷

One model that had been worthy of careful study in *Entwicklungsgesetze* was fascist Italy. There, through the absorption of the economy by the state, the state had won latitude for private initiatives and restored a “greater radius of operations” because private economic activity no longer limited the sphere of the state, but rather was bound together with it.¹⁸ It was not until the publication of Müller-Armack’s Hitlerian pamphlet of 1933, *Staatsidee und Wirtschaftsordnung im Neuen Reich*, that this brief theoretical excursus of fascism came into its full flowering. The arguments presented in *Staatsidee und Wirtschaftsordnung*, which in the post-war period was an embarrassment left out of Müller-Armack the bibliographies customarily appended editions of his post-war works, as well as excised from his collected works published by Haupt Verlag.¹⁹ No perfunctory concession to the period, the short work is of special significance in that it articulated the practical political side of Müller-Armack’s theoretical endeavor of this period. The text reveals the extent to which Müller-Armack’s theory of a corporatist state, in absorbing parliamentary-democratic organs of the liberal order, was meant to protect private enterprise from this corruption. In a footnote, he drew the connection between his theoretical work and this political intervention, by citing *Entwicklungsgesetze des Kapitalismus* as a corollary:

In my book *Entwicklungsgesetze des Kapitalismus*...I undertook the attempt to overcome the Marxist as well as the liberal state and economic theory from their fundamental attitudes, and to replace them through a

¹⁷ Müller-Armack, *Entwicklungsgesetze des Kapitalismus*, 218.

¹⁸ *Ibid.*, 127.

¹⁹ Haselbach, *Autoritärer Liberalismus und Soziale Marktwirtschaft*, 287 n. 31.

new positive form of the theory of the state and history. This arose from a continuation of German intellectual-historical consciousness of the essence of history up to the formation of a new historical activism. That this may be called upon to serve a spiritual reserve for the new political will was made clear to me in the first meeting with fascism in Rome in 1924.²⁰

The particular utility of fascism was made clear from the very start of this work. Where Marxism and socialism had organized politics along class lines, fascism, and the new political front forged by National Socialism, could organize across these “intersecting fronts” and amidst the terms of “liberalism and socialism, individualism and collectivism, traditionalism and radicalism” – nationalism was the unpronounced concept that united a politics across such lines. More importantly, the advantage was that nationalist politics cut across class lines. Whereas previously, any politics would have to be defined by reference to its class provenance, so that, for example “fixed to the normal schema of class theory,” a given social movement would be considered a “middle class” one from the beginning; but with this new category of politics, “old groupings have lost their meanings and new orders are made visible.”²¹ The conceptualization of this movement was central to its politics, Müller-Armack argued. For “our language that in its politically expressive possibilities is formed by liberalism and Marxism, proves insufficient to render the innermost sense of the new turn.”²² The new concepts to be developed under the new German Reich, *Staatsidee* promised that this concept of new German national empire would establish not only a new order, but through an “original new idea of the state [*Staatsidee*],

²⁰ Alfred Müller-Armack, *Staatsidee und Wirtschaftsordnung im neuen Reich* (Berlin: Junker und Dünhaupt, 1933), 11-12.

²¹ *Ibid.*, 8.

²² *Ibid.*

legitimate it.”²³ What was to be underscored was that the Reich would “newly mint humanity in its historical substance” – this was because, following Wilhelm Stapel, the concept of Reich had “theological-metaphysical origins.” It was the title of nobility that history would award, and represented a basic historical power in which “history summons a new form: *Imperium Romanum*, Holy Roman Empire of the German Nation.”²⁴ Müller-Armack’s conceptualization of history itself was therefore entirely instrumental, with historical development a product of the political maneuverings of those developing a mythology around it. Although he distinguished this concept from historicism and from historical relativism of the time, it is clear that

While in Marxism the idea loses its historical validity and sinks into the ideology of class interests, it is precisely the openness of history, inspired by the new nationalism, that demands the use of the idea, in order to experience its value only in history and through its testing. History is realized only by the realization of the idea in it.²⁵

This mode of thought was a form of historicism, but one opposed to the romantic on the one hand, and above all the Marxist rationalism that gave the nineteenth century its intellectual character.²⁶ Nietzsche had been the first thinker to discern the vague outlines of an active process of remaking of the past so as to give meaning to the future, so as to overcome political rationalism. This was a third form of historicism Müller-Armack called “historical activism” [*Geschichtsaktivismus*]. It was a politics that sought to transpose the historical mythology of the

²³ Müller-Armack, *Staatsidee und Wirtschaftsordnung im neuen Reich*, 9.

²⁴ *Ibid.*, 9.

²⁵ *Ibid.*, 19.

²⁶ Historical materialism was, for Müller-Armack, the representative form of historical thinking “for its entire epoch.” *Ibid.*, 14.

nation, through action – through a “dynamic state-concept,” into reality.²⁷ This is what distinguished the emerging nationalist state from the liberal one: the latter only understood the state as an apolitical concept standing above an exchange society, but not as an animating idea. Liberalism, incapable of making any distinction between friend and enemy at the level of the state and by articulating a goal for it, and thereby had given up the state’s political character altogether. National Socialism, by contrast, recognized the necessity of politics. What was politics for Müller-Armack? Here he followed Carl Schmitt in the drawing a friend-enemy distinction that arises in a the fundamentally irrational situation where a decision based in violence [*Gewaltentscheidung*] reveals with whom one aligns and whom one opposes.²⁸ This “new form of idealism” was ultimately derived from a previously unpoliticized liberalism, but drawing on the sociological insight of George Sorel’s that historical ideas are powerful myths that may be politicized to enact historical change. Such myths could be the “idea of Christendom, science, art”²⁹ but in the twentieth century it would be expressed as the nationalism, mobilized as a mass movement. This would require an “authoritarian leadership,” and National Socialism, Italian Fascism, and in its own way the Action française, had all made attempts to answer the problem of the specifically political form of this leadership called forth by the politics of nationalism, wrote Müller-Armack. It could not take a parliamentary form, because the latter imported a belief in reason and development, predicated on debate, into the sphere of politics. With these two elements of enlightenment belief as its basis, it was incapable

²⁷ Emphasis for Müller-Armack was on the state as a goal, not just as concept. 21.

²⁸ Müller-Armack, *Staatsidee*, 25; Cf. Carl Schmitt, *Der Begriff des Politischen: Text von 1932* (Berlin: Duncker & Humboldt, 2009), 25, 31.

²⁹ Müller-Armack, *Staatsidee*, 31.

of producing the necessary binding of a political community under a national banner – in its politics it resembled too much the laissez-faire principle. That this was true could be seen even the homelands of parliamentarism, where the building up of the English empire, and the founding of the French republic and that of the United States all first developed a national identity before succumbing to parliamentary procedure, which was no politics in its own right. Marxism had failed to show how struggling classes could be united into a “common political formation without encompassing the historically effective unity, the people [*Volk*].” The outline of a community, based on the mythological – and yet historically foundational national community – that a state could be developed.³⁰

What of economics in this nationalist framework? Here too, Müller-Armack took Marxism as his main foil. He read into it a discovery of the separation of private and public spheres whose political expression under Bolshevism was the political struggle of bringing production from the former to the latter, as a form of state intervention. This process found its mirror-image in the activity of trusts and cartels that used state power to augment the profits of private property owners, in a social process that yielded the economic state. The conceptual difference between Müller-Armack and his liberal contemporaries, he claimed, was that he held that any economic theory drawing sharp distinction between these two spheres was deeply in error. The two were rather always bound up with one another, and through their attempts to resolve this division, both Marxism and liberalism had discovered their limits. Liberalism, for one, had a certain sense of inner development in the free exchange of commodities, but it could not avoid social conflict or strife; Marxism attempted to resolve the rule of things over men through the development of the state. But this only made use of the limited historical category of

³⁰ Ibid., 33-4.

class, and not the deeper existential order [*Ordnung*] of the people [*Volk*]. Through the development of a political state based in unity of the *Volk* in this sense, Müller-Armack reiterated, true freedom could be won. This was a politics designed “not to sharpen class struggle, but rather its bridging, not the pursuit of a rigid end goal, but rather the free development of the state according to what is currently necessary.”³¹ To this end something like the corporative state of Italy outlined in the *Carta del Lavoro*, where the “will and economy” could be fused under a national unity of strata and classes.³² It undertook a dual task of binding the economy to the state’s will, and at the same time integrating wider layers of all working strata. This was a system, not yet applied entirely in Germany, but could be the basis of National Socialism. The difficulty was that the corporatist state had very little with which to avail itself in by way of historical analogy; it was a truly new form of state appropriate to the epoch, but through political-social excitement [*Spannung*] under the banner of national mobilization, it might secure economic balance in production where the price mechanism of the liberal order had clearly broken down.

Staatsidee und Wirtschaftsordnung offered little detailed outlines of the institutional or other policy regimes of the new *Reich*. Müller-Armack counted on essentially, the organic effects of a politically unified national community. In this way, once the passivity of the polity had been done away with, old economic problems of the liberal era would be seen in a new light. One such pressing question was the opposition between autarky and free trade. Although Müller-Armack was aware that the rapid establishment of tariffs and the development of domestic economic factors independent of the world economy would more resemble a socialization rather

³¹ *Staatsidee*, 41.

³² *Ibid.*, 50-1.

than a corporatist answer. German firms and farms would likely have to have export markets in which to sell their product. Conversely, it was the case that liberalism had put too much stock in the coherence of the market as an equilibrating force. The point of the nationalist trade policy would not be to erect some fixed goal. It would rather be guided by principle of self-sufficiency – in this regard, it would be autarkic enough to combat passivity, but its ethos of self-sufficiency would only be part and parcel of a trading regime.³³

Theorizing Religion

The year following the publication of *Staatsidee und Wirtschafts Ordnung im Neuen Reich*, Müller-Armack was appointed a professorship at the University of Cologne. Within the end of the decade, he had moved to Münster's economics department, where he served as chair and Director of the Institute for Economic and Social Sciences. A member of the Administrative Academy of Bremen he took up two simultaneous further posts: as leader of the *Forschungsstelle für Siedlungs- und Wohnungswesen* – “Research Center on the Questions of Settlement and Regional Planning” – and founder and director of *the Instituts für Allgemeine und Textile Marktwirtschaft* – Institute for General and Textile Market Management – a market research organization supported by German textile and synthetic fabrics lines.³⁴ This latter foundation was charged with researching the suitability of export markets for German textiles, and supplying “market research” under the conditions of a steered economy – that is, information

³³ Müller-Armack, *Staatsidee*, 60.

