

THE GREAT PERSUASION

ANGUS BURGIN

**Reinventing Free Markets
since the Depression**



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INTRODUCTION

The End of Laissez-Faire

In the late fall of 1924, John Maynard Keynes strode into the Examination Schools in Oxford and announced that the political economy of the civilized world was approaching, as his lecture title boldly proclaimed, the end of laissez-faire. Although he was only forty-one years old, Keynes had already accumulated a range of experiences that uniquely traversed the cloistered world of Oxbridge economists and practical affairs. After a childhood passed in a household at the center of Cambridge academic life, he had been elected to a prize fellowship at King's College at the age of twenty-five and had been appointed editor of the *Economic Journal* less than three years later; his career as a civil servant had taken him from a junior clerkship at the India Office to a position as the chief representative for the Treasury at the peace conference in Versailles. Now he was turning his attention to the development of a coherent theory of political economy to supplant the fading doctrines of the preceding century.¹ "We do not dance even yet to a new tune," he told the attendees. "But change is in the air."²

The very idea of laissez-faire, Keynes believed, was a perversion of the views expressed by its purported advocates. "The phrase *laissez-faire* is not to be found in the works of Adam Smith, of Ricardo, or of Malthus," he reminded his audience. "Even the idea is not present in a dogmatic form in any of these authors." Rather, it represented "what the popularisers and the vulgarisers said."³ Those who sought to relay economic ideas to the untutored masses deliberately reduced them to abstract tenets that appealed to those with a limited capacity to understand.⁴ Having absorbed those shrunk lessons, the public had come to "regard the simplified hypothesis as health, and the further complications as disease."⁵ The result was a growing gulf between popular assumption and academic

opinion. Despite the lingering popularity of the idea of *laissez-faire* and the widely shared assumption that it was the prevailing view of most economists, for more than fifty years the world's leading practitioners of the profession had applied it only as, in the words of John Elliott Cairnes, a "handy rule of practice" with "no scientific basis whatever."⁶ Keynes provided a sweeping list of the "complications" to the application of *laissez-faire* that most economists accepted and attempted to incorporate into their analysis, including "when overhead costs or joint costs are present," "when internal economies tend to the aggregation of production," "when the time required for adjustments is long," "when ignorance prevails over knowledge," and "when monopolies and combinations interfere with equality in bargaining."⁷ Such a list implicitly encompassed vast segments of the free-enterprise economy. In other words, *laissez-faire* was dead, and only the public had yet to know.

Keynes identified several reasons for the continued prevalence of *laissez-faire* despite what he perceived to be its intellectual bankruptcy. Foremost, its primary alternatives in the ideological arena—protectionism and Marxism—had "obvious scientific deficiencies" that made them easy for the advocates of *laissez-faire* to dismantle in a convincing fashion. He spared no sympathy for Marxism in particular, marveling at "how a doctrine so illogical and so dull can have exercised so powerful and enduring an influence over the minds of men, and, through them, the events of history."⁸ Economists struggled to overcome a public prejudice in favor of *laissez-faire* through arguments that were either sophisticated or facile. Those who sought to advocate for a market system tempered by intricate restraints found themselves, because of the complexity of their views, at a decided rhetorical disadvantage. And if opinion devolved, as it often did, into a competition among abstract generalities, the concept of an unadulterated *laissez-faire* was easier to accept than its equally simple-minded alternatives. Finally, a presumption in favor of unhindered markets maintained a close "conformity with the needs and wishes of the business world of the day."⁹ Advocates of *laissez-faire* had wealthy and influential benefactors who could always ensure it a prominent hearing in the venues of political power.

