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Table of contents

1. INTRODUCTION	1
2. THE HABSBURG EMPIRE AS A LIBERAL UTOPIA	3
2.1. COFFEEHOUSES, <i>KREISE</i> , AND <i>PRIVATSEMINARE</i>	5
2.2. THE EMPIRE'S POLITICAL CONDITION	7
2.3. SERVING THE STATE – AUSTRIAN LIBERALS AND BUREAUCRACY.....	9
2.4. CIVILIZATION, COLLAPSE, AND ANGST	11
3. THE ONE LIBERALISM?	12
3.1. WHY PESSIMISM?	14
3.2. LIBERAL WEAPONS AND THE ORDINARY PEOPLE	16
3.3. LIBERAL RADICALIZATION IN AUSTRIA	19
4. POLITICAL READJUSTMENT OF LIBERTY	23
4.1. WIESER'S SEARCH FOR A LIBERAL IDOL	24
4.2. A NEW LIBERALISM FOR A PESSIMISTIC ERA	29
5. LIBERAL PESSIMISM IN INTERWAR VIENNA.....	33
5.1. AN IDEOLOGICAL TURN?	34
5.2. MISES AND THE WEAK POINT OF LIBERALISM	36
5.3. SCHUMPETER'S ENTREPRENEUR AS THE SOUGHT-AFTER LIBERAL IDOL.....	41
5.4. HAYEK'S NON-ELITIST ELITISM AND THE SPONTANEOUS ORDER	46
5.5. THE DISCIPLINARY POTENCY OF MARKETS AND HAYEK'S CONSERVATIVE SHIFT	51
6. CONCLUSION.....	55
6.1 HOW DID THE PESSIMISTIC VIENNESE LIBERALISM INFLUENCE NEOLIBERALISM?.....	58
BIBLIOGRAPHY	59
APPENDIX	63

1. Introduction

„The social illusion reigns to-day upon all the heaped-up ruins of the past, and to it belongs the future. The masses have never thirsted after truth. [...] Whoever can supply them with illusions is easily their master; whoever attempts to destroy their illusions is always their victim“ (Le Bon 2010, 67).

Although neoliberalism is one of the most used terms and widely covered fields in research in the last decades, some aspects of its potential origin are still underrepresented in literature. Nevertheless, there are some commonly accepted characteristics of neoliberalism: The emphasis on free markets, deregulation, and the enforcement of property rights. Moreover, neoliberalism is understood as a theory that is opposed to all sorts of state activities, interventionism, and many of the welfare state's achievements in the decades after World War II. Another part of the neoliberal narrative is that it emerged from a confrontation of liberal ideas with the Keynesian hegemony in the 1950s and 60s. As a consequence of the stagflation crisis of the 1970s, neoliberal proposals were successfully adapted in Margret Thatcher's and Ronald Reagan's election campaigns. Their political activities, such as radical tax cuts and their fights against unions, are perceived as the start of »actually existing neoliberalism«. Moreover, it is the Chilean Pinochet Regime and its economic policies that, according to many commentators, should be considered the first implementation of neoliberal theory. (Harvey 2007 & Biebricher 2018)

In Michel Foucault's published lectures, *The Birth of Biopolitics*, the history of neoliberalism starts in 1938 at the *Colloque Walter Lippman* as an attempt to restore and readjust the liberal tradition after the failure of classical liberalism. In his depiction of neoliberalism as a specific form of governmentality, Foucault emphasized German Ordoliberalism and its influential role in the emergence of the *Bundesrepublik* after World War II. Foucault's second emphasis is on the so-called *Chicago School* and its theoretical novelties like the theory of *Human Capital* by Gary Becker. (Foucault & Senellart 2008)

However, for many observers¹, the Austrian School of Economics², and especially the works of Hayek, Mises, and Schumpeter, are an essential inspiration for and prerequisite of neoliberal

¹ See, e.g., Slobodian (2019a & 2019b)

² This thesis is not about the Austrian School of Economics strictly but about certain liberal intellectuals who were - at least for some point in time - classified as part of the school. In the first sections, I will generally refer to the members of the Austrian School because I aim to demonstrate a specific cultural and political environment. However, from section 3 onwards, I will refer to Wieser, Mises, Schumpeter, and Hayek as individual intellectuals. Hence, I do not claim that the findings of this thesis are common for all members of the Austrian school, but only for the mentioned authors.

theory. While Foucault mentions the Austrian liberals, their “state-phobia” (Foucault & Senellart 2008, 76), and their influence on “American anarcho-capitalism” (ibid., 104), it seems that he considered the Viennese liberalism rather as some sort of sideshow to the origins of neoliberalism. While there is a lot of research concerned with the works of Mises, Schumpeter, and Hayek, and their contributions to neoliberal theory, it seems to be a lack of attention to their interwar writings, the influence of Austrian history and politics on their work, and the significant impact of Vienna's society with its intellectual capacities and heterogeneity in its style of thought.

The fall of the Habsburg Monarchy and the subsequent political turmoil shaped a whole generation. It had an impact on the works of authors, artists, as well as liberal intellectuals for whom the Danube Monarchy but especially its capital Vienna was the anchor point for their academic and intellectual endeavors. No historical document describes this erratic situation more accurately than Stefan Zweig's *The World of Yesterday*. It is well-known that the benefits of the political and cultural conditions of Habsburg Austria did not necessarily enhance the living standard of most of its inhabitants. However, for the liberal bourgeoisie, the empire, but especially Vienna brought forth living conditions and individual freedom unique in the world of the late 19th century. The cultural biotope of *fin-de-siècle* Vienna enabled – at least for the privileged upper class – a life full of intellectual and cultural interaction, education, and distraction. With the fall of the monarchy, the Viennese elite adopted the pessimistic sentiment prevalent in western Europe. However, unlike in most parts of Europe, where the pessimism developed as a creeping process, for the Viennese liberal bourgeoisie, the radical upheavals at the beginning of the 20th century felt like a harsh blow. Zweig's depiction of the late 19th-century bourgeoisie's lives and their political escapism illustrates how drastic World War I and the following fall of the empire must have felt:

“The city was aroused at the elections, and we went to the libraries. The masses rose, and we wrote and discussed poetry. We did not see the fiery signs on the wall, and like King Belshazzar of old we feasted without care on the precious dishes of art, not looking anxiously into the future” (Zweig 1943, 57).

In the presented thesis, I will investigate the Viennese liberal tradition and especially its interwar generation. I claim that the erratic political situation that constituted a fundamental rupture with the amenities of the Habsburg Empire constituted a blatant pessimism amongst the Viennese liberals. This pessimism is foremost directed against the rising mass society, democratization, and thus, political and socioeconomic demands by the ordinary people. The

Viennese liberalism, in its pessimism, is best understood as a response to the decline of the Danube Monarchy and the resulting awakening of the people.

Moreover, I claim that the Viennese liberals constituted a political readjustment of liberty. While in classical liberalism, the opponent to freedom were political authorities, power, and coercion, the interwar liberals changed their target: The social realm with its urges for participation and socioeconomic interventions was established as the new antagonist of liberty.

This thesis proceeds as follows: In section 2, I present some of the crucial cultural and political characteristics of the late 19th and early 20th century Habsburg Empire that constitute the foundation of the Austrian intellectual's socialization. While I claim that for the Viennese liberals the new pessimism appeared quite abruptly, it emerged as a creeping process in the rest of Europe. Therefore, in section 3, I will investigate the developments in the liberal bourgeois sphere starting in the second half of the 19th century. In order to establish the transition to the Austrian liberal camp, in section 4, I will have a closer look at Friedrich Wieser's writings, who rather explicitly anticipated the political readjustment of liberty central to this thesis. In section 5, I will deal with the works of the interwar Austrians, especially Mises, Schumpeter, and Hayek, to investigate whether Wieser's revision of liberalism was just his own intellectual route or if he preempted and influenced the interwar generation's perception of freedom and its opponent. I chose these authors because I assume that the three of them open different perspectives on the above-stated claim of a shift in the perception of freedom. Mises and Schumpeter evolved a rather elitist view and criticism towards democracy and mass movements, while Hayek indicated an adverse view on a politicized economy and all sorts of deliberate planning early on.

2. The Habsburg empire as a liberal utopia

“How little they knew, as they muddled through in security and comfort and possessions, that life can also be tension and profusion, a continuous state of being surprised, and being lifted up from all sides; little did they think in their touching liberalism and optimism that each succeeding day that dawns outside our window can smash our life” (Zweig 1943, 31).

It might seem redundant to open an academic thesis with a cultural picture of a particular period in a specific city. However, in this case - the case of the liberals in interwar Vienna – I would argue that it is not only an appropriate starting point to illustrate and accentuate the upcoming

argument, but it is a crucial precondition for understanding and grasping the style of thought of the protagonists of this thesis. Their intellectual capacities and "prescientific analysis" (Schumpeter 1949, 350) depend to a large extent on the cultural and political conditions of the Habsburg Empire and especially its capital Vienna. In the second half of the 19th and the turn of the 20th century, Vienna was not only the capital of the Austro-Hungarian Empire but, in several aspects, the cultural capital of Europe. (Wassermann 2019, 56) It was the home to several revolutionary innovations in art, music, psychology, philosophy, architecture, and relevant for this subject, economic theory. (Dekker 2016, 28). These novelties established Vienna's position in the world and formed the - until today prevalent – reputation of Vienna as a cultural metropolis. The city "became the epicenter of European social science in the years before the Great War. The Austrian School, in its phase of fullest intellectual and institutional development, was partly responsible for this transformation" (Wassermann 2019, 91). Particularly relevant were the open-mindedness and interdisciplinary nature of intellectual life in Vienna: Although a big city, the cultural and intellectual elite was not larger than several hundred people³, all part of the Viennese *Bildungsbürgertum*. Most of them attended the same schools or were bonded by family connections and maintained their alliance for their whole life. (Dekker 2016, 29)

The main characters of the Austrian School of Economics arose precisely out of this milieu: They belonged to the Viennese *Bildungsbürgertum*, their fathers were either industrialists or belonged to the higher bureaucracy, and most of them had aristocratic titles. Moreover, they were privileged enough to attend the best schools and universities and were socialized in culturally and politically educated and influential surroundings.⁴

The environment of the Habsburg Empire had effects on the Viennese liberals throughout their whole life. With the end of the empire, they lost a key anchor point and an "object of identification" (Slobodian 2019b, 2). This loss is definitely not only relevant in a personal or emotional manner but also concerning their theoretical endeavors - the Austro-Hungarian Empire was "in some ways a model liberal regime" (Slobodian 2019b, 2). The upcoming sections deal with some of the central cultural and political characteristics of the intellectual life in the Habsburg Empire and especially in its capital Vienna.

³ The small number illustrates the elitist and unequal society of Habsburg Vienna: Although the ordinary people in Vienna's suburbs and the countryside had a relatively low living standard, the inner-city-bourgeoisie lived a cosmopolitical life with high cultural and intellectual standards and demands. (Dekker 2016, 29). Moreover, "[t]he new districts were slums: full of abominable homes with poor hygienic circumstances. Poverty and contagious diseases spread through the city" (Dekker 2016, 52).

⁴ Johnston put it in a rather negative way when he pictured the life of the young Viennese liberals: "Diese arbeitsscheuen Söhne von Parvenüs führten tatsächlich das Leben von Parasiten, schwelgten im Genuß und priesen den Individualismus" (Johnston PDF 99).

2.1. Coffeehouses, *Kreise*, and *Privatseminare*

“If one did not know someone directly, he was never more than one or two circles away” (Dekker 2016, 29f).

A crucial factor of Vienna's intellectual evolution and design is that knowledge production – superficially connected to universities – was rather a result of informal gatherings, the so-called *Kreise* and *Privatseminare*. Although some members of the Austrian School were employed at the University of Vienna (or at other universities in the Empire), the most productive intellectual initiatives of Vienna took place in private meetings. These *Kreise* and *Privatseminare* are crucially important to perceive the style of thought of the Viennese intellectuals. (Dekker 2016, 30) Theoretical conceptions were not solely developed formally, cultivated, and passed on at universities. They were a product of discussions and intellectual confrontations within relatively informal meetings. Although every *Kreis* and every *Privatseminar* had a host - which indicates at least some hierarchical setting – the intellectual interactions were far more egalitarian than in universities. The discussions were routed by ideas, creativity, and a certain amount of contest, not by academic hierarchies and boundaries. These »battles of ideas« shaped the Viennese thinkers and their assertiveness: “Combativeness and ideological conflict ultimately characterized the nature of the Viennese thought style” (Wassermann 2019, 91).

Another crucial factor was the absence of a strict limitation to a specific discipline or topic. Most *Kreise* had participants with varying backgrounds and interests. Hence, the very nature of the outcomes of such debates differed from strict disciplinary narrowing and academic restrictions. The *Kreise* and *Privatseminare* were an attraction to many national and international thinkers whose interests and political orientation were not necessarily in line with the Austrian liberals. The Viennese *Kreise* were, to some extent, "harbingers of subsequent European events, which pitted imperialists against republicans, conservatives against liberals, and liberals against socialists" (Wassermann 2019, 56f). The most interesting example is that of Bolshevik intellectual Nikolai Bukharin: Prior to World War I, he aimed at an extensive insight into "bourgeois economics" (Wassermann 2019, 55) and therefore went to Vienna. In Böhm-Bawerk's⁵ *Privatseminar* he got in contact with, e.g., Mises and Schumpeter and further their work, which he intended to use to neutralize bourgeois critique on socialism and the Bolshevik program. He "knew, that the most formidable enemy of socialism lurked in Vienna's

⁵ Eugen Böhm-Bawerk (1851-1914) was one of Mengers students and besides Friedrich Wieser part of the second generation of the Austrian School of Economics.

splendor" (Wassermann 2019, 55). This interdisciplinary aura of the Viennese intellectual culture particularly influenced the interwar generation, like Mises and Hayek. They observed that the development and advocacy of an intellectual project is not a mere mental venture formed in an ivory tower but a confrontational and belligerent undertaking that depends on rhetorical and competitive abilities. "Struggle was therefore at the heart of their respective projects. If they wanted their viewpoints heard, they had to fight" (Wassermann 2019, 67). Moreover, these debates and discussions were concerned with the »big questions« - questions about new world orders and the conflict between diverse social systems. In times of political transitions in Austria and all over Europe, the Viennese intellectuals did not just narrowly deal with their own research projects. On the contrary, they claimed a decisive role in judging and channeling the ongoing transformations - "there were no clear borders between science, society, culture and politics (they were all part of the conversation about civilization)" (Dekker 2016, 45). Another interesting aspect is that several Viennese socialist and social-democratic thinkers attended these *Kreise* and *Privatseminare*. For example, Rudolf Hilferding, Otto Neurath, Otto Bauer, as well as Ludwig von Mises, and Joseph Schumpeter attended Böhm-Bawerks *Privatseminar* in the years prior to World War I. No surprise, there were harsh intellectual confrontations over possibilities and occurrences of distinct social systems. (Wassermann 2019, 86) The Viennese liberals almost looked for these "battles of ideas from which the Austrians would never retreat or relent" (Wassermann 2019, 126). It seems apparent that Mises' project of proving the impossibility of any socialist system, which led to his famous book *Socialism: An Economic and Sociological Analysis*, was heavily inspired and encouraged by these discussions.