³⁴ Müller-Armack, *Auf dem Weg nach Europa*, 21; Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 87-8.

about planning decisions and quotas that would be useful to textile manufacturers.³⁵ Activity in market research in this period brought Müller-Armack into contact with Ludwig Erhard, then director of the Nuremberger consumer research institute, whom he met in 1940 in the Ruhr district at a public lecture.³⁶ These various prestigious appointments indicate quite clearly that Müller-Armack's career had flourished in the Nazi regime, and the reality of his multiple professional obligations and his employment in academic and commercial concerns is much at odds with his own post-war self-portrait and that of his pupils as an "internal exile" during this period.³⁷ In his memoirs of 1971, Müller-Armack had portrayed his scientific research into economic questions – scientific continuity of *konjunkturpolitik* – as having been interrupted; this was to explain the turn to religion and cultural sociology, a project undertaken first in 1940 with the publication of *Genealogie der Wirtschaftsstile*, a book that underwent three editions up to 1944.³⁸ But as Dieter Haselbach and Ralf Ptak have both shown, Müller-Armack's work at Center for Settlement and Regional Planning was very much along political-economic or economic lines. The Center, originally founded in 1928, had been founded to transpose into policy terms the urban and spatial organization of populations in Germany, and anticipated the concerns that would preoccupy the social theory of ordo-liberalism: deproletarianization and demassification of settlement, familiar enough to readers of Röpke, Rüstow and the later Müller-

³⁵ Dieter Haselbach has argued that the very phrase "market research" [*Marktforschung*] in the charter of this market research group should be seen as implicitly critical of National Socialist economic policy.

³⁶ Müller-Armack, "Ein exemplarisches Leben," in *Wirtschaftspolitische Chronik* Vol. 26, 8.

³⁷ Müller-Armack, *Auf dem Weg nach Europa*, 16; for discussion of this, see Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 82. For Müller-Armack's direct statement see Alfred Müller-Armack, "Stellungnahme von Professor Alfred Müller-Armack," in Rolf Seeliger, Hrsg., *Braune Universität. Deutsche Hochschullehrer gestern und heute* Heft 6 (München: 1968), 60-61.

³⁸ Haselbach, *Autoritärer Liberalismus*, 123-5.

Armack. In this regard the Center's program conformed with what was distinctive in ordo-liberal social thought of the post-war epoch. In the Nazi period, however, under Müller-Armack's direction, the Center took on a different task: it concerned itself principally with the *West-Ost* settlement question: that is, the settlement of Germans in the conquered eastern territories of eastern Europe, and the economic, and especially agrarian planning that would be required to integrate this new zone of the German empire (to "create a solid national body in the East," in his words).³⁹ In these unpublished reports for the Center, also missing from bibliographies of later years, in which Müller-Armack devoted himself to the economic study of how to integrate and harmonize the conquered *Ostraum* of Poland, the continuous application of his economic thinking is far from interrupted: rather, in its specific recommendations for the numbers of settlers required to populate an Eastern Europe, it revealed itself to be a highly instrumental and calculating application of social sciences in the service of the Nazi expansionism.⁴⁰

It is true, however, that Müller-Armack *Genealogie der Wirtschaftsstile* signified a new register of social-theoretical analysis. His reflections in later years cast the book as the first attempt to fashion a thesis on the "power of the great religious systems in world history" as

³⁹ Müller-Armack, "Die gewerblichen Umsiedlungsmöglichkeiten in Westfalen" as quoted in Ptak, *Vom Ordoliberalismus zur Sozialen Marktwirtschaft*, 86.

⁴⁰ Where Müller-Armack does discuss the policy of settlement of the *Ostraum* in his memoirs, it is only in passing, bound up to discussion of the official invitations enjoyed in the course of his consulting for textile policy, and therefore part of the repertoire of official deceptions required to arrange for travel outside of Germany during the time. This travel was, for Müller-Armack, mainly a pretext to study the religion and social structure of the east to aid in his comparative analysis of European cultures, out of which came *Genealogie der Wirtschaftsstile* – presumably in its revised editions, since it was first published in 1940 – and his book of 1948, *Das Jahrhundert ohne Gott*. Two years after the founding of his market research institute, Müller-Armack travelled to Hungary, Romania and Bulgaria at the invitation of an industry delegation from the leading figures of German textile manufacturing. Direct activities in the economic study and planning of German settlement policy goes unmentioned. See *Auf dem Weg nach Europa*, 20-1.

economic and political forces that could at the same time be directed against both “the dialectical materialism of Marxism as well as the race theory of National Socialism.”⁴¹ What were its main findings? Müller-Armack attempted in this text to sketch the basis of the spiritual origins of economic and political culture by way of comparative study of the confessional zones established over the course of the seventeenth and eighteenth centuries across Europe. These religious cultures, Müller-Armack argued, persisted long after secularization. The study, which outlined a methodology more than empirical research findings. Although it ranges broadly, the study was theoretically compatible with the work of the previous decade. Against the romantics and materialists, both of which saw the “forms of style” of various civilizations as epiphenomena of economic power. Neither would *Genealogie* indulge in Spengler’s thesis of an eternal cycle of flowering and withering of organic national souls. The thesis to which Müller-Armack felt his project most closely to resemble was that of Max Weber, but there, the pedagogical conceit of an ideal-type and his excessive methodological caution, had distorted the real historical development contained in his insights. Müller-Armack’s “ontological interpretation” of national characters that was at the same time a “dynamic way of looking at things” [*dynamische Betrachtungsweise*].⁴² Far from a departure in outlook from *Entwicklungsgesetze des*

⁴¹ Müller-Armack, *Auf dem Weg nach Europa*, 17. It is worth recalling that in the *Entwicklungsgesetze* of 1932, it was rather National Socialism – though not its racialism – that was to have been a path leading away from the unacceptable alternatives of Marxism and liberalism. Müller-Armack provided the rationale in his 1971 reflections. The intellectual climate of the Nazi period was such that “[e]verything that had its roots in liberal economics was rejected as intellectually vanquished, so that anyone who wanted to preserve his intellectual freedom was left with no choice but to choose another area.” Nazi racialism was not discernable in Müller-Armack’s writings of the period, but in the conclusion to the *Genealogie* he did refer to “biological and milieu-bound peculiarity” as a “factor that rivals ideological forces in the shaping of economic and social culture.” Alfred Müller-Armack, *Genealogie der Wirtschaftsstile* (Stuttgart: W. Kohlhammer, 1944), 272.

⁴² Müller-Armack, *Genealogie der Wirtschaftsstile*, 22-5.

Kapitalismus, however, this deeper level of analysis was continuous with it.

Entwicklungsgesetze had explored the law-like tendencies of the immanent development of capitalism, treating it as a dynamic and changing process. But its thesis was consistent: economic laws were internal to a given order. Comparative study of religion and of a cultural forms could illuminate how such self-driving systems were embedded at this deeper layer.⁴³

The extensive discussion in the *Genealogie* would be revisited of Müller-Armack generally associated Catholic lands had effectively held back in a medieval level of economic development, characterized by small production and stasis, without any technical improvement in production. It was Protestantism, as Weber had argued, that provided the new economic culture and basis for entrepreneurial [*Unternehmerische*] development. Why was this so act, what required explanation was why in areas where Müller-Armack's explanation emphasized the combination of social and theological effects, over and above the scripture? Given the historical fact of Protestantism's association with the development of capitalism, purely intellectual trends, such as the Enlightenment or scientific achievements or the deism of the eighteenth century, always had coexisted alongside the *Ünternehmer*, who had themselves never risen to political prominence to the extent of defining the social order. The distinctness of religious developments of the sixteenth century required special attention. For Müller-Armack, the Reformation as a social movement had weakened the reigning social structure, especially that of the church, which

⁴³ Ibid., 15. To illustrate the continuity of this mode of thought, and the present study's extension and deepening of it, Müller-Armack cited his work of 1932. This citation was never excised from post-war editions of the text. Cf. Müller-Armack, "Genealogie der Wirtschaftsstile," in *Religion und Wirtschaft* (Stuttgart: Haupt Verlag, 1981), 53. Both Eucken and Rüstow were critical of Müller-Armack's *Genealogie* at the time of its publication. Eucken wrote, for example that "The 'style' characterises the whole life of a period; it is not intended to help overcome the Great Antimony, that is, not to solve the problem of the co-operation of history and theory in economics." Eucken, *Foundations of Economics*, 329 n. 22. Rüstow objected to the Müller-Armack's attempt to draw a strict parallel between economic history and art history. See Alexander Rüstow, "Die Konfession in Der Wirtschaftsgeschichte," *Revue de La Faculté Des Sciences Economiques de l'Université d'Istanbul*. 3 (1941-42): 386, 387 n. 26.

had been the anchor of a network of small craftsmanship, along with its property that had functioned as a social reserve of subsistence for small producers. This collapse of the “Church economy” [*Kirchenkonjunktur*] precipitated a vacuum that the state was unable to fill. The result was that the basic logic of feudal reproduction was threatened, including that of the guilds; thrown into a transformed social setting without the lines of patronage, protection meant that they turned to a rationalization of production.⁴⁴ Müller-Armack stressed that the Reformation had set in train a new market order that was above all an activity, while “economic ethics took flight from this activity in sermons and tracts.”⁴⁵ How to explain underdevelopment in Lutheran lands? This was a paradox. The homeland of the Reformation naturally saw the earliest reduction of the Church’s political power, but this meant that the state bureaucracy developed its own autonomous bureaucratic tendencies, independent of traditional spiritual leadership and the clergy, that developed new methods of economic steering in its attempt to assert a new religious form. Rather than separating itself through its dogma, the Lutheran church fused itself with the state, and thereby developed public undertakings as its signature; in the Lutheran countries, there was a “conspicuously low” level of free enterprise.⁴⁶ By the eighteenth century, a “pietistic loosening” in Western Germany, at a remove from orthodox Lutheranism, produced a uniquely dynamic social effect, of great economic significance. Here, specifically in the Ruhrgebiet, in Wuppertal, and in Monschau – all areas incidentally close to Cologne and Münster – these heterodox Lutherans comprised a particularly, and really exceptional stratum of Lutheran *Unternehmer*. The most significant breakthrough of Protestant capitalist ingenuity, however,

⁴⁴ Müller-Armack, *Genealogie*, 230.

⁴⁵ *Ibid.*, 230.

⁴⁶ *Ibid.*, 231.

did not come from these heterodox Lutherans but rather from the ascetic members of the free churches of France, western Germany, Holland and England. Excluded from the bureaucratic machinery of the state, they were therefore “active forces” in setting up an “free economic” associations, and became “role models of new private entrepreneurial forms: trade companies, banks, insurance companies” as already recognized by William Petty in the seventeenth century in his observations about the effect of religious refugees.⁴⁷ Holland was the earliest to develop these new methods, particularly in finance – equity, stock exchanges, rationalization of taxation, banking – all took on their modern form there. In England, it was the Dissenters, excluded by legislation from a direct participation in public affairs” and whose “radicalism and business acumen” – in the words of R.H. Tawney, provided the requisite social combination that “transformed the acquisition of wealth from a drudgery or a temptation into a moral duty.”⁴⁸ Something like this process existed in France as well, but above all, for the German context, Cologne was key: though overwhelmingly a Catholic city (it was just under eighty percent protestant at the turn of the nineteenth century), the Protestant minority via the same dynamic of exclusion from official and state-affiliated occupations, tended toward entrepreneurial lines. On the other hand, Müller-Armack was quick to add, the “Protestant character of the Rhineland’s entrepreneurship cannot... be explained solely by the monopolization of the bureaucracy by Catholics, which in this form is probably only to be found in Cologne.”⁴⁹ Rather, the confessional aspect must be a factor; indeed, even in the small towns of the Hunsrück, the

⁴⁷ *Genealogie*, 231-2. Müller-Armack follows R.H. Tawney’s discussion of Puritanism in *Religion and the Rise of Capitalism* in his discussion of Holland, though he reserves his citation to the analysis of the English Puritans.