Keynes was confident that despite all its inherent advantages, the dominance of *laissez-faire* in the public sphere was gradually drawing to a close. His certainty in this regard was attributable, in part, to his famous faith in the capacity of economic ideas to filter down, over time, to the practice of everyday life. Sooner or later, he believed, the near unanimity

of economists' critiques of laissez-faire would manifest itself in the assumptions shared by the public at large. Perhaps more important, the institutional structure of business was working to mitigate the preeminence of the profit motive. The disassociation between ownership and management in modern organizations inspired, in Keynes's view, a diminishing emphasis on dividends. Managers weighed improvements in the bottom line against the potential disapprobation of their customers or a broader public and increasingly prioritized the latter. Businesses "are, as time goes on, socialising themselves," Keynes concluded. "The battle of Socialism against unlimited private profit is being won in detail hour by hour."¹⁰ The weight of economic opinion and institutional practice were converging to overturn economic assumptions that had lasted long past their due. To argue against laissez-faire was to assault a "lethargic monster" that, in Keynes's terms, had "ruled over us rather by hereditary right than by personal merit."¹¹ He did not doubt that it would be slain.

Keynes did not live to develop a comprehensive statement of his political views. Although "The End of Laissez-Faire" made gestures toward the elaboration of an emerging social philosophy, it was, as his preeminent biographer has noted, far too abbreviated and incomplete to be treated as a Keynesian manifesto.¹² A figure of his significance could little be expected to explain and justify his worldview during a university lecture that was comfortably endured in a single sitting. Nevertheless, it provides as good an introduction as any other to his advocacy of a market system saved from its worst excesses. Keynes articulated an understanding of capitalism as a mode of social organization that demonstrated both irreplaceable merits and undeniable flaws. "For my part," he told his audience, "I think that Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable."¹³ He envisioned a public sector that would engage in limited but forceful interventions to ameliorate the problems that were engendered when individuals were left to act alone. "The important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse," he explained, "but to do those things which at present are not done at all."¹⁴ Such interventions would help mitigate the failures of the market without doing violence to its essential underpinnings. His proposed modifications, he asserted, were in no way "seriously incompatible with what seems to me to be the essential characteristic of Capitalism, namely the dependence upon an

intense appeal to the money-making and money-loving instincts of individuals as the main motive force of the economic machine.”¹⁵ The end of laissez-faire did not signify to Keynes the end of marketplace life. It was, he believed, a mode of preservation through restraint.

Keynes’s lecture stands as both a prescient forecast and a founding document of an era when a conviction that markets required extensive oversight was broadly shared. Even at the height of the 1920s, the reviews that Keynes’s lecture received within the economics profession expressed dissatisfaction with the generosity with which he treated laissez-faire.¹⁶ After the onset of the Great Depression at the decade’s end, the remaining popular support for free markets rapidly dissipated. Governments enacted a range of policies—from the adoption of new tariffs to the abandonment of the gold standard and the implementation of extensive social programs—that, in Eric Hobsbawm’s sweeping terms, “destroyed economic liberalism for half a century.”¹⁷ The prestige of the economics profession, which had conspicuously failed to predict the onset of the crisis, plummeted from the highs of the preceding decade to an unprecedented low.¹⁸ Even the economists who are now remembered as the Depression years’ most committed allies of free markets eventually became convinced that the era of their feasibility had passed. The letters of the University of Chicago economist Frank Knight are a testament to the depths to which laissez-faire had fallen. “We cannot go back to laissez faire in economics even in this country,” he wrote to a colleague in the summer of 1933. “Now it seems to me inevitable that we must go over to a controlled system,” he wrote later that year, adding that his only question was “whether any sort of liberty, especially freedom of consumption and intellectual freedom, can be maintained to a significant extent.”¹⁹ The 1930s were an era when even many of the economics profession’s most strident advocates of marketplace freedoms accepted that they would need to be curtailed to a substantial degree.