Another influential group gathered around Mises in the so-called *Mises Kreis*. In his premises at the Chamber of Commerce, located in a magnificent house at the Viennese *Ringstraße*, Mises invited, amongst Austrians like, e.g., Hayek, Haberler, and Morgenstern, also international liberals such as Frank Knight and Lionel Robbins. They would later - by request of Hayek - form the *Mont Pèlerin Society*. (Slobodian 2019a, 48)

These informal and somewhat elitist intellectual gatherings formed the style of thought of the Viennese liberals more than their endeavors at universities. The interdisciplinary formations substantially inspired their noticeable early interest in confrontational debates and their pursuit to secure opinion sovereignty. Moreover, it illuminates the Austrian's search for exchange and networking, or as Slobodian's definition of the early Austrian neoliberalism suggests, it was "a specific institution-building project" (Slobodian 2019a, 5).

2.2. The empire's political condition

Another central aspect of the prehistory of the liberals in interwar Vienna is concerned with their attitude towards Habsburg Empire and its decline. Although it might seem obvious that liberals are opponents of aristocratic state authorities, their conception of the Austro-Hungarian Empire was idiosyncratic. First, virtually all members of the Austrian School of Economics were at least at some point part of the bureaucracy apparatus; (more on that in section 1.3). Moreover, the Austrians perceived the state of the late Habsburg Empire in its rather liberal configuration as a superior way of governing. (Slobodian 2019a, 22f) Slobodian even argues that especially the economic arrangement of the Habsburg Empire functions as a blueprint for the neoliberal urge to build and organize supranational entities in the 20th century⁶. In his book⁷ on Schumpeter, Medearis argues that in his memos and writings during World War I, Schumpeter's affection towards the Habsburg Empire was unmissable: "Austria-Hungary's multinational monarchy [...] simply existed as a good in itself, to be defended by practical political actions" (Medearis 2013, 36).

Similar motives can be found in Mises' *Notes and Recollections* from 1978, where he sentimentally looked back on his early years in the Danube Monarchy:

"The polyglot state of the Habsburgs could have served a grand purpose. It could have provided a constitution that enabled peoples with different languages to live together harmoniously in one state" (Mises & Greaves 2013, 19).

Moreover, the Austro-Hungarian Empire "was both a silent and open partner in Mises's writings about global order before 1945" (Slobodian 2019b, 2).

Despite the theoretical interest in the Austrian's influence on today's understanding of the term neoliberalism, "the formative influence of the Habsburg Empire on their thought is surprisingly understudied. The vanished empire was a lost object of identification for Hayek and Mises" (Slobodian 2019b, 2). Therefore, a closer look at the reasons for the liberal's identification with the aristocratic government seems appropriate.

In William Johnston's *The Austrian Mind: An Intellectual and Social History, 1848-1938*, the link between the Austrian School of Economics and the Habsburg Empire is illustrated intriguingly: The rejection of all kinds of interventions in the social and economic life can be traced back to the Habsburg bureaucracy's impartial attitude. With rising conflicts fueled by

⁶ E.g., there is a vital discussion about whether the European Union is, in its conception, a neoliberal project or whether it is structured by neoliberal thought. See, e.g., Slobodian (2019a), p. 261-374

⁷ Medearis, John. (2013). *Joseph Schumpeter's Two Theories of Democracy*. Cambridge: Harvard University Press.

distinct languages, people, and ways of living, the late Habsburg Empire had to reject and abolish normative or moral guidelines to secure its power and maintenance. (Johnston 1972, 100f) Later on developed and even misused concepts like, e.g., *Leitkultur* (dominant culture), were not applicable in the multicultural environment of the Danube Monarchy. According to Johnston, the Habsburg dynasty responded with a relatively neutral mode of governing. The Austrian liberal's non-interventionist attitude seems to be influenced by the *josephinistic* bureaucracy's impartiality⁸. (Johnston 1972, 100)

Especially the new constitution of 1861, which brought along first but significant steps towards the end of an absolutistic governing by the crown gave rise to liberal hopes and accelerated an optimistic outlook. The liberal spirit in this "constitution was of great political and symbolic value, especially since it limited the influence of the Emperor and increased the power of parliament" (Dekker 2016, 55). These liberal aspirations were accompanied by a late flare of classical liberalism's optimism towards politics, but especially towards the people: The liberal spirit should captivate the masses in order for them to join the liberal pro-market movement and recognize it as the only way to prosperity and freedom. Carl Menger⁹ "hoped that the emancipated and civilized individuals would come to support the new (liberal) constitution" (Dekker 2016, 55) and accept the liberal predominance in cultural and intellectual concerns. In the second half of the 19th century, the Austrian liberals believed it was their task to motivate and lead the masses - and they were optimistic about the outcome. They knew that "[i]t was up to their class, the *Bildungsbürgertum*, to produce solutions for society. Paternalistic progressivism, a staple of the Austrian liberal tradition, best describes the elitism of the early school" (Wassermann 2019, 53).

Moreover, the multicultural and supranational arrangement of the Habsburg Empire, with its diverse linguistic and cultural composition, foreshadowed how an enlightened liberal world society should be organized. According to Mises, the Habsburg Empire in its liberal constitution was a role model of an "oecumenical society" (Mises 1951, 308) and ensured the greatest extent of freedom so far. In his magnificent depiction of Vienna at the turn of the century, *The World of Yesterday*, Stefan Zweig almost nostalgically recalled his teenage years in Habsburg Vienna:

"We could live a more cosmopolitan life and the whole world stood open to us. We could travel without a passport and without a permit wherever we pleased. No one questioned us as to our beliefs, as to our origin, race, or religion. I do not deny that we

⁸ „Nichtsdestoweniger scheint es so zu sein, daß die Nationalökonomien ihren Non-Interventionismus von der in der josephinischen Bürokratie alteingesessenen Unparteilichkeit übernommen haben“ (Johnston 1972, 100).

⁹ Carl Menger (1840-1921) was the founder of the Austrian School of Economics.

had immeasurably more individual freedom and we not only cherished it but made use of it as well” (Zweig 1943, 72).

2.3. Serving the state – Austrian liberals and bureaucracy

Although it might seem inconsistent with today’s perception of neoliberalism, most of the members of the Austrian School were, at least to some extent, part of Austria's bureaucracy or civil service. This is surprising because in today's narrative the Austrians were, in contrast to, e.g., the German ordoliberals, the most libertarian and hence quite skeptical about the efficiency of governments. This view goes back to Foucault’s published lectures, *The Birth of Biopolitics*, where he accused the Austrians of being *state-phobic* (Foucault & Senellart 2008, 113) and that they inspired *anarcho-capitalism*. (Foucault & Senellart 2008, 152) With a view on the careers of the Austrians – beginning with Menger to Mises, Schumpeter, and Hayek – it seems Foucault was not exactly right. For nearly all Viennese liberal intellectuals it is documented they held various positions in the bureaucratic apparatus, as advisors in ministries or as ministers, like Schumpeter and Böhm-Bawerk.

Menger's bond with Rudolf, Crown Prince of Austria, is one curious aspect of this intertwining of the Austrian School and politics. Menger was hired to serve as his mentor and supervisor. Although the Habsburg family’s political stance was rather conservative, young Rudolf – Franz Josef's initial heir – was far more forward-looking and open to liberal ideas. (Dekker 2016, 54) During the 1880s, Menger instructed Rudolf to write several anonymous articles for a newspaper in which he shared a rather skeptical view of conservative monarchism. He hoped for a realignment of the Austrian monarchy and called for "an enlightened leadership by the nobility that would help emancipate the masses" (Dekker 2016, 55). The motive of leaders guiding the masses to emancipation, education, and welfare is crucial for the optimistic forecast that was still partially intact in the second half of the 19th century.

Moreover, Ludwig von Mises - today’s idol for many libertarians - was actively engaged in the bureaucratic apparatus of the Austrian state too. Before World War I, Mises worked for the “*Zentralstelle für Wohnungsreform*, a group who sought to improve unsatisfactory housing conditions throughout Austria” (Mises 2009, 17). From there he went on to become an advisor for the ministry of finance and was employed at the Austrian Chamber of Commerce¹⁰, where he had already worked before World War I but only achieved great eminence after the war. In

¹⁰ The nearly twenty years younger Hayek, a student, and devotee of Mises, worked - at the suggestion of the latter - himself at the Austrian Chamber of Commerce from 1921 onwards but never was part of the bureaucracy apparatus as much as Mises. (Slobodian 2019a, 31)

his memoirs, Mises even referred to himself as "the economist of the land" (Mises 2009, 60) and the "economic conscience of postwar Austria" (ibid.). He seemed to identify heavily with this position and proudly, even a bit pretentiously, highlighted his deeds for Austria. As there was a realistic chance of a Bolshevik takeover after World War I, Mises stated that "[t]he fact that events did not lead to such a regime in Vienna was my success and mine alone" (Mises 2009, 62f). Another example is the self-assessment of his role in fighting inflation in the early 1930s:

“That the inflation went no further than to the 175 Austrian shillings (up from 139 shillings) for 100 Swiss francs and that new stabilization at this rate of exchange resulted soon thereafter was my achievement alone” (Mises 2009, 75).

Schumpeter's career was similar in this regard. Although he was employed at several universities over the course of his life, he also was engaged in active political work. The socialist intellectual Hilferding recommended Schumpeter as a member of the "German Socialization Commission, a body of experts exploring the nationalization of the coal industry" (Wassermann 2019, 99). A year later, he again was proposed for a government position: Otto Bauer, "the leader of the Social Democratic Worker's party (SDAP), recommended Schumpeter for the post of finance minister" (Wassermann 2019, 100). Not only do these political aspirations show that Schumpeter was not a *state-phobic* Austrian, but it also points to the engaging informal and somewhat interdisciplinary climate in Vienna: Two socialists recommended an outspoken liberal for political functions.

The reasoning behind this section is to show that the narrative of neoliberalism as a project opposed to every configuration of state or government potency is not accurate. In fact, the Viennese liberals were quite aware of the need for a strong state that operates according to their liberal conception and they were willing to actively contribute to such a state apparatus. Their entanglement with bureaucracy and government institutions also "deflates the self-heroizing narrative of lonely embattled intellectuals" (Slobodian 2019a, 31) and shows their influential standing in official Austria. In line with Foucault (2009), it seems valid to argue that for neoliberals it is not at all about reducing state power and government activities. Quite on the contrary, a strong state is a necessary foundation for economic activities: "[o]ne must govern for the market, rather than because of the market" (Foucault & Senellart, 2008, 121).

2.4. Civilization, collapse, and angst

“With the outbreak of World War I, the school saw its world thrown into flux and the values of the *Bildungsbürgertum* terminally undermined. In the coming years, members had to adjust to a new order neither of their choosing nor of their making” (Wassermann 2019, 92).

According to Erwin Dekker, another way of understanding the interwar liberals in Vienna is to perceive them as "students of civilization" (Dekker 2016, 2). They were driven by the goal to sustain and prolong civilization in a time it "was in decline, or even about to be destroyed" (Dekker 2016, 3). Civilization emerged evolutionary, over a long period of time, and without a rational plan¹¹. Its form depends on culture, language, and political phenomena, and its "organically grown institutions often contain a lot of knowledge, which is not always easily accessible" (Dekker 2016, 12). The Habsburg Empire and its gradual convergence with liberal expectations was clearly in line with Viennese liberal's conception of civilization. Hence, “[w]ith the outbreak of World War I, the school saw its world thrown into flux and the values of the *Bildungsbürgertum* terminally undermined” (Wassermann 2019, 92).

The irritations about change and a rather pessimistic outlook toward the upcoming world order are essential to grasp the protagonists in a twofold manner: First, they had to witness the fall of the Habsburg Empire after World War I, which was not only the »homeland« of the early generations of the Austrian School but also the form of governance the interwar generation like Mises, Hayek, and Schumpeter were socialized in. The decline of the Empire "was a great loss, one that broke up a natural unity" (Dekker 2016, 3) - it felt like an amputation. (Johnston 1972, 98) Second, after World War I and the subsequent turmoil, they never gained the optimistic liberal conception of progress again. Austria and the whole western world fell into an erratic situation where the leftovers of liberal civilization, to whom the Viennese liberals felt loyal to, were at the verge of extinction. Stefan Zweig - although still with a slight rest of confidence - indicated a similar sentiment:

“[...] I cannot completely deny the faith of my youth, that some day things will rise again—in spite of all. Even in the abyss of despair in which today, half-blinded, we grope about with distorted and broken souls, I look up again and again to those old star-patterns that shone over my childhood, and comfort myself with the inherited confidence that this collapse will appear, in days to come, as a mere interval in the eternal rhythm of the onward and onward.” (Zweig 1943, 17).

¹¹ The impossibility of understanding, let alone planning, of modern society or civilization, is a motive that will appear again in the center of Hayek's *Constitution of Liberty*.

With the fall of the empire and the end of World War I, another difficulty became relevant for the Viennese liberals: the awakening of the confident masses accompanied by the rise of the mass parties. The liberals had to realize that their affinity towards the Austro-Hungarian Empire was not shared by many. When the liberals nostalgically looked back at the empire and its culture and intellectual privileges, for the majority of Austria's inhabitants the time of political curiosity had only just started. This curiosity is linked to what Armin Nassehi refers to when he argues that modern societies are defined by the insight in their formability. Society identifies its own design as something contingent and therefore modifiable and shapeable. (Nassehi 2001, 209) However, this notion of formability is in stark contrast with the Viennese liberal's idea of civilization as a steady and evolutionary process "that we cannot fully know or understand [...], and hence we should be very careful in trying to reconstruct it" (Dekker 2016, 12). The masses' novel confidence in influencing and shaping their living conditions contrasts sharply with the liberal's conception of progress and evolution. To jeopardize the inevitable order just because of some – in the liberal perception - questionable social or moral goals contradicts central tenets of Austrian liberalism. (Johnston 1972, 100) Johnston grasped this notion of believing in the naturally and evolutionary emerged order differently. He argues that he identified a central attitude in the history of Austrian intellectuals: a tendency to resignation. (Johnston 1972, 38) This sentiment is also referred to as »therapeutical nihilism« (ibid.) and emerged in the period of the Viennese *Biedermeier*. According to Johnston, it throws some light on the Austrian liberal's fear of change and their strive for maintenance. The pursuit of a better material basis of life, more equality, and democratic codetermination would come at the expense of the well-known order, which was – according to the Viennese intellectuals - realized in the Danube Monarchy. Hence, "these men were deeply invested in the status quo. They spoke out to defend their state and their values, to maintain as much continuity with the liberal *Gründerzeit* as possible" (Wassermann 2019, 97).

3. The one liberalism?

"In its liberal idealism, the nineteenth century was honestly convinced that it was on the straight and unfailing path toward being the best of all worlds. Earlier eras, with their wars, famines, and revolts, were deprecated as times when mankind was still immature and unenlightened. But now it was merely a matter of decades until the last vestige of evil and violence would finally be conquered, and this faith in an uninterrupted and irresistible 'progress' truly had the force of a religion for that generation. One began to believe more in this 'progress' than in the Bible, and its

gospel appeared ultimate because of the daily new wonders of science and technology” (Zweig 1943, 15).

