

## Liberalism in Crisis and the Promise of a Reconstructed Liberalism\*

By Peter J. Boettke\*\* and Rosolino Candela\*\*\*

### Abstract

What explains the simultaneous critiques of economic theory and liberalism during the 1930s? Early neoclassical economists had a common understanding of the proper institutional context undergirding a liberal market order. From the marginal revolution emerged a growing emphasis on analyzing markets as equilibrium states rather than processes. Because the institutions that frame a liberal market order were taken as given, to the point of relative neglect, this resulted in the notion that markets operated in an institutional vacuum. The resulting association of liberalism with *laissez-faire*, therefore, prompted a restatement of the role institutions play in the operation of a liberal market order.

*JEL Codes: B25, B31, P16*

In a crude way I had discerned the inherent difficulty of the planned economy  
but without the help I have received from you and from Professor von Mises,  
I would never would have developed the argument.  
Walter Lippmann to F. A. Hayek (March 12, 1937)

---

\* The archival material used throughout this paper draws from the Walter Lippmann Papers at Yale University. We gratefully acknowledge J. Patrick Higgins, whose MA thesis in sociology at George Mason University dealt with Lippmann and neoliberalism, for sharing with us various files from the Lippmann archive. Copies of the letters quoted can be made available upon request.

\*\* Department of Economics and F. A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics, Mercatus Center at George Mason University, Buchanan Hall D109, PPE 1 A1, Fairfax, VA 22030, USA. The author can be reached at [pboettke@gmu.edu](mailto:pboettke@gmu.edu).

\*\*\* F. A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics, Mercatus Center at George Mason University, Buchanan Hall D119, PPE 1 A1, Fairfax, VA 22030, USA. The author can be reached at [rcandela@mercatus.gmu.edu](mailto:rcandela@mercatus.gmu.edu).

## 1. Introduction

Beginning with the marginal revolution of 1871, there had emerged by the early 20<sup>th</sup> century a common and shared knowledge among early neoclassical economists that had transcended Austrian, Marshallian and Walrasian lines. “In this shared understanding,” according to Israel Kirzner, “there coexisted elements of appreciation for dynamic market processes and elements of appreciation for the degree of balance – the degree of equilibrium – held to be achieved by markets” (1988, 2). However, this common knowledge amongst economists is not merely a rational reconstruction of historians of economic thought. Rather, it was understood to be the case amongst neoclassical economists of the day. For example, in Jacob Viner’s lecture notes on Economics 301, the graduate course on price theory at the University of Chicago, dated June 17, 1930, Viner remarks the following:

Neoclassical economics is a sympathetic evolution of the English Classical School. Included under neoclassical economics is the English-American version in Taussig and Marshall and also the Austrian school, *whose differences are not as important as the resemblances to the Anglo-American type*. Included also is the Continental Equilibrium School or the Mathematical School, such as Walras, Pareto, and their followers. *They have much more in common with the neoclassicists than in dispute* (emphasis added, Viner 2013, 19; see also Viner 1931, 24).

In a series of studies on the history of price theory in the 20<sup>th</sup> century, we have attempted to unearth the *common knowledge* of economists following the marginal revolution in the 1870s (e. g. Boettke and Candela 2017a). In our previous work, we would date the shared common knowledge among early neoclassical economists from roughly 1870–1930s, probably peaking in the early 1930s. But, by the late 1930s, the common knowledge was fading quickly and eventually by the post-WWII era had disappeared only to have to be recreated during the 1950–1980 counter-revolution. Embodied in this common knowledge, according to Henry Simons, was the notion that “traditional price theory” was a study of a process by which relative price adjustments guide consumption and production decisions towards equilibrium, and that such relative price dynamics, properly understood, operated “*under a system characterized by private property, free contract, and free exchange*” (emphasis added, Simons 1983, 6). Such an understanding of price theory also served, as Simons put it, as a “prophylactic against popular fallacies” (*ibid.*, 6), namely against the idea that market processes tend to generate tendencies towards monopoly power, macroeconomic instability, and economic inequality, all of which come at the expense of the least advantaged in society. The emergence of classical political economy, and early neoclassical economics that followed, coevolved and could not be understood outside the institutional context of liberalism, by which we mean a political and legal

framework characterized by the absence of legal privileges (Hayek 1994 [1956], xxxvi).<sup>1</sup>

In *The Good Society* (2005 [1937]), however, Walter Lippmann dates 1870 as the year after which liberalism had coincidentally entered into an intellectual crisis of its own construction. Ironically, the older liberals preceding the marginal revolution had been identified in the political imagination with extreme *laissez-faire*, which seemed unable to address the realities of monopoly power, of inherent instability caused by speculative behavior of financial capital, and of the inequalities and injustice that resulted from concentrations of wealth. The new liberals, though, in their effort to respond to this earlier intellectual weakness moved too easily into collectivism. We will return to this, shortly, but for our purpose what matters is this precise timing, which presents an important puzzle in need of explanation.

Why did this critique of economics *and* liberalism emerge? As we have argued elsewhere, early neoclassical economists had a common understanding of the proper institutional context undergirding a liberal market order. However, the marginal revolution had begun a tendency that relegated such a common understanding to the background of analysis. What emerged into the foreground of analysis was a growing emphasis on analyzing markets as equilibrium states rather than processes.<sup>2</sup> As a result, the institutions that frame a liberal market order had been taken to be given, so much so that their role in providing the rules governing a market economy, which critics of liberalism claimed to be lacking, had become relatively neglected, resulting in the notion that markets operated in an institutional vacuum. The resulting association of liberalism with *laissez-faire*, therefore, required a rearticulation and re-statement of the role that institutions play in the operation of a liberal market order.

This complete history cannot possibly be told in one article, so we will limit our effort to a more focused presentation. In section 1, we will discuss the pre-publication correspondence between Lippmann and two leading liberal thinkers of the 1930s, Lionel Robbins and Henry Simons. Simons, in fact, gave Lippmann comments on the manuscript of the book that we believe highlights the fraying of the common knowledge among economists in the 1930s. Section 2 provides a summary of the main arguments developed in *The Good Society* and the immediate reactions by professional reviewers in economics and political science. Similar to Simons's pre-publication commentary, Frank Knight's review of Lippmann also reflects the growing division within the self-understanding among economists of the lessons to be learned from economic theory and the implications for the liberal order. Section 3 will

---

<sup>1</sup> As Lionel Robbins eloquently states this point: "It is no exaggeration to say that it is impossible to understand the evolution and the meaning of Western liberal civilization without some understanding of Classical Political Economy" (1952, 4).

<sup>2</sup> For extensive analysis of this transformation in economic theory and its public policy implications, see also Machovec (1995). Contrast this with Stigler (1957), who regarded this transformation in economics not as revolution in economic theorizing, but simply a natural *evolution*, one in which the neoclassical notion of competition had been directly rooted in classical political economy.

discuss the conversation in the Colloque Walter Lippmann, and the scientific project that Mises and Hayek embarked upon in the subsequent dozen years between 1937 and 1949. Section 4 will conclude with a discussion of the continuing tension in the related but distinct sciences of economics and political economy with regard to the agenda and non-agenda, and the appropriate delineation of collective action.

## 2. Discourse Among Liberals About Liberalism vs Collectivism

Before beginning our analysis of Lippmann's arguments in *The Good Society* and the subsequent Colloque Walter Lippmann (CWL) that followed in 1938, it is important to first understand the historical and intellectual context of the time. One must remember that during the period after WWI, the economic and political systems of liberalism would be repeatedly stressed with economic stagnation and despair and the rise of authoritarian dictators left and right that promised to eradicate the economic and social malaise that capitalism and liberal democracies seemed unable to effectively address.

