

LIST VS. VON HAYEK

Free-Trade Monetarism Is the Road to Serfdom

by Andrea Andromidas

Sept. 4—Both in Europe and the United States, the Libertarian prescriptions of the “Vienna School” of Friedrich von Hayek et al. are gaining currency, as the global economy spirals deeper into the abyss. In Europe, more than a few misguided critics of the euro system look to that ultra-free-trade ideology as a solution to the crisis. In the United States, the right-wing drift of the Republican Party and the Tea Party movement is of a similar nature. There is a marked trend among American college students who are understandably disaffected with the government, its handling of the economic crisis, and its surveillance of its own citizens, to climb on the von Hayekian bandwagon: “All government is bad. Let the market decide.”

There are plenty of reasons to declare these ideas a failure and to bury them once and for all. The ideology of free trade was refuted already by Gottfried Leibniz and Jean-Baptiste Colbert in the 17th Century, Alexander Hamilton¹ in the 18th Cen-



Friedrich List, portrait by Caroline Hövemeyer (1839). List wrote of the free trader: “He imports poisons just as he imports medicines. He enervates entire nations with opium and distilled spirits . . . it means nothing to him, as long as it improves his balance sheet.”

tury, and Friedrich List and Henry Carey (among others) in the 19th Century. That ideology was a devastating failure in the late 20th Century under the slogan “deregulation,” wherever it was practiced—a failure that led, in the first decade of the 21st Century, to the current breakdown crisis of massive proportions. The revival of the free-trade doctrine today not only threatens the freedom of the Western world, but has brought it to the brink of a fascist financial dictatorship.

We shall contrast here the ideas of List and von Hayek in particular, which highlight’s List’s American System alternative to the assorted bankrupt dogmas of Communism, Keynesianism, and free-trade Liberalism.

List and the American System of Political Economy

Friedrich List (1789-1846) was born in Reutlingen, Württemberg, in what was not yet a united Germany. As a young economics professor in the aftermath of the Congress of Vienna (1815), he worked for unity and protective tariffs among the tiny, feudal-ruled

1. See, for example, Nancy Spannaus, “A Matter of Principle: Alexander Hamilton’s Economics Created Our Constitution,” *EIR*, Dec. 10, 2010.

German principalities.² His German Trade and Tradesmen's Union (Allgemeiner Deutscher Handels- und Gewerbeverein) aimed for a free republican constitution and national promotion of home industries. List demanded protection from the cheap English imports that were flooding the markets, fearing that the German people would end up as “drawers of water and hewers of wood for Britain.”³

Austria's Prince Metternich saw List as an intolerably dangerous “agitator,” and arranged to have him arrested and jailed, forcing him eventually (in 1824) to emigrate to America. But that led, contrary to Metternich's intention, to the most fertile collaboration with Americans such as Mathew and Henry Carey, and Henry Clay. In a speech before the Pennsylvania Society for the Promotion of Manufacture and the Mechanic Arts in 1827, List threw down the gauntlet: “I herewith declare war against the system of Adam Smith on behalf of the American System of Political Economy.” His book *Outlines on American Political Economy* was written that year. While in the United States, he opened coal mines, helped plan a canal system, designed rail transport, and proposed the cutting of a Panama Canal. He returned to Germany in 1830, becoming the American Consul to Leipzig. There he launched his program for a national railway network, becoming known as the “Father of the German Railways.” His program for the expansion of the Zollverein, or Customs Union, was implemented in 1834. He gave us one of today's best works on economics, published in 1841 as *The National System of Political Economy*, which tore apart Adam Smith's free-trade doctrine.

The founding of the Vienna School in 1871 pursued no other objective than to cause List's work to sink as quickly as possible into oblivion, so as to present anew the British free-trade doctrine as the only valid approach. List's ideas—including all that are based on them—are systematically slandered by the Vienna School as socialist, dictatorial, or proto-fascist, up to the present day. Von Hayek pilloried List as the princi-



London School of Economics

Friedrich von Hayek, Jan. 27, 1981. His feudalist vision: “We shall not rebuild civilization on a large scale. . . . On the whole there was more beauty and decency to be found in the life of the small peoples, and among the large ones there was more happiness in proportion to their avoidance of the deadly blight of centralization.”

pal author of the “German thesis” that “free trade was a policy dictated solely by, and appropriate only to, the special interests of England in the nineteenth century.”⁴