⁴⁸ R.H. Tawney, *Religion and the Rise of Capitalism* (London: John Murray, 1922), 252-3.

⁴⁹ *Ibid.*, 234.

divisions between Protestant and Catholic, where the wealth of the former was apparent to an observer of the early nineteenth century; indeed, the old Rhineland industrialists had Protestant names. Part of this could be explained by the particular intellectual culture of Protestantism, which prize mathematics and especially statistics. But above all, it was a belief system and social form more receptive to the Enlightenment, and of fashioning a cooperative form with “new roots.” This had entailed a widening of the development of economic thinking, and new forms of life which of course included expanding markets.

Müller-Armack’s studies of religion grew in number after the end of the Second World War, eventually comprising an freestanding 600-page volume of his collected works, and informing his writings on other matters. Output in this field continued up through the 1970s, with concentration on comparative analysis eastern and western Christianity and the problems of secularization. Three post-war studies, the article “Zur Religionssoziologie des europäischen Ostens” – Towards a Religious Sociology of the European East” – of 1945, and two monographs, *Das Jahrhundert ohne Gott* – Century without God – of 1948 and *Diagnose unserer Gegenwart* – Diagnoses of our Present – of 1949, marked the coordinates of the post-war studies of religion. They inaugurated a line of post-war output that would run parallel to Müller-Armack’s more directly political studies and activities. These religious studies of the mid- and late forties expanded upon the cultural sociology developed in the *Genealogie*, with an emphasis on the unifying characteristics of Western civilization under Christianity. The first of these, “Zur Religionssoziologie” was especially stark in its presentation. By focusing on the world of eastern Europe, Müller-Armack brought into focus at this broader cultural register the cultural features of the zone of Europe that had concerned him with the practical matters of development and German settlement during his work in the 1930s. This area, between the Baltic and Black Seas

and the eastern Mediterranean was a zone of an “independent nature that the dividing lines were confessional but reached into the east, so that not just Protestantism – let alone the particular admixture of social and theological factors prevailing in England, Holland and western Germany – defined this civilization. Rather, it was the entirety of Catholicism, and therefore especially the cultural forms prevailing in the Baltics and in Poland when compared to White Russians, as well as Czechs Magyars and Croats against the Eastern Orthodox nations. Aside from these far eastern reaches of Catholicism, a not insignificant number of protestants among in these borderlands imparted had their culture, making it distinctly western-oriented.⁵⁰ This intermediate zone therefore was strictly marked off in its character from the Orthodox East, which because the complete fusion of state and society – ultimately a paradoxical effect of the lack of hierarchy within the church itself – had yielded a fundamentally backwards culture. This was much the same argument Müller-Armack had offered to define the Lutheran east: without hierarchy, no competition with civil society, nor with secular state and with the protection it enjoyed from the state, meant that neither did it endure the testing of breakaway sects. The upshot was a lack of depth sociologically, but also in consciousness, so that there was no great flowering of personal individual subjectivity, and an economic stasis represented by the preservation of a natural economy agrarian economy⁵¹

These oppositions were, however, not simply geographical but also conceptual. Müller-Armack described his understanding of the questions raised by these distinctions as intelligible

⁵⁰ Alfred Müller-Armack, “Zur Religionssoziologie des europäischen Ostens,” *Weltwirtschaftliches Archiv* 61. Bd., H. 2 (Mar., 1945), 168, 171.

⁵¹ Müller-Armack, “Zur Religionssoziologie des europäischen Ostens,” 179-181. Müller-Armack also uses the same physical metaphor of a vacuum previously used to describe the backwardness of the Lutheran homelands of eastern Germany.

through zones of development as “growth rings of our cultural form” in an essay of 1948 that appeared in a Festgabe for the sociologist Leopold von Wiese in the journal *Studien zur Soziologie*. Here, the *Okzident* shaped by Christianity covers the entirety of the land mass between Rome and Constantinople. But it is subject to internal differentiation.⁵² This yields the second conceptual-historical level of analysis given in this schema, the split within the *Okzident* between Byzantium, unified under a powerful state-religious institution, and the West, weaker as a social more internally divided politically in the aftermath of the decline of the western Roman empire. These geographical features supplied the third ring of conceptualization: that of the opposition between modernity and medievalism. The dynamic West stood out in its cultural and economic style here developed over the course of the sixteenth and seventeenth centuries.⁵³

In the early post-war setting, these studies in religion were an attempt at a clarification of the specific German dangers and possibilities of the historical crossroads, as well as those of European development. In these numerous studies on the importance of religion, an anchoring cultural “style” as a unifying force for civilization was paramount. In that respect, they represented continuity with the political thought expressed in *Staatsidee*, where a legitimating cultural order might be instrumental in sublimating class struggle. Two studies of the this period, *Das Jahrhundert ohne Gott* and *Diagnose unserer Gegenwart*, may be considered exemplary in showcasing the political fruits of the method Müller-Armack outlined in his *Genealogie*. No other work of this period explored the political dangers presented by historical development, and therefore the temporal dimension of the cultural problem in such start terms as *Das Jahrhundert*

⁵² Müller-Armack, “Wachstumsringe unserer Kulturform,” in *Religion und Wirtschaft* (Stuttgart: Haupt, 1981), 17-18, 29.

⁵³ Alfred Müller-Armack, *Diagnose Unserer Gegenwart* (Stuttgart: Haupt, 1981), 78-81.

ohne Gott. The long century from the end of the first third of the nineteenth, through the mid-forties had seen the destructive emergence of a culture of indifference and nihilism.⁵⁴ Here, the modernity in the West that distinguished it was a liability: the industrial society borne of a rationalizing enlightenment culture had denuded civilization of its spiritual rootedness. What arose in opposition to it was the irrationalism of the romantics, and in the historicism that overtook academic culture at the end of the nineteenth century. Prodromes could already be detected in the work of Goethe, whose literary output anticipated the most important intellectual split in western thought that was the outcome of this historical development: that of the conflict between the pessimistic thinkers of this later nineteenth and twentieth centuries drawn to irrationalism, and the Promethean enthusiasts of technological process and the “utopian” aspirations engendered by it. Liberalism, Marxism and nationalism were the ideologies that lay at the outcome of this development and which defined the secular age of the twentieth century.⁵⁵

The process of secularization took on different forms in the West depending on the confessional background. Catholicism and Calvinism, because they had established distinct spheres of the religious and non-religious and persisted institutionally – where no innerworldly participation was called for – could withstand a process of secularization without themselves transferring the religious element too strongly to worldly matters. Lutheranism was the opposite, and in its process of secularization societies stamped by it tended toward greater dogmatism in worldly matters, both at a personal level and in Lutheranism’s “trustworthy obedience to the state” evident in worldly disciplines in Lutheran countries, from poetry through philosophy, and especially in Hegelian state theory and cameralism, and eventually the Prussian militarism on the

⁵⁴ Müller-Armack, “Das Jahrhundert ohne Gott,” in *Religion und Wirtschaft*, 380-1.

⁵⁵ *Ibid.*, 383, 403-4.

one hand and the “irrational glorification of the state” as self-consciously promoted by Nietzsche and Spengler.⁵⁶ Catholic and Calvinist secularization had too trusted the autonomy of normative ideas owing to a “rational theology. Following Frank Knight, Müller-Armack observed here the tendency toward endowing organic qualities to social processes, and to the belief in economic progress. All of these developments that constituted the process of replacement of religious matters with secular ones was designated were considered “idol-formation” [*Idolbildung*] in Müller-Armack’s understanding, and it was a concept that would indicated the requirement of a metaphysics present in all societies, even those in experiencing secularization. It also indicated a “inner homelessness” of the masses and the could explain the “*Ersatzmetaphysik*” of the collectivist movement that burst forth in 1915, gathered strength after 1929 and broke through as nihilism in the form of the Nazi movement. Each of these vestigial forms could, either in Protestant or Catholic Europe, Müller-Armack warned, provide the basis for new forms of dangerous *Idolbildung*. But even the apparently innocuous distractions of mass civilization (sport, technology) could themselves be the source of “emerging dangers.” Indeed, “The extreme forms of an apolitical individualism and a political collectivism stem from the same life basis [*Lebensboden*]. They are varieties of secularization.”⁵⁷ This spiritual question was to inform his estimation of the proper framework for democracy itself. At the end of the decade, in his *Diagnose unserer Gegenwart*, the political meaning of Müller-Armack’s anthropological and sociological speculations was made very clear in the context of the emerging Cold War geopolitics. An overcoming of these secular idols was especially important, not just in the socialist *Ostzone*, but also in the West, because the of the “parties of most varying shades lying

⁵⁶ Müller-Armack, “Das Jahrhundert ohne Gott,” 408, 430-1.

⁵⁷ *Ibid.*, 467, 472-3, 502.

in wait” for a simple majority at which point they may enact their “goal of socialization or land reform with such radicality that any related decision for the future would be made impossible.”⁵⁸ Simple majorities would have to be rendered unacceptable in any electoral framework, but more fundamentally, democracy, which he also considered to be an idol of the time, could not be have its values merely formally confirmed. Rather, such values could receive their meaning “only from Christianity” which was its basis.⁵⁹ A secularized *Ersatz* metaphysics, in this way constituted a threat to democratic institutions. Müller-Armack saw that through their formal mechanisms, “totalitarianism” might yet emerge again if no properly Christian “rooting” [*Verwurzelung*] in “eternal values” the minimal basis for reconciliation with a socialist states, and, with the overcoming of these idols, and unity of Europe.⁶⁰ What was needed was the authentic refounding of this transcendental dimension of human experience to combat these dangers.

The Road to Europe

In his memoirs, Müller-Armack recalls the importance of the internal German scientific discussion groups convened by Eucken and the Freiburg circle in Rothenberg and with Gerhard Weisser, of later of the general secretary of the bizon, present. Then professor at Münster, he was appointed a member of this influential Council in 1946, where ordo-liberal participation was already official by the summer of that year, with the inclusion of Leonard Miksch, Eucken’s most prominent student, as an assistant at the Central Office for Economic Affairs, and who later

⁵⁸ Müller-Armack, *Diagnose unserer Gegenwart*, 138-9.

⁵⁹ *Ibid.*, 139.

⁶⁰ *Ibid.*, 140, 143.

went on to join the bizonal Council, to direct the department on price competition as adviser to Ludwig Erhard.⁶¹

Contemporary with these developments were the first attempts internal to Germany at made at tackling the question of economic rebuilding and the refounding of economics in 1945-1946. Here, Müller-Armack's colleague Walter Hoffmann, previously of the Kiel Institute, had organized international debates there on the question of how Germany might be reconstructed. In Müller-Armack's telling, an important episode was the prognosis given by a visitor from the British Labour Party, brought into debate at Münster. The prognosis given to the Germans by their PLP interlocutor was grim: German recovery on all counts – productivity of labor, restoration of fixed capital, food scarcity, energy shortages and a lack of access to the only convertible currency, the dollar, would persist for decades.⁶² Under such conditions, the neo-liberals of the Freiburg group and prominent economists like Erhard and Müller-Armack whose commercial and industrial research advised the Nazi state before 1944, were drawn closer together, as were Müller-Armack and Erhard to each other intellectually, mobilizing their specialization of commercial research to advocate for a strengthening a liberal market economy in the post-war order, which both had contemplated toward the end of the Nazi dictatorship.⁶³

⁶¹ Nils Goldschmidt, "Alfred Müller-Armack and Ludwig Erhard: Social Market Liberalism," Freiburg Discussion Papers on Constitutional Economics/Institut für Allgemeine Wirtschaftsforschung, 04/12, p. 12.