This section continues by describing the prehistory of interwar Viennese liberalism but in a different, more theoretical manner. Classical liberalism of the 18th and early 19th century was an optimistic project. It was a project of education, “deliberation and emancipation” (Dekker 2016, 87). Liberalism was confident about raising the cultural and educational desires of the ordinary people, improving their lives, and encouraging their discernment of the superiority of liberal-bourgeoise society. It was a progressive movement that tried to enhance freedom and push the political system in the direction of a “constitutional and representative government” (Landa 2010, 21). Moreover, the liberals were “undergirding a market society emancipated from antiquated burdens of feudal and absolutist protectionism, mercantilism, etc.” (ibid.). Classical liberalism's conception of people was also optimistic. Humans possess the ability to be free and rational. Although the lack of education and cultural as well as political curiosity was common with the majority of the people, the liberals were optimistic that they could be enlightened by “compulsory education and an expanded suffrage, drawing more people into the discussion of disputed questions, as ways of developing the capacity for autonomy” (Seigel 2019, 191). Hence, it only requires cultivating and stimulating pre-existing virtues and abilities. The still optimistic classical liberals were confident that the liberal program would stimulate these virtues.

Moreover, the later evolved unmissable revulsion towards the masses was not common for classical liberals. Quite on the contrary, the early liberal Benjamin Constant, for example, in his book *The Liberty of Ancients Compared with that of Moderns* referred to the ordinary people's capacities in a fairly optimistic manner: “It [the mass] is sufficiently civilized to find war a burden. Its uniform tendency is towards peace” (Constant 1819). This rather optimistic perception of the masses seems to oppose the interwar liberal's understanding. Constant was still optimistic about a peaceful cohabitation of enlightened and emancipated humans. In his conception, commerce is the institution that will naturally lead to a peaceful society:

“War and commerce are only two different means of achieving the same end, that of getting what one wants. [...] It is an attempt to conquer, by mutual agreement, what one can no longer hope to obtain through violence” (Constant 1819).¹²

¹² While I depicted Benjamin Constant as an optimistic liberal (the quotes at least indicate a pacifistic and relatively confident outlook on people), there are reasons not to do so. See, e.g., Landa *The Apprentice's Sorcerer* (2010), p. 30-43

In the early liberal optimism, violence is no longer needed to achieve certain ends. The people's adoption of the liberal and bourgeoisie arrangement will guide humanity towards freedom and prosperity. (Landa 2010, 36f) Peaceful coexistence is not only possible – the classical liberal project, in its optimistic fashion, is the solution: "Hence it follows that an age must come in which commerce replaces war. We have reached this age" (Constant 1819).

These words were written in 1819, at a time when one could only guess the dimensions of people organizing and demanding political concessions.

3.1. Why pessimism?

“Liberalism, like the sorcerer’s apprentice in the famous poem/story, called into existence forces, immensely useful at first, but which it subsequently could not control, those unruly, and uncannily multiplying mops [sic!], the modern workers, which refused to accept their role as mere tools in the production process and were gaining lives and wills of their own” (Landa 2010, 13).

In his book, *The Apprentice’s Sorcerer*, Ishay Landa investigates the well-known story of the unity of socialism and fascism – a story widely supported and distributed by the Austrian liberals¹³. Although this thesis is not concerned with the emergence of or fascism at all Landa’s argument somehow prognosticates this thesis' main claim, that is, that at the second half of the 19th century, and especially at the turn of the century, classical liberalism slightly incorporated a rather pessimistic outlook. The emergence of the mass society and mass parties posed a particular problem for the early liberals. Although universal suffrage and equality before the law were crucial elements of classical liberalism, the demands raised by the masses frightened the privileged liberal bourgeoisie. The liberal government, in its initial depiction, gains its legitimacy by equally representing all people of a nation. With this claim, the liberal forerunners could inspire and motivate the ordinary people to object to aristocracy and clergy. However, with the further growing mass society and its rising political efforts, the liberal bourgeoisie’s predominance got into difficulties: “[O]nce ‘the people’ wished to dispense with their bourgeois proxies and speak and act for themselves, demanding [...] that the suffrage be universally extended, popular representation threatened to encroach upon bourgeois prerogatives and interests” (Landa 2010, 21).

The liberal's phobia of the masses emerged out of a shift in foresight. The early liberals were confident about the possibility of educating the masses and raising their awareness and consent

¹³ See, e.g., Hayek *Road to Serfdom* (1944) and Mises *Socialism* (1951), p. 578-589

of liberal policies. When the proletarian masses joined the bourgeoisie in the revolutionary fights of 1848, the optimistic liberal ideal of emancipating the masses was still maintained. (Landa 2010, 35). The liberals were still optimistic that “workers would develop into responsible Bürger, liberal individuals with the right virtues” (Dekker 2016, 53). However, with the masses' growing calls for democratic rights and codetermination, the liberal bourgeoisie became nervous. More and more, they had to admit "that the majority of these to-be enfranchised people would not vote for the liberals" (Dekker 2016, 58). With the upcoming political emancipation and urges of the people, many liberal intellectuals started to more or less overtly claim certain restrictions of democracy and universal suffrage. They moved away from some central liberal demands and instead spoke up "against the dangers it allegedly entails" (Landa 2010, 30). The optimistic outlook toward the to-be emancipated masses that "could be elevated out of their poverty and mental backwardness" (Dekker 2016, 61) was in decline. The noble objectives of the early classical liberalism more and more decreased. Cynicism and hesitancy towards the formerly praised virtues of optimistic liberalism grew - “[t]he more ‘the masses’ rose, the more bourgeois ideologues brooded over ‘decline’ and ‘degeneration’: cultural, economic, political, and racial” (Landa 2010, 22).

According to Landa, classical liberalism reached a turning point in the late 19th century. Due to political participation, the masses could potentially question or even alter the liberal project and abolish their ideals. The liberals had “released the demons of the people” (Landa 2010, 44). The privileged liberal class had to admit that their position as the intellectual and cultural leaders of society was challenged by the claims they used themselves against absolutism and aristocracy. Classical liberalism, according to Landa, equipped the increasingly organized masses with the instruments to question or even overrule the liberal reign. The liberal venture "called into existence forces, immensely useful at first, but which it subsequently could not control” (Landa 2010, 13). The ordinary people requested the improvement of their own lives and their own socioeconomic status. They were willing to push their own interests and realized that the mere formal liberties¹⁴ that were assigned to them would not improve their material basis of existence. The masses were unwilling to accept their unsatisfactory living conditions, nor did they “accept their role as mere tools in the production process” (Landa 2010, 13).

In *The Eighteenth Brumaire of Louis Bonaparte*, Karl Marx made a similar observation concerning the repulse of liberal commitments. (Landa 2010, 37) The liberal’s optimism was challenged when they realized that they could not prevent the masses from absorbing their own methods of articulating and requesting their own demands. The liberals had to recognize that

¹⁴ With formal, I refer to Marx's conception of *double freedom*. See Marx (1971), p. 183

“all the weapons [they] had forged against feudalism turned their points against [themselves], that all the means of education [they] had produced rebelled against its own civilization, that all the gods [they] had created had fallen away from it” (Marx 1852, 32).

3.2. Liberal weapons and the ordinary people

A decision between political liberalism and economic liberalism is a well-recognized theme in literature¹⁵. In its early years, classical liberalism seemed to incorporate both strands. In the 18th and early 19th century, the combat for freedom was interpreted in a universalistic manner. It aimed at animating not only the liberal bourgeois class but also the so-called fourth estate consisting of the proletarian and dispossessed classes. The enlightened liberals could captivate the latter in order to join their battles against aristocracy and absolutism with the promise of freedom and equal civil rights. As indicated in the last section, Landa identifies a “liberal split,’ whereby economic liberalism and political liberalism began drifting apart to the point of finding themselves on opposite sides of the socioeconomic divide” (Landa 2010, 13). This *split* is a direct consequence of rising demands by the emerging mass society, such as universal suffrage and a more egalitarian economic system. This turn in the liberal conception is accompanied by the expiration of the optimism that was at the center of classical liberalism. It was the start of a pessimistic liberalism, a liberalism that was confronted with claims and demands – created by its own teachings – now applied against liberalism itself. This turn also anticipated the pessimistic outlook on civilization that gained prominence in the first half of the 20th century, “expressed in such phrases as Spengler's ‘decline of the West,’ Toynbee's ‘dwarfing of Europe,’ and Holbom's ‘political collapse of Europe’” (Klemperer 2015, 5). The political program of classical liberalism – to break the chains of irrational forms of governance, be it out of aristocratic dominance or clerical tradition – impelled and inspired the masses. However, with the politicization of the masses, the liberal undertaking “escapes from the control of ‘comfortable classes’ and animates ‘the people’” (Landa 2010, 44). Wieser argues similarly in his lectures *Recht und Macht* where he noticed that the classical liberals started to realize that the liberal constitution they called for turned against them and that a revitalized absolutistic governance may be necessary to secure freedom. (Wieser 1910, 148) It seems that this pessimistic turn is an answer to the loss of a specific form of naivety. The early liberalism's optimism seems to be a naïve fallacy to the protagonists of pessimistic liberalism. At the turn of the century, and especially with World War I, the world-historical significance of political

¹⁵ See e.g., Hardin (1999), Landa (2010), and Einaudi, Faucci & Marchionatti (2006)

events and upheavals resulted in the understanding that optimism and naivety are no longer sustainable.

For Landa and his project of investigating a possible connection between liberalism and fascism, the liberal abandonment of the masses and the attention toward illiberal forms of governance completes the *liberal split*. Economic liberalism renounced emancipating the ordinary people, dropped its optimistic cloak, and reformulated its prospect. In this conversion, Slobodian identifies the emergence of a new tenet:

“One could argue that the ‘end of the liberal era’—as the advent of a new paradigm of militarized liberalism, later to be called neoliberalism—developed precisely as a response to the growth of mass democracy” (Slobodian 2019a, 34).

This new paradigm, as Slobodian calls it, followed a necessary decision that the liberals faced. They had to decide whether they would stick to their initial project of emancipating all people, aiming at an egalitarian account of freedom and civil rights with the risk of social and economic demands, or whether they would sacrifice their universalistic approach and focus on the economic side of freedom with the honor of property rights and free trade. According to Landa, the choice was easy: “[E]conomic liberals were quite often ready and willing to throw overboard the excess baggage of liberal political institutions and ideals” (Landa 2010, 13). The goal was to secure the economic side of liberalism.

In times of emerging masses and democratic demands, the economic liberals, *militarized* by their goals to protect free trade and property rights, quite apparently turned against universal suffrage and democratic participation. Democracy was accepted only in a configuration that does not intervene in the market mechanism. Therefore, Landa argues that the pessimistic liberals were “clearly placing political liberalism in a relation of subservience to economic liberalism” (Landa 2010, 34). Moreover, the bourgeois class “had not shaken off the economic yoke of absolute monarchs, only to be taxed by the people” (Landa 2010, 28). These pessimistic liberals – and this being a step toward the main claim of the thesis – are not opposed to a powerful state or a strong government but against societally formulated demands and the masses who dare to (mis)use democratic power in order to put them into practice. The liberals were frightened by the rising political aspirations of people and surprised or even disillusioned they were not following their project. In the eyes of the liberals, universal suffrage, and all accompanying developments, could imply “successive waves of clamoring demanding masses, always threatening to push the functioning market economy off its tracks” (Slobodian 2019a, 17). These pessimistic liberals fought for the abolition of aristocratic rule because they requested more freedom. They fought for political freedom in the negative as the absence of

coercion and in the positive as the possibility to influence and shape the way a nation is governed. However, from a class perspective, classical liberalism was also a project of a certain socioeconomic class, the bourgeoisie, that fought to unleash economic chains. According to Landa, it was the “socioeconomic doctrine with which the ascending European bourgeoisie of the late 18th and early 19th century challenged the nobility” (Landa 2010, 20). The merchants and proprietors searched for a societal system that ensured their economic ambitions and protected free trade and property rights. The pessimistic sentiment was driven by the insight that participation of all humans was a threat to exactly this economic side of liberalism. After the civil revolutions, in the moment of victory and the hope for enforcement of liberal economic principles, the liberals noticed a drawback. The “bourgeois political revolution revealed itself as a centrifugal force whose waves refused to ebb according to bourgeois wishes” (Landa 2010, 37). They witnessed that their intentions led to a situation that was “far from placing the rights of property once and for all on a firm footing, in fact for the first time in history [they] made property itself questionable” (Landa 2010, 38). Because of the growing self-confident masses with their rising urges for political codetermination, but also due to the secularization of the rules of cohabitation, many liberal achievements suddenly became negotiable: “Dialectically, bourgeois rule signals the triumph of capitalism just as it harbours its moment of greatest peril” (Landa 2010, 39).

Therefore, the political side of liberalism had to be trimmed in order to preserve the economic side of liberalism. Moreover, achievements concerning economic issues moved to the center stage of the liberal endeavor. For the pessimistic liberals, a new counterpart had emerged: “After wresting the economy from the nobility, the bourgeoisie now had to defend it from ‘the masses.’” (Landa 2010, 21).

Furthermore, this pessimistic turn in liberal politics and theory influenced the liberal sentiment towards democracy. Nowadays, the two terms are often used synonymously, and it is usually assumed that democracy is a central liberal component. In classical liberalism, democracy, or at least some forms of political participation, were a major cause for mobilization. However, when the pessimistic liberals observed the *demons* they created, democratic concessions had to be monitored and, if necessary, reduced. The supposed natural connection between both ideals was scrutinized. Max Adler, a central figure in the socialist movement in interwar Vienna and presumably the first who used the term »neoliberal«, observed this discrepancy in his 1922 published book *The Marxist Conception of the State*:

“But then it is doubly necessary to make clear that between liberalism and democracy there exist deep, indeed principled, differences, which have made contemporary neo-liberals into embittered opponents of democracy” (Adler 2019, 99).

It was the kind of democracy that claimed to contest every sphere of life that scared the liberal thinkers. Democratic participation and decision-making about solely political questions was in line with theoretical convictions of the newly evolved pessimistic liberalism. Democracy starts to become undesirable if it claims to intervene in economic affairs and property rights, these "should be placed beyond the reach of political intervention" (Landa 2010, 34).

3.3. Liberal radicalization in Austria

“A remarkable shifting began to prepare itself in our old sleepy Austria. The masses, which had silently and obediently permitted the liberal middle classes to retain the leadership for decades, suddenly became restless, organized themselves and demanded their rights. And it was just in the last decade that politics broke into the calm of easy living with sharp and sudden blasts. The new century wanted a new order, a new era” (Zweig 1943, 53).

The pessimistic turn of liberalism was also apparent amongst the Austrian liberals – especially in the interwar period. In the last decades of the 19th century, when the Habsburg empire was still intact, the Austrian liberals did not fully join the pessimistic outlook that was rising in Europe. The Viennese liberals were still fairly optimistic that their economic and political program could be achieved in the Danube Monarchy. However, with the decline of the Habsburg Empire and the ideological vacuum that had occurred, the Viennese liberals expanded their political efforts against a too far-reaching layout of democratic institutions. The quite liberal economic order of the Austro-Hungarian empire was worth persevering, and the new confidence of mass society and their political representation threatened this goal. Therefore, the Viennese liberals aimed at a limitation of political power, or as Slobodian puts it, when paraphrasing Hayek: Their goal was "to ‘dethrone politics’" (Slobodian 2019a, 20). For the Viennese liberals, but especially for Hayek, the biggest problem of »modern« politics was its desire of shaping or designing societal issues. This “pretense of knowledge” (Hayek 2003) was especially dangerous when applied to economic subjects. Hence, the Austrian liberals argued for a depoliticization of the economic sphere, but also for the depoliticization of politics - if politics was concerned with shaping society according to social goals. Thus, “along with political absolutism, liberalism strove to dispose the *absoluteness of politics*” (Landa 2010, 29).