Why were List's ideas considered so dangerous, and to whom? The measures of the Prussian reformers, the increasing industrialization in Germany, and Chancellor Otto von Bismarck's connection to the Henry Carey circles in America,⁵ were a thorn in the side of the Hapsburg nobility and its British inamorato.⁶

If List today were to talk to Henry Carey, he would surely ask him: “Have people really learned nothing?” And Carey would answer honestly: “They have either learned nothing or forgotten everything, because they

2. See Anton Chaitkin, “Friedrich List and the Program for Europe Today,” *EIR*, Dec. 1, 1989; Richard Freeman and Jeffrey Steinberg, “The Legacy of Friedrich von Hayek: Fascism Didn't Die with Hitler,” *EIR*, Feb. 17, 1995; Michael Liebig, “Friedrich List and the American System of Political Economy,” *EIR*, March 20, 1998; Lawrence Freeman and Marsha L. Bowen, “The Legacy of Friedrich List: The American System's Battle Against British Free Trade,” *EIR*, Jan. 11, 2008.

3. Hans-Ulrich Wehler, *Gesellschaftsgeschichte*, vol. 2, p. 133.

4. Friedrich von Hayek, *The Road to Serfdom* (Routledge: 1944; republished 2001), p. 194.

5. See Helga Zepp-LaRouche, “The American Roots of Germany's Industrial Revolution,” *EIR*, Sept. 12, 2008.

6. Friedrich List, *Das Nationale System der Politischen Ökonomie* [*The National System of Political Economy*], Kyklos-Verlag Basel, Chapter 12.

still believe that money is the essential feature of an economy; worse, they pray to it; they have given all the power to the money elites and submissively allow themselves to be governed by them. And even worse, they look on helplessly as the real economy is destroyed around them, including education, culture, morality—all that we consider to be essential.”

List criticized Adam Smith for the free-trade maxim “Buy cheap, sell dear, no matter where, no matter how, no matter what.” List called this a dead materialism, twinned with very stupid short-sightedness. Historical examples abound where wealth that was rapidly acquired, fizzled out just as quickly.

The Real Sources of Wealth

List is concerned instead with the question: What is national economic wealth? Where does it come from? And most importantly, how one can generate it? He explains:

The causes of wealth are something totally different than wealth itself. An individual can possess wealth, i.e., exchange value, but if he does not have the power to create more valuable items than he consumes, he will become impoverished. An individual may be poor, but if he has the power to create a larger amount of valuable items than he consumes, he becomes rich.

The power to create wealth is therefore infinitely more important than wealth itself; it guarantees not only the possession and increase of what has been acquired, but also the replacement of what has been lost. This is even more the case with whole nations, that cannot live on pensions, than with private persons. Germany has been ravaged in every century by plague, by famine, or by internal and external wars, but it has always managed to save much of its productive forces, and so it returned quickly to prosperity, while the rich and powerful, but despot- and priest-ridden Spain, in full possession of domestic peace, sank ever deeper into poverty and misery. The same Sun shines upon the Spaniards, they have the same earth and land, their mines are just as rich, they are the same people as before the discovery of America and before the introduction of the Inquisition; but this people has gradually lost its productive power, so it has become poor and miserable. The North American liberation war



The “Father of the German Railroads”

has cost that nation hundreds of millions, but through the acquisition of national independence their productive power was strengthened immeasurably, so they could create much greater riches within a few years after the peace than they had ever possessed.⁷

Thus Friedrich List concerned himself with the productive power of the economy, not with transitory monetary wealth. He knew that everything depends on two key issues: first, whether it would be possible to build up a significant manufacturing sector, and second, to protect this emerging industrial power against the corrosive influence of free trade. The British free-trade strategy was to flood foreign markets with British manufactured goods in order to suppress the emergence of production capacity elsewhere. This policy had been nowhere enforced as strictly as in Britain’s American colonies, where even the production of horseshoe nails was not allowed, let alone their export into the British Empire.

Why? Because the production of goods stimulates and increases both the intellectual and the practical skills of the population, including the spirit of invention, the alacrity and organization of work processes—in short, the ability to produce wealth. The American War of Independence was about nothing less than the right to develop this capacity.

But there is another, uglier aspect of free trade, which points to its fraudulent character from the very outset: the freedom to trade in goods that can destroy entire countries, such as the opium trade. The British

7. Friedrich List, *Das Nationale System der Politischen Ökonomie* [*The National System of Political Economy*], Kyklos-Verlag Basel, Chapter 12.