The rhetorical move was to blame this on *laissez-faire*, even though the entire period since the late 19<sup>th</sup> century saw increasing involvement of the state intervening into the economy in terms of nationalization, the regulations of industries, the manipulations of money and credit in the financial sector, and fiscal irresponsibility among many governments. Nevertheless, the malaise was blamed on economic doctrines that were outdated and no longer resonated with the current generation, and this only grew as the Great Depression of the 1930s spread throughout the liberal Western democracies. Fascism and Communism grew as motivating social movements as liberalism faded as a discredited relic of a bygone era. It is at this precise historical juncture that Walter Lippmann enters the scene to counter that dominate intellectual and practical thrust. Lippmann, already a famous public intellectual, writes a series of articles in late 1936 and early 1937 in *The Atlantic*, where he engages in serious conversations with economic and political thinkers of his day. In 1937, his *The Good Society* is published and not only meets hostile criticism, but also great enthusiasm from the liberal remnant in Europe. This leads to the organization of the CWL in Paris in 1938, and the conversation that took place at that meeting. Due to the outbreak of WWII, the further gathering of European liberals was suspended until after the war through Hayek's rejuvenated efforts with the Mont Pèlerin Society (MPS).

In too many narratives, we contend, Keynes's *General Theory* (1936) plays too large a role. This was no doubt a pivotal work, at a pivotal time. But for the relevant parts of the Lippmann narrative on the fate of liberalism, we would argue that Keynes's earlier essay, "The End of Laissez-Faire" (1978 [1926]) already foreshadowed the tale. The central misconception in that essay was the notion that Adam

Smith's invisible hand and the "system of natural liberty" always generated beneficial social outcomes independent of any institutional context. Before we get there, however, let us remember two critical points raised by F. A. Hayek and Lionel Robbins.

First, Hayek argued in "The Trend of Economic Thinking" that the critique emerged because reformers did not find useful the application of scientific reasoning to the problems of social life.<sup>3</sup> "The existence of a body of reasoning," Hayek argues, "which prevented people from following their first impulsive reactions, and which compelled them to balance indirect effects, which could be seen only by exercising the intellect, against intense feeling caused by the direct observation of concrete suffering, then as now, occasioned resentment. It was against the validity of such reasoning in general that the emotional revolt was directed" (1933, 124–125).

The social enthusiasm of critics grew as their frustrations with the teachings of classical political economy placed parameters on the aspirations of reformers. And, there were logical flaws in the classical economists' system of analysis that were exposed in the late 19<sup>th</sup> century, namely value and distribution theory. The twin analytical revolutions of subjective utility theory and marginal analysis would repair most of the serious difficulties in the theories of value, cost, exchange, production, and distribution during the 1870–1930 period. The work of Carl Menger, Léon Walras and William Stanley Jevons in the 19<sup>th</sup> century set economics on a scientific path that would be pursued throughout Europe and North America by thinkers such as Eugen von Böhm-Bawerk, J. B. Clark, Alfred Marshall, Vilfredo Pareto and Knut Wicksell. The scientific propositions that emerged from these thinkers would give pause to the social enthusiasms of the most radical reformers influenced by Karl Marx, and led to great challenges to the scientific status of theoretical economics by the German Historical School and the American Institutionalist School respectively. The British Fabians pursued a different tact, seeking to incorporate the latest thinking from modern economics into their efforts to address the social ills of poverty, ignorance and squalor through public policy and institutional transformation.

However, Hayek stood his ground firmly, declaring that careful and systematic reasoning grounded in modern economic theory would give pause to those who sought to deny the implications of the principles of economics, or those who sought to directly manipulate the economic system through government planning to achieve predetermined desired outcomes. Hayek thought those uninitiated in economics would rightfully side with socialist goals, but those who learned their lessons in economics well would be forced by a recognition of the "incomplete nature of our knowledge" to adopt a general "presumption against interference" (*ibid.*, 133). This did not mean the acceptance of a dogmatic conception of *laissez-faire*, but instead an embrace among economic thinkers of seriously thinking through Bentham's early

---

<sup>3</sup> This paper was Hayek's Inaugural Lecture on March 1, 1933 for assuming the Tooke Professorship of Economic Science and Statistics at the London School of Economics and Political Science.

distinction between the agenda and non-agenda of the government in a coherent theory of collective action. Modern economists must, Hayek insisted, carefully delineate the field where “collective action is not only unobjectionable but actually a useful means of obtaining the desired ends” (*ibid.*, 134).

Second, in *The Theory of Economic Policy in English Classical Political Economy* (1952), a book based on lectures from the 1930s, but not published until after WWII, Robbins argued that critics of economics were wrong to suggest that classical political economists from Adam Smith to J. S. Mill treated economic actors as asocial beings devoid of any historical and institutional context. Quite to the contrary, classical political economy always saw commercial activity embedded within legal, political and moral contexts. Economic life could never be treated as if it operated in a vacuum. Robbins stressed that the science of economics had co-evolved with the liberal institutions of democratic governance and the rule of law. And, furthermore, the specific manifestations of the scientific propositions that economics has to offer must be understood against this institutional context. The system of property, contract and consent are assumed to be given, and then, and only then, can it be said that the pursuit of individual interests in the marketplace can produce an overall social order that ensures peace and prosperity. The ability of an economic system to realize productive specialization and peaceful social cooperation are by-products of the liberal institutions of private property, freedom of contract and the rule of law. The state, according to Robbins, was not absent in this depiction as critics had wanted to tar *laissez-faire* with, but instead a very critical component to the workings of the liberal market order as envisioned by the classical political economists in the 18<sup>th</sup> and 19<sup>th</sup> century.

During the 1930s, Lionel Robbins wrote some of the most articulate defenses of economic science, as well as restatements of the principles of the liberal international order. His *Nature and Significance of Economic Science* (1932) would argue that economics was a positive science, and not a branch of moral philosophy. His definition of economics as the science that examines human action with respect to the allocation of scarce resources among competing ends would have a wide influence. However, his essay possesses within it also a strong criticism of interpersonal utility comparisons that follows from a consistent subjectivist position, and thus a critique of some early formulations of welfare economics. Robbins positions economics as a general science of human decision making, but also disciplines economics by bounding the questions it can ask while retaining its scientific status. In this, as in much of his work during this period, Robbins was heavily influenced not only by his old teacher Edwin Cannan, but most significantly by Ludwig von Mises, whom he had become deeply familiar with after reading Mises’s *Socialism* in the mid-1920s. Shortly after reading the book, Robbins was determined to see Mises’s book translated into English and published in the UK.<sup>4</sup>

---

<sup>4</sup> The first English edition of *Socialism* was published in 1936 by Jonathan Cape.