Especially Ludwig von Mises made an appearance as the defender of liberal civilization against the people's political aspirations. As the *economist of the land* at the Chamber of Commerce, he actively fought against any form of social unionization and associated pretensions toward the state. With his support, the "chamber promoted an 'antiterror law' to be used by the Austrian state against striking workers" (Wassermann 2019, 133). Mises, like most of the other Viennese liberals, was heavily opposed to labor unions and socialist or social-democratic strikes and protests. He did not shy away from supporting violent actions to delimit their influence. In 1927, Viennese workers revolted against the state authorities due to a court-decision that they perceived as unfair. Heavily armed policemen killed at least eighty-nine workers. Mises praised these gory measures because he supported a state that "was willing and able to use any means necessary to prevent workers from creating political conditions favorable to their own goals" (Slobodian 2019a, 30). So, a nowadays hailed libertarian endorsed a government action exactly because it demonstrated its strength and power. Although it might seem inconsistent, it illuminates the pessimistic liberal notion: While classical liberalism was foremost a project of increasing political freedom against state authorities, the pessimistic alteration towards the development of people reversed the liberal conception and revealed a new opponent. Max Adler identified a similar sentiment when he wrote that "liberalism is fundamentally a servant of the state" (Adler 2019, 101). Adler based his conclusion on the assessment that interwar liberalism's individualistic conception of humans lacked a positive conception of the state as a societal unity. Due to the rejection of any collective endeavor and the emphasis on individualized and atomized humans, the legitimacy of the state rests on unsteady foundations:

"[T]he co-existence of these individuals is seen as nothing other than a holding-together of authority by all whose force is limited only by what each deems is a necessary limit. So once you get down to it, the liberal is really in his soul a believer in authority, supports order, and in short, is a 'preserver of the state'" (Adler 2019, 101).

Shortly after World War I and the fall of the Habsburg monarchy, the Viennese liberals actively questioned the emerging democratic sentiments and their consequences. When in the 1920s fascist politics were on the rise, especially Mises did not take an explicit stand. Quite on the contrary, he almost affirmatively commented on the fascist notion and even endorsed it. The pessimism towards mass society and democracy was at its peak when Mises publicly appreciated political authoritarianism as the last possible guardian of economic freedom. In his 1927 published book, *Liberalism*, Mises wrote:

“It cannot be denied that Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization” (Mises & Greaves 2005, 30).

Mises most likely refers quite directly to Italian Duce Benito Mussolini¹⁶, who in the interwar period attracted attention by defining the term fascism. Mussolini gained influence through undemocratic and nationalist politics and his rising dismissal of any socialist or social-democratic agenda.

However, not only did Mises pursue the Italian developments with great interest, but he was also actively engaged with the growing authoritarian politics in Austria. As a member of the Chamber of Commerce, Mises counseled Ignaz Seipel, the Christian Social Party’s leader and two-time chancellor of Austria. Seipel pushed the Austrian political scenery significantly in an authoritarian direction by satisfying antidemocratic sentiments¹⁷ and reinforcing the *Heimwehr*, the paramilitary group of the conservative party¹⁸. In the austro-fascist *Ständestaat*, Seipel was even worshiped as one of the most influential persons¹⁹. However, Mises commented on Seipel's legacy in his 1940²⁰ published memoirs that “[o]ne must not underestimate [his] credit” (Mises 2009, 65). Moreover, Mises argued that Seipel clearly was a “statesman” (ibid.) who “distinguishes himself from the demagogue in that he prefers that which is right over that which brings him acclaim” (ibid.).

Even more impressive is Mises' role as the economic advisor of the Austro-Fascist Dollfuß government. Landa argues that one could understand the rising authoritarian policies throughout Europe as a desperate answer to the rising confidence and demands by the non-bourgeois part of society. Moreover, in Austria's political division between conservative governments and the social-democratic, or Austro-Marxist popularity in so-called »Red-Vienna«, the radicalization of the conservatives, right-wings, and, as Landa argues, the economic liberals was even more intensified. The threat of a Viennese socialist or social-democratic role model for the working class led to flexible handling of the liberal's political stance. Mises supported Dollfuß by advising him on economic grounds. Dollfuß's elimination of democracy was not even due to the threat of a Bolshevik-inspired takeover, "but because it [democracy] favored social-democracy, ushering in vast social legislation and public expenditure partly at the rich taxpayer’s expense” (Landa 2010, 239). Mises’ condemnation of

¹⁶ See Mises & Greaves (2005), p. 25n

¹⁷ See, e.g., Simon (2021), p. 168 & Medearis (2013), p. 70f

¹⁸ See Klemperer (2015), 278f

¹⁹ See, e.g., the history of the *Seipel-Dollfuß Gedächtniskirche*

²⁰ That is very telling because, in 1940, the role of Austrofascism as a preliminary for the catastrophe of World War II should have been fairly obvious.

democracy and his at least temporary support of fascist politics was driven by the hope for a restoration of political liberalism's principles. Dollfuß's political and economic program gave reasons for hope:

“And indeed, it was the cessation of political liberalism under Dollfuss and the transition to the Austro-fascist strong state, that permitted the employers to reinstate a classically liberal economic policy of cuts in public spending, a balancing of the budget and support for business, under the financial advice of no other than Ludwig von Mises” (Landa 2010, 184).

Mises was more than likely neither a fascist nor did he support fascism as the right or superior way of organizing cohabitation. In his perception “[f]ascism was an emergency makeshift” (Mises & Greaves 2005, 31), and although fascism “has brought salvation for the moment, it is not of the kind which could promise continued success” (ibid.). However, it is still worth mentioning that Mises adored the idea of a strong state capable of securing the economic sphere from any democratic or socially emerged claims. In the pessimistic liberal’s view, the state should take „a more proactive role in defending the conditions of competition against the disruptive demands of voting publics, organised labour and special interests“ (Slobodian 2019b, 2).

Hayek defended the autocratic regime of Pinochet in Chile in an Interview in 1981 in a very similar way:

“At times it is necessary for a country to have, for a time, some form or other of dictatorial power. As you will understand, it is possible for a dictator to govern in a liberal way” (Hayek 1981, 4).

Although we have left interwar Vienna for a moment, it is intriguing that Hayek actually adopted Mises' line of thought. (Landa 2010, 238) The historically emerged bond of liberalism and democracy got weakened with the pessimistic turn of liberalism. Democracy is desirable only if it does not arrogate to intrude the inevitable laws of the economy. (Landa 2010, 34) Hence, it depends on the actual arrangement of democracy and whether it accepts the superordinate status of the market system. Hayek enlightened the pessimistic liberal or neoliberal view concerning the relation of liberalism and democracy when asked about his attitude towards the Chilean regime: “Personally I prefer a liberal dictator to democratic government lacking liberalism” (Hayek 1981, 4).

This section aimed to demonstrate that in the second half of the 19th century, there was a transition in the liberal understanding. The optimistic approach fell victim to a pessimism that

arose from the condemnation of the rising mass society and its political and social demands. The prominent narrative that places *state-phobia* in the center of liberalism has to be questioned. (Foucault & Senellart 2008, 113) With the masses' urge for co-determination, the liberals started to perceive them as a threat to freedom. While this notion gradually emerged in the late 19th century, I will argue in the following sections that a pessimistic liberalism as a response to the increasing social demands is best understood in interwar *Vienna*.

4. Political readjustment of liberty

In classical liberalism, the threat to freedom or the target of any political action is the authoritarian government, mostly directed by aristocratic and clerical men. In the late 19th century, or rather at the turn of the 20th century, there seemed to be a shift in the conception of the opposition to freedom. It was not the state or political authority per se, but the social realm or social groups that became the new opponent to freedom. In particular, their tendency to occupy the state for their own moral and social purposes made the ordinary people an enemy of liberals. I claim that this shift is especially apparent in the political notion of the liberal intellectuals in interwar Vienna. The previous sections illuminated the cultural, intellectual, and political history that was fundamental to this adjustment. On the one hand, it is the cultural background of the Viennese liberals, whose worldview was significantly shaped by their socialization and intellectual origins in the late Habsburg Empire. Their affection towards a strong state, independent from short-dated and delusive demands by the more and more confident mass society, is based on their integration in the enormous bureaucratic apparatus of the empire and their valuation of its liberal opportunities – especially concerning the economic sphere. On the other hand, in the late 19th century, the European liberal tradition was in flux; the bond of the liberal bourgeoisie and the masses during the struggles of the civil revolutions fell apart.

As demonstrated in the previous section, the liberals were confronted with their own weapons. The weapons of political participation that were used to overthrow the aristocratic reign were utilized by the masses to obtain democratic rights and social equality. The early liberal's optimism vanished, and the neo-pessimistic liberals had withdrawn to the economic part of liberalism in order to at least secure the continuation of free trade and property rights. Although Landa observed this pessimism in the second half of the 19th century as a creeping process, it seems that this development alternately affected the Viennese intellectuals. The optimistic liberal hope for an enlightened society, directed by liberal intellectuals with the approval of a

relatively progressive aristocratic regime, sustained longer than in other countries. Therefore, when the Empire fell in the struggles of World War I, the Viennese liberals, whose desperate attempt to maintain their positive attitude toward the masses, collapsed and radically transformed into an increasingly blatant pessimism. The special case of Vienna led to Dekker's assumption that liberal pessimism "is best understood in its interwar context, in which the Viennese liberals felt that civilization they cherished was coming to an end" (Dekker 2016, 89). The Viennese liberal intellectuals strongly opposed the social claims that filled the power vacuum after World War I. This pessimism arguably arose from the fact that the coalition of liberal intellectuals and the servile aristocracy surrendered the reign of political power. Moreover, the Viennese pessimism was driven by the grief and disbelief about the Habsburg Empire's decline. It was a loss "that broke up a natural unity (Dekker 2016, 3).

In the following sections, I will examine the Austrian liberal's theoretical work. I will start with the writings of Friedrich Wieser, who rather explicitly presented a readjustment of liberty and a new opponent to freedom.

4.1. Wieser's search for a liberal idol

Besides Eugen Böhm-Bawerk, Wieser was one of the most prominent figures of the school's second generation and one of Schumpeter's intellectual father figures. (Wasserman 2019, 74) Together with Böhm-Bawerk, he refined Menger's subjectivistic theory and prepared the foundation for what will later be called the Austrian School of Economics. Especially Wieser's contribution as the one who "introduced the term *Grenznutzen* (marginal utility) to the economic lexicon" (Wasserman 2019, 40) should not be underestimated. Moreover, Wieser was celebrated for his contribution to the clarification and simplification of Menger's subjectivist account: "His definition of marginal utility was remarkable in its simplicity" (Wasserman 2019, 30). Both Wieser and Böhm-Bawerk elevated the Austrian subjectivistic approach to economics onto an internationally recognized level and increased its significance in the academic world. (Wassermann 2019, 38) Wieser, like most of the other Viennese liberals, was part of the bureaucratic system of the Habsburg Monarchy and temporarily even served as minister of commerce. (Mises & Greaves 2013, 134) In contrast to Menger, who had neither written a lot about politics nor about ideological questions, Wieser and Böhm-Bawerk piloted the Austrian School of Economics' political ventures "by turning their feelings of resentment and hostility in a more productive direction – toward the critique of socialism" (Wasserman 2019, 39). The

school's reputation as intellectual combatants against any form of interventionism and socialism began with Wieser²¹ and Böhm-Bawerk. (ibid.)

In the contemporary research on the Austrian School of Economics, Wieser is usually treated ambiguously²²; his early contributions are praised as foundational for the whole school, but his later works are mostly excluded from the school's legacy. Although I do not want to challenge this assessment, I claim that especially his later works exemplify the above-mentioned pessimist turn explicitly. Moreover, his influence on Schumpeter, Mises, and Hayek²³, whose writings are central to this thesis, allows for a closer look at his work.

In his 1910 published lectures *Recht und Macht*, Wieser indicates the first adumbrations of this thesis' claim. In the last lecture of the collection, he deals with the political and parliamentary situation of the late Habsburg Empire, and in doing so, he drifted off to a somewhat nationalist argument. This is especially apparent when he argues that the German Austrians (*Deutschösterreicher*) had a much stronger influence on and contributed much more to the economic, intellectual, and cultural prosperity than any other people of the multi-ethnic Habsburg Empire. (Wieser 1910, 150f) In the 1860s, when the new constitution – praised by the liberals – allowed for more democracy, the new rights for codetermination were not universally allocated. The mostly liberal German Austrians could determine a much higher number of representatives for the parliament. Wieser was sentimental about this configuration, not only because of the German Austrian's more significant contribution to the continuation of the state but also because he feared the political participation of non-liberals, especially in times when the masses had started to request a share of political power.

Especially fascinating is Wieser's assessment of the connection between liberty and individual freedom. Due to the amalgamation of these two concepts by the German Austrian liberals and their misconception of individual freedom, they started to promote universal suffrage. Moreover, they agreed to concede a share of their parliament seats to other classes and people from different parts of the empire. (Wieser 1910, 149f) Wieser links the concepts of individual freedom and universal suffrage and argues that if the idea of individual freedom would be accurate, so must the concept of universal suffrage. However, that is not correct, Wieser concludes. (Wieser 1910, 149) Universal codetermination and political participation can be desirable and beneficial, but this depends on the historical circumstances. According to Wieser, it is not desirable when immature voting masses potentially disrupt or even overthrow the status

²¹ It should be noted that Wieser's attitude towards interventions and social-democratic or fabianistic ideas changed throughout his life. (Mises 2009, xvii)

²² See, e.g., Dekker (2016), p. 62f & Mises (2009), p. xviii & 27f

²³ In the preface of Mises' memoirs, Hayek mentioned his "revered teacher Friedrich von Wieser" (Mises 2009, xvii).

quo. Or to use Dekker's terminology: when they jeopardize civilization. (Wieser 1910, 149f) The separation of liberty and an individualistic approach to freedom seems rather unusual. For most liberals, individualism is central to their theories. In his 1926 book *The Law of Power*, Wieser indicates this distinction again when he denies the individualism of the common people:

“Individualism of the average persons - this is really a misnomer, for practically nothing individual, nothing really personal, has remained with these people“ (Wieser & Kuhn 1983, 63).

One could understand Wieser's differentiation in the light of the pessimistic turn of liberalism and the shift in the conception of freedom's negative. In Wieser's thought, the universalistic approach of classical liberalism falls victim to the above-presented angst towards the influence of the political participation of juvenile masses. Moreover, Wieser argued that universal suffrage is only applicable when the masses can be guided or even led by ruling forces. This elitist notion corresponds with the liberal's vision of governing in the Habsburg Empire when the liberals heavily navigated parts of the political work due to their positions in the bureaucratic apparatus. To quote Wasserman again, it was their conception of "[p]aternalistic progressivism" (Wasserman 2019, 53) that justified their belief in the predominant role of the liberal bourgeoisie, even in democratic institutions. In 1886, the Austrian liberal newspaper *Die Neue Freie Presse* argued very similarly:

“As long as a liberal ministry is at the helm, as long as this Bürgerministerium [sic!] is controlled by a parliament that comes from the bourgeois classes, as long as politically ripe men who are fervently devoted to the idea of liberty influence developments in Austria, the call in the desert of a politically uneducated mass will not find an echo” (as quoted in Landa 2010, 33).