Empire demanded the right to trade in opium, and enforced its demands by war.

List summarizes both aspects as follows:

The motto, '*laissez faire, laissez passer*' is ... one that sounds no less pleasant to robbers, cheaters, and thieves than to the merchant, and therefore one ought to regard this maxim with suspicion.... This perversity, to surrender the interests of manufacturing and agriculture to the unfettered demands of trade, is a natural consequence of that theory, which universally looks only at prices, never allowing for the work required to produce, and views the entire world as one single and indivisible republic of merchants. This school of thought [Adam Smith's] does not see that the merchant can achieve his purpose—obtaining profits by trade, even at the expense of agriculture and manufacturing, at the expense of the productive forces—just as easily through the independence and autonomy of nations. It's all the same to him, and it is in the nature of his business and his aspirations that he cannot give a fig about the effect that the way in which he imports or exports goods might have upon the morality, the prosperity, and the power of the nation. He imports poisons just as he imports medicines. He enervates entire nations with opium and distilled spirits. Whether he provides hundreds of thousands of jobs and livelihood through his imports and chicanery, or whether an equal number are thus brought to beggary, it means nothing to a businessman, so long as it improves his balance sheet.⁸

No sane person should have any difficulty following this argument. Since the individual can decide for himself, but not for his nation, the state would necessarily be the agency required to promote the development of all capacities for the benefit of general progress. If you understand that the nation is more than the sum of its citizens, it follows that the mission is to shape the framework of freedom so that the development of productive powers is clearly favored over the blind maximization of profit.

List writes:

8. Ibid., Chapter 21.

Anywhere, anytime, when the intelligence, morality, and activity of the citizenry have stood in the same proportion with the prosperity of the nation, the wealth, along with these characteristics, has increased or decreased; but nowhere have the industriousness and thrift, inventiveness and initiative of individuals achieved anything significant where they have not been supported by civil liberty, public institutions, and laws, by means of the state administration and foreign policy, primarily through the unity and power of the nation.⁹

List's tariff policy followed this insight.

The fact that this was correctly understood in Prussia by Chancellor von Bismarck and an extensive circle around him, who eventually saw through the fraud of the free-trade doctrine and took corresponding countermeasures, vexes the supporters of free trade to this day.

Industrialist and Bismarck advisor Wilhelm von Kardorff, first president and founder of the Central Association of German Industry, gave vent to his anger that he had been taken in by the hoax of free trade, and wrote a book about it, *Gegen den Strom (Against the Current.)*¹⁰

In May 1879, Bismarck announced the end of his free trade policy to the Reichstag, with these words:

We were, up to this point, the dumping ground for the surplus production of other countries, because of our open door policy. In my view, this wrecked the prices in Germany. It has prevented the growth of our industries and the development of our economic life. We must close this door, and erect a higher barrier. And what I now propose is that we create for German industry the same market that we up to now have benevolently allowed foreigners to exploit. If the risks of protectionism are as great as is claimed by the adherents of free trade, then France would be impoverished long ago, because they have gone with this theory since the time of Colbert.

9. Ibid., Chapter 14.

10. William of Kardorff, *Gegen den Strom. Eine Kritik der Handelspolitik des Deutschen Reichs [Against the Current. A critique of the trade policy of the German Empire]*. Berlin 1875.



Deutsches Historisches Museum Bildarchiv

Chancellor Otto von Bismarck addresses the Reichstag. “If the risks of protectionism are as great as is claimed by the adherents of free trade,” he told parliament in 1879, “then France would have been impoverished long ago, because they have gone with this theory since the time of Colbert.”

Bismarck understood that the free-trade doctrine serves not the freedom of Germany’s economy, but quite the contrary, its subjugation; and that only by applying constraints to that same economy could he restore the freedom that Germans so desperately needed for their development. This apparent paradox was the basis for the insight that all activities that produce value must be protected and encouraged at the state level, while harmful sources of profit must be minimized in the long run.