The predictions in “The End of Laissez-Faire,” for all their manifest foresight, went unfulfilled in one crucial respect. Keynes was right that the public acceptance of laissez-faire was on the cusp of a precipitous decline, but he was wrong to assume that the change would be permanent. Advocacy of free markets entered a period of reconsideration and retrenchment during the Great Depression, but it by no means arrived at an “end.” Instead, the story of the half century after the onset of economic crisis is in part one of its triumphant return. By the 1980s debates in the Anglo-American public sphere were permeated with the assump-

tion that the workings of the free market should be protected from governmental attempts to intervene. Recipients of the economics profession's highest honors were calling for a comprehensive rollback of the public sector, a thriving community of generously funded policy institutes had formed in support of free-market ideas, and a host of journals, magazines, and newspapers had embraced identities as public proselytizers for *laissez-faire*. The president of the United States and the prime minister of the United Kingdom perceived themselves as stalwart allies of the free market and cited its preeminent philosophers in justification of their political ideals.²⁰ Keynesianism, rather than *laissez-faire*, had come to seem a relic of a rapidly receding economic world.

The events that precipitated this evolution in popular assumptions about political economy are only beginning to be understood. Their narrative relies, ironically, on precisely the relationship between ideas and political change that Keynes cited as a rationale for his confidence that *laissez-faire* was on the wane. The shift in popular approaches to the market occurred on many levels, and many actors and institutions played constitutive roles, but it could not have occurred without the committed efforts of a transnational community of ideas. Much as Keynes worked, with manifest success, to develop and disseminate an understanding of advantageous ways in which the public sector could intervene, a network of philosophers, economists, journalists, and private foundations across the Atlantic world coalesced with the common goal of reversing the growth of government and rebuilding public support for free-market ideas. As distant colleagues they had weathered depression and war; in future years they would experience perceptions of public irrelevance, impediments to academic advancement, countless political defeats, and, eventually, an extraordinarily rapid institutional and ideological ascent. In the process they sought to construct a new philosophy of the free market and remained resolutely convinced of the capacity of their abstract discussions—over time and with the aid of external events—to transform the practice of popular politics. This is the story of the community they built, the ideas they advocated, and the enduring legacy of their attempt to reconstitute the theory and practice of capitalism.

Despite the central role market advocates have played in American politics during the past three decades, the narrative of their return to prominence has proved difficult to unravel. For many years observers struggled

to explain how and why the celebration of markets and the condemnation of planning regained a hold on the popular imagination after an extended period of dormancy.²¹ They expressed confusion at the populist embrace of economic policies that seem to redound to the disadvantage of the poor.²² And they saw little coherence in a political coalition that urged the preservation of social traditions while supporting a free-market system that often served, with ruthless efficiency, to undermine them.²³ The most influential explanations of these phenomena long emphasized social factors that lurked beneath the abstract language of political and economic ideals, including anxieties over declining status in a fast-changing cultural and technological environment and a desire to create a color-blind language capable of preserving racial privileges that seemed in danger of falling away.²⁴ But in the absence of a convincing account of the development of conservative ideas, it will remain difficult to understand the contours of a movement that has exerted broad influence over the structure of public debate.

Few would contest that the conservative movement was inflected by social and racial anxieties, supported by many who were unlikely to benefit from its economic proposals, and characterized by the simultaneous advocacy of contradictory views. These interpretive models, however, shroud important aspects of the movement behind an analytic veil. A social philosophy is rarely comprehended by reducing its arguments to social or material interests, or by distilling its tenets into rigidly formalized schemes. The *homo economicus* is useful only as a formal abstraction, and few of us would withstand an interpretive procedure that ceased with the judgment that there were points of apparent conflict among aspects of our stated worldview. Our experience of the social environment is relentlessly complex, and our political perspectives are formed through a dynamic and ever-changing interaction among abstract idealism, purposive strategy, emotive inclination, and intuitive response. They are provisional responses to an always-incomprehensible world. Understanding why individuals believe what they do and evaluating the comparative validity of their beliefs require a mode of analysis that acknowledges the entangled nature of the problems it attempts to address.