Wieser's rejection of an individualistic account of freedom, and its connection to suffrage, indicates that he did not trust the masses and their use of freedom and political rights. Moreover, when most people do not have the mental capacities or political insight into the superiority of a liberal order, universal suffrage is not only a threat to liberal civilization but especially to the individual freedom of the liberal-minded bourgeoisie. Wieser did not deny his affection for individualism, but he denied that the societal and political elite should value the masses' individualism. On the one hand, most people cannot utilize and appreciate individual liberties. On the other hand, most people cannot be considered autonomous and free individuals unconditionally.

Wieser's argument indicates skepticism about the universal account of individual freedom because a certain amount of egalitarianism comes with it. If the liberals propagated individual

freedom, they would have to value every person's freedom and their choices equally. However, Wieser's pessimism towards most ordinary people's mental capacities and maturity indicates a hierarchy of freedom – only an elitist minority is proficient enough to use and handle freedom. This shift from a universalistic consideration to an elitist one is apparent in the last section of Wieser's *Recht und Macht*. He claims that at the turn of the century, there was a need for a new, and genuine idea of freedom. Wieser illustrated his thoughts by referring to different authors and their sentiments of liberty. First, he considered Friedrich Schiller and his early approach to freedom which is in line with classical liberalism and its optimistic but also naïve approach. Schiller was only concerned with freedom's external, political appearance (Wieser 1910, 152), which had to be won against political authoritarianism. Although Wieser did not elaborate on what exactly he refers to when he portrays Schiller as the classical and naïve liberal, there is one notable element in his life that describes his optimism towards the masses²⁴: Schiller nurtured and supported the emergence of the many small theaters all over Germany. The rationale behind this effort was the belief in the capacities of all humans to develop an interest in cultural and artistic work. Furthermore, his affection for the cultural education of the masses also indicates an optimistic attitude towards the possibilities for an enlightened and educated society. The title of one of Schiller's essays, *The Theatre Considered as a Moral Institution*, definitely points in this direction.

However, Wieser emphasized that this classical conception of freedom, depicted in Schiller's work, was not in vogue anymore. He contrasted Schiller's view with the view of those whom he refers to as the leading thinkers of his presence, the modern agents of liberty; Nietzsche and Tolstoy (Wieser 1910, 151) – “these three authors are seeking what it means to be free around 1900” (Dekker 2016, 60).

Wieser indicated a bipolarity in the modern account of freedom, a gap between an individual, elitist, and a universal approach to freedom. He described that none of these modern vanguards of freedom are able to dissolve the dichotomy of independence and association, the individual and the masses. (Wieser 1910, 152) However, Wieser did not assume that this dichotomy could be dissolved; instead, he accepted it as something intractable, something the modern liberal must resign to. The perception of such a duality emerged out of a disappointment of the masses and their virtues²⁵. The liberal Viennese pessimism reveals itself; “[t]he true belief in the power of morality, the power of Bildung and thus the belief in freedom for all is lost” (Dekker 2016,

²⁴ Wieser only argues that Schiller became the leading poet of the Germans because he wrote the dramas of freedom. (Wieser 1910, 152)

²⁵ „Bald verzweifeln wir am Volke ob seiner Rohheit, bald stoßen uns die heuchlerischen Fratzen ab, [...] vor allem aber scheint es uns unmöglich, über die Kluft hinwegzukommen, die die Bildung vom Proletariate trennt“ (Wieser 1910, 153).

61). It seems that Wieser did not deny the blessings of freedom per se - he did not deny that freedom is possible. He just rejects the universalistic sentiment of classical liberalism; he concedes that freedom for the many, the masses, is lost.

This is the scene when Wieser turns towards Nietzsche and Tolstoy. Wieser is quite interested in the figure of Nietzsche's Zarathustra, whom he refers to as a superhuman individual, the *Übermensch*, whose time is about to come. It appears that Wieser idolizes Zarathustra because of his disinterest in the crowd surrounding him. (Wieser 1910, 152) Zarathustra is the new pessimistic liberal idol, a confident man who seeks a new form of freedom. According to Dekker, Wieser adores Nietzsche because his writings hint at something new: The "theme is no longer that of external political freedom that the old liberals were fighting for; these modern authors are seeking an inner freedom" (Dekker 2016, 60). Wieser's consideration of Zarathustra also elucidates the distinction between liberty and individual freedom; the latter being unbearable for the moment. Zarathustra is an individualist but rejects the possibility of individual freedom for the masses. Wieser did not explicitly mention his judgment about this elitist shift - he seems torn between an affirmational and a pessimistic view. However, he acknowledged Nietzsche's comprehension of this new path of pessimistic liberalism because it seems the only remaining possibility: Freedom as an elitist endeavor in solitude. Nietzsche "understands perfectly well that this path can only be trodden by the few, a small elite endowed with the mental capacities and courage to live such a life" (Dekker 2016, 60).

In a rush of optimism, Wieser argues that only the elitist liberal, with the virtues of education and foresight, can save the ordinary people:

"He, who feels like an *Übermensch*, does not need to turn away from the masses. He could perform a superhuman task, when he raises the masses, like the prophets have always done" (as quoted in Dekker 2016, 61).

Regarding Tolstoy, Wieser advocated for a relatively uncommon perception of his contributions. He claims that he identified a significant contradiction in Tolstoy's oeuvre: a contradiction between the virtues of simplicity, the affirmation of the common people's uncultivated lives, and his own intellectual endeavor, dependent on culture and a classical notion of education. (Wieser 1910, 152) Wieser concludes that Tolstoy is unwilling to enter the common people's depths; he necessarily depends on his psychic escape and, ultimately, the opportunity for differentiation. Tolstoy's mental safe haven "is what distinguishes [him] from the people [...]; it elevates him above the common people" (Dekker 2016, 60).

There are some gleams of sentimentality towards the early optimistic and universalistic liberal spirit - Wieser does not exclude that better times may come. However, for the moment – in the early 20th century - all hopes concerning the common people's ability or will to join the liberal movement of civilization and progress seem to be resigned. (Wieser 1910, 153) What Nietzsche and Tolstoy had attempted, according to Wieser, is the formulation of an answer to the very question of individual freedom in times of pessimism and turmoil. In line with their pessimistic outlook, Wieser's lectures seem to indicate a new formula of liberty – a political readjustment of liberty.

4.2. A new liberalism for a pessimistic era

In his engagement with Nietzsche's Zarathustra and Tolstoy's contradictions, Wieser indicates a shift in the liberal's target. In classical liberalism, with its early optimism, individual freedom has to be won against state authorities. The naivety and optimism allowed for a desired, hypothetical coalition of the people against governance considered unjust, irrational, and coercive. The liberals thought that the power of their ideas and virtues would motivate all social classes to join forces. Although the combats of liberalism were not genuinely universal, the unpropertied classes became involved in the bourgeois fights for free trade and property rights covered in universal demands for freedom. In his 1926 published book, *The Law of Power*, Wieser claimed that there was a period of convergence between the liberal bourgeoisie and the ordinary people. Their interests collided due to a shared opponent, the authoritarian reign of the monarchy. It was the liberal's ideals that fueled the civil revolts and that encouraged the common people to join forces:

“In the period of liberalism the educated class benefitted from the fact that in those days it dictated public opinion. It contrived the new ideas, it had a monopoly in literature and journalism for the dissemination of these ideas, although while representing its own interests it also was, in a broader sense, the spokesman for all of the remaining people” (Wieser & Kuhn 1983, 126).

Despite the coalition of liberals and the rest of the people, Wieser still emphasizes the intellectual dominance of liberal ideals. He also retrospectively recognized that this coalition was a time-dependent exception that was urged by a *monopoly* of ideas. At the turn of the century, the liberal's hope for an extension of their intellectual and political hegemony was in decline. Wieser's notion of freedom, and especially the opponent to freedom, has changed drastically. The state or government per se lost its importance as freedom's antonym. Due to

Wieser's experiences in Habsburg Empire, he was convinced that even an aristocratic regime could potentially reign in a liberal fashion. However, individual freedom was pushed back despite liberal governance. Thus, the classical picture of a path to freedom by liberal governance has vanished. The element that changed during the last decades of the 19th century, and especially at the beginning of the 20th century, was the emergence of a mass society and its inconsistent attitude toward liberal values. When the early liberal's highest value was universal liberty, its power of attraction and capability to motivate had gone. Liberalism's virtues and ideals could not stimulate the emerging masses' political aspirations.

In *The Law of Power*, Wieser argued in a surprisingly similar manner to Landa, who identified the takeover of the political side of liberalism as a tool for equal participation and democratic codetermination by the ordinary people:

“The liberal placing the populace in the forefront had hardly an argument left against universal suffrage which threatened his political power. The liberal idea had gained an edge on the liberal interest” (Wieser & Kuhn 1983, 126).

In line with Landa, Wieser witnessed the working class's adoption of political liberalism's ideals and its reuse as a weapon directed at the liberal bourgeoisie. Liberty, defined in an economical manner, was threatened by the masses, the social groups. Their uprising was a danger to the liberals and their values. However, Wieser was self-critical enough to understand that liberalism's central claims stimulated and enabled this threat.

This threat to some of the core values of economic liberalism led to an abhorrence towards the masses and their aspirations. The optimistic liberal dream of an “oecumenical society” (Mises 1951, 308) was lost, and the pessimistic camp prevailed. Although the suspicion against the ordinary people is embedded in a more general pessimism of European intellectuals, it seems even more intense within the Austrian liberal camp. (Klemperer 2015, 5) That is due to the loss of their intellectual and cultural homeland – the Habsburg Empire – and the uncertainty concerning the political formation after World War I²⁶. Although not mentioned explicitly in his writings, Wieser indicates that the rising masses had to be blamed for these political maladies. The pessimistic liberal “intellectual now mistrusts public opinion and carps at it wherever he does not dominate it any more, and thus especially in political life” (Wieser & Kuhn 1983, 126). Nevertheless, Wieser also indicates that the issues concerning the disappointments by immature masses are partially the effect of an overestimation by liberal thinkers. The optimistic liberal believed in the capabilities of common people and their capacity

²⁶ See Polanyi (2015), p. 41-55

to gain insight into the superiority of liberal values, the virtues of free trade and property rights. However, it must have felt like a harsh blow when the common people demonstrated against their political objectives. The Viennese liberal bourgeoisie turned away from the ideals of enlightenment and emancipation. Their gloomy outlook on the future of civilization shifted their political and ideological counterpart:

“[The] middle-class circles public had turned against public opinion, so to speak. Whereas the grandfathers and occasionally the fathers in their youth were inspired by Schiller’s Marquis Posa – whose words to King Phillip, ‘Give us freedom of thought,’ touched their heart-strings – their sons read Le Bon’s castigating paper about the psychology of the masses and amuse themselves by his assertion that even intelligent people turn into fools when they are massed together” (Wieser & Kuhn 1983, 128).

The famous book by Le Bon, *The Crowd: A Study of the Popular Mind*, published in 1895, was a harsh allegation towards mass society and its consequences. In *The Law of Power*, Wieser has, to some extent, distanced himself from Le Bon's argumentation rigor.²⁷ and there definitely are differences in their approaches. For Le Bon, the masses are passive, all too seducible, and incapable of coming up with their own political views – they seem to be entirely influenceable by political leaders²⁸. Even though Wieser – and with him, most of the Austrian liberals – are threatened by the influence of socialist intellectuals on the ordinary people, Wieser does not grasp the masses as entirely passive and therefore innocent concerning illiberal political shifts. However, there undoubtedly are parallels between his and Le Bon's work. Both correspondingly deprive the masses of their capability to make rational decisions and form opinions. Moreover, opinions and choices are based on emotions, not on reasoning. In Le Bon's book, one can read that the masses "turn aside from evidence that is not to their taste, preferring to deify error, if error seduce them" (Le Bon 2010, 67). Wieser also denies the masses' ability to reason rationally when he argues that “[a]s it is true for the social decision-making, public opinion, too, for the masses is not the fruit of clear deliberation, rather it is jointly felt” (Wieser & Kuhn 1983, 131). Both quotes indicate that the masses are incapable of making a decision rationally and deliberately - their mind is reduced to emotional and irrational behavior.

What is apparent in Wieser's work is that there is a shift in the perception of liberty. Although not explicitly argued, there are obvious hints at a new formula of liberty, a formula that does not naturally include all people but depends on specific capacities. Moreover, Wieser stressed the distinction between the ordinary people and the liberal elite. Dekker argues that Wieser

²⁷ See Wieser & Kuhn (1983), p. 60f

²⁸ Needless to say, this assessment of Le Bon’s approach is definitely insufficient.

approached liberty not as a final and timeless concept but as something modifiable, which adapts to societal alterations – it "needs to be affirmed time and time again, rather than laying the groundwork once and for all" (Dekker 2016, 59). Moreover, Wieser dealt with the very question of what liberty at the beginning of a new era meant. His conclusion is pessimistic: The last remains of classical liberalism had to be defended against the ordinary people. Wieser seems to outline a rearguard action to save at least the economic side of liberalism and the *inner freedom* of the chosen few.

This thesis is about a change in liberty located in interwar Vienna. Although Wieser's *The Law of Power* is from 1926, *Recht und Macht*, the text with the most evidence for this endeavor is from 1910. I argue that it is still relevant for two reasons. First, although World War I ultimately conquered the Habsburg Empire, the Viennese liberal's pessimistic tone and gloomy expectations emerged to some extent at the turn of the century, when the masses increasingly became their nemesis. Secondly, Wieser influenced especially Schumpeter, but also Mises and Hayek²⁹, who will be central to the following sections. Wieser's *Social Economics*, one of his most relevant textbooks, turned out to be the interwar generation's holy bible – Hayek referred to it as "the only systematic treatise on general economic theory produced by the older Austrian school" (as quoted in Wasserman 2019, 85). Wieser seemed to be the link between the origins of the Austrian School and the interwar generation. Although Mises and Hayek later on slightly excluded Wieser's works – especially his later ones, when he adopted a latent nationalistic and fabianistic notion - he still anticipated the interwar liberal's pessimism and reluctance towards democracy, the masses, and the naivety of classical liberalism. (Mises Memoirs xvii)

Wieser's part in this argument is that he was the first Austrian liberal who somewhat explicitly changed his attitude towards the future development of liberalism and the Austrian, but also the western outlook on civilization. His pessimism in *Recht und Macht* preempted the soon-to-come catastrophe of the early 20th century. However, he also contributed to the evolution of the perception of liberty: He illuminated a withdrawal of liberalism's hopes and the early liberal's universalism. In a rather sentimental tone, he claimed that the remaining objective of liberalism is not to expand its domain but to secure individual freedom for a small elitist enclave of people. Although the Austrian liberals were mostly quite affirmative towards the Austrian state, suggesting that the strength of a state is not necessarily what they worried about, Wieser's total neglect of political power and authorities in his condemnation of the condition of liberty is striking. In *Recht und Macht*, he was merely concerned with a social threat to individual

²⁹ See, e.g., Cladwell (2006), p. 20

freedom – the threat of the mass of ordinary people whose call for codetermination and equality seemed to frighten Wieser the most. The faith in the power of civilization and liberal persuasion had gone – “[t]he classic liberals had fought against political oppression, but [now the liberals have to fight] against social and moral oppression” (Dekker 2016, 60). Wieser claims that the defense of individual freedom is still a fight; it is just the opponent who changed.