Robbins, like his teacher Cannan, was a master of the history of the discipline. It is important to remember just how young he was at this time, yet how far his reputation as a scholar and teacher already reached. He was hired to be the chair of the Department of Economics at LSE at the age of 29, and he set out to build a fantastic department that would challenge the dominance in the field of Cambridge and Oxford. During the 1930s, he would hire outstanding faculty, a constant stream of visitors would pass through, outstanding students attended, and a world-renowned research seminar co-directed by Robbins and Hayek would be established. These were indeed, as G. L. S. Shackle has dubbed it, the “years of high theory” at LSE as well as at Cambridge, where John Maynard Keynes and Joan Robinson were developing their respective theories of aggregate demand management and imperfect competition. At LSE during this decade, Hayek published his *Prices and Production* (1931), *Monetary Theory and the Trade Cycle* (1933 [1929]),<sup>5</sup> *Collectivist Economic Planning* (1935), and *Profits, Interests and Investment* (1939) as well as seminal essays such as “Economics and Knowledge” (1937). Robbins was equally as productive over this decade publishing not only *Nature and Significance*, but also his *The Great Depression* (1934), *Economic Planning and International Order* (1937), and *The Economic Causes of War* (1939), as well as seminal articles on topics ranging from cost theory to welfare economics. Robbins and Hayek, besides organizing the theory seminar, also worked tirelessly through a book series to bring translations of the works of non-English authors so that English and American economists could remain up to date on the latest developments in the science. Their efforts were not limited to translations, but also included reprinting of such classics as Philip Wicksteed’s *The Common Sense of Political Economy* (1933 [1910]) and Frank Knight’s *Risk, Uncertainty and Profit* (1933 [1921]). They wanted the English-speaking community of professional economists and students of economics to know about the broader scientific contributions beyond Marshall, and they succeeded.

As we have argued, LSE emerged as one of the leading centers for research and graduate education in the world under Robbins’s leadership, and the discussion of liberalism versus collectivism took on a unique significance within that community (Boettke and Candela, 2020a). Thus, it comes as no surprise to find Lippmann corresponding with Robbins in the 1930s about the arguments that would be developed in *The Good Society*. In a letter of February 11, 1937, Robbins writes to Lippmann: “I have been reading with growing excitement and admiration your most remarkable series of articles now appearing in the *Atlantic Monthly*.” Robbins proceeds to discuss the case of Mises with Lippmann. He is emboldened to do so because of Lippmann mentioning his work, and because both were friends and students of Graham Wallas, Robbins hopes that his effort will not be regarded as “impertinence.” He informs Lippmann of the recent publication of Mises’s classic critique of socialism, *Die Gemeinwirtschaft*. Mises’s work, Robbins explains, has been “most unmercifully

---

<sup>5</sup> *Monetary Theory and the Trade Cycle* was originally written in German as *Geldtheorie und Konjunkturtheorie* (Vienna: Hölder-Pichler-Tempsky, 1929). At LSE, it was translated by Nicolas Kaldor and H. M. Croomie.

misrepresented by the collectivist reviewers over here; and there is some danger that it may not receive the attention that it undoubtedly deserves.” Finally, Robbins explains to Lippmann:

I hasten to add that I have no financial interest in the book. Nor would I wish it to be thought that I myself am by any means in full agreement with many of Mises’s more drastic statements. But in some of the notices of my own work which have appeared here and in America I have so frequently been attributed with the authorship of propositions which I learnt from von Mises that I feel a special obligation to see that his work is generally acknowledged. Mises is neither an Aryan nor a Socialist and, being superlatively clever and Viennese he does not always suffer fools gladly. The result is that a man who, in my judgement, has shown more originality in the examination of collectivism than anyone now living, has been ostracized and misrepresented and shut out even from the academic status which is unquestionably his due.

Responding to Robbins’s letter on March 24, 1937, Lippmann explains that in the Atlantic articles he had to omit footnotes and acknowledgments. But he assures Robbins that he has studied Mises’s book thoroughly as well as the edited collection by Hayek on the problems with collectivist economic planning. And Lippmann states that: “While I had grasped the logical incompatibility of planning with a democratic system, as one must, I think, who considers the problem at all, I have been enormously helped by von Mises’ work and the Hayek symposium.”

A few months later Robbins received the page proofs of *The Good Society*, and on August 8, 1937 he writes to Lippmann: “You have stated the great principles of Liberalism in a manner which recaptures the breadth of the eighteenth century masters and you have so continued to relate them to the hopes and fears of today that you must surely exercise a great, perhaps decisive, influence on the thought of our time.” Robbins’s enthusiasm was shared by other defenders of liberalism against the growing consensus for collectivism. Fritz Machlup writes on September 9, 1937 to thank Lippmann for receiving a complimentary copy of *The Good Society*, but adds “I wish to thank you for having *written* the book; I consider it a masterpiece.” He then goes on to explain that he was just on vacation with his good friend Professor Hayek, and he shared with Machlup the page proofs of Lippmann’s book. Machlup states that he thoroughly enjoyed the book, and that: “Stimulated by your ideas, we had a series of interesting discussions of the ‘Agenda of Liberalism.’”

But not all within the broadly understood liberal camp were as singular in their praise in the formation of the argument that Lippmann was attempting to construct leading up to *The Good Society*. Henry Simons had been corresponding with Lippmann regularly to discuss tax policy and to share various criticisms he had of New Deal proposals. Lippmann writes to him on March 19, 1936 requesting a copy of *Positive Program for Laissez Faire*. He frames the request by stating: “I have read with great interest and profit your article on ‘Rules versus Authorities in Monetary Policy.’” He then informs Simons, “I have been engaged for a long time in a study of liberal policy and had come to much the same conclusion as you do, namely that we must not go in the direction of management and authorities but in the direction of fixed rules.”



When Simons receives his copy of the pre-publication version of *The Good Society*, one could have reasonably expected the book to have both reflected Simons's influence and been warmly congratulated for the full-throated defense of liberalism in an age of collectivism. A perusal of the index of *The Good Society*, however, will reveal that Simons does not have an entry. The book is more influenced by Lippmann's effort to negotiate a synthesis between the critique of collectivism in Mises and Hayek with a critique of *laissez-faire* capitalism found in Keynes. This is almost designed to raise the hackles of Simons.

Simons begins his response of October 5, 1938, innocently enough thanking Lippmann for a pre-publication version and "the opportunity of reading it before the publication date." As Simons says, it should go without saying that he enjoyed the book, and that he is in enthusiastic agreement with its position and argument. He even states "[y]ou certainly have made a magnificent contribution to the liberal cause." But the praise he gives Lippmann is half-hearted, so the criticisms commence.

"I was a bit annoyed," Simons begins, "with your tribute to Keynes." Simons explains to Lippmann that Keynes has caused great confusion with his contributions to monetary discussions. Furthermore, while Lippmann suggested that Keynes showed how the serious problems of financial crises could be "solved within the framework of the liberal system" this was nonsense. Simons informs Lippmann that in reviewing Keynes's *General Theory*, "I remarked, casually but seriously, upon its possibilities as the economic bible of a fascist movement." He points out that with regard to the liberal cause, "Mr. Keynes is irresponsible and untrustworthy" and "his followers are simply a menace, politically and intellectually." Though Simons clearly does not think Keynes is an ally in the liberal cause, he is also skeptical of the contributions of Mises and Robbins as well. "If you have given Keynes more than his due, you perhaps have also been too generous toward his arch enemies in the academic world, Professor Mises and Robbins. Their notions regarding the proper sphere of governmental action, and the limitations of economic planning, are often fanatically extreme; and their contribution to the liberal cause on balance, is probably a disservice." Why? The argument against planning proves too much, and if true would reduce the ability of the government to engage in overhead control of public utilities, natural resource management, and addressing what today we would call externality problems. The technical difficulties of planning, Simons warns Lippmann, should not be overstated.

Simons continues to extend his criticisms on Mises and Robbins pointing out that on monetary matters he actually finds them more irritating than Keynes, claiming that the most generous remark he can make is "that the sins of each one partially excuses those of the other." And, finally, he raises questions about whether Lippmann has successfully dealt with criticisms of the lack of a positive program for liberalism (presumably where Simons would have felt most slighted). This leads to Simons pushing back on Lippmann's treatment both of the monopoly problem and its solution, as well as Lippmann's treatment of the labor problem.