The Vienna School does not draw this distinction. It gives fraudsters, thieves, and murderers the same right to profit as honest folk. This anarchic concept of freedom, originating with Adam Smith, gave us the worst economic crises in history. This is the mindset that led to the Opium Wars of the British Empire against China, and is reflected in our century by the drive for drug legalization. Whenever calls for the deregulation of drug laws come up, representatives of the Vienna School are among the first supporters. To take one example, Chicago School economist Milton Friedman repeatedly advocated the legalization of heroin.¹¹

And anyway, what is the difference between the ef-

11. *Newsweek*, May 1, 1972, “[Phil Donahue Show](#),” April 16, 1980.

fects of the drug trade and the impact of other fraudulent transactions, such as trade in toxic financial products? What was unthinkable during the post-World War II phase of economic construction both in America and in Europe, became the dominant policy during the last two decades of the 20th Century: the legalization of fraudulent financial transactions under the name of “deregulation,” a modern name for free trade. The sudden deregulation of London’s financial market in 1986 was even called, in anticipation of the coming rush of money, the “Big Bang.” After 30 years, we are faced with the sad result of this policy, and

the real Big Bang is to be expected from the giant bubble of financial derivatives, which is estimated conservatively at \$600 trillion, and cannot be saved by anything or anyone.

From the ‘Social Market Economy’ to Monetarism

From the end of the Second World War to the collapse of the Bretton Woods system in 1971, the Vienna School, while waging a significant propaganda effort, generally was blocked from running governments. The policies in general use in the trans-Atlantic region bear the imprint of Franklin D. Roosevelt, and were directed toward the development of the real economy—e.g., France’s “indicative planning” under President Charles de Gaulle, and West Germany’s “social market economy” under Ludwig Erhard (Economics Minister 1949-63, Chancellor 1963-66).

The Vienna School came into prominence only after a period of wrenching transformations, beginning with the assassination of John F. Kennedy and followed by the abolition of the Bretton Woods system in 1971. The political climate changed fundamentally.

First, although many did not perceive it until much later, the Western nations parted company with the essential commitment to investment in science and tech-

nology. Second, with the introduction of floating exchange rates, the floodgates were opened for monetarist adventurism. One must not forget that the Club of Rome proclaimed already in the 1970s, that the world was hopelessly overpopulated, and that the industrial nations consumed too many resources and so the service sector should be expanded at the expense of industrial production.

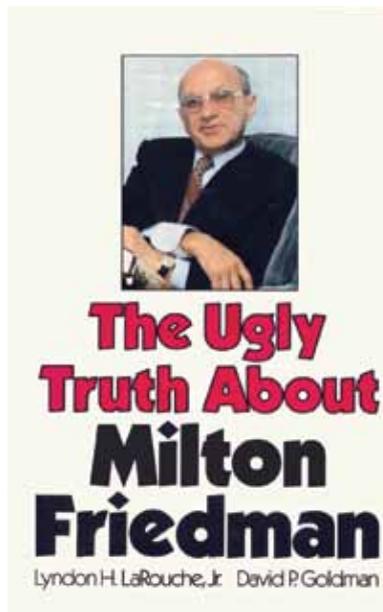
These changes were deliberate, and are well documented. The goal of fostering the general welfare was swept off the table and replaced by “population control.”¹²

The ability to produce wealth, as List understood it, increasingly disappeared as the focus of economic policy and was replaced by greed for quick money. Thus opened the era of free trade with money products of all kinds, with the casino economy of financial speculation, accompanied by the “New Age” of the rock-drug-sex culture.

Under these conditions, von Hayek and the “Chicago Boys” around Milton Friedman gained prominence. In due course, two Nobel Prizes were awarded, in 1974 to Friedrich von Hayek, and in 1976 to Milton Friedman, providing the necessary build-up for their new projects: Pinochetism in Chile, Thatcherism in the United Kingdom, and Reaganomics in the United States.

According to Adam Smith, all must be surrendered to the “invisible hand” of the market, an anarchist concept of freedom, which quite intentionally does not differentiate between thievery and productive investment. If today, after 40 years of this policy predominating in the trans-Atlantic region, one deplors the gap between the super-rich and bitterly poor, then one may thank those who follow von Hayek’s thesis that this inequality is not only *not* regrettable, but in fact, desirable and necessary.¹³

To head off the anticipated hue and cry of von Hayek followers: It’s not about redistribution and not



This book was published by the LaRouche movement in 1980. Friedman and von Hayek were among the founders of the Mont Pelerin Society.

about alms. The injustice of the free-trade doctrine is the preferential treatment given to unproductive and fraudulent transactions. To promote this at the expense of industry means to willfully destroy society, and belongs in the same category as the drug trade. This policy destroys productive wealth. It destroys the ability to produce wealth and the ability of society to further develop itself; it destroys the foundation of peace. After 40 years of practice, the deregulation of financial markets has brought Western society, which was once hailed as exemplary, to the brink of ruin. And to the brink of dictatorship.