Moreover, the sentiment towards this fight changed as well. In early liberalism, the universalistic and prestigious pathos of the combats against the aristocratic reign inspired poets to write their finest novels and painters to come up with their most iconic paintings.³⁰ However, the pessimistic rearguard actions were accompanied by humiliating and abhorring judgments about the ordinary people. As Slobodian pointed out, it was “the advent of a new paradigm of militarized liberalism” (Slobodian 2019a, 34) that directly answered the political aspirations of the ordinary people with their denial of liberal virtues. Wieser postulated that the *Übermensch*, in his endeavor of saving liberty – at least for the few - should not be afraid of using weapons. (Wieser 1910, 154) He again referred to Nietzsche in *The Law of Power* to emphasize the relation between ordinary people and the liberal idol:

“The masses governed by herd instinct are merely the stuff from which the great man shapes his works. He needs the masses as his antithesis, his threat, his state of war, without which he cannot maintain his high position and observe the necessary distance” (Wieser & Kuhn 1983, 46).

5. Liberal pessimism in interwar Vienna

In the following chapters, I will investigate whether Wieser’s indication of a readjustment of liberty is only part of his own thinking or whether it influenced and shaped the interwar liberal’s understanding of liberty and their perception of the ordinary people. I will have a closer look at central works of Mises, Hayek, and Schumpeter. First, all three are – besides the disparities in their approaches - central figures of Viennese interwar liberalism. Secondly, all three are, to some extent, influenced by Wieser’s theoretical and political oeuvre. On the one hand, both Mises and Schumpeter joined some of Wieser’s lectures and private seminars. Hayek, on the other hand, younger than both Mises and Schumpeter, still admired Wieser’s work, especially *Social Economics*. Moreover, Mises was Hayek’s intellectual father figure, which leads to the assumption that Wieser’s ideas were passed on to Hayek.

³⁰ Just think of Delacroix’s *Liberty Leading the People*.

In the following section (5.1.) I will broadly discuss the ideologization and militarization of the Viennese interwar liberal's theoretical endeavor. (Slobodian 2019a & Reichhold 2018) In sections 5.2. & 5.3. I will elaborate on Mises' and Schumpeter's perceptions regarding the ordinary people and their impact on the liberal agenda of civilization. Both authors developed a rather manifest elitism and, to some extent, condemned the masses for their insufficient mental capacities and their calls for participation and economic equality. In the writings of both Mises and Schumpeter, one can find indications concerning the central claim of this thesis: A shift in the opponent to liberty. In the subsequent sections (5.4. & 5.5.), I will show that there are reasons to perceive Hayek's conceptions of the spontaneous order and the disciplinary forces of markets as a response to the political upheavals and the rising mass society after World War I. While Mises tried to prove the impossibility of a socially planned economy conclusively, Hayek's reasoning behind vast parts of his oeuvre³¹ seems to aim at proving the inevitability not only of the economic sphere but that of civilization as a whole. Hayek's conservatism is a rejection of the "modernist attitude" (Dekker 2016, 185), an evil fueled by the political circumstances in interwar Vienna.

In *Recht und Macht* Wieser quite obviously indicated a shift in the perception of freedom and the necessity to establish a refurbished and genuine idea of freedom at the turn of the century. In the writings of Mises, Schumpeter, and Hayek, the indications for this alteration are less explicit. Therefore, a closer look at their assessment of the ordinary people, the dangers to civilization, and the duality of the elite and the masses will clarify their continuation, advancement, and even radicalization of Wieser's early pessimism.

5.1. An ideological turn?

Mises, Schumpeter, and Hayek started their intellectual endeavors rather academically and theoretically. Their first publications were concerned with theoretical economic questions and possible advancements of the early Austrian school's theories. However, today, especially Mises and Hayek are received as quite ideological thinkers who were not afraid to take a stand on political questions.

When and especially why did this shift in their approach occur? The obvious answer is during and after World War II. Mises and Hayek started their efforts to join forces with liberal thinkers all over the world to rebuild and rehabilitate liberal ideas - most famously the Walter Lippmann Colloquy in 1938 and the founding of the Mont Pelerin Society (MPS) as a subsequent project

³¹ At least for most of his writings from the late 1920s onwards.

to unite the liberal fellowship in 1947. The decades after World War II are characterized by an intellectual confrontation of neoliberal ideas formed within the MPS and the Keynesian approach widely accepted and applied during the so-called golden years of capitalism³². Many commentators argue that the ideological tone of the neoliberal enterprise has occurred due to this intellectual combat and the public's ignorance of the neoliberal school³³. The well-known description of the neoliberals as "lonely embattled intellectuals" (Slobodian 2019a, 31) emerged in the decades after World War II when their ideas and concepts were mostly ignored by the decision-makers.

However, I argue that the ideological tone of the neoliberal venture emerged in the interwar period, especially among the Austrian liberals. Their experiences during this erratic period and, in particular, the rising urges of the ordinary people led the protagonists of this thesis to a more and more political and ideological undercurrent. As shown in section 2.1., the Viennese intellectuals did not avoid conflict – ideological confrontations were part of their intellectual genesis. With the collapse of the Habsburg empire and the following political volatility, the Viennese liberals shifted their intellectual resources from theoretical to political questions. Disillusioned by their efforts to save the relicts of the empire, Mises, Schumpeter, and Hayek more and more absorbed the pessimistic timbre of their predecessor Wieser. This shift became especially apparent in direct response to the empire's demise: Suddenly, the socialist and social democratic parties and the masses following them seized the opportunity to take part in the realignment of the political arrangement of post-war Austria. With the end of the absolutistic political claim by the Habsburg dynasty and shrunken by a lot, suddenly, the reorganization of a political framework of future Austria was contingent and negotiable. The liberal's influence on the government by their positions in the Habsburg bureaucracy had partially vanished, and the socialist parties were in a much stronger position to encourage the masses to support their cause. Although most of the Austrian liberals considered themselves as some sort of fabianists (Cladwell 2006, 18), the real possibility of a socialist transformation after World War I changed the liberal's weak affirmation of interventionist policies to a radical rejection and political demonization of such policies.

The first and probably most influential work in this regard was Mises' 1922 published *Socialism* - an attempt to provide theoretical evidence for the inferiority of any economic system without the market as an allocation mechanism. Although *Socialism* seems like a theoretical economic treatise, its rigor indicates that Mises did not only attempt to reach and influence economists

³² See, e.g., Harvey (2007), p. 9-19, Crouch (2013), p. 27-47 & Biebricher (2018), p. 87-153

³³ Although there is arguably no such thing as the *one* neoliberal school.

but to once and for all refute the advantages of socialism and its affiliates. The ideological undertone indicates a politicization and radicalization of Mises' thought. *Socialism's* reception within the Viennese liberal community shows that he was not on his own. The only theoretical confrontations with socialism and socialist thinkers prior to World War I and the unlikelihood of an actual socialist upheaval prevented a fundamental and digest position. With the end of the Danube Monarchy and the erratic and unstable political conditions after the War, the issue of socialism had a significant impact on the Viennese liberals and fueled their ideological progression. Mises was led by the observation that the attraction of socialist and interventionist ideas was enhanced by the ignorance of most people towards economic knowledge and subtle thinking. (Dekker 2016, 71) Under the veil of theoretical work, Mises endeavored to save the remaining liberal virtues and defend them against social claims. In his interwar writings on “economic theory, he no longer wrote about what it claimed, but rather about why there was some much resistance against it” (Dekker 2016, 66).

The motive of resistance against liberal ideals and their superiority – summarized by Dekker as the “revolt against civilization” (Dekker 2016, 66) - will guide the Viennese liberals for their whole life.

The pessimistic turn of interwar liberalism is most apparent in its conception of ordinary people and their mental capabilities. As mentioned above, classical liberalism was a project of emancipation, education, and rationality. Its audience was not reduced to the bourgeoisie liberal but contained and united all people under the flag of political freedom and the absence of authoritarian and irrational reign. The new, pessimistic liberalism of the early 20th century abandoned this noble objective and diminished the pool of selected beneficiaries. As indicated by Wieser, individual freedom is not achievable by all, just by the *superhuman*, who does not recede from elevating its stance at the expense of others. A recurring motive of the pessimistic turn of Viennese liberalism is the inability of common people to grasp liberal qualities. Although there were episodes of elitism in the late 19th century, at the turn of the century and the fall of the empire this sentiment was elevated to unprecedented heights. The central theme for the interwar liberals was that the rejection of liberalism by the ordinary people was not founded in liberalism itself but in the lack of the people's rationality and mental capacities.

5.2. Mises and the weak point of liberalism

“Evil consists precisely in the fact that the masses are not intellectually enabled to choose the means leading to their desired objectives” (Mises 2009, 55).

The above-cited quote by Mises rather explicitly indicates a disparagement of the ordinary people. For Mises, socialist and interventionist ideas are not desired because they could potentially fulfill the ordinary people's goals – they are desired because the masses are not "intellectually enabled to choose the means leading to their desired objectives" (Mises 2009, 55). During the Habsburg reign, the liberals could quite directly influence and shape the Austria-Hungarian economic design; the nobility - more often than not – listened. However, during the interwar period, the common people's influence on legislation changed the liberal's intellectual authority. The optimistic outlook on the masses' capacities and willingness to join the liberal endeavor vanished. The pessimistic liberals, therefore, accused the masses of the unstable political situation. Due to their inability to grasp the superiority of liberal values and their erroneous trust in interventionist policies, liberalism plunged into crisis. Instead of accepting the necessity of the liberal economic order, „the great mass of men takes another way. Dully and apathetically they succumb to everyday life; they never think beyond the moment, but become slaves of habit and the passions“ (Mises 1951, 98).

Many commentators – and even the protagonists themselves³⁴ – named the crisis of classical liberalism as the reason for the (neo)liberal gathering at the Walter Lippman Colloque. However, for the first decades of the 20th century, the liberals did not lose any of their confidence in liberalism's superiority. They still believed that only a liberal economic arrangement would bring prosperity for all. What has changed in the interwar years is not the belief in the sublimity of liberalism per se but the early liberal's optimism towards ordinary people. In *Notes and Recollections*, Mises retrospectively noticed that “[n]obody would now accept this optimism. The conflict of economic doctrines makes far greater demands on our ability to judge than did the problems faced by the Enlightenment” (Mises & Greaves 2013, 46).

The masses' repudiation must have felt like an insult. The fierce diction of Mises illustrates that notion. In his memoirs, he seemed to expound, or even defend his radicalism towards social groups and their goals. The liberal “will see things through to the end. The masses are implacable in their consistency: they would rather destroy the world than be robbed of one iota of their agenda” (Mises 2009, 100f). There is a surprising gleam of affection in Mises' reasoning: In a sense, he pities the ordinary people for their choice of political agenda. Liberalism would favor the people's lives much more than the irrational and foolish alliance with interventionism.

³⁴ See Reinhoud & Audier (2018), p. 15-27

In *Socialism*, Mises argued similarly when he accused the ordinary people of their affection towards illiberal economic interventions:

“To see the weakness of a policy which raises the consumption of the masses at the cost of existing capital wealth, and thus sacrifices the future to the present, and to recognize the nature of this policy, requires deeper insight than that vouchsafed to statesmen and politicians or to the masses who have put them into power” (Mises 1951, 458).

Mises did not believe in the masses' capacity to achieve this *deeper insight* and feared their influence on democratically elected politicians. Although Mises, as well as Hayek and Schumpeter, seemed to attack politicians for their interventionist tendency, I claim that the Viennese liberals were not worried about the strength but rather the weakness of leading politicians. Their deficiency concerning the resistance of short-term requests by the common people and the sacrifice of a strong shield against societal ingression in the economic sphere is not necessarily founded in the strength and pretense of politicians, but their weakness and obedience towards the common people. In his article *The Psychological Basis of the Opposition to Economic Theory*³⁵ (Opposition) Mises observed a similar trend within the intellectual sphere. Not only the masses but also the intellectuals ignored science when they reject the liberal economic theory as something irrevocable and natural. In the act of self-denial, the intellectual who supports socialist and interventionist policies stops leading and becomes guided by the masses' desires. (Mises 1931, 294) This reversal of the intellectual attitude of guidance and progress illuminates Mises' understanding concerning the accountability of illiberal policies. The intellectual leaders forfeited their claim to leadership and adopted the common people's reservation or even denial of liberal virtues. The outcome, argues Mises, can be viewed with dismay. (Mises 1931, 294)

Due to this self-abandonment of intellectuals and the masses' desires for convenient answers, the coalition of socialist thinkers and the ordinary people was condemned to ruin rational political considerations. In *Socialism*, it seems that Mises indicates that political ideas proposed by the socialist intellectuals are conceptualized as a direct response to the masses' emotionalism and irrationalism. Such proposals were directed by "the virtue of being so simple that the masses could understand it" (Mises 1951, 493). Mises was fairly disappointed and deflated that socialist ideas could gain such an impact on the people at all. He firmly believed that at least educated people should be able to grasp socialism's inferiority. His reasoning behind the book *Socialism* was to once and for all show that the price system is a necessary condition of progress. Mises

³⁵ Published only in German with the title *Die psychologischen Wurzeln des Widerstandes gegen die nationalökonomische Theorie* – translation from Greaves & McGee (1993), p. 318

was convinced that, at least for the upper and formed class, socialism was not more than a pipe dream. However:

“With the others, the great masses who are unable to think, the Socialist position is considered unshakable. A speaker who inflames the passions of the masses is supposed to have a better chance of success than one who appeals to their reason.” (Mises 1951, 507).

Mises' affection for strong leadership that "restored individual liberties and stayed out of the economy" (Wassermann 2019, 134) is inspired by his mistrust of the masses and their intellectual leaders. Moreover, his ambivalent attitude concerning rising fascism in interwar Europa³⁶ is best understood through Mises' angst of intransigent masses, conquering the political realm: "Fascism was a bulwark against the depredations of socialists and communists" (Wassermann 2019, 134).

Mises' ambiguous attitude towards ordinary people is also apparent in his 1944 published book *Omnipotent Government*. In the last chapter, he recalls the liberal saga and the reason for its failure. His line of thought seems like a concise summary of the recent sections of this thesis. Mises mourned the naivety and optimism of classical liberalism with its utopian conception of the ordinary people and its hope for harmony and peace, "nothing could stop the progress of enlightenment and the spread of sound thinking" (Mises 2011, 315), the early liberals believed. The optimistic liberals still believed that all people would "grasp the teachings of economics and social philosophy; they will realize that only within a free-market economy can the rightly understood (i.e., the long-run) interests of all individuals and all groups of individuals be in complete harmony" (Mises 2011, 315). According to Mises, this optimistic version of liberalism, although compelling in its early years, was doomed to end in the years after World War I. The radical change of the political and societal reality in the first decades of the 20th century does not allow for such an optimistic tenor anymore. Mises identifies the reason for the liberal crisis precisely in its utopian misunderstanding of the ordinary people's capacities to follow the liberal agenda:

“This is the weak point in the liberal plea for a free world of peaceful coöperation. The realization of the liberal plan is impossible because—at least for our time—people lack the mental ability to absorb the principles of sound economics. Most men are too dull to follow complicated chains of reasoning. Liberalism failed because the intellectual capacities of the immense majority were insufficient for the task of comprehension.” (Mises 2011, 316).

³⁶ See section 3.3.