In recent years serious critical studies have emerged on several of the conservative intellectual movement's most challenging and influential figures, including Leo Strauss, Friedrich Hayek, Whittaker Chambers, and Ayn Rand.²⁵ Research into the development of conservatism at the

grassroots level has yielded an earnest and sustained attempt to understand its subjects' worldviews.²⁶ New interpretations have clarified the social and cultural origins of the potent combination of free-market advocacy and evangelical Christianity.²⁷ And a proliferating literature has commenced the formidable task of chronicling the institutional structures that helped foster and propagate conservatism in the public sphere. This emerging research has begun to unravel the complex points of intersection that developed during the twentieth century among businesspeople, financial institutions, political associations, and free-market advocates.²⁸ It has illuminated the relationship between the Cold War, the Rand Corporation, and the rise of rational-choice theory in contemporary policy discourse.²⁹ It has identified the institutional levers that conservatives maneuvered to transform the practice of the legal profession.³⁰ And it has helped clarify the essential role played by the popular proselytizers in the expansive orbit of the *National Review*.³¹ Cumulatively, these contributions represent a paradigm shift in the way the history of conservatism is written. Ideas and intellectuals are now broadly acknowledged to have played a constitutive role in the conservative turn, and advocacy organizations have been assimilated as essential components of its instigation of political change.³²

This book provides both a contribution to this developing literature and an implicit revision. It takes the detailed analysis of conservative ideas out of the realm of intellectual biography, where it has largely remained, and situates the major figures in dialogue with one another. By focusing on networks and processes of intellectual exchange, it devotes substantial attention to institutional context without inferring that the environment exerts hegemonic force over the generation and propagation of ideas. And it abandons the close observance of national boundaries that has continued to define the parameters of research into the origins of the conservative movement. The result is a narrative that examines how its central figures developed, explained, and justified their beliefs; how they alternately influenced and opposed one another's opinions; how they navigated the perilous relationship between politics and philosophy; and how, over time, their assumptions and arguments discreetly but decisively transformed. It approaches ideas neither as abstractions that unfold in a realm wholly distinct from politics nor as mere tools that are invoked to engender a desired change. The leading figures of the conservative intellectual world engaged, like most of us, in

quiet and at times unreflective acts of navigation across the porous boundary between the two.

As Keynes concluded “The End of Laissez-Faire,” he reminded his audience that discussions of abstract economic theory often serve as proxies for debates over the kind of world in which we want to live. The problems of economics cannot easily be severed from the problems of philosophy. The “fiercest contests and the most deeply felt divisions of opinion,” he predicted, “are likely to be waged in the coming years not round technical questions, where the arguments on either side are mainly economic, but round those which, for want of better words, may be called psychological or, perhaps, moral.”³³ Debates over economic policy occur on two levels: they encompass considerations of both how to achieve specified ends with maximum efficiency and what the ends themselves should be. Advocates of a particular approach to political economy rarely achieve much traction in the political arena without devoting close attention and rhetorical emphasis to the latter. Endeavors to transform economic policy almost invariably demand the capacity to reframe the meaning that members of a community derive from, and ascribe to, their world.

In the midst of the Great Depression, market advocates were acutely aware that the social philosophy of the free market inspired little support within either academic institutions or popular politics. They sought to overcome their isolation by establishing networks of sympathizers who could work in conjunction to reexamine the philosophical foundations of their ideas and reconstruct the public presentation of their arguments. Over time they formalized these connections, developing recurrent venues for the interchange of ideas, institutional organs for the dissemination of policy positions, and funding bodies for the provision of financial support. Many of these new organizational forms emerged out of the membership of the Mont Pèlerin Society, a group founded by Friedrich Hayek in 1947 to provide an international gathering place for leading philosophers, economists, journalists, politicians, and philanthropists who supported the market mechanism.³⁴ Although this society has received only limited attention from scholars, it has long been cited as a progenitor of the social philosophy that has become known as “neoliberalism” and as a point of origin for the elaborate network of policy institutes that inspired and advised the resurgent Anglo-American conservative leadership of the late twentieth century.³⁵ Its members played a

decisive role in the construction of the contemporary market-centered world.