The main points of the program were the same everywhere:

1. Neglect of the duties of the state to maintain order and fairness in the economy;

2. Deregulation of financial markets;

3. Neglect of infrastructure and social protection.

We review three examples.

The Case of Pinochet’s Chile

After the coup that brought the dictator Gen. Augusto Pinochet to power in Chile in September 1973, the conditions were favorable for the introduction of the von Hayekian program, especially as the economics minister and central bank chief were students of Milton Friedman.

The financial markets, the commodity markets, and the creditors of the country were the beneficiaries of the drastic measures that were introduced after the coup. Debt payments to foreign banks increased eightfold from 1973 to 1979, from \$200 million per year to \$1.6 billion, while production fell by almost half.

Although exports of copper provided a portion of these debt payments, most came through drastic austerity measures, particularly the elimination of food imports, reducing of government spending on health care by 30%, education by 37%, housing by 26%, and wages by 17%. Then there were the abolition of labor rights and the prohibition of trade unions. The real, physical economy could not develop, and ten years after the coup, the unemployment rate was over 30%.

12. See Henry Kissinger’s “National Security Study Memorandum 200” (NSSM 200) of 1974.

13. *Business Week*, No. 11, 1981.

Maggie Thatcher's 'Big Bang'

In the case of the United Kingdom, we have a case study of how an economic power was almost completely destroyed by the intoxication of quick money.

Prime Minister Margaret Thatcher (in office 1979-90) had been a fervent follower of Friedrich von Hayek since the age of 18. She had read with enthusiasm von Hayek's *The Road to Serfdom*, and subsequently argued that any social spending is tantamount to socialism. With one idiotic simplification goes another: that free trade is synonymous with freedom.

After taking office, her top priority was the deregulation of financial markets. From the archived exchange of letters between her and von Hayek, it is clear that she could not immediately meet his demands for drastic budget cuts, because the presumed democratic framework of the country only allowed her a certain amount of latitude. What she did, however, earned her the name of the "Iron Lady," and her initial success led many shortsighted people to regard it as a model for all of Europe.

But today, after another 20 years, the financial bubbles have not only grown immeasurably, but doubt has been cast upon her policy. Didn't Britain once have industry? The sad answer is that only a few rudimentary sectors remain, and the future may rest even less on financial bubbles than on feet of clay.

The October 1986 "Big Bang" was the name for Thatcher's purported blow for freedom, the sudden and radical deregulation of financial markets. With the abolition of capital and other competitive controls, and the exorbitant payment of bonuses to executives, the fattest financial fat cats from all over the world could romp freely in London. London became the largest financial center in the world, with spectacular growth rates of the new sector. The Big Bang allowed commercial banks and brokerages to be under one owner—a policy similar to the U.S. repeal of the Glass-Steagall law later. About 40 state-owned companies were privatized in 11 years, including Jaguar, British Telecom, British Oil, British Aerospace, British Steel, British Airways, British Petroleum, as well as water and electricity utilities and many others.

The unions were kept on a leash, and the standard of living of the average Briton deteriorated. Unemployment soared, with more than 3 million out of work



White House photo

The Iron Lady, Margaret Thatcher, was a disciple of von Hayek since the age of 18.

by 1983. By 1990, the IMF reported that Britain had the lowest growth, highest inflation rate (9.4%), and the greatest current account deficit of any of the world's seven top industrial countries. During the decade from 1979 through 1988, British gross investment for all business increased some 37.4%, but this was almost entirely in the service sector (93.1% increase), whereas investment in agriculture and manufacturing fell by 8.4%. In the manufacturing sector, there was a net real investment of less than 1% over the decade.

Nowhere is the bankruptcy of Thatcherism more stark than in its investment in state infrastructure: roads, rail, airports, and the electric power grid. Among the seven industrial nations as of 1990, only the United States ranked lower than the UK. The privatization of electricity led to huge price increases for industry, even as investment in nuclear power was curtailed.