Mises' argument indicates the above-illustrated claim of a split in liberal theory. Political liberalism without *sound* and therefore liberal economics sacrifices its key element. As the early liberalism's weapons of emancipation and participation were turned against the bourgeois class, the liberal withdrawal to the economic side was the last possible path. Especially in times of mentally incompetent masses³⁷ the liberal's concern should follow proficient elites and their will to lead society. Moreover, it is interesting that Mises adopted a rather inconspicuous part of Wieser's argument³⁸: Optimistic liberalism is "at least for our time" (ibid.) not adequate because people are mentally not mature enough to join the liberal endeavor. It seems that both Wieser and Mises did not surrender the early liberal's optimism once and for all but argue that the immaturity of the early 20th century's ordinary people banishes all hopes for the moment. In his 1931 published article *Opposition*, Mises adopted a fairly straightforward class perspective when he suggests that the bourgeois *Nationalökonomie* (classic economics) would promote the liberal bourgeoisie on the one hand in their fights against the pre-capitalistic forces (nobility, clergy, etc.) and on the other hand against the proletariat in order to convince them of the superiority of the capitalist system. (Mises 1931, 285) Again, it is the class of ordinary people that has to be convinced in order to ensure progress. As a consequence of the chagrin of people's irrationality, Mises adopted a relatively elitist attitude. The masses would not by themselves make the rational choice concerning the political arrangement of a new Austria. They would rather sacrifice long-term prosperity and peace than waive alleged short-term benefits. The inability to reason in a rational and future-orientated manner was a threat to Mises' liberal agenda:

"To see and to act in advance, to follow new ways, is always the concern only of the few, the leaders. Socialism is the economic policy of the crowd, of the masses, remote from insight into the nature of economic activity" (Mises 1951, 213).

While the masses are incapable of understanding the necessity of liberal policies and long-term arrangements, the liberal protagonists are intellectually competent enough to think ahead rationally and wisely. Mises' elitist tendency and almost authoritarian stance is a direct answer to the ordinary people's absent mental capacities and their susceptibility to short-term and irrational choices. According to Mises, "the masses do not think. But just for this reason they

³⁷ On a side note, Mises condemns the Germans because they refused to acknowledge that they lost the battles of World War I as an example of the masses' inability to think reasonably. In a scarce moment of rage, Mises wrote that "[i]f such things are possible with the Germans, how can we expect that the Hindus, the worshipers of the cow, should grasp the theories of Ricardo and of Bentham?" (Mises 2011, 316).

³⁸ See Wieser's argument in section 3.2.

follow those who do think” (Mises 1951, 508). Moreover, “[t]he intellectual guidance of humanity belongs to the very few who think for themselves” (Mises 1951, 508). While the reference to, or even the idolization of a small elite who is the driving force of progress is well known for Wieser and Schumpeter³⁹, it is less known for Mises. However, Mises also endorsed quite explicit elitism when he retrospectively evaluated the Austrian interwar perspective in 1969. First, he considers that intellectual progress is the merit of “a few men” (Mises & Greaves 2013, 133) and that it is only cherished “by a small elite” (ibid.). Moreover, he condemned the masses' hatred toward intellectual progress and its inability to accept the elite's superior standing. In particular, the Austrian people stood out in their antipathy:

„In Austria and in Vienna the elite was especially small; and the hatred of the masses and their leaders especially vitriolic“ (Mises & Greaves 2013, 133).

Mises' response to the masses' mistrust involved an increasingly authoritarian and antidemocratic sentiment. Today's well-known narrative of liberalism as the last defender of democracy and bulwark against authoritarianism in the 1920s and 1930s is questionable, at least in Mises's case. (Landa 2010) The condemnation of the ordinary people's demands, Mises' elitist response, but also his ambiguous comments on fascism support those doubts.

5.3. Schumpeter's entrepreneur as the sought-after liberal idol

While Mises did not systematically work on elitism or democracy, Schumpeter expounded some rather specific accounts on the question of democracy and the duality between the masses and the elites. Especially since the publication of *Capitalism, Socialism, and Democracy*, Schumpeter's influence on democratic theories should not be underestimated. John Medearis (2013) particularly emphasizes his impact on the Anglo-Saxon tradition. (Medearis 2013, 1) Schumpeter seems to treat democracy as "a form elite political competition" (ibid.) and perceives it as a method rather than a moral enterprise that is concerned with social ends. Medearis claims that Schumpeter tried to eliminate the conception of democracy as an emancipatory vehicle for the masses to participate or even alter the political arrangement. He instead argues that democracy, as well as all preceding forms of governance, are an elitist endeavor:

“[H]e theorized about the ways that elite groups and parties may be able to preside over a formally democratic institutional arrangement, providing some measure of

³⁹ More on Schumpeter's account in the next section.

political competition but certainly not providing opportunities for wide participation and human development on equal terms” (Medearis 2013, 3).

However, as this thesis’ time frame is the interwar period and its Viennese configuration and Schumpeter’s explicit work on elitism and democracy has started with *Capitalism, Socialism and Democracy*, which was published in 1942, I will now investigate whether and how his understanding of democracy and elitism, as well as his judgment about the masses’ political eligibilities emerged in interwar Vienna.⁴⁰

Born in a propertied family, Schumpeter studied at the University of Vienna with Wieser and was influenced early on by the Viennese liberal tradition and its protagonists. Dekker stresses the continuity between Wieser’s and Schumpeter’s political and social thought. When Wieser argues for a new conception of freedom that is only available for the chosen few, Schumpeter’s focus on the entrepreneur seems to be the secular and practical response. Civilization needs individuals who urge to direct others and explore new paths. These individuals are central to, and a requirement for progress. The masses, on the contrary, are inflexible and inert. (Dekker 2016, 61) However, Schumpeter was threatened by their political aspirations. During World War I, he made efforts to restore the political power of the Austrian aristocracy by promoting a new conservative party to uphold some of the empire’s advantages and defuse potential democratic struggles. (Medearis 2013, 19) In line with Wieser and Mises, Schumpeter’s political thinking of that time was characterized by the grief over the loss of the empire and the fear of the uprising masses and their political demands. The duality of lethargic masses that still request a share of political power is a returning motive in Schumpeter’s work and depends on his account of the entrepreneur. While Wieser and Mises complained about the masses’ aspirations and stressed the need for a political elite to repel the ordinary people from conquering political power, Schumpeter identified the entrepreneur as the chosen leader for the new liberal agenda. (Dekker 2016, 61)

Schumpeter’s glorification of the entrepreneur is a well-known theme that, for most observers, goes back to his book *Capitalism, Socialism, and Democracy*. The popularity of the associated term *creative destruction* is demonstrated by its periodical appearance in today’s media world. However, it is less known that Schumpeter’s praise of the entrepreneur started with his book *The Theory of Economic Development*, published in 1911. So just a year after the publication of Wieser’s collected lectures, Schumpeter indicates a first answer to Wieser’s search for the superhuman individual, whose modern and genuine conception of freedom casts off all the naïve universalistic assumptions of the classical liberals. Schumpeter seems to have found the

⁴⁰ For a comprehensive understanding of Schumpeter’s later works, e.g., see Medearis (2013), p. 99-214

entrepreneur as the new elitist liberal idol. While the ordinary people just repeat what they have learned, just do what others do, and never question why, the entrepreneur is the only one who is "able to set the economy in motion, to change it" (Dekker 2016, 61). Moreover, he⁴¹ is "the economic counterpart to the strong leaders whom Wieser believed to be so necessary in the political domain" (ibid.). The entrepreneurs drive for progress and restlessly strive for innovations and influence. Their mental capacities exceed the average human's. Therefore, the entrepreneur deserves society's leading position. Schumpeter argues that the entrepreneur is "[d]er Mann der Tat [who] acts on foreign ground with the same determination and the same vigor as on well-known ground. The fact, that something is not yet done, is no reason for him to hesitate. He does not feel those impediments, which otherwise determine the behavior of economic subjects'" (as quoted in Dekker 2016, 62). The entrepreneur does not shy away from new experiences and territories. He is the driving force behind progress and prosperity. In a pretty heroic manner, the entrepreneur is neither reliant on the masses' approval nor their support. He wants to enforce his goals without being hindered by the ordinary people – he is driven by "the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself" (Schumpeter & Opie 2021, 75). His conception of freedom is linked to the absence of social or moral pressure – only the leading entrepreneur is able "to act against moral standards" (Dekker 2016, 60). The entrepreneur rallies against any form of constraint; he destroys all the ancestral conditions on his path to triumph and freedom. His "characteristic task — theoretically as well as historically — consists precisely in breaking up old, and creating new, tradition" (Schumpeter & Opie 2021, 74). These properties hoist the entrepreneur to unimaginable heights and constitute his claim to leadership. Although the entrepreneur's activities mainly belong to the economic sphere, for Schumpeter, they also justify a more extensive entitlement. Hence, the entrepreneur's will to power "also extends to the moral, cultural, and social consequences of it" (Schumpeter & Opie 2021, 74).

Schumpeter's conception of the elite, the leading few, shed another light on the understanding of the Austrian School of Economics as an individualist endeavor. While Schumpeter's methodological position is clearly stated in the chapter on methodological individualism in his book *The Nature and Essence of Economic Theory* from 1908, his conceptions of democracy and elitism point in a different direction. If the elite, the chosen few, are the ones who enable progress and prosperity, the individual is not at the center of their thought anymore. Wieser's

⁴¹ See Bandhauer-Schöffmann (2002) on how the male connotation of the entrepreneur influenced gender inequality.

influence on Schumpeter is apparent in this regard: Both may adhere to methodological individualism, but their "social analysis [...] is no longer about individuals, but about a small group of individuals, the elites who empower the masses, and who are responsible for change in society" (Dekker 2016, 62). The focus on elites is a result of the frustration about the shortcomings of the ordinary people and their potential threat to the political arrangement of Austria. According to Dekker, "[i]t reflects a belief that many humans are not accurately described as autonomous, freely moving individuals" (Dekker 2016, 62). In his 1928 published article *Individualismus oder gebundene Wirtschaft*⁴², Schumpeter moaned about the emotionalism of the ordinary people, which manifests in unsubstantiated prejudices towards the entrepreneur. (Schumpeter 2013, 59 & 80) Moreover, according to Schumpeter, these prejudices against the capitalist class and calls for interventions are pointless and self-defeating because the modern economic theory proofed the advantages of a free-market order and released it from any moral considerations. (Schumpeter 2013, 62) Hence, the reason for the hostility towards economic liberalism and its protagonists, as well as the rising democratic aspirations to intervene in the economic sphere, originated in the masses' lack of understanding and ignorance. (Schumpeter 2013, 53)

Schumpeter's elitism, to some extent, pursues Wieser's distinction between liberty and individual freedom. Wieser argued that the appropriateness of a universalistic account of individual freedom depends on historical circumstances. The entrepreneur – analogous to Wieser's perception of Nietzsche's Zarathustra - does not fall victim to the naïve understanding of individual freedom for all but is only concerned with his own liberties and advancement.

Schumpeter's reflection on the ordinary people heavily influenced his attitude towards democracy. During World War I, Schumpeter endorsed a rather conservative conception of democracy. He still upheld the hope for the continuity of the Habsburg empire and tailored his democratic understanding towards an aristocratic form of governance. Schumpeter was opposed to universal suffrage because "democratization and democratic institutions [...] threatened the monarchy" (Medearis 2013, 37). While he was aware that the historical process of rising political participation for the masses could not be entirely stopped, he still hoped for a delay in the total overthrow of the old ideals of reign. Schumpeter favored a strong political engagement by the Austrian aristocracy and its liberal and conservative allies to "counteract the various dangers to the Habsburg empire through domination of public opinion, parliament, and the press" (Medearis 2013, 34). To describe the form of democracy he favored, Schumpeter

⁴² Published only in German - possible translation: *Individualism or bounded economy?*

employed the term *Tory Democracy*. (Medearis 2013, 41) He referred to and praised the form of participation applied in England because it "co-opted radical political movements into supporting a bourgeois, liberal political-economic program" (Medearis 2013, 42).

With the end of World War I and the final collapse of the Danube Monarchy, Schumpeter's hopes for a restoration of his preferred political arrangement had gone. Due to his political functions and the intellectual exchange with some of the leading Austro-Marxists like Otto Bauer and Rudolf Hilferding, Schumpeter modified his thinking about democracy. According to Medearis, Schumpeter developed a "*Transformative Conception of Democracy*" (Medearis 2013, 57) that can be understood as a direct response to, or engagement with, the form of social democracy that the strengthened Austro-Marxists established. Contrary to orthodox Marxism, the Austrian socialists deviated from the revolutionary account of Marxist orthodoxy and especially from the *third international* directed by the Bolsheviks. The Austrian approach expanded council movements and step-by-step democratization of all parts of society.

The Austro-Marxists did not reject parliamentary democracy per se but realized that the liberal political system would not allow them to accomplish their goals. They realized that parliamentary democracy "as the political expression of liberal capitalist society, could not accommodate the ambitions of the working class to have its interests represented" (Medearis 2013, 60).

Schumpeter's account of a transformative democracy is not an attempt to reflect his own ideal vision of democracy, but one that tries to grasp what democracy, and especially the extensive account of the Austro-Marxists, means at the beginning of a new political era. He admitted that the parliamentary system is not capable of representing the interests of the ordinary people; his solution, though, was not to alter participatory setups to gratify the masses' demands but to maintain as much continuity with the bourgeois and liberal configuration as possible. Schumpeter perceived these new democratic aspirations as transformative and even destructive. He perceived the vibrant accounts of participation "as a real tendency implicated in social transformation" (Medearis 2013, 4). However, the form of parliamentary democracy that Schumpeter endorsed was limited to preserving the liberal and bourgeois order. Its function was to "protect economic interests" (Medearis 2013, 60).

Nevertheless, Schumpeter witnessed that democracy, in this unique historical moment, somehow revitalized the "old phraseology of democracy" as well as "the way of thinking in the eighteenth century" (as quoted in Medearis 2013, 62). Medearis argues that while Schumpeter did not reject a formal account of parliamentary democracy, which he regarded "as a manifestation of bourgeois power" (Medearis 2013, 61f), he was threatened by the

transformative perils of democracy. Schumpeter rejected classical liberalism's notion of democracy as a tool for participation. (Medearis 2013, 5) Furthermore, he dismissed the rising masses and their “democratizing pressures” (Medearis 2013, 61f) that aim at an ambitious transformation of society and the economic sphere.

His later attempts to characterize democracy as a mere method for political competition and his focus on the entrepreneur as the proceeding elite seems to be a strategy to dispose of the ordinary people's political and social aspirations. Schumpeter disparaged them as mere “tendencies that were undermining traditional authority in the economy, society, and the state” (Medearis 2013, 69). While in the interwar era Schumpeter was interested in, but daunted by the fact that democracy could potentially alter Austria's political and economic arrangement, his theory of democracy, set out in *Capitalism, Socialism, and Democracy* can be understood as a depoliticization of participation. Moreover, it seems to be an “attempt to decouple democracy from values such as equality and participation” (Medearis 2013, 35).

Indeed, Schumpeter's account of transformative democracy includes the altering political circumstances of the interwar period. He recognized that the political order of the Habsburg Empire is irretrievably gone. Moreover, Schumpeter engaged with the rising Austro-Marxist and socialist accounts of democracy to gain a better understanding of their endeavor. Analogous to Wieser and Mises, Schumpeter seemed to be threatened not by democracy or socialism but by the masses and their acquisition of political power to transform society and cast off liberal virtues. His elitist account of the entrepreneur as the leader both in the economic sphere and in political and societal concerns shows a continuity of the pessimistic approach of liberty and individual freedom. The entrepreneur is Schumpeter's answer to Wieser's quest on finding the new liberal idol. His later developed conception of democracy as a mere method of elite competition was assumably a reaction to the transformative menace of universal participation. Or, as Medearis argues: It was an answer to the “pessimistic assumptions about ‘human nature in politics’” (Medearis 2013, 9).