“I think you might have forestalled criticism,” Simons states, “by stressing the fact that many kinds of collective action are entirely compatible with the largest freedom of enterprise and trade.” Simons states that this has not been developed enough in the writings of liberals, including himself, because the task of delineating is tedious, and you have to anticipate too many stupid criticisms. But the following must be stressed: “What liberalism demands is free markets and competitive prices in all areas where effective competition is possible, and restrictions of planning to the enactment of simple and definite rules of law.” Simons does end the letter on the note that he hoped that his comments will not “obscure the fact that I am deeply impressed by your work. It is much easier to be optimistic about the future now that such a book has been published.”

But for our purposes the fracture among liberal economists had already begun, and the fault line was not merely in macroeconomic policy as would later be widely recognized in the differences between Hayek and Milton Friedman, but was to be found in large part in price theory and the understanding of the market system, and in particular the role of monetary economic calculation.

### 3. *The Good Society and Liberalism*

In 1933, Harold Laski had thrown down the challenge as he saw it from the perspective of a British Marxist in *Democracy in Crisis*. He argued that the Great Depression had once again demonstrated unequivocally the failures of capitalism. As the disillusionment with capitalism and the institutions that sustained it, Laski argued, had to either work to eliminate democracy, or the capitalist system would have to be abandoned and a new era of democratic freedom and solidarity would be ushered in. It was an either/or moment, and Laski knew where enlightened men and women of good faith should stand. The old institutions and ways of living had to give way to the new.

Lippmann did not believe this was the right response to the crisis. Clearly something was wrong, since there had been a clear disruption in the social system ever since WWI. But could planning be the panacea for the age? As discussed earlier, this led Lippmann to study the works not only of Laski and others of the planning persuasion, but also Mises, Hayek and Robbins. And, as also hinted above, while he shared their critique of planning, he was not comfortable with their explanation of the Great Depression and their notion of the correct response to the Depression (and social problems in general) by government, which was too circumscribed and vague to be a satisfactory answer. Instead, some synthesis of the liberalism of Mises and the liberalism of Keynes would point the path forward in these troubling times. Unlike Laski’s conclusion, capitalism and the market economy could, and in fact, had to, exist within a liberal democratic order not only to survive but also to thrive and deliver humanity all the benefits of the “Great Society.”

Lippmann discusses the ‘great schism’ of the age as follows. “The essential difference between the faith that our generation has embraced and the faith that it has forsaken is to be found in what it thinks men can do to manage the destiny of other men.” In other words, the current intellectual fashion was to abandon the principles of democratic self-governance – and its ideal of *governing with* – and adopting instead the progressive attitude of the judicious use of science and professional experts in the public space to *govern over* the system. “The predominant teachings of this age,” Lippmann continues, “are that there are no limits to man’s capacity to govern others and that, therefore, no limitations ought to be imposed upon government.” The old time faith in constraints on government power was born in man’s long struggle to escape from domination and dogma by the Crown and the Altar (and especially their alliance), and thus it made sense to seek constitutional limitation on the use of power by “men of limited minds and self-regarding prejudices” so as to curb oppression and corruption. Thus, the older liberalism sought as a condition of progress the limitations on governmental power based on the capacity and virtue of the governors (Lippmann 2005 [1937], 40).

But these notions were fading as the modern enlightenment had delivered to our age men of good faith with capacities to govern based on science. The new liberalism would empower men in office to serve their fellows by effectively using the governmental apparatus to eradicate social ills and deliver a new era of peace, prosperity and good will. Who could be against such progress? Lippmann counters though, that “if it is true that men can do no more than they are able to do, then government can do no more than governors are able to do. All the wishing in the world, all the promises based on the assumption that there are available omniscient and loving autocrats, will not call into being men who can plan a future which they are unable to imagine, who can manage a civilization which they are unable to understand” (*ibid.*, 40).

*The Good Society* develops this argument at great length and with very effective and passionate prose. In discussing the fundamental problem with planning – Mises’s calculation argument – Lippmann states, “[i]t would require some mighty arithmetic. As a matter of fact a regiment of Einsteins could not make the calculation because the problem is inherently incalculable” (*ibid.*, 101). Planning and control over a social system of exchange and production is only possible, Lippmann argues, if economic calculation is possible. Since in an economy of civilians it is not possible because of the great diversity of ends to be satisfied, the question is how it is conducted in military ventures. Here the answer seems simple: war planning suppresses the multiplicity of ends of peacetime into a single end during times of war, and things become “calculable because there is a specific purpose to be achieved, the supply of a military force of known size with known requirements out of known resources, and to this concrete objective all other needs must conform” (*ibid.*, 94). There is no problem of the meshing of production plans with consumption demands. There is production outputs, and there is consumer rationing. There is no choice in occupation by labor; rather, there is conscription. Whatever inefficiencies exist in wartime planning – and many have been documented through the ages – calculation theoretically can take place

there are no unknown factors, and no multiplicity of ends that must be weighed in the allocation of means.

We do not have to repeat the basic Mises-Hayek-Robbins argument here, but it is sufficient to simply state that the functional significance of economic calculation is that it permits economic actors to sort from the array of technologically feasible investment projects those that will be *economically viable*. The market system operates on the basis of property, prices and profit-and-loss, and these institutions serve to coordinate the plans of the multitude of market participants by providing a structure of high powered incentives, by providing signals that guide actors in their decision making, by providing rewards that lure participation, and penalties that either result in adjustment and adaptation or weed out those unwilling to learn. Again, property, prices and profit-and-loss, provide this. In their absence, magical beings and wishful thinking cannot deliver the goods; instead some alternative mechanism for providing those incentives, signals and feedback must be found and instituted. As a result, planning either becomes militaristic in nature, and thus non-democratic, or it becomes chaotic and thus suffers from systemic waste and destruction.

The “Great Society” that made the modern world possible is due to the transition from self-sufficiency to interdependence in the world-wide economy. This transition lifted humanity, and still does, from a state of abject poverty. This was a by-product of the liberal ideal of free trade and peaceful international relations (*ibid.*, 159 ff). The contribution of economic science to this was an increasing understanding of how alternative institutional arrangements either enabled or hindered individuals from engaging in productive specialization and peaceful social cooperation through exchange. Commercial society delivered that. Planning delivers war.

The division of labor, Lippmann writes, “was not invented by economists; it was not invented by the inventors of machinery and steam railroads. The division of labor in an exchange economy is implied in the very essence of labor itself” (*ibid.*, 361). As has often been pointed out, but just as often resisted by intellectual opponents, Adam Smith did not invent the division of labor or the construction of self-interest and the invisible hand. He observed these phenomena and philosophically reflected on them. The butcher, the baker and the brewer exist independent of the economist, just as the common-woolen coat ends up on the back of the day laborer without any intervention from the economist in either the classical or neoclassical rendition. Commercial society and the institutions of liberalism produced that; economists sought to understand the underlying dynamics as they witnessed humanity “liberated not only from the oppression of arbitrary authority but from the sterile drudgery of a self-sufficient existence” (*ibid.*, 361).