An exploration of the rhetoric of the society's members in its early years reveals a movement far less doctrinaire than the conventional narrative would indicate. What emerges is a growing awareness of a set of complex tensions confronted by market advocates in the postwar era. Early members of the society desired to establish philosophical foundations for marketplace freedoms but expressed deep skepticism toward the intolerance and irrationality of unsubstantiated political absolutes. They sought to reach out to the religious believers and the economically disadvantaged individuals whom they believed nineteenth-century market advocates had mistakenly eschewed but demonstrated hostility toward theological dogmatism and the redistributive state. They glorified the achievements of capitalism but at times expressed dismay at its cultural and moral effects. They valorized liberty but maintained the vital need for collective moral traditions. They defended capitalism as a theory of individual choice but expressed deep suspicion of the implications of political democracy. Their similarities accentuated, rather than elided, the points of difference that drove them apart.

As a result of the retrenchment that accompanied the onset of the Depression and persisted through World War II, all the assumptions that this community ostensibly shared were subject to reconsideration. The financial crisis and subsequent political instability left them broadly convinced of the need for a social philosophy that transcended the abstract dictates of *laissez-faire*: they agreed that if capitalism was going to be saved from the pressures that were continuously eroding its foundations, its core assumptions would need to be rebuilt. But they disagreed sharply and continuously when the conversation turned to identifying those aspects of the capitalist order that were sacred and those that could be revised, or those morals that might be coded as absolute and the mechanisms of enforcement that would make them so. The postwar conservative intellectual world, with all its points of implicit unanimity and internecine discord, developed out of this atmosphere of uncertainty. That these problems were posed by cosmopolitan intellectuals from around the Atlantic world, engaging together in earnest inquiry into the philosophical foundations of their social order, complicates the common assumption that the conservative project was parochial in its origins and strategic in its intent. It was the product of a collapsed rather than a rigidified worldview.

The state of uncertainty that characterized market advocacy in the 1930s and 1940s was evident in, and to some extent precipitated by, an inability to build consensus about conceptual apparatuses that many saw as ambiguous or obsolete. “Terms like ‘liberalism’ or ‘democracy,’ ‘capitalism’ or ‘socialism,’ today no longer stand for coherent systems of ideas,” Hayek observed shortly after the conclusion of World War II. He saw them instead as “aggregations of quite heterogeneous principles and facts” that had become linked to certain words by means of a “historical accident.”³⁶ Today we continually resort to anachronism when we rely on labels of this kind. As will become apparent, in the interwar and early postwar years “neoliberalism” held a valence, on the rare occasions when the term was employed, that diverged significantly from that associated with it today.³⁷ The word “libertarian” was unfamiliar to most members of the society and was only infrequently used. The society’s members were almost unanimous in their rejection of “conservatism,” which they associated with the preservation of a status quo that they sought to overcome. “Traditionalism” and “neoconservatism” were to emerge as political signifiers only in an unforeseeable future. Occasional attempts to rehabilitate the concept of “Whiggism” were impaired by its archaic undertones. And the word “liberal”—otherwise a favorite—had been irrevocably altered by its increasing association with a progressive worldview. It is sometimes possible to use these terms without distorting their contemporary valences: most of the early members of the Mont Pèlerin Society believed that they were reconsidering the foundations of liberalism in order to prevent its further decline, and free-market economists became active participants in a world of conservative publications, policy makers, and advocacy groups in the postwar United States.³⁸ But these gestures at classification should not obscure the sense of unease, uncertainty, and discord that structured these communities and their vocabularies of dissent. We cannot rely on static renditions of the philosophies of the present if we wish to understand the dynamics of an earlier time.

The more strident market advocacy of recent years emerged only after an extended period of contestation and debate. Over time the economic and political crises of the 1930s receded, academic disciplines grew increasingly specialized, and free-market economists found new champions in print media and popular politics. Attempts to reinvent the philosophy of liberalism and move beyond the static dictates of *laissez-faire* lost the sense of urgency that had impelled them in earlier years. A