⁶² Müller-Armack, *Auf dem Weg nach Europa*, 36-8; 52.

⁶³ For Erhard's activity as adviser to the Nazi state, see Karl Heinz Roth, "Das Ende eines Mythos. Ludwig Erhard und der Übergang der deutschen Wirtschaft von der Annexions- zur Nachkriegsplanung (1939 bis 1945)," Teil I in *1999*, 10 (1995): 53-93; Teil II in *1999*, 13 (1998): 92-123. For Erhard and Müller-Armack, Bertram Schefold, "Vom Interventionsstaat zur Sozialen Marktwirtschaft: Der Weg Alfred Müller-Armacks," in Rolf H. Hasse and Friedrun Quaas, eds., *Wirtschaftsordnung und Gesellschaftskonzept: Zur Integrationskraft der Sozialen Marktwirtschaft* (Bern: Haupt Verlag, 2002), 49.

Müller-Armack was imperative in an environment defined by the Keynesianism of one of its occupiers the for reforms to be taken contrary to the welfare state. Already by 1945, Müller-Armack had advocated a moving toward increase in production by combatting the distorted prices in the market; this would entail first currency reform – that is, revaluation – that would mean a “leap into the dark” through a deflationary process; this was absolutely necessary, because the paralysis of production in past crises, of 1929 for instance, was determined “essentially more through the failure of combination and coordination of the factors of production than through the failure of the factors themselves.”⁶⁴ It was essential to learn the lessons of the early thirties, where response to the depression in the form of job creation had produced a counterproductive state-directed steering mechanism. That is why the Beveridge Plan presented such a threat, he claimed in his long essay of the following year, published on political economy of steering and market citing Röpke and Hayek, in catching the attention of Hayek and Eucken, joined the Mont Pèlerin Society for in 1948, publishing in the first edition of *ORDO* of 1948 and attending its second MPS meeting in Seelisburg in 1949, where he spoke on “The present intellectual position in Germany” in a discussion with Franz Böhm, Leonard Miksch and others.⁶⁵ The impetus to including Müller-Armack in the *Ordo* and neo-liberal circle seems to have come from F.A. Hayek, then president of the Mont Pèlerin Society, suggested in a letter to Eucken in February of 1948, as they were discussing the founding the journal, organizing the 1949 MPS conference in Seelisburg and making arrangements for T.H. Hutchison to translate

⁶⁴ Alfred Müller-Armack, “Konjunkturpolitik als Voraussetzung der Währungsreform,” in *Genealogie der Sozialen Marktwirtschaft* (Stuttgart: Haupt, 1981), 257, 260. This text was originally presented to the textile industry research group, at Münster in December of 1945.

⁶⁵ Mont Pèlerin Society, “Inventory of the General Meeting Files” (Liberaal Archief), 19.

Eucken's *Grundlagen der Nationalökonomie*. "He is of course not a prepossessing person, but I think very serious and quite competent," Hayek wrote, and gave "the impression that he would fit into our circle."⁶⁶ By the end of the year, Müller-Armack had published "Die Wirtschaftsordnungen sozial gesehen in the first volume of *Ordo*, restating basic principles of the social embeddedness of markets dangers of planning, of utopianism – here he followed the work of Mises and Hayek (whom Müller-Armack had first met in the 1920s in the course of their studies in Cologne, and whose *Geldtheorie und Konjunkturtheorie* he had reviewed positively in 1930); elsewhere, the influence of Röpke, and Eucken is made clear by reference to the necessity of combatting centralized planning. Attendant to this revitalized importance free exchange, and liberalization at the level of consumption, where price controls must be overcome, to the dangers of wage policy enacted by workers' pressure, could set in train the economic controls that, in their paradoxical but disastrous effects – increasing unemployment, caused scarcity for consumers, and would be the prelude to another era of "totalitarianism."⁶⁷ These themes had been set down most comprehensively in this period in Müller-Armack's long essay of 1946, *Wirtschaftslenkung und Marktwirtschaft* – Economic control and Market economy, from which the *Ordo Jahrbuch* essay draws.⁶⁸ The second half of *Wirtschaftslenkung* outlined the social

⁶⁶ F.A. Hayek to Walter Eucken, 19. February, 1948, Hayek Archive, Box No. 18, Folder 40, Hoover Institute, Stanford, CA.

⁶⁷ Müller-Armack, *Wirtschaftslenkung und Marktwirtschaft*, in *Wirtschaftsordnung und Wirtschaftspolitik* (Freiburg: Verlag Rombach, 1966), 47-8. Cf. *Ordo Jahrbuch*, Bd. I.

⁶⁸ This essay, originally published in 1946 was the opening chapter of a collection of Müller-Armack's economic writings published in 1965. Reviewed by Alan Milward, who described it as "a record of 20 years of great intellectual consistency" – the social market economy promised "the advantages of liberal economies with none of their inhumanities" – lower tariffs, but Müller-Armack was "not too optimistic" about extending the common market, and the social market economy still remained a "nebulous concept." Alan S. Milward, Review *International Affairs* (Royal Institute of International Affairs 1944-), Vol. 44, No. 4 (Oct., 1968), 784-5. An American reviewer was not so generous: "In these extremely long,

means by which a renewal of the a competitive economic order could be granted new legitimation; this half of the study is the source of the term social market economy, within three years to be mobilized in the electoral campaign of 1949, in the aftermath of the, in all events, successful scrapping of the *Reichsmark*, its replacement by the higher-valued deutschmark, and the formal inauguration of the political-economy and culture of the Bundesrepublik miracle. The price was, of course, at the cost of a labor insurgency, broken now by the deflationary attack, and soon rescued by the takeoff of global genesis, attributed to American non-military grants and the conjunctural factors identified by historians across the political spectrum: massive benefits of converting wartime technology to peacetime use, under the protection granted by the long-term planners Washington, and with the aid of non-military grants from it.⁶⁹

The political fortunes of the CDU in the aftermath of the currency reform, and that of Erhard, greatly benefited Müller-Armack's standing. It was in fact ultimately through the unlikely figure of the exiled Rüstow, whom he had met in Berlin in the 1930s, and with whom he shared admiration for the work of Oppenheimer, Erhard's doctoral supervisor, that Erhard

repetitious and, for the most part, vague discussions we learn, in essence, such things as that the price, wage, and other controls of the 'directed economy' interfered with the efficient allocation of resources and with consumers' sovereignty, while the market economy results in prices which reflect true market conditions." The social market economy was an "elusive concept"; "if we fish in a sea of pious generalizations for some concrete flotsam," what is revealed is nothing more than the totally acceptable, but unoriginal reflection of the welfare state, pioneered by the Germans, true, "but in the eighteen-eighties, not the nineteen-fifties." Domestic and tranquility and Atlantic cooperation prized above all, Müller-Armack's was a work with which there was little to quarrel, but "no penetrating analysis" nor "concrete information." Walter P. Michael, Review, *Southern Economic Journal*, Vol. 34 No. 2 (Oct., 1967), 302-4.

⁶⁹ Philip Armstrong et al., *Capitalism since 1945* (Oxford, UK ; Cambridge, Mass: Basil Blackwell, 1991), 47-62.

became aware of the emerging ordo-liberals.⁷⁰ Rüstow, still in Istanbul, and Röpke, after the publication in 1942 a literary success but at a remove in Geneva, still enjoyed intellectual influence among these early plans, especially within the bizonal advisory council around Erhard, the administrator from 1948 on.⁷¹ With Miksch's death in that year, and Eucken's in 1950, by the early period of the Böhm, Müller-Armack, and Rüstow, in his activities in the *Aktionsgemeinschaft der Soziale Marktwirtschaft*, were the most prominent and politically significant ordo-liberals at the turn of the decade. In 1952, Müller-Armack was recruited by Erhard to his advisory council in the economics ministry, becoming one of his closest and most trusted colleagues. Erhard was impressed by Müller-Armack's *Wirtschaftslenkung und Marktwirtschaft*, which he read as a forceful, groundbreaking articulation of the economic reforms necessary in the emerging post-war German order. They were in retrospect world-making, but at the time not yet widely accepted among economists. In his reminiscences of 1961, Erhard described the economist as one who fit his search for a "philosophical and imaginative expert who would be able to give wise advice, knowing that not everything that is 'feasible' would fit into the *Ordo* of the nation."⁷² He found these qualities in Müller-Armack who joined the Economics Ministry in 1952 and from 1958 until the end of the Adenauer administration in 1963 was Secretary of State of European Affairs. His intellectual output, by

⁷⁰ Alfred C. Mierzejewski, *Ludwig Erhard: A Biography* (Chapel Hill: University of North Carolina Press, 2004), 24-5, 57, 61.

⁷¹ For the commercial success of *Die Gesellschaftskrisis der Gegenwart* of 1942, see Jean Solchany, "Wilhelm Röpke as a Key Actor of Transnational Neoliberalism" in Hagen Schulz-Forberg and Niklas Olsen, eds., *Reinventing Western Civilization: Transnational Reconstructions of Liberalism in Europe in the Twentieth Century* (Newcastle: Cambridge Scholars, 2014), 101-2.

⁷² Ludwig Erhard, "Wirtschaft, Gesellschaft und Kultur," in Karl Hohmann, ed., *Ludwig Erhard: Gedanken aus fünf Jahrzehnten: Reden und Schriften* (Düsseldorf: Econ Verlag, 1988), 705-6.

then reduced to shorter papers and lectures, concerned itself with a return to the economic planning of European integration that was in fact a focus of his wartime activities.