The choice is clear, Lippmann argues, for “reasonable and civilized people.” Liberalism “is concerned with the reform of the laws in order to adapt them to the changing needs and standard of the dynamic economy, while the agenda of reform are long and varied, no one must look to liberalism for a harmonious scheme of social reconstruction.” There is no architectural design for the Great Society. “There are no

blueprints.” The liberal temperament, Lippmann stresses, is in constant protest at any effort to mold human life into a predetermined shape (*ibid.*, 364). In contrast, it must always be remembered that the “supreme architect, who begins as a visionary, becomes a fanatic, and ends as a despot. For no one can be the supreme architect of society without employing a supreme despot to execute the design. So if men are to seek freedom from the arbitrary dominion of men over men, they must not entertain fantasies of the future in which they play at being the dictators of civilization. It is a bad habit of an undisciplined imagination” (*ibid.*, 365).

As we argued earlier, Lippmann communicates the Mises-Hayek-Robbins critique of planning as effectively as could for that time, and his argument anticipated many of the arguments that Mises and Hayek would later develop in works such as *Omnipotent Government* (1944) and *The Road to Serfdom* (1944). Given how closely Lippmann was to these thinkers, he attempted a synthesis with Keynes on macroeconomic policy, and with various positive government actions to curb monopoly power, to ease inequities in bargaining between labor and capital, and to address the social problems of poverty and ignorance. In his “Agenda of Liberalism,” Lippmann famously argues that the fallacies of extreme *laissez-faire* sterilized the creative minds of the classical political economists. But unlike other critics of *laissez-faire*, Lippmann argued that liberalism’s failing was an intellectual error, not an inexorable law of social development. The old liberals were not devoid of deficient sensibility or lacking in concern for justice, they were just “inhibited” by “the metaphysics of *laissez-faire*, and the effect was to make the political philosophy of liberalism a grand negation, a general non possumus, and a complacent defense of the dominant classes” (*ibid.*, 203). Whereas “gradual collectivism” will devolve into “the polity of pressure groups,” the liberal reformer, in the effort to adapt to the social conditions of the time, will seek “to change laws and greatly modify property and contract as they are now recognized by the laws,” but will do so with the objective to “preserve and facilitate the division of labor in the existing exchange economy” (*ibid.*, 235–236). Liberal reform is meant to expand and ease the effective integration of individuals into the interdependent Great Society. Unlike collectivism, liberalism is not a reaction against the industrial revolution; in fact, it *is* the philosophy of that revolution. But to preserve the Great Society, the liberal reformer must fit the social order to the dynamics of the new economy, and the reformer must be willing to engage continuously in the collective action required. There is much work to do for the liberal with respect to the positive program for state action. Lippmann could not be clearer in his departure from the perceived extreme *laissez-faire* of the classical political economists, as well as the perceived extremism of Mises-Hayek-Robbins, no matter how much he had learned from them in his critique of collectivism and planning.

But how did reviewers assess Lippmann’s efforts? A look at this will reveal both the tenor of the times and the fracture we alluded to above between the liberal *economists*. The common knowledge among liberal economists upon which Mises-Hayek-Robbins had built their case fell apart during the interwar years, and the post-WWII era can partially be defined by the effort to rebuild that common knowledge.

But we are getting ahead of ourselves as that will be the subject of the next section of this article. Right now, we need to examine the reaction by economists and political scientists to establish the context. What follows is a sampling from reviews of *The Good Society* that appeared in outlets such as *American Political Science Review* and *Political Science Quarterly*, the *Economic Journal* and *Journal of Political Economy*. To a modern reader, we should point out how unusual this might seem that a book written for the public would garner attention in the top professional outlets in political science and economics. We can attribute this to the fact that the times were different, Lippmann's status as a leading public intellectual, and the importance of the topic for those turbulent times. And the reviews are often substantial, not just a few paragraphs, e. g. Frank Knight's review in the *Journal of Political Economy* is 8 pages long, and Charles Merriam's review in *Political Science Quarterly* is five pages long – both densely argued.

Writing in the *American Political Science Review*, John D. Lewis contends that “Mr. Lippmann has written two forceful and eloquent but mutually contradictory books” (1938, 127). He describes that book as both a “bitter attack upon economic planning” and ultimately resting on “a remarkable proposition which should logically preclude the possibility of *any* government activity in a democratic state.” The work is a condemnation of the efforts of Progressives and New Dealers, Lewis writes, that argues that their efforts to combine rational economic planning with individual liberty must eventually end in absolutism. But surely, Mr. Lippmann must be wrong. In fact, Lippmann proves his first argument must be wrong because, Lewis argues, Lippmann concedes that to protect the system of free enterprise from extinction, we must “use the authority of the state to radically alter the law of property, contract, and corporation, etc.” to curb the excesses of *laissez-faire* capitalism (*ibid.*, 127). In addition to this fundamental contradiction in the book's central argumentative structure, Lewis also points to two critical weaknesses: (1) Lippmann's failure to account for the modern professionalization of public administration, and (2) Lippmann's naïve belief that the legislative acts he proposes in his “Agenda” could proceed in the absence of the pushing and pulling of various interest groups (*ibid.*, 128).

Writing more critically is Charles Merriam (1938) in the *Political Science Quarterly*, where he attacks Lippmann for arguing that: “‘Gradual collectivism,’ ‘democratic collectivism,’ apparently all forms of organized ‘planning’ are assailed with equal vehemence, as essentially betrayals of liberalism. Planning is sinning, small scale or large” (1938, 129). Merriam is not impressed. “The theoretical basis of this position,” he points out, “is essentially the doctrine of *laissez-faire*, but reinforced now by Pareto, von Mises and von Hayeck [sic!]” (*ibid.*, 129). He chides Lippmann for showing “no familiarity with Henry Simons' *Positive Program for Laissez Faire*, and in general stops his discussion short of intensive consideration of the refinements of a great body of emerging economic theory” (*ibid.*, 130).<sup>6</sup> Merriam states clearly that

---

<sup>6</sup> This is a very revealing quote for our purposes. First, Merriam was a colleague of Simons at Chicago, and we know from the Lippmann and Simons correspondence that Simons pro-

“I cannot escape the conclusion that the doctrine of Lippmann is contradicted by his agenda; and further that the agenda is made impotent by his method of action” (*ibid.*, 133). And, given his great respect for Lippmann, the public intellectual whom he has followed so closely for a generation, it must be that the “present point is for him” not “the end of the trail,” but merely a reflection that “he wandered aside in his gallant quest for certainty into a by-way from which he will one day come back” (*ibid.*, 133). In fact, Merriam cannot resist concluding his review with the suggestion that “the genial companion of the breakfast table for so many Americans is really spoofing us in the grand manner” (*ibid.*, 134).

The political science community did not receive the argument well. But surely economists would provide a more welcomed reception to this argument in favor of the market system and price theory. This was not the case. Writing in the *Economic Journal*, Ian Bowen writes: “Mr. Lippmann’s case appears to rest on economic grounds: on the issue whether large-scale organisation of industry is necessary for the progressive output of a wealthier world. But the economist and the economic historian will be chary of accepting Mr. Lippmann’s pronouncements on this point.” Students of public administration will not find it “easy to follow the workings of Mr. Lippmann’s pen” (1938, 712). The modern art of government, the reader is told, is precisely that of delineating the tasks of management for purposes of control, and do not “imply an arrogant belief in power to control all variables.” These modern advances in the art of government are all but ignored in *The Good Society*. “In fact, if Mr. Lippmann’s view were accepted, an army could never get its breakfast; the Bank of England would cease to function; not merely Soviet Russia, but the British Civil Service, and our Budget of nearly quarter of the national income would break down under six months” (*ibid.*, 712–713). Lippmann is able to make this argument only because he has enlisted “the forgotten army of liberal extremists” and thus has chosen to equip himself with ignorance rather than modern enlightenment on “the subjects of political and economic organization.” These extremists with whom he has aligned himself would if followed lead us to a world “free for private monopolising and private tyranny” and thus undermine the “constructive work which democracies need to do collectively, before the deluge is upon them” (*ibid.*, 713).