5.4. Hayek's non-elitist elitism and the spontaneous order

Mises and Schumpeter quite explicitly denounced the ordinary people's ability to rationally grasp economic principles. The masses were mentally not mature enough to abstract from their own conditions and to accept necessary economic processes. Furthermore, Mises and Schumpeter, at least in parts, refined Wieser's notion of an inevitable elite that claims individual freedom and leads society according to liberal principles. Although Hayek did not reject the first assumption, he refined the latter conception in a rather sophisticated and intricate way. For

Hayek, social institutions and norms are not per se limiting the chosen elite in order to achieve what they aspire. Quite on the contrary: Social norms and institutions are necessary to obtain civilization. (Dekker 2016, 64) Wieser, and to some extent, Mises and Schumpeter, perceive the advantages of the liberal elite as grounded in their possibility to ignore traditions and norms in order to break new grounds but Hayek transforms the role of traditions and their importance to civilization and progress. He admits that a broad discernment of the market forces and the acceptance of economic liberalism would “only function when they are supported by a morality conducive to a society in which the market is prominent” (Dekker 2016, 63). Although Hayek expounds his detailed and stringent view on the emergence and necessity of traditions not before 1960 (with the publication of *The Constitution of Liberty*), it seems that the roots of his attention towards their civilizing effects were located in interwar Vienna and especially in Hayek's confrontation with the intensification of socialist and interventionist aspirations.

In his essay *The Trend of Economic Thinking* Hayek indicated some concepts that would become a centerpiece of his theoretical endeavors in the decades after World War II. He engaged with a widespread notion in the economic discipline of the early 20th century: While economic theory is an abstract and theoretical endeavor, many economists started to feel accountable for the evils and detriments that came along with the emerging market society. The thereof resulting “emphasis on the unsatisfactory aspects of economic life, rather than upon what was owed to the working of the existing system” (Hayek, Bartley & Kresge 1991, 17) nourished utopian hopes for a different organization of the economic sphere.

In order to demonstrate his own view, Hayek refers to Mises' *Socialism* when he argues that the economic order is rather an organism than an organization. (Hayek et al. 1991, 23) This distinction illuminates a central Hayekian motive: the idea of a spontaneous order that establishes institutions, norms, and traditions. While he insists on the spontaneity of its emergence, Hayek argues that it is “an immensely complicated mechanism [that] worked and solved problems” (Hayek et al. 1991, 22). The rejection of an organizational interpretation of the economic sphere signifies the independence of such an order from short-term individual and social actions and aspirations. While Hayek did not deny that this order emerged out of human conduct – it is definitely a secular notion – he rejected the possibility of deliberately adjusting or influencing unwanted aspects. This rejection is based on a twofold argumentation: First, the procedural and long-term nature rests on the unintentional actions of generations, and second, due to its spontaneous and opaque character, it is inaccessible to the human mind:

“But we still refuse to recognise that the spontaneous interplay of the actions of individuals may produce something which is not the deliberate object of their actions

but an organism in which every part performs a necessary function for the continuance of the whole, without any human mind having devised it” (Hayek et al. 1991, 23).

Hayek emphasizes that this spontaneous order, while intangible to the human mind, still performs its role and functions. It "solved problems the existence of which we did not even recognise” (Hayek et al. 1991, 23). Not only is the human mind incapable of grasping the properties of such an order, but its emergence is also not based on conscious efforts. On the contrary, the order and its institutions Hayek tried to illustrate rest on unintentional and unmeant exertion of generations and generations. (Hayek et al. 1991, 21) Hence, it is central to Hayek’s depiction of such a spontaneous order and its institutions “that they are not willed by any mind” (Hayek et al. 1991, 23). While he agreed on the adverse consequences of such an order – the human impotence concerning most of the contemporary evils – he vehemently condemned his coeval intellectuals whose social and political endeavors ignored the irrefutable factuality of such an organism.

While Hayek did condemn socialist intellectuals for their ignorance toward a spontaneous order, he also argued that the very reason for economic analysis in the first place was not mere intellectual interest. Quite on the contrary, Hayek concedes that due to the horrible impacts of early capitalism, even the classic liberal economists felt “an intense urge to reconstruct a world which gives rise to profound dissatisfaction” (Hayek et al. 1991, 15). Despite this concession, Hayek stressed the irrevocable force of the spontaneous order and its consequences. Liberal economists have to confront the unachievability of social and interventionist demands even if the economist would be “almost expected to apologise if he disagrees with the more hastily reached conclusions of lay thought” (Hayek et al. 1991, 21).

I used the term »sophisticated« when I referred to Hayek’s take on elitism. The reasoning behind this denotation rests on a shift in his concept of the elite. Hayek does not argue that the liberal elite’s knowledge about the inherent economic forces is more profound per se. However, he indicates that what distinguishes the elite⁴³ from the ordinary people is the insight into the invisibility and unpredictability of the spontaneous order. The elite is not misdirected by the “pretense of knowledge” (Hayek 2003) but guided by the admission that one cannot grasp or even alter the spontaneous order Hayek conceived as the foundation of civilization and progress. The ordinary people’s fallacy is their misunderstanding of the evolutionary and intangible order and their insolence of overestimating human knowledge. While Hayek emphasized that the organism he tried to explain is based on the entirety of human action, the

⁴³ Although Hayek did not employ the term elite.

simple-minded individual “remained—and the majority of men still remain—under the erroneous impression that, since all social phenomena are the product of our own actions, all that depends upon them is their deliberate object” (Hayek et al. 1991, 15). Hayek's elitism arose from a condemnation of demands aimed at a conscious reconfiguration or transformation of the organism of civilization.

Moreover, Hayek assumed that especially the ordinary people would revolt against a liberal economic policy that limits itself to actions in line with what Hayek refers to as “the working of the system” (Hayek et al. 1991, 27) or as the “inherent logic of the system” (ibid.). The liberal elite has to defend the spontaneity of the market order against interventionist “proposals which spring most readily and regularly to the lay mind” (Hayek et al. 1991, 27). Reichhold (2019) indicates a similar understanding of Hayek's rationale behind the emphasis on civilization's spontaneous and unintended character: Hayek condemned the rising politicization of the economy and society. The more or less radical reformist proposals and demands that accompanied the democratization in the early 20th century were perceived as something fundamentally negative. Like Landa's depiction of the *demons*, Hayek seems to disclaim the very fact that with increasing democratization, specific segments of civilization became negotiable. Hayek's conception of the spontaneous order was an attempt to reinterpret the economic sphere as a radically depoliticized realm. (Reichhold 2019, 27f)

Moreover, Hayek's account of liberalism diverges from others in the sense that he perceived market forces and laws not as something natural. The market is a cultural arrangement; something emerged out of human action. Although Hayek refutes a constructivist notion that implies conscious actions, the order he describes is still subject to change, conditional to the aggregate of human activities. (Dekker 2016, 65) Thus, the task of the liberal intellectual is to “emphasize the complexity of understanding the real world” (Dekker 2016, 71) instead of promoting laymen's naïve and utopian solutions for unpleasant conditions.

In line with Mises and Schumpeter, Hayek is quite skeptical about the ordinary people's ability to intellectually grasp how they thought a market economy should work. While especially Schumpeter but also Mises emphasized the superiority of the liberal theory and perspective that should be guarded against the masses, in Hayek's conception, the focus is on the unintentional and somehow invisible character of the spontaneous order and its *logic*. Wieser and Schumpeter accentuate the elite's urge to break barriers and traditions, “Hayek's analysis is characterized by renewed appreciation for these traditions” (Dekker 2016, 64). While the pessimistic turn of the Viennese liberals still allowed for the emancipation from oppressive moral traditions – at least

for the chosen few - Hayek is arguably even more pessimistic when he, though later on in 1979, argues:

“Man did not adopt new rules of conduct because he was intelligent. He became intelligent by submitting to new rules of conduct” (Hayek 1998, 163).

While I will illustrate the idea of the disciplinary feature of a market order in the next section, this quote again indicates Hayek's divergence from the somewhat coarse elitism of Wieser, Mises, and Schumpeter. While in the latter's work, a pretentious elite of initiates is *intelligent* enough to break free from traditional rules of conduct, Hayek argues that only these rules of conduct allowed for individual intelligence. Moreover, Hayek seems to suggest that human rationality and agency did not precede and enable the emergence of the spontaneous order and the market order but that they as well are a product of the latter. (Dekker 2016, 65)

Hayek furthermore indicates that this kind of understanding of the economic realm encountered resistance within the upcoming and self-confident masses. In line with the other protagonists of this thesis, he was dismayed by the emotionalism and irrationalism of the ordinary people and their inability to refrain from rationalistic and short-term interventionistic urges - “It was against the validity of such reasoning in general that the emotional revolt was directed” (Hayek et al. 1991, 17). While Wieser stressed that individual freedom as an act of breaking traditions is possible⁴⁴, Hayek turned away from such considerations and emphasized the importance of traditional and cultural norms. Although these norms do limit the individual's autonomy, they are the foundation of civilization, progress, and freedom, and only "civilization makes individual autonomy possible" (Dekker 2016, 65). The importance of norms and traditions as part of civilization that precede and only enable individual freedom demonstrates that Hayek's public depiction as an anarcho-libertarian⁴⁵ seems at least doubtful.

Many of Hayek's writings after World War II are devoted to elucidating the spontaneous order's emergence, existence, and features. Moreover, he aimed to describe its civilizing effects and its potentialities. While his intellectual agenda is mainly explained by his dismissal of the social achievements in the post-war period, his reasoning in *The Trend of Economic Thinking* indicates that Hayek initiated this intellectual endeavor in interwar Vienna, and arguably as a response to the urges of the assertive masses and their rationalistic and interventionist demands. According to Dekker, Hayek's distrust of the rationalism in economic thought – a central motive of his works after World War II - is grounded in his condemnation of the ordinary people's “lay

⁴⁴ However, in the early 20th century, only for the chosen elite.

⁴⁵ See, e.g., Watts (2013)

understanding” (Dekker 2016, 71) and initially emerged with the rise of mass democracy in the interwar period. Moreover, the ordinary people and their social and moral demands indirectly affect individual freedom: The short-term demands of intellectually immature masses jeopardize the spontaneous order of civilization, which is the only path to individual freedom and autonomy.

5.5. The disciplinary potency of markets and Hayek’s conservative shift

“Man in a complex society can have no choice but between adjusting himself to what to him must seem the blind forces of the social process and obeying the orders of a superior. [...] [W]hile the latter leaves him none, [...] it is better to have a choice between several unpleasant alternatives than being coerced into one” (Hayek 1948b, 24).

The previous section was concerned with Hayek's notion of a spontaneous order that, while emerged out of human action, withdraws from deliberate alterations. Although Hayek's conception of the spontaneous order is not solely concerned with the economic sphere (in his later years, he would elaborate on how the law, language, and other non-economic domains are similarly a result of an unintended, evolutionary process⁴⁶), markets are the central subject of his considerations. The Viennese liberals, and foremost Hayek, maintain that all of these segments depend on cultural and moral elements. Therefore, also "the market is a fundamental cultural institution of our modern society, an institution that is indispensable for informed decision” (Dekker 2016, 68).

Hayek seems to have stressed the unassailability of this order of civilization because of the rising mass society's urge for an alteration of their living conditions. After World War I, the increasing confidence, paired with new democratic rights, stimulated the belief that many socioeconomic factors and decisive norms that affected the life of the ordinary people are modifiable; that they are not natural laws. As indicated above, the insight into the contingency and, therefore, changeability of impactful norms and restrictions represents the origin of modernity. According to Dekker, the Viennese liberals, and especially Hayek, were skeptical of such an understanding; "they have attempted to resist this modernist attitude" (Dekker 2016, 185). In particular, the rising support for extensive reforms and alterations of traditions and customs potentially jeopardize civilization and progress.

⁴⁶ See, e.g., Hayek (2011)

This pessimism towards an enhanced demand for self-determination also affected how Hayek perceived markets. While markets are commonly conceived as a place where people exchange goods and services, Hayek elaborated on two different depictions of what markets do. First, they allocate knowledge and therefore enable impersonal communication via prices⁴⁷. Additionally, Dekker argues that Hayek apprehends markets as a disciplinary force. While there is a well-known argument that a free-market order would discipline governments' fiscal and monetary policies, it is less well-known that markets are perceived as entities that discipline individuals. If we follow Dekker, Hayek indicated that the market channels individual action and brings forth or even enforces the virtues necessary for the continuity of civilization. (Dekker 2016, 67) While for the optimistic classic liberalism, markets are able to stimulate emancipation and individual autonomy, the outlook changed after the pessimistic turn of the early 20th century. Moreover, "the idea that the market has civilizing effects loses ground to the idea that the market disciplines individuals" (Dekker 2016, 67). Hayek emphasized the latter, pessimistic notion of markets and arguably hoped that in the long run, the masses would adapt the anonymous rules of conduct enforced by the spontaneous order of civilization. Therefore, he seems to utilize markets as some sort of vehicle that channels individual conduct in order to secure and prolong civilization.

As indicated in the last section, following Hayek, freedom is not a prerequisite for a market order; markets did not emerge because of a conscious and free decision or planning. According to Hayek, precisely the opposite is true: Spontaneous and evolutionary forces enabled the emergence of markets, and only then freedom and individual autonomy were achievable. In line with his critique of the modernist, rationalist social engineer, Hayek argued that to achieve progress, humanity must defer to the inevitable logic of the spontaneous order of civilization. However, with the submission to the invisible order, individual "freedom and markets come at a price" (Dekker 2016, 68). The price is that there is no guarantee for a certain living standard or that people will get rewarded according to their merits⁴⁸ - these are restraints that necessarily come with the operation of an anonymous market. Accepting "anonymous and seemingly irrational forces of society" (Hayek 1948a, 24) implies that the individual has to take unpleasant outcomes in the short run. However, "it is by thus submitting that we are every day helping to build something that is greater than anyone of us can fully comprehend" (Hayek 1944, 210). The interwar liberals, and especially Hayek, experienced an insurgency against this traditional and irrefutable conception of civilization and, more precisely, against the immutability of the

⁴⁷ For a more detailed display of how knowledge and markets are linked, see: Hayek (2009) & (1937)

⁴⁸ Hayek intensively dealt with the common idea of *rewards based on merit* in *The Constitution of Liberty*. See Hayek (2011), p. 148-165

people's socioeconomic status. It seems that Hayek perceives short-term thinking as evil per se – and therefore condemns the ordinary people's political aspirations. The Austrian's socialization in the Habsburg Empire with its preservation of neutral governance and distance toward impatient demands could have induced Hayek's approach⁴⁹.

The system of free markets and its impact on the masses' led to an “emotional revolt” (Hayek et al. 1991, 17) that steered utopian considerations. However, due to the public dismissal of the spontaneous market system, Hayek abandoned the classical perception of markets as civilization entities. As mentioned, classical liberalism understood the market as a tool for individual freedom, autonomy, and emancipation. While Hayek too indicates that markets could be perceived as entities that fulfill specific objectives, he has a more pessimistic task in mind. Markets force individuals to act according to certain virtues, to accept the irreversibility of the spontaneous