Müller-Armack's talk at the 1953 meeting of the Mont Pèlerin Society, "Fundamental Questions concerning German Economic Policy," reveals some of the internal thoughts informing the translation of his ideas into policy. It was delivered as part of a morning panel in mid-September on the "recovery of Germany," and which Erhard himself opened with a paper on the "problems of European integration." Satisfied with the first five years of economic performance of the Federal Republic, Müller-Armack understood the elections of January and February of that year as confirmation of their acceptance in "wide circles of the German nation" that had in fact come as a surprise to much of the establishment, but was won by Erhard's efforts to "make consumers feel that his policy was to their own benefit."⁷³ This psychological and publicity effect of driving the population to accept the superiority of the market, was, as Röpke had rightly underscored, a major task of policymakers. This must entail, Müller-Armack argued, the conceptualization of such a market economy in a "right sociological framework" – since the SDP rivals had also run their campaign on the promise of the market's benefits to the consumer, it was of utmost importance that the deeper acceptance of the principles of a market economy could make the CDU distinct enough to sustain the reforms it had initiated in 1948, against the will of the occupying authorities, it had turned out. Militant opposition and organization of economists, social groups and "associations of entrepreneurs" had allowed a dismantling of the planning ideology. Vigilance was nevertheless warranted, given the counter-attack anticipated by the Federation of Trade Unions. Though Erhard had a "70 per cent majority behind him," those

⁷³ Alfred Müller-Armack, "Fundamental Questions concerning German Economic Policy," delivered 11. September 1953 at MPS Conference Seelisberg, Nachlass Müller-Armack ACDP, I-236-055/4, pp. 1-2

fighting for the social market economy order must assume that they would most likely experience their political struggle as a minority, with the array of government bureaucracies, the public and Bundestag against them:

Our theory is an abstract one which can be firmly established in the public opinion only if it is given a concrete sense and shows the man in the street that it is beneficial for him. We are not, therefore, just dealing with a market mechanism but with a social policy which must, of course, be in conformity with the natural forces of the market. As a matter of fact, this social touch was one of the factors which helped to win the first elections to the German Bundestag, so we should at least acknowledge the symbolic value of the term by which it is expressed. It refers to the human being in a sociological pattern in the sense of Mr. Rüstow's term "*Vitalpolitik*". We feel that the result of the election imposes on us the duty to give even more attention to the social aspect of our economy and to make it even more convincing to the public by an encouragement e.g. of a better supply of the consumer and the formation of private property.⁷⁴

Securing the durability of the social market economy was not by any means merely an intellectual, cultural or strictly political-strategic question. Müller-Armack was prepared to lead an investment drive to accommodate the 10 million refugees flowing from the east, and to build up industrial capacity and combat the cyclical and seasonal downturns – here he names the figure DM 320 million – that might threaten the market order at this political register. A domestic investment drive had underwritten the CDU political calculus for the general election; positive indicators such as falling prices, lowering of unemployment and the improvement of capital markets had made it possible to achieve an electoral victory under the conditions of general economic expansion. But it was mainly investors who had benefited from the expansion up until now, Müller-Armack conceded. Any further international integration could only take place once savers could be made to feel that they too would benefit in the long run, without their living

⁷⁴ Müller-Armack, "Fundamental Questions concerning German Economic Policy," 3.

standards brought down to the levels of Germany's neighbors. Such direct material mobilization, as in the successful a housing construction drive, must be kept in mind to improve the population's living standards. Once this economic prosperity had been secured and fortified through policy, the social market economy would be well established. That time had nearly come, and then it would be "time to lay even more emphasis on the social aspect" for which "a vote of confidence has been returned by the masses."⁷⁵

Contemporary with Müller-Armack's political thinking with respect to *Innenpolitik*, was his intellectual production in the form of lectures and journal articles on the question of Europe – a corollary to his official responsibilities as Erhard's adviser and later secretary of state for European affairs.. For Erhard and the ordo-liberals, including Müller-Armack, the political success of the social market economy – as a politics, above all – was thought to be a model to replicate at a European level, taking on the economic features that had inaugurated the social market economy in the middle of the 1940s, adopted from, in large part, Röpke's writing on international order. International integration, Müller-Armack had written in his influential 1946 book *Wirtschaftslenkung und Marktwirtschaft*, must develop measures to combat inflation and to ensure stable currency, the protection of consumer choice and of the price system along with the promotion of free trade to undermine the development of monopolies and oligopolies. As he was to write in a warm review of Röpke's trilogy in 1950, an anti-market politics, previously expressed through nationalism, would be just dangerous at a regional and international one: "Many illusions and slogans of international cooperation, which are also present with regard to the possibility of a greater European area [*Großraum*] could doubtless have been avoided if one

⁷⁵ Müller-Armack, "Fundamental Questions concerning German Economic Policy," 8.

had seen from the outset the difficulty of which Röpke was aware.”⁷⁶ The social market economy would also require much more aggressive freeing up of the labor market: “job creation which binds a one-time elimination of unemployment to the sacrifice of permanent transition to an unfree and unproductive economic constitution, can no longer be sought.”⁷⁷ The decade was shaped intellectually by the success of the social market economy, and in hindsight that of the currency reform and abolition of price controls. Ordo-liberalism had come into its own as a distinct and recognizable intellectual tendency behind it, internal to neo-liberalism, as Hero Moeller’s coinage of the term in 1950 had intended.

A 1956 article, Müller-Armack’s numerous writings on the topic from the period leading up to the Rome Treaty, and in the aftermath of the Messina conference. This is a period Müller-Armack recalled as one colored by splits between the Latin block of France and Italy, and the Benelux and Germans on the question of social harmonization, and, in the case of the Latin block, what he saw as particular resistance to liberalization of the agrarian sector, which was to become a sticking point for the countries of EFTA some years later.⁷⁸ At the time, in his paper of 1956, “Stil und Ordnung des europäischen Wirtschaftsraumes,” Müller-Armack conceded that the political divisions “fade in such a way that one hardly recognizes who is a neo-liberal and

⁷⁶ Müller-Armack, “Wirtschaftsordnung und Marktwirtschaft,” in *Wirtschaftsordnung und Wirtschaftspolitik*, 157-9. “The problem of a nationalist economic policy is, in fact, primarily that of anti-market economic control, and it cannot therefore be eliminated if it is possible to repeat it on an international, perhaps European basis.” Müller-Armack, “Deutung unserer gesellschaftlichen Lage: Zu Wilhelm Röpkes Trilogie,” 261.

⁷⁷ Müller-Armack, “Wirtschaftsordnung und Marktwirtschaft,” 164.

⁷⁸ Müller-Armack, *Auf dem Weg nach Europa*, 107-8, 114-5.

who is a socialist” under the “bright illumination of international problems.”⁷⁹ The sociology of cultural and economic “styles” he had devised for his comparative religious studies here appeared as a mode for arguing that the “dialectic” of “inner complexity” that might point the way toward founding a political as well as economic union.⁸⁰ His recommendations at Messina, for an exchange program and for a European university, should be seen, he argued, as attempts at rounding off the efforts at establishing multilateralism in trade, and the reduction of tariffs, eventually those on agriculture, an especially difficult point in negotiations around the institutions of European integration. Likewise, Müller-Armack – here he was on aligned with Erhard against the preferences of Adenauer – understood the negotiations regarding convertibility as too limited. By the exclusion of the dollar area as stipulated by the European Payments Union, the plan ran the risk of throwing off the eventual goal of an integrated world economy backed by convertibility, not merely regionally, but throughout the Atlantic world and truly globally. It therefore risked a stalling the hoped-for process of integration at a partial stage. As he made clear in a lecture to industrialists at the Schlenbach-Gesellschaft in May of 1959 circulated in of the Cologne-based Deutschen Industrieinstitut, the question before the Germans in any further development of the EEC was its relation to the economies outside of it. It was clear to Müller-Armack that liberalization by lowering protective tariffs, would be to the benefit of German industry. This held true, he emphasized, for the rest of the eleven OEEC countries, and with the “the free world economy” – because “only one third of our exports are bound to our

⁷⁹ Alfred Müller-Armack, “Stil und Ordnung des europäischen Wirtschaftsraumes,” *Zeitschrift für Nationalökonomie* Bd. 16. H. 1/2 (1956): 54.

⁸⁰ Müller-Armack, “Stil und Ordnung des europäischen Wirtschaftsraumes,” 56.

five partner countries, and it must be emphasized therefore that German industry has to rely on maintaining relations with the greater European area and with the free global economy.”⁸¹

Müller-Armack’s line on economic relations with third parties outside of the European Economic Community was shared by Erhard and Röpke, all of whom, by the end of the 1950s, favored the model of the minimal and British-inaugurated European Free Trade Area over the Customs Union negotiated at Messina, the basis for the European Economic Community.⁸² For the ordo-liberals, two factors distinguishing these frameworks: one, the specific policies of the fourth Republic, and later of the fifth, viewed by the economics ministry as spreading a French contagion of non-liberal economics throughout the founding Six members of what was to become European Union. Secondly, there was the geo-political concern that any hardening of supranational institutions pertaining to the customs union countries could divide western Europe, and therefore weaken its capacity to face the USSR.⁸³ As a response, Erhard had pushed for the merging of the EEC and EFTA in the aftermath of the Rome Treaty of 1957. A year later, the question had become one more of foreign policy than of economics, when de Gaulle forced the hand of Adenauer on the series of questions leading up to admission of the UK to the EEC. De Gaulle’s agreement to liberalization of trade terms, with the exception of agriculture, was contingent on West Germany dropping any campaign to include Britain, with the aim of strengthening an independent European continental bloc, distinct from the outer members of the

⁸¹ Alfred Müller-Armack, “Der Gemeinsame Markt in gesamtwirtschaftlicher Sicht,” Nachlass Müller-Armack, ACDP I-236-006/2.

⁸² Alan S. Milward, *The European Rescue of the Nation-State* (Berkeley and Los Angeles: University of California Press, 1992), 198-9; See also Nicholls, *Freedom with Responsibility*, 344-6.

⁸³ Nicholls, *Freedom with Responsibility*, 346; 348-9.

OEEC.⁸⁴ Although opposed to attempts at social harmonization, Müller-Armack nevertheless understood that integration under the payments union and within the framework of the GAAT and the OEEC, would not be conceivable without some measures to offer protection for workers displaced by “disturbances resulting from the establishment of the common market.” To supplement this labor market policy, he envisioned an investment fund, analogous to the German one for internal development, that would be available to underdeveloped areas of Europe.⁸⁵

The 1963 French veto of British accession was therefore several years in the making, but it was nonetheless infuriating for Erhard and Müller-Armack, along with their Mont Pèlerin colleagues, who saw British admission to the EEC as a necessity for balancing the French economic planning at odds with their neo-liberal preferences. The disorder within the West German state led to Müller-Armack’s resignation and Erhard’s split with his chancellor.⁸⁶ The following year, Müller-Armack issued a series of recommendations for reorienting the integration process in an unpublished memo in Cologne, “for internal consultation.” Here, he noted that the European integration process was generally acknowledged to “have lost its élan”; its revival was contingent on the greater political collaboration across the entire free world, meaning specifically between the EEC and EFTA states.⁸⁷ Within three years, West Germany

⁸⁴ Frances M.B. Lynch, “De Gaulle’s First Veto: France, the Rueff Plan and the Free Trade Area,” *Contemporary European History*, Vol. 9, No. 1 (Mar., 2000), 131-3.

⁸⁵ Müller-Armack, “Stil und Ordnung des europäischen Wirtschaftsraumes,” 63. For a later iteration of this retraining provision, see, from 1960, Müller-Armack, “Die zweite Phase der Sozialen Marktwirtschaft,” in *Wirtschaftsordnung und Wirtschaftspolitik*, 283.

⁸⁶ Nicholls, *Freedom with Responsibility*, 349.

⁸⁷ Müller-Armack, “Vorschlag zur Stärkung der politischen Kooperation in Europa,” ACDP I-236-006/4. The memo was published eventually without the notice “for internal consultation”—two years later, in 1966, in *Wirtschaftsordnung und Wirtschaftspolitik*. Cf. Müller-Armack “Vorschlag zur Stärkung...” in that volume, pp. 433-4.

found itself in the first major recession of the post-war period, and with Erhard's resignation, cracks in the political formation of the miracle years began to appear. By the end of the decade, Willy Brandt's SPD ended CDU control definitively, in the election of 1969; the CDU would not form a government until the fall of 1982, under totally transformed conjuncture.