Frank Knight (1938) starts out more receptive to Lippmann’s project as one might expect. He opens with an almost obligatory declaration: “That Mr. Lippmann’s book is brilliant goes without saying to any reader of serious social and ethical discussion in the English language in the post-war years.” And, he continues in large agreement about the “diagnosis of the malady” of Western civilization. “For liberal civilization is found to be in process of running by one course or another into one form of another of

---

vided Merriam with a copy of the letter we quoted, earlier expressing his own reactions to the pre-publication version of *The Good Society* “thinking, with inordinate optimism, that it might do both Merriam and the review some good” (letter from Henry Simons to Walter Lippmann March 1, 1938). Second, Merriam hints at the very refinements in economic theory, which in our interpretation lead to the fraying of the common knowledge among economists by the end of the 1930s.

totalitarianism, which would negate all the liberal values of freedom and humanity and destroy all genuine cultural life, not to mention the probability of physical destruction in war of the whole material and moral basis of civilized life of any kind” (1938, 864).

The situation is dire and the stakes are high. To Knight, Lippmann’s interpretation of the situation is “both entirely sound and fairly simple and obvious.” And, the fault lies with the intellectual errors of 19<sup>th</sup> century liberals. First, they identified liberal policy with extreme economic *laissez-faire*. Second, when *laissez-faire* in practice proved impractical, they too easily switched from “the faith in a free-market economy to collectivism.” That a regime of collectivism will result in “a tyranny over the whole of cultural and personal life of man as well as over economic activity” seems obvious to the skeptical liberal Knight. “The turning-point from liberalism as *laissez faire* to liberalism as collectivism, miscalled liberalism, is set about 1870.” Against this current situation, Lippmann wants to push back using “noble prose” and provides “an eloquent plea for the maintenance of liberty through action, in contrast with inaction” (*ibid.*, 865). This is what produces the effort for a concrete program for liberalism, the “Agenda of Liberalism.”

Unfortunately, the book is plagued by the “absence of analysis and of a scientific approach” throughout “every stage of the argument.” Knight acknowledges that what is implied by that criticism for a book such as *The Good Society* is ambiguous. But what he is not ambiguous about, is that in grounding his argument in Mises’s “discovery” that “a collectivistic economy in peace is incapable of planning and calculated organization of production” is a mistake. It is true that Mises says it is impossible to engage in such rational economic calculation under collectivism, “but the position is indefensible” (*ibid.*, 867). Why? Well, because a government of a collectivist state can do whatever it wants. Collectivism faces a political problem from the point of view of liberalism, but it does not face an economic problem *per se*.<sup>7</sup>

Knight not only disagrees with Mises on the *economics* of socialism, but also categorizes Mises as a “theorist of extreme *laissez faire*” and thus one who too often holds a position that reflects an “easy and optimistic disposition made of monopoly” (1938, 869). There is no doubt some truth to the claim that monopolies do not endure long “except where these is legal privilege,” but to the reformer this will appear as “mere dogma” and to most economists as simply “improbable.” Similarly, Lippmann’s discussions of law and courts fail to grapple with the underlying issues, and like the other reviews we have reported on, Knight argues that there is a failure to “recognize the necessity of administrative action on an expanded scale under modern conditions” (*ibid.*, 870) in *The Good Society*.

Though it deviates from our present purpose, Knight does in the course of this review point to one of the fundamental problems of the liberal order, which must

<sup>7</sup> See Boettke and Vaughn (2002) for a more detailed examination of why Knight was led to this position and why we believe he is in error and why this shows the beginning of the fault lines in the common knowledge. Also see Boettke and Candela (2020b) on the “tale of two Knights.”



eventually be addressed, and thus we believe it is worth quoting at length – if only because he became a significant part of the post-WWII reconstruction of political economy in the hands of Hayek and his student James M. Buchanan with the development of the *constitutional* perspective. As Knight states:

It is in this field [public and constitutional law], in this reviewer's opinion, that we encounter the really profound problems of modern social life, from the standpoint alike of political philosophy and procedure. Every now and again in the history of any society, it comes into a crisis situation. Interpretation must recognize fundamentally opposed currents of development as well as general drift in a direction obviously prescribed by the evolution of conditions. Such opposed and incompatible currents can be compromised, the interests at stake arbitrated, within some limits. But a time comes when fundamental principles must be threshed out, and a choice made, development in one direction embraced wholeheartedly and that in other, opposing, directions given up and suppressed. Values as well as interests conflict, and it is the conflict of values which gives rise to the really serious problems. The tendency of the two to become confused only aggravates the general problem. For it is only in terms of common values that any conflict between interests or values can be discussed. It is not too much to say that the history of modern democratic systems leaves the issue unsettled as to whether representative machinery of any kind, or government based in a way on popular discussion, can meet such a crisis and survive (1938, 870–871).

What is relevant for our purposes is this notion of the necessity of a common set of values that is shared so that discourse is a possible reconciliation mechanism for competing interests. Knight's diagnosis of the "crisis of modern civilization" is the loss of faith in the public imagination in "the fundamental equality of the values and terms of relationships established in the open market" (*ibid.*, 871). This lack of faith in the fairness and efficiency of the process leads to an intellectual revolt against the liberal order, ultimately resulting in a conflict of moral principles to such an extent that we can question whether liberal society can resolve conflicts through reasoned discourse, or whether violence and dictatorship are the only resolutions. Knight is quick to add that he does not believe violence or dictatorship will resolve problems in any satisfactory manner, just that they will resolve the conflict and the human race will face a historical future not unlike its known past, "a welter of progress and decadence, order and turmoil, 'humanity' and 'brutality.'" (*ibid.*, 872)

As we have seen, the reviewers in both political science and economics did not find Lippmann's *The Good Society* as compelling as he had hoped. They found his synthesis wanting, and they charged him with never fully escaping the grips of the *laissez-faire* extreme position that they attributed to Mises, Hayek and Robbins. If we had focused on more explicitly collectivist reviewers, such as George Soule or Harold Laski, then efforts to link Mises and Hayek to creeping fascism would have been offered. Soule accuses Lippmann of offering an "optical illusion" (1938, 261), which is unable to distinguish between Italian fascism, German Nazism, Soviet socialism and the British Labor Party. Laski was even more condemning and pinpointed his criticism, as he believed, on Lippmann's interpretation being based on "a sophisticated reading of [Ludwig von] Mises; and it will land him, eventually, into a kind of diluted fascism. For that school of thought, believing that the 'natural system of simple

liberty' in industry is the best, he then begins, like Mises and Hayek, to disapprove of the institutions which hinder its functioning."<sup>8</sup> As a result, Laski argues this position eliminates any of the countervailing powers, such as trade unions, that operate in a positive way to curb the dysfunctions of the capitalist system. From his perspective it demonstrates a lack of understanding of social processes.

It is in this intellectual context that liberals such as Mises, Hayek and Robbins were trying to communicate their insights to fellow social scientists and the general public. They were excited to find in their struggle a kindred spirit in Lippmann, arguably the leading public intellectual in the world at the time. But the effort to build a coalition would be cut short by shifting intellectual tides and the outbreak of WWII. The *scientific* project, however, remained.