The real estate program for socially subsidized housing encouraged rampant growth of financial paper. As soon as Thatcher came to power, the Housing Act was passed, allowing renters in socially subsidized

housing to buy their dwellings. From 1980 to 1987, loans for 1 million homes were granted, which both changed the debt structure and led to experiments with same, in parallel with the U.S. housing bubble of the 1980s and later. Bank real estate loans soared by 50% in value between August 1988 and August 1989.¹⁴

From Carter to Reagan

With President Jimmy Carter (in office 1977-81), the United States had the first administration which, with the “Global 2000” program, started to put the demands of the Club of Rome into action. Deregulation of infrastructure and the systematic reduction of investment in the real economy were initiated, to the benefit of the money economy. These policies were further pursued under the Reagan Administration (1981-89) with the ideological guidance of the Chicago Boys. During 1977, the share of trade-related foreign exchange transactions was still at 23.04 %, but by 1992 it had dropped to 2.14%. By 1987, Reaganomics had eroded the economy to the point of a crash that shook the rafters of the global financial system.

In contrast to the virtually overnight British “Big Bang,” deregulation of the U.S. financial markets was carried out over the extended period from Alan Greenspan’s assumption of office at the Federal Reserve in 1987 until his retirement in 2006, but overall the effect was no less radical. Milton Friedman forecast a dazzling future for human freedom in January 1990, with a new edition of his 1980 book *Free to Choose*. But the first serious setbacks came already in 1994, in the derivatives market. In December 1994, the richest county in the United States, Orange County in California, had to declare bankruptcy, after the financial resources of 180 cities, municipalities, and public institutions had been sunk into a mutual fund of the Wall Street firm Merrill Lynch. The looting of public institutions through gambling operations of all kinds and intentionally fraudulent methods was undertaken systematically.¹⁵



Bundesregierung/Adrian

Ludwig Erhard, shown here with his book “Prosperity for All,” in 1957, when he was West German Economics Minister. His conception was closer to List’s than to von Hayek’s.

While Ronald Reagan accelerated the financial economy, he vetoed major investments in water and road projects during the last two years of his term. Twenty years later, there is not much left of industrial and productive jobs, and we’re watching, in the example of Detroit, the breakdown of urban culture in a former major industrialized nation. This shows the murderous consequences of the free trade doctrine and deregulation with such clarity, that no sane person in good conscience could advocate this ideology even one more day.

While Wall Street still rakes in big profits from the collapse of Detroit and 80% of claims for interest-rate swap payments continue to be paid, the pension funds of the municipal employees are scheduled to be almost completely sacrificed. For the purpose of further lining the pockets of the rich, the majority of the population is altogether unnecessary; there is no need for either their creative skills, their education, their health care or their aspirations for the future. Wall Street is prepared to sacrifice them and even to walk over their dead bodies. Three quarters of all Detroit’s children leave the public schools without a diploma, a third of the population lives on government assistance, drug trafficking and crimes of all kinds are spreading, the fire and police departments no longer make much of an effort because of inadequate equipment for their tasks, and of formerly 2 million citizens, there are only 700,000 remaining. And Detroit is just the tip of the

14. See William Engdahl, “The Failed Economics of Thatcherism,” *EIR*, May 25, 1990 and June 8, 1990.

15. The Financial Crisis Inquiry Report. January 2011.

iceberg; in many other cities, it does not look much better.

Erhard and the ‘Social Market Economy’

In the post-war period in Germany, Ludwig Erhard’s “social market economy” was the concept that defined the country’s famous “economic miracle.”¹⁶ Von Hayek made no secret of his hatred for the concept, and his belief that he who does not survive the competition of free trade should just quietly perish. In an interview in 1981 to the German weekly *Wirtschaftswoche*, he said:

As a result of my long preoccupation with the destructive consequences that accompany the promotion of so-called social justice to assuage our sense of morality, I may be excessively allergic to the term. But I am of the firm conviction that the greatest service I can render to my fellow man, is to cause writers, journalists and speakers to be ashamed to ever use that term again. This ill-fated idea of so-called social justice asserts that the remuneration of the individual should not depend on what he is actually contributing to the GDP, but on what he deserves.¹⁷

He who has fallen into the error that money is wealth, has very little regard for people. In the same interview, von Hayek said on the population question:

You see, over the next 20 years, the world population is expected to double again. For a world that is founded on egalitarian ideas, the problem of overpopulation is unsolvable. If we guarantee that everyone who is born will be supported, we will soon no longer be able to fulfill that promise. There is only one brake for overpopulation, namely that the only ones who may survive and procreate are those who can support themselves.