Already by 1960, Müller-Armack had begun conceptualizing the so-called "second phase of the market economy." Laid out in an article in an edited volume published by the Institute at Cologne he directed, it was written with confidence in continuous material improvement assured by economic expansion, and reiterated the political point made in 1949: that the spirit of the social market economy was now largely adopted by the SPD, now systematically rather than partially, in its Bad Godesberg program of 1959. Looking to the future, challenge facing the CDU was to built upon this material success of the social market economy – by which a "classless society" had already been achieved through the development of production, progress in distribution and in income and the spread of consumption. Referring to the work of fellow ordo-liberals (Rüstow, Böhm, Miksch, and by inference, Röpke), Müller Armack took on the main problems that now confronted the Bonn Republic's social and economic policy. Downturns in trade cycles could not be ruled out, and the OEEC and EEC – including, pointedly, the U.S. and Canada – would have to harmonize their anti-cyclical policies to ensure further economic expansion as Franz Böhm had rightly seen.⁸⁸ A publicity campaign should be undertaken to assure the public that such measures would prevent downturns of the scale experienced in the first third of the twentieth century, crises which "all communists since Lenin" hoped would

⁸⁸ Alfred Müller-Armack, "Die zweite Phase der Sozialen Marktwirtschaft," in *Wirtschaftsordnung und Wirtschaftspolitik*, 285.

undermine democratic states.⁸⁹ Workers, now thankfully no longer proletarians, must be understood in their new conditions yielding their own novel problems: the social discontent they experienced were now felt in individual terms, the burdens of anonymity, to be met with the rationalization of city planning, conducted in the spirit of Rüstow's *Vitalpolitik*, the encouragement of self-employment, but with better care taken to improve the safety standards in workplaces, the environment, including the building up of national park reserves on the US-American model. The ideal of a "humane social policy" would have to be adapted to a scale beyond the provision of a small home with its own garden. The new prosperity demanded an imaginative response to providing such vital integration beyond what had been anticipated in the social market economy's "first phase," with its relatively modest aims.

Under the Brandt and Helmut Schmidt chancellorships, the BRD made its only essay in Keynesianism. By international standards, the magnitude of this effort was small, but the headwinds facing the BRD economy, already apparent as early as mid-decade, had pushed the grand coalition government of 1966-1969 to enact a "stability mechanism" that enlarged the welfare state; constitutional change in 1967 allowed for the expansion of fiscal policy.⁹⁰ This new phase saw modest rise in government expenditure, some increase in wage level and, by the beginning of the Brandt era, a transformed political economic situation that worried the ordo-

⁸⁹ Ibid., 279. The basic argument, advocating the second phase of the social market Müller-Armack, while taking stock of the achievements of the social market economy, was consistently recapitulated well into the next decade. In 1976, he would claim that the "broadening of consumer opportunities to a point where the privileges of past class-related consumption have been leveled out" had resulted in a new "classless society." See Alfred Müller-Armack, "Thirty Years of Social Market Economy," in Josef Thesing ed. *Economy and Development: System Policy Principles of Economic Policy* (Mainz: Hase and Koehler Verlag, 1979), 157-162.

⁹⁰ Werner Abelshäuser, *Deutsche Wirtschaftsgeschichte von 1945 bis zur Gegenwart* (München: Verlag C.H. Beck, 2011), 372. See also Giersch et al. *The Fading Miracle*, 162-3.

liberals. There is good reason to think this Keynesianism was undertaken on ordo-liberal terms. The law that inaugurated the period, authorizing countercyclical measures, expressly did so in such a way that was to remain “within the framework of the market economy [*marktwirtschaftlichen Ordnung*],” so that they would “simultaneously contribute to price stability, to a high level of employment and external equilibrium, accompanied by steady and adequate economic growth.”⁹¹

Brandt’s powerful finance and economic minister Karl Schiller once had claimed, in 1966, that his economics was a “synthesis of the Freiburger imperative and the Keynesian message.”⁹² The judgment of his former student Egon Tuchtfeldt, later among the editors of Müller-Armack’s collected works, was that Schiller’s approach was entirely a departure. Müller-Armack’s vision of a “second phase of the social market economy” had been abandoned by the turn of the seventies, Tuchtfeld argued. Although conjunctural factors – near full employment by 1959, lack of maneuver after the integration into the EEC, and, with the closing of the period reconstruction, the end growth in productive capacity, it was supply side factors that had made the difference. By 1973, Tuchtfeld was writing that, notwithstanding the market-oriented terms of the Stability Act, §2 had violated a basic tenet of liberalism by making quantitative targets incumbent upon the federal planners. The legislation now must be counted fully within the

⁹¹ “Gesetz Zur Förderung Der Stabilität Und Des Wachstums Der Wirtschaft,” BGBl. I S. 582 §1 (1967). An English version may be found at the website of the Bundesfinanzministerium: <http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Ministry/Laws/1967-06-08-act-to-promote-economic-stability-and-growth.pdf>. In the debate over price stability in the subsequent election of 1969, Schiller’s support for the revaluation of the D-mark to curb inflation – in line with the advice of the Bundesbank and the Council of Economic Experts – was useful to the SPD, as a feature of this political-economic outlook. On this, see Giersch et al., *The Fading Miracle*, 149-50.

⁹² Quoted in Abelshausen, *Deutsche Wirtschaftsgeschichte*, 375.

“rational constructivist” camp identified already by F.A. Hayek and Müller-Armack in previous decades.⁹³

At the opening of the seventies, then, with the CDU electoral losses, ordo-liberalism had lost its central place as an explicit touchstone for West German politics, however much it may have exerted influence upon the SPD’s basic outlook. Müller-Armack was indeed proud that at official level, in the West Germany of 1972, two things could be agreed upon by all parties: with respect to European politics, the expansion of the EEC; and in *Innenpolitik*, the “recognition of the principles of the Social Market Economy.”⁹⁴ The latter, however, had been put in danger by leftist ideology, above all led by the *Altwater* Herbert Marcuse, especially influential among a growing portion of the academic youth, who saw in it a system of repressive late capitalism, an the “terror consumerism and production.”⁹⁵ To defend the Social Market Economy, the public would have to be reminded of the material benefits it had enjoyed as a result of its policy – a policy that worked to the benefit of all, including workers, proof of which was the high standard of living West Germans enjoyed, the blossoming of individual freedoms and productivity.⁹⁶

Nevertheless, it was true that macro-economic conditions seemed to require a new approach, in the aftermath of the 1966/7 recession and the headwinds of the early part of the decade. Yet the electoral losses of the period were in two important respects incommensurate with the direction of the Continent. By 1973, tariffs between the EEC and the EFTA had fallen; the abandonment of Bretton Woods and the fluctuating value of the regions currencies had

⁹³ Egon Tuchtfeldt, “Social Market Economy and Demand Management: Two Experiments in Economic Policy,” in Wünsche et al., eds., *Standard Texts on the Social Market Economy*, 76-9.

⁹⁴ Ludwig Erhard and Alfred Müller-Armack, *Manifest '72* (Frankfurt: Verlag Ullstein, 1972), 21-2.

⁹⁵ *Ibid.*, 28.

⁹⁶ *Ibid.*, 41, 68.

established the Bundesbank and D-mark as the *de facto*. This meant that the targeting and fiscal expansion, despite resistance from the Bundesbank. With only Böhm and Müller-Armack among the first generation of ordo-liberal thinkers surviving, the editorship of its journal remained, throughout the decade a collaboration among Böhm, and Eucken's student Lenel, as well as the student of Müller-Armack's and Röpke's nephew, Hans Willgerodt, with editorial input from Hayek, who also appeared on the masthead; by 1978, Müller-Armack's student Christian Watrin had joined it.

Müller-Armack's political efforts and intellectual output of the period, the last decade of his life, remained significant. In 1971 he published his memoirs, *Auf dem Weg nach Europa* and a year later brought out with Erhard a manifesto for the Social Market Economy timed to appear with the elections of that year, in which the CDU's fortunes were at a low ebb. Several short articles in *Ordo* and *Wirtschaftspolitische Chronik* concerning *Konjunkturpolitik* and a humane economy. In this, it recapitulated the familiar ordo-liberal priorities, but in a newly turbulent conjuncture. What were the outlines of Müller-Armack's thought on the period? Starting with his 1971 memoir, it was clear that the further integration of Europe, and that of the inner Six of the EEC with its EFTA neighbors, was a priority. Given the characteristics of the political-economy of the time, the writings tended toward recommendation on the best means for combatting inflation. One means by which this could be accomplished would be the integration of a common monetary policy, undertaken as the Bretton Woods system of fixed exchange rates began to break down. For this reason, Müller-Armack thought the Werner Plan proposed in October of 1970, and which called for the design within a decade of a stability mechanism based on such

regional currency integration was a “courageous plan” representing “decisive progress.”⁹⁷ Its failure, and the efforts to reconstitute a new fixed exchange regime inaugurated in December of 1971, prompted a furious response in Müller-Armack’s and Erhard’s *Manifest ’72*. The agreement to defend exchange rates set by Washington, which had also prompted Schiller to resign, meant that the Federal Republic had “eliminated the only free market defense against inflation,” and that it had “renounced essential parts of its political independence without any recognizable counter-measures.”⁹⁸

The collapse of this arrangement in the spring of 1973 meant that the danger of this political blunder had passed. But much remained to be done to ensure that the second phase of the social market economy might some day be realized. Not only did the immediate political fortunes of the CDU make this an unlikely prospect. The conjuncture of the mid-seventies was not accommodating of it either. Mid-way through the decade, it was clear to Müller-Armack that the twentieth century was now witnessing the return of cyclical patterns of boom and bust that had shaped the political economic theories of capitalist crisis in the previous one, and that had identified the patterns that reached a high point in the thirties. Then, it was a deflationary spiral that overtook world capitalism; today, Müller-Armack warned, it was the opposite: continuing inflation with low growth.⁹⁹ How did he apportion responsibility for the return of such damaging economic cycles? An abandonment of the prudence of the social market economy since the turn of the decade had left the West German economy vulnerable to the shocks of the period,

⁹⁷ Müller-Armack, *Auf dem Weg nach Europa*, 258.

⁹⁸ Erhard and Müller-Armack, *Manifest ’72*, 364.