#### **4. Mises, Hayek, and the Effort to Reconstruct the Common Knowledge in the Related but Distinct Sciences of Economics and Political Economy**

Soon after the publication of *The Good Society*, European liberals sought to bring together the intellectual remnant to discuss the future of liberalism. This produced the now famous Colloque Walter Lippmann (CWL) in Paris in 1938. The transcript of the conference reveals the intense discussions that took place between August 26–30, 1938. And, like in the reviews, Mises is singled out for supposedly representing an untenable extreme *laissez-faire* position. He does question the analysis of monopolies, as well as the general thrust of compromising positions with respect to the public policies of principled liberalism, and he expresses his reservations with various rhetorical strategies with respect to communicating the ideals of liberalism in the age of collectivism. Readers of this symposium know this already. What we want to stress is something different. Rather than interpreting the excitement with which Hayek and Robbins welcomed Lippmann's book as accepting him as their philosophical messiah, what we wish to stress is that they welcomed him because, in their effort to respond to the socialist critique from *within* economics, they were led to articulate a version of modern economic theory that, like the classical political economists, placed a premium on the *institutional framework* within which commercial life emerged. It is the *ordoliberal* aspects of the CWL that are most interesting for the subsequent development of economics and political economy in the decades after WWII.

Israel Kirzner has captured what Mises and Hayek sought to do during the 1930s and 1940s. As he put it: "What Mises and Hayek were doing (in their respective contributions during the 1937–48 decade) was to attain a deeper insight and more articulated understanding of what they had believed to be the shared, settled principles

---

<sup>8</sup> Letter from Harold Laski to Felix Frankfurter of August 3, 1937 as quoted in Best (2005, xxix).

of all ‘modern’ schools of economics” (2017, 864–865). Imagine their surprise when not only economists such as Abba Lerner and Oskar Lange built the model of market socialism based on refinements in neoclassical economic theory, but also that fellow liberal economists such as Knight and Simons failed to grasp the essential point concerning the nature of monetary economic calculation and the problems with collectivist planning. This led both into unique and productive directions as they both rebelled against the emerging social science consensus. It is often misunderstood as a unique ideological counter-revolution and a focus on the policy space. In that picture the move from the CWL to the MPS is stressed. And the intellectual work evolves from Lippmann’s *The Good Society* to Hayek’s *The Road to Serfdom* (1944) and *The Constitution of Liberty* (1960). But we want to stress a different side to this story. The counter-revolution was as much, if not more, *methodological* and *analytical* in nature as it was ideological. In fact, the focus on the ideological component has resulted in foundational interpretative confusions in the entire neoliberal discourse, which we cannot hope to fix in this essay.

The critical point is that during the 1930s and 1940s, Mises and Hayek embarked on a twin rebellion – a rebellion against the conception of man in the decision model of the individual, and the conception of the market in textbook and scientific presentations. Both *homo oeconomicus* and perfect competition would come under assault in their writings. Individuals and their choices were not well understood if we reduced those human acts to exercises in maximization, and the unfolding market activity would not be well understood if we reduced it to the depiction contained in the model of perfect competition. Yet modern refinements in economics had exalted both of these models during the decade of the 1930s and they provided the foundation for modern welfare economics. Economics had gone off the rails.

For our purposes the most important implication of the derailment was the loss of the understanding of the political, legal and moral context within which commercial life takes place. As we stressed in beginning with our discussion of Lionel Robbins’s *The Theory of Economic Policy in English Classical Political Economy*, the classical political economists all understood this. The teachings of the classical school about the invisible hand went hand-in-hand with the evolution of the liberal institutions of governance and justice. This is what Adam Smith dubbed the “tolerable administration of justice” that was a precondition for the wealth of nations.<sup>9</sup> Economists ignore the impact of alternative institutional arrangements on social order at their own intellectual peril. During the period between 1930 and 1950, it became commonplace for economics thinkers to do precisely that, and in fact, they took it as a badge of science that they were striving for an institutionally antiseptic theory. Rather than studying how alternative institutional arrangements either help or hinder the ability of individuals to pursue productive specialization and realize peaceful social cooperation through exchange, the formal properties of optimization and equilibrium became the focus of study.

---

<sup>9</sup> See Irwin (2020) and also see Boettke (2018a) for discussion of these issues.

This was a methodological and an analytical problem. As this became clear, Mises and Hayek (they had lost Robbins to government service due to WWII) turned their attention to providing the necessary corrective. They argued that there was both an epistemological confusion and an institutional confusion that resulted from the preoccupation with equilibrium theorizing (Boettke 2018b). The entrepreneurial element in human decision making had to be rediscovered and the dynamic competitive market process as a discovery procedure needed to move once more into the foreground of analysis if progress was going to be made. Again, just as the ideological interpretation causes confusion, the preoccupation with the counter to macroeconomic aggregative economics causes confusions. We are talking here not of the absence of micro-foundations in macroeconomics theorizing, which admittedly is bad enough, but what we are suggesting is that the even more important question to ask is the following: *which* microeconomic foundations are missing for economic theory as a whole? To correct the errors in thinking, it was not a matter of grounding explanations in optimizing agents and aggregating up from those foundations. Instead grounding explanations of the system in terms of purposive human actors, who *unintendedly* generate a set of outcomes, in response to the structure of incentives, being guided by relative prices, lured by pure profits, and disciplined by loss. The actions of alert and creative economic actors result in constant adaptations and adjustments to changing circumstances without which the coordination of economic plans through time would not be possible. As Richard Wagner puts it in tersely, yet eloquently: “Economics is thus a social science and not a science of individual rationality writ large or spoken loudly” (2010, 27). Optimization techniques and the method of simultaneous equations were simply the wrong technical tools to use to solve the problem that had to be solved if one were going to address the issue of collectivist economic planning. The issue is not a computational one, it is one that arises from the contextual nature of economic knowledge. The market process itself is the source of the knowledge that must be utilized. Absent that process and the knowledge does not exist. Prices without property are an illusion, coordination without calculation is not possible.

It seems so simple to neglect, or even worse, forget the importance of background institutions in providing the preconditions for social cooperation without command. What Mises and Hayek had to do was try to get economists to pay attention to the given background, and bring it into the foreground of economic and political economy analysis. Lippmann’s *The Good Society* grasped this basic point, but he was not a trained professional economist. The legacy of Lippmann’s book may very well be Hayek’s *The Road to Serfdom* and *The Constitution of Liberty*, but the scientific legacy underlying those books is to be found in the post-WWII evolution of property rights economics (Armen Alchian), law-and-economics (Ronald Coase), New Institutional Economics (Douglass North), public choice economics (James Buchanan), and market process economics (Israel Kirzner). It is in the consilience, not conflict, of these various strands of economic thought that the *ordoliberal* legacy is to be found, and to which Mises and Hayek contributed so significantly during their respective careers.

## 5. Conclusion

Lippmann's *The Good Society* is a fascinating case study of how the related but distinct sciences of economics and political economy got derailed and had to be first recaptured and then refined. Science is an ongoing project of revision, and it is no different today than in the 1930s. Science is never settled for all time, and the scientific attitude must be willing to question constantly. But it must also be remembered that science cannot question everything at the same time, but always practices its criticisms on the margin while holding much of a discipline's teachings as given. When the discipline forgets core principles not because they were proven to be illogically derived, or obviously at odds with experience, but simply because they were inconvenient to political expediency, or they were so long held in the background that out of sight meant out of mind, drastic scientific entrepreneurship is required. This is where "schools of thought" come from, precisely in such moments of intellectual slumber and thus scientific crisis.