What a contrast to Erhard!

Nothing was and is more detrimental for the study of economics, particularly in Germany, than to allow

16. The concept includes elements of a free-market economy (private property, free formation of prices, free foreign trade, etc.), but in which the state plays an active regulatory role and is responsible for a social security system that includes pension insurance, universal health care, and unemployment insurance. The result of the policy was that after the devastation of the war, reconstruction proceeded rapidly and the purchasing power of wages increased by 73% from 1950 to 1960.

17. *Business Week*, No. 11, 1981.

Erhard and the Vienna School to be lumped together.

Although a member of the Mont Pelerin Society, founded by von Hayek in 1947, that alone does not justify the attempt to place Erhard’s economic policies in the von Hayek camp. Von Hayek could never warm to Erhard’s book title, *Prosperity for All*, or appreciate the concept of a “social market economy,” writing: “The truth is only that a social market economy is no market economy, a social constitutional state is no constitutional state, a social conscience is no conscience, social justice is no justice—and I fear also, social democracy is no democracy.”¹⁸

And Erhard, given the consequences of deregulation that we see today, would spin in his grave and say: “Gentlemen, what you have done here, is quite the opposite of the social market economy.”

From Erhard’s main work, *Prosperity for All*, we learn that he operated on the assumption that there was a “fundamental difference between the social market economy and an old-style liberal economy.” From the few passages I would like to quote from *Prosperity for All*, it is clear that Erhard was far closer to Friedrich List’s concept than to von Hayek’s, in his belief that the ability to produce wealth is more important than the wealth itself.

The most important difference, though, is that Erhard always stood on the side of the general welfare, in stark contrast to the Vienna School:

The term *social market economy* today has attained universal validity, and not just in Germany. Even the opponents of my economic policy no longer seek to obstruct this formulation. But an economic policy may only be called *social* if it can generate *economic progress*, the higher performance yields and rising productivity for *the consumer*¹⁹ [emphasis in original].

Across the entire spectrum of different economic climates, human diligence (the productivity of all who take part in the economic process, as well as the urge and the compulsion to continually improve our productive apparatus) obtains its economic meaning and social content through the dedication to an ever *better* and

18. Friedrich von Hayek, “Wissenschaft und Sozialismus,” in: *Gesammelte Schriften in deutscher Sprach*, Vol. 7 (Mohr Siebeck, 2004).

19. Ludwig Erhard, *Wohlstand für alle (Prosperity for All)*, Chapter 7.



Bundesbildstelle

The “Economic Miracle” rebuilt West Germany from total devastation right after the war (shown here in Berlin in 1946). On the right is Chancellor Erhard (center), riding in a bucket used for hoisting coal at the Friedrich der Grosse mine in North-Rhine Westphalia (the governor of the state, Franz Meyers, is on the right).



Bundesregierung/Müller

When his concept of prosperity came under attack at the end of the 1950s, Erhard defended himself with the following words:

No objection will keep me from believing that *poverty* is the *surest means* of letting people waste away in the small material worries of everyday life. Perhaps geniuses may rise above such tribulations; but in general, people will become ever less free due to material worries, and remain imprisoned by material thoughts and habits. We can therefore carry on the process of increasing and distributing prosperity with patience and confidence, because what today occasionally expresses itself as an abuse, also carries the seed of healing. Let us not be so *cruel* as to suppose that *virtue could arise only out of necessity*. It is much more important to prove ourselves worthy of the happiness and blessing of successful and peaceful work. For a

freer life to be led for all the people. We do not need Egyptian pyramids as an end in themselves, no; every new machine, every startup power plant, any means of boosting performance serves, in the final consequence, the enrichment of the human existence of all people living and creating in the domain of the social market economy. I will never become tired of ensuring that the fruits of economic progress will benefit an ever-wider stratum of the people, and preferably, ultimately, *all* of them²⁰ [emphasis in original].

political economist like me, it is a *diabolical impertinence* to want to demand of a man, for the sake of a misunderstood ethical principle, that he should avoid overcoming poverty²¹ [emphasis in original].

This is the policy framework and mindset that we have to fight to regain today, not only in Germany, but worldwide. The alternative, the “road to serfdom” which is von Hayek’s actual legacy, is too horrible to contemplate.

Translated from German by Daniel Platt.

20. Ibid., Chapter 10.

21. Ibid., Chapter 10.