⁹⁹ Müller-Armack, “Thesen zur Konjunkturpolitik 1975,” in *Genealogie der Sozialen Marktwirtschaft*, 305.

exemplified by the unpredictability of the oil market. The policy response, an turn “democratic socialism” had advanced stealthily, without announcing itself, in the manner of the communist threat. But, “through an abundance of individual measures, piece by piece, anti-market economic elements in our economic-political environment” had been introduced. Such measures were not restricted to deficit spending, Müller-Armack warned. They also included increasing direct control over investment, backchannel price-fixing through the office of the *Kartellamt*, raising inheritance tax, discussions over increasing political control of multinational corporations and many others, had sharpened the downturn (the “depression trends”). All of this constituted a general undermining of the market economy, and had led to the growth in power of the radical left.¹⁰⁰ What was needed was the fortification of the basic guidelines of the “second phase of the social market economy” but urgently, restoration of free market principles. Taking stock of Germany’s international position, it was clear that costs had run far out of hand, so that the Federal Republic’s industrial competitiveness had been seriously weakened. One dangerous manifestation of this was the fall off in investment. Müller-Armack proposed two immediate remedies for this: freeing up the international mobility of capital so that firms could relocate production abroad (“this means that the division of labor in the Federal Republic must be redefined internationally...hardly conceivable without the initiative of free firms and the switching on of the cybernetic market apparatus”¹⁰¹); these incentives must go hand in hand with strict limitation of the growth of the money supply, as represented by the policy of the Bundesbank.

¹⁰⁰ Ibid., 308-10.

¹⁰¹ Müller-Armack, “Thesen zur Konjunkturpolitik 1975,” 312-3.

Hans Tietmeyer, Müller-Armack's student at Cologne and the future president of the Bundesbank, later recalled 1975 as a turning point politically in the history of the Bonn Republic. Schiller's counter-cyclical efforts had "come to grief on the rocks of political realities" and the expansionary policies of Helmut Schmidt's new chancellorship revealed deep structural limitations of demand-side approaches to the world economic crisis.¹⁰² Such was the analysis in retrospect, but at the time, Müller-Armack's camp was less sanguine, though no less combative. In the last two years of Müller-Armack's life, he warned of the threat of democratic socialism at home; the rise of socialist politics at a European level as revealed by the direct elections for the European Parliament of 1978, and against the appeal of communist parties in France and Italy. These developments called for stepped up efforts at an alternative program for Europe, against the "present domination of socialist ideology in Europe."¹⁰³ There were certain institutional protections embedded in the Rome Treaty, such as the European Court of Justice, that should help to block the wave of socialism; still this court was no match for a fully developed political answer, within the domestic politics of member states. The social market economy was one such set of principles that could chart an alternative should it be broadened beyond Germany. Still, more could be done at the level of the European institutions. Pure majorities would give "undue weight to communist groups within the European Parliament"; to head this off, Müller-Armack

¹⁰² Hans Tietmeyer, *The Social Market Economy and Monetary Stability* (London: Economica, 1999), 32-3.

¹⁰³ Müller-Armack, "Die fünf großen Themen der künftigen Wirtschaftspolitik," in *Genealogie der Sozialenmarktwirtschaft*, 328.

proposed a fortification of the liberal bona fides of the Commission, by raising the confirmation requirement from member states to two-thirds, as opposed to a simple majority.¹⁰⁴

Clearly what Müller-Armack anticipated was a fraying of the slender majority in the Bundestag commanded by Schmidt's coalition with the FDP. A year later, in a 1978 symposium at the Ludwig-Erhard Stiftung in Bonn, these early signs of the defection of the FDP that ultimately would trigger the *Wende* of 1982 had become explicit. There, the decisive figure in that event, the new minister of economics, Otto Graf Lambsdorf, received a warm welcome. Müller-Armack's contributions, which bookended the proceedings, noted that taken together, the CDU/CSU the FDP and sympathetic individuals within the SPD, constituted something like 65 per cent of the Bundestag.¹⁰⁵ This was grounds for a powerful majority to refound the social market economy. Europe was in need of such spiritual leadership. Müller-Armack argued that, although the ordo-liberals could hold their own with anyone on *Konjunkturpolitik* – the study of trade and economic cycles was, after all, how he and Röpke had begun their economic careers in the 1920s – it was the extra-economic trend that should be of most concern to participants. There were worrisome cultural and ideological shifts underway since the onset of the downturn and the SPD-led coalition. It was particularly baffling for Müller-Armack that even a dissident such as Milovan Djilas imprisoned for nine years in Yugoslavia, still used the writings of Marx, Lenin, Lukács, Marcuse, Sartre, Habermas, Horkheimer and Bloch, as theoretical inspiration, rather than anything from the neo-liberal canon. It was imperative that Eucken, Rüstow, Böhm, Röpke,

¹⁰⁴ Ibid., 332-3.

¹⁰⁵ Alfred Müller-Armack, "Schlußwort," in Müller-Armack (ed.) *Soziale Marktwirtschaft als nationale und internationale Ordnung* (Stuttgart: Verlag Bonn Aktuell, 1978), 117-18.

Hayek should be as readily cited among the young and among dissidents in the communist east.¹⁰⁶

This was a global problem. As he had written in the *Wirtschaftspolitische Chronik*, in South America, Asia and Africa, the language of socialism had been quite successful, even and especially as an element in the movements of national independence, and even when they sought to shield themselves from Russian influence. Liberalism here faced an international curse in this dangerous echo of the embittered politics of class struggle already well established in the nineteenth century. More would have to be done to achieve a goal of employing the standard of the social market economy at a world level, through coordination through the OECD – “not stability instead of expansion, but expansion through stability” would be the guiding principle.¹⁰⁷ This was ever more important, given the new threats: a democratic socialism and leftism that had “camouflaged [itself] in part by a refined packaging, as in the case of Eurocommunism”; an “encroaching Islam and the African cults” of particular significance in Egypt; the secular religion of Marxist philosophy as “rationalistic-scientific mysticism”; and the threat of terrorism, which was, in its own way a product of the apocalyptic consequences of secularization Nietzsche had foreseen in the late 1880s.¹⁰⁸ For all of these reasons, it was imperative to make the social market economy a worldwide model and to stop the development of a socialist Europe. Already the ice had been broken in Spain, through the activities of “one of our students in Madrid” – left

¹⁰⁶ Müller-Armack, “Die Grundformel der Sozialen Marktwirtschaft,” in *Soziale Marktwirtschaft als nationale und internationale Ordnung*, 15.

¹⁰⁷ Müller-Armack, “Die fünf großen Themen der künftigen Wirtschaftspolitik,” 334.

¹⁰⁸ Müller-Armack, “Die Grundformel der Sozialen Marktwirtschaft,” 16-7.

unnamed – “who is very actively struggling for the social market economy.”¹⁰⁹ As a technical term, Müller-Armack saw no reason why it even had to be translated. It should become just as ubiquitous as the word “hamburger” had in America.

In his last contribution to *ORDO* of 1977, “Die zentrale Frage aller Forschung: Die Einheit von Geistes- und Naturwissenschaften” (The Central Question of All Research: the Unity of the Humanities and Natural Sciences) represented a return to some of the early themes of his life’s work. Here, Müller-Armack recapitulated much of the method outlined already in his *Entwicklungsgesetze* of 1932, itself cited along with other sources whose origins lay in the inter-war period. As a general statement, the call for a “philosophical anthropology” (the term was taken from Helmuth Plessner’s work of 1928) admitted the strength of materialist analysis for biological systems, including animal life. But applied to humanity, this would only yield a form of predestination, which was in error. Man was a “transcendental being” and therefore, “unlike the animal, bears responsibility for the height or the depth of his existence.”¹¹⁰ The liberalization of the world economy after the end of the second world war – and especially in West Germany – had shown just what a proper understanding of the “self-realizing process” of this religious history might accomplish, should it be properly understood and properly ordered. Such was the advantage of the anthropological framework: it held that the development of society was determined by politics, but that politics was given legitimacy by those decisions that took on a fundamentally normative capacity conferred by a definite ordered system of thought, and which abided by different values (that of aesthetics, biology, politics, vitality, even scientific utility

¹⁰⁹ Müller-Armack, “Schlußwort,” 117.

¹¹⁰ Alfred Müller-Armack, “Die zentrale Frage aller Forschung: Die Einheit von Geistes- und Naturwissenschaften,” *Ordo Jahrbuch* 28 (1977), 17.

itself, as studied by Max Scheler). Eucken and Böhm had shown how one might begin to apply this “thinking in orders” as a model for a market society that would defy the predictions of materialists – centrally and most importantly Marx, but Schumpeter also.¹¹¹

Müller-Armack here claimed for this philosophical anthropology a unity of natural and humanistic studies. It offered something that was in fact more limited. What Müller-Armack had accomplished was not integration of these two perspectives, but, as a theory of knowledge, their permanent segregation. Not a theory of historical change, the utility of Müller-Armack’s philosophical approach was political. This was, and had always been the essence of the social market economy described at this level of abstraction, and carried over from the early thirties: minimal concession to biological necessity, total autonomy of a culture, whose specific features were off limits to the logic of cause and effect, but whose authority legitimized a political order.

¹¹¹ Müller-Armack, “Die zentrale Frage aller Forschung: Die Einheit von Geistes- und Naturwissenschaften,” 18.

Conclusion

In the summer of 2013, Mario Draghi assured a gathering of central bankers honoring Stanley Fisher that the ECB could be relied upon to respect its founding “ordo-liberal principles.” He enumerated the central tenets: “a clear separation of power and objectives between authorities; And second, adherence to the principles of an open market economy with free competition, favoring an efficient allocation of resources.”¹ The economic diplomacy of the speech was clearly aimed at German elite opinion, after the announcement a year earlier that the bank would “do whatever it takes to preserve the euro” had exacerbated the division between the US Treasury approach of bailouts for the Eurozone south, and Berlin. The split could be traced back to the onset of the acute phase of the crisis, in 2010, when Wolfgang Schäuble’s finance ministry insisted that losses for creditors should be allowed, bailouts refused, in order to teach the Greeks a lesson, and in effect, the indebted Eurozone south as well as the investors themselves who had placed bad bets. The compromise, evident in the series of bailouts issued over the following years, hinged on asserting German political control; debt restructuring or haircuts for creditors were strictly ruled out by Timothy Geithner.² The German preference was not much altered over the period, however. As late as the summer of 2015, Wolfgang Schäuble was still considering the possibility of the Eurogroup abandoning an agreement with Syriza,

¹ Mario Draghi, “Opening Remarks at the Session ‘Rethinking the Limitations of Monetary Policy,’” *European Central Bank Speeches*, June 18, 2013, <https://www.ecb.europa.eu/press/key/date/2013/html/sp130618.en.html>.

² See Susan Watkins, “The Political State of the Union,” *New Left Review* 90 (November/December 2014): 13-15.

forcing investors to accept losses, and letting Greece fall out of the Eurozone temporarily, should it reject the Eurogroup's terms.³

Reflecting on the period in July of 2015 in the pages of the *Financial Times*, Lars Feld characterized Germany's stance as far too generous. The director of the Walter-Eucken-Institut is one of five members of the *Sachverständigenrat* and sits on the board of the organ overseeing the 2012 Fiscal Compact. For Feld, criticism of Germany's line had not appreciated the concessions the government had made, against its principles, in the name of pragmatism; rumors of ordoliberalism guiding austerity betrayed a severe misunderstanding of the realities of its conduct and orientation, and the theory itself. Berlin had not "blindly followed" ordoliberal doctrine. If it had "followed the 'ordoliberal' way, Germany would not have helped bail out Greece, and then Ireland and Portugal, as well as the Spanish banks," nor tolerated the ECB's expansionary monetary policy, and "it would have enforced the liability principle under which people are responsible for the consequences of their decisions." Backing Schäuble, Feld recommended that what was needed now in Greece was privatization of state-owned enterprises; not austerity, but collateral put up for "a transformation to a market economy."⁴

Feld's Walter-Eucken-Institute has existed since 1954, but a new crop of research organizations promoting the ordoliberalism has been seeded since the turn of the century: Initiative Neue Soziale Marktwirtschaft (2000); the Wilhelm-Röpke Institut (2007); the Jenaer-Allianz (2008); Netzwerk für Ordnungsökonomik und Sozialphilosophie (2016), working in cooperation with the Aktionsgemeinschaft Soziale Marktwirtschaft to promote and publish

³ On this, Wolfgang Schäuble et al., *Anders gemeinsam: ein deutsch-französisches Gespräch* (Hamburg: Hoffmann und Campe, 2016), 199.