Liberalism as a political philosophy of the Enlightenment follows the same need for continual renewal and refinement. It is a political philosophy that grapples with timeless puzzles in politics about freedom and authority. It is tied to our quest to understand the human condition and seek human betterment through the unleashing of creative powers of the free civilization (Boettke and Candela 2017b). The counter-revolution that emerged after the publication of Lippmann's *The Good Society* upset the sensibilities of the elites of his time, and continues to disturb the elites of our time. The goal of progressives and collectivists, then as now, is to govern *over* people, while the goal of the true radical liberal is to govern *with* people in a self-governing democratic society. The ideal is to empower individuals to live as free and responsible human beings in a manner that gives meaning to their existence as understood by them, who can participate and create wealth in a free economy, and who can live in caring and compassionate communities. In order to achieve that, what is required is neither magical beings nor wishful thinking, but concrete political, legal and moral institutions that constrain arbitrary power, and which get off people's backs and get out of their way. That is the opposite of the collectivist vision, and it is as relevant today as it was when Lippmann penned *The Good Society*, when the CWL was organized by Louis Rougier, and when Hayek formed the MPS. It is our hope that this symposium will stimulate readers to reconsider once more the methodological, analytical and ideological issues at stake in the continuous and necessary reconstruction and renewal of liberal political economy.

## References

- Best, G. D. 2005. "Introduction." In *The Good Society*, by W. Lippmann, xxiii–xl. New Brunswick: Transaction Publishers.
- Boettke, P. J. 2018a. "Economics and Public Administration." *Southern Economic Journal* 84 (4): 938–59.
- Boettke, P. J. 2018b. *F. A. Hayek: Economics, Political Economy and Social Philosophy*. London: Palgrave Macmillan.
- Boettke, P. J. and R. A. Candela. 2017a. "Price Theory as Prophylactic Against Popular Fallacies." *Journal of Institutional Economics* 13 (3): 725–52.
- Boettke, P. J. and R. A. Candela. 2017b. "The Liberty of Progress: Increasing Returns, Institutions, and Entrepreneurship." *Social Philosophy and Policy* 34 (2): 136–63.
- Boettke, P. J. and R. A. Candela. 2020a. "The Austrian School of Economics: A View from London." *Review of Austrian Economics* 33 (1–2): 69–85.
- Boettke, P. J. and R. A. Candela. 2020b. "Stigler on the Science of Economics: A Tale of Two Knights." In *George Stigler: Enigmatic Price Theorist of the Twentieth Century*, edited by C. Freedman, 721–53. London: Palgrave Macmillan.
- Boettke, P. J. and K. Vaughn. 2002. "Knight on Capital and the Problem of Socialism." *History of Political Economy* 34 (1): 155–76.
- Bowen, I. 1938. "'The Good Society' by Walter Lippmann." *Economic Journal* 48 (192): 711–3.
- Hayek, F. A. 1933 [1929]. *Monetary Theory and the Trade Cycle*. London: Jonathan Cape.
- Hayek, F. A. 1931. *Prices and Production*. London: George Routledge & Sons.
- Hayek, F. A. 1933. "The Trend of Economic Thinking." *Economica* 40: 127–37.
- Hayek, F. A. (Ed.) 1935. *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism*. London: George Routledge & Sons.
- Hayek, F. A. 1937. "Economics and Knowledge." *Economica* 4 (13): 33–54.
- Hayek, F. A. 1939. *Profits, Interest and Investment. And Other Essays on the Theory on Industrial Fluctuations*. London: Routledge & Kegan Paul.
- Hayek, F. A. 1944. *The Road to Serfdom*. Chicago: University of Chicago Press.
- Hayek, F. A. 1994 [1956]. "Preface to the 1956 Paperback Edition." Reprinted in *The Road to Serfdom, 50<sup>th</sup> Anniversary Edition*, xxvii–xliv. Chicago: University of Chicago Press.
- Hayek, F. A. 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.
- Irwin, D. 2020. "Adam Smith's 'Tolerable Administration of Justice' and the Wealth of Nations." *Scottish Journal of Political Economy* 67 (3): 231–47.
- Keynes, J. M. 1978 [1926]. "The End of Laissez-Faire." In *The Collected Writings of John Maynard Keynes*, Vol. 9: *Essays in Persuasion*, edited by E. Johnson and D. Moggridge, 272–94. Cambridge: Cambridge University Press.

- Keynes, J. M. 1936. *The General Theory of Employment, Interest and Money*. London: Macmillan.
- Kirzner, I. M. 1988. "The Economic Calculation Debate: Lessons for Austrians." *Review of Austrian Economics* 2 (1): 1–18.
- Kirzner, I. M. 2017. "The Entrepreneurial Market Process—An Exposition." *Southern Economic Journal* 83 (4): 855–68.
- Knight, F. H. 1933 [1921]. *Risk, Uncertainty and Profit*. London: London School of Economics and Political Science.
- Knight, F. H. 1938. "Lippmann's 'The Good Society.'" *Journal of Political Economy* 46 (6): 864–72.
- Laski, H. 1933. *Democracy in Crisis*. Chapel Hill: University of North Carolina Press.
- Lewis, J. D. 1938. "'An Inquiry into the Principles of the Good Society' by Walter Lippmann." *American Political Science Review* 32 (1): 127–8.
- Lippmann, W. 2005 [1937]. *The Good Society*. New Brunswick: Transactions Publishers.
- Machovec, F. M. 1995. *Perfect Competition and the Transformation of Economics*. New York: Routledge.
- Merriam, C. E. 1938. "The Good Society." *Political Science Quarterly* 53 (1): 129–34.
- Mises, L. 1936 [1922]. *Socialism: An Economic and Sociological Analysis*. London: Jonathan Cape.
- Mises, L. 1944. *Omnipotent Government: The Rise of the Total State and Total War*. New Haven: Yale University Press.
- Robbins, L. 1932. *An Essay on the Nature and Significance of Economic Science*. London: Macmillan.
- Robbins, L. 1934. *The Great Depression*. London: Macmillan.
- Robbins, L. 1937. *Economic Planning and International Order*. London: Macmillan.
- Robbins, L. 1939. *The Economic Causes of War*. London: Jonathan Cape.
- Robbins, L. 1952. *The Theory of Economic Policy in English Classical Political Economy*. London: Macmillan.
- Simons, H. C. 1934. *A Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy*. Chicago: University of Chicago Press.
- Simons, H. C. 1936. "Rules versus Authorities in Monetary Policy." *Journal of Political Economy* 44 (1): 1–30.
- Simons, H. C. 1983. *Simons' Syllabus*. Fairfax: Center for Study of Public Choice.
- Soule, G. 1938. "'The Good Society' by Walter Lippmann." *Science and Society* 2 (2): 260–2.
- Stigler, G. J. 1957. "Perfect Competition, Historically Contemplated." *Journal of Political Economy* 65 (1): 1–17.
- Viner, J. 1931. "Cost Curves and Supply Curves." *Zeitschrift für Nationalökonomie* 3 (1): 23–46.

- Viner, J. 2013. *Lectures in Economics 301*, edited by D. A. Erwin and S. G. Medema. New Brunswick: Transaction Publishers.
- Wagner, R. E. 2010. *Mind, Society and Human Action: Time and Knowledge in a Theory of Social Economy*. New York: Routledge.
- Wicksteed, P. H. 1933 [1910]. *The Common Sense of Political Economy*. London: Routledge & Kegan Paul.