⁴ Lars Feld, "A Generous Deal That Avoids Austerity," *The Financial Times*, July 15, 2015.chi

prominent economists, including Feld himself. In a 2012 lecture distributed by the Wilhelm-Röpke-Institut and the Hamburgisches WeltWirtschaftsInstitut, Feld held up Röpke's Swiss federated model as the ideal for European integration. He quoted Röpke: "To diminish national sovereignty is most emphatically one of the urgent needs of our time. But the excess of sovereignty should be abolished instead of being transferred to a higher political and geographical unit."⁵ More should be done, Feld argued, to institute a federal Europe, not a policy of more Europe, but one with strict rules for monetary policy, to mimic the function of a gold standard, with its disciplining function of correcting export surpluses, chronic deficits, credit shortages, all through a "Price-Specie-Flow," operative if it were allowed to function independent of political interference. The ECB, the most independent central bank in the world, had taken the wrong path in the crisis, putting Europe at risk of inflation. The southern welfare states, not ordo-liberalism, were to blame for the South's immiseration, since labor costs were too high there.⁶

Neo-liberalism has hardly been restricted to the conservative economists and the politicians who learn from them. If not invoking the prominent ordo-liberals by name, it was the SPD during the Schröder years of 1998-2004 that instituted the consequential reforms of the period. The Social Democrats no longer attempted any synthesis of Freiburg with Cambridge as Schiller once put it, but embarked rather on a neo-liberal program closer to the generic

⁵ "Europe will be federal, or it will not be." See Lars P. Feld, "Europa in Der Welt von Heute: Wilhelm Röpke Und Die Zukunft Der Europäischen Währungsunion" (Hamburg: Wilhelm-Röpke-Institut/Hamburgisches WeltWirtschaftsInstitut, 2012), 6, 18. 21.

⁶ Ibid., 11.

Washington model.⁷ This was the aim of Agenda 2010: corporate tax cuts, breaks for capital gains, and the shredding of the welfare state under the Hartz IV measures.⁸ By shoring up export competitiveness through wage repression, the BRD managed to compete with new entries into world manufacturing, but at the cost, economically and socially, of widening wealth inequality, rising poverty, and the growth of “mini-jobs” and precarious employment, as well as a low investment rate. Politically, the party has seen its vote share collapse at a federal level, reaching historic lows in 2017; and even in the *Länder* constituting its base of support, it has suffered. Proposals by its leading lights have seen the dangers posed by these policies, and called for renewed investment drive – most recently the initiative of then-chairman and minister of economic affairs, Sigmar Gabriel and his economic adviser Marcel Fratzscher. But these were within the neo-liberal frame, hoping to attract private investment through risk, in the form of private-public partnerships, and hardly could be considered an effort to reboot the social state.⁹

The SPD may have shed outright reference to the *Freiburger* imperative while overseeing neo-liberal adjustments, but on Left, surprisingly enough, *ordo-liberalism* has appeared as a reference and framework in the writing of Sahra Wagenknecht. Born in Jena and educated in East Berlin and Chemnitz, formerly of the PDS successor to the SED, Wagenknecht took a PhD in economics in 2012. Now the leading representative of the left fraction within Die Linke, she was part of the small group that in February 2015 refused an affirmative vote for the Greek bailout in the Bundestag, abstaining from it; later that year, she was a forceful voice

⁷ See above, p. 266 for discussion of the slogan *Freiburger Imperativ und keynesianischer Botschaft*.

⁸ For anatomization of the SPD during this period, see Perry Anderson, *The New Old World* (London; New York: Verso, 2011), 244-8.

⁹ Marcel Fratzscher, *Die Deutschland Illusion: Warum Wir Unsere Wirtschaft Überschätzen Und Europa Brauchen* (München: Hanser, 2014), 64, 106-7.

against the Troika’s drive to enforce the Eurogroup’s austere terms in the lead-up to the OXI referendum that rejected them. In her writings and speeches, Wagenknecht documents the growing wealth inequality of German society, as well as the destructive effects of privatization of formerly public services and the social cost of wage repression. In foreign policy, she is a principled opponent of German rearmament and NATO’s wars. Yet, in *Reichtum ohne Gier* – Prosperity without Greed – published in 2016, Wagenknecht has offered one of the more sympathetic interpretations of ordo-liberalism to appear outside the cradle of the CDU. She finds in the conservative-liberal Eucken and Rüstow trenchant and perceptive critics anticipating the development of contemporary capitalism: the state of Germany today is such that the “economists of the ordoliberal school must be turning in their graves.”¹⁰

Wagenknecht applauds Eucken for predicting the danger of monopoly power and for understanding that small and medium-sized firms are the vehicles for restoring competitiveness to a “feudalized” system; the anti-trust plan he had supported was abandoned by Erhard under pressure from the big-business lobby. Eucken had understood that export-generated surpluses not commanding imports of equivalent magnitude are “harmful to the supply of goods” in the exporting country; the farsighted liberal economist had therefore developed a thesis that would justify greater imports to offset its surpluses in today’s Germany, which would be in the national interest. Eucken’s concepts could likewise show the necessity for the breakup of the high technology and banking monopolies.¹¹ *Reichtum ohne Gier* puts the ordo-liberal argument in the

¹⁰ Sahra Wagenknecht, trans. Andreas Pickel, *Prosperity without Greed: How to Save Ourselves from Capitalism* (Frankfurt: Campus Verlag, 2017), 227. For the German, see Sahra Wagenknecht, *Reichtum ohne Gier: Wie wir uns vor dem Kapitalismus retten jetzt kaufen* (Frankfurt: Campus Verlag, 2016).

¹¹ Wagenknecht, *Prosperity without Greed*, 209.

context of the increasingly direct politicization of the economy represented by the largest global multinationals. This is why “the transformation of corporations into employee-owned enterprises or public companies should be linked directly to a process of deconcentration,” to the end of finally fulfilling “the demand that Walter Eucken, head of the liberal Freiburg School of Economics, had formulated already at the end of World War II.”¹² Once the “feudal structures and incomes” of the big combines are removed, “[g]enuine markets and free competition would be more relevant than they are today” and, within ethical bounds, would revitalize democracy.¹³ Rüstow’s analysis of inheritance law had shown that capitalism itself “accounts for the survival of feudalism in the market economy”; his insight was that a “performance-based” as opposed to “obstruction-based” competitive framework secured by a strong state would remove this fundamental injustice.¹⁴

These conclusions are striking, and are predicated on a theoretical understanding of profit-making that is always undermined by competition. But rather than the socialization of rent-seeking monopolies in accordance with a rational and democratic plan, it is their discipline by the reintroduction of competition and of the market that is argued to be the correct policy response. Undermining profits by increasing economic competition is to be taken up as a weapon against a capitalism that is understood by Wagenknecht to be all but identical to a feudal economy, with its directly social privileges. The line separating political from economic is to be restored.

¹² Ibid., 258.

¹³ Ibid., 259-60.

¹⁴ Ibid., 71, 92.

Nearly seventy years after the country's founding, ordo-liberalism remains a cardinal point in the political and intellectual culture of the BRD, across the political spectrum. If not quite indisputably hegemonic, ordo-liberalism or its neo-liberal siblings shape the terms on which even an anti-capitalist politics develops. The center-left, having achieved the main economic goals of market reforms, and a junior partner in the grand coalition in the first and third Merkel cabinets (2005-2009; 2013-2017), finds itself supporting European policies in which investors are protected, and debtor nations subjected to austerity. The CDU hardline, now without much to offer by way of concessions to the social state, takes the path of defending moralistic austerity at home, and extending it abroad, where it is theoretically to apply equally to investors and debtors alike, but restrained from doing so by Washington. Much as Röpke despaired of the export-led growth of the boom years, ordo-liberalism today appears to Feld as a doctrine not realized, and which as conceded to the practical realities of European politics. In quarters of the Left, the dream of perfect competition is now articulated in terms Röpke himself might have approved with little alteration.

The elaborate social and political imaginary of ordo-liberalism has distinguished it from the market fundamentalism of much of popular neo-liberal thought and from capitalism as it exists historically. This is perhaps one reason ordo-liberalism can be seen as always commenting to an extent outside the two, measuring capitalism more or less dyspeptically – as titles published at the at the beginning and height of the post-war boom, when no one would dispute its influence, indicate: Eucken's *This Unsuccessful Age* (based on lectures delivered in 1950), or the collection of Röpke's essays edited by Albert Hunold, *Gegen die Brandung – Against the Tide* (1959 and 1969). In its insistence on a depoliticized economy, however, ordo-liberalism is unmistakably a body of social thought that runs with, not against the tide of capitalism, though it

may seek to channel and control it by reinforcing the social relations that define it. Röpke concluded his 1948 article “Set the Rate of Interest Free,” published in *Gegen die Brandung*, with the following thought:

Most of the Utopias and works of political fiction known to us describe a strictly collectivist economy. Today, when so much of this has come true, they bore us, and we marvel at their naiveness. But who will write us a new [*Looking Backward: 2000-1887*], in which one of our great-grandsons tells of a wonderful world in which all prices are free, and the government regulates only the discount rate, according to Wicksell's rules?¹⁵

This is a utopia, not of a life liberated from competition, but of one animated and constrained by it, and predicated on the free movement of prices and the independence of central banks, where interest rates would be allowed to rise freely. In 1948, Röpke observed that in the Great Depression, unutilized factors of production had made credit expansion necessary. Now, “enormous public debt and of the flood of government stock in the credit system” had made that policy quite dangerous. It was a situation in which “the monetary increase of capital is brought up short by the real factors,” but a breakthrough might be achieved by pulling “the lever of interest sharply upward” to refocus attention on them.¹⁶ This position entailed dramatic reorganization of the state and society, and he defended and developed it through the boom years. Well into the first quarter of the twenty-first century, under conditions that could not be more remote from those of 1948, this utopia on capital's terms remains the standard by which much of political economy in Germany is still judged.

¹⁵ Röpke, *Against the Tide*, 141-2. Translation modified to provide original English title of Edward Bellamy's novel. The German title of Bellamy, *Rückblick aus dem Jahre 2000*, had been translated back as “Retrospect from the Year 2000.” For the German, see Wilhelm Röpke, *Gegen Die Brandung: Zeugnisse Eines Gelehrtenlebens Unserer Zeit*, ed. Albert Hunold (Erlenbach-Zürich und Stuttgart: Eugen Rentsch Verlag, 1959), 245.

¹⁶ Röpke, *Against the Tide*, 140-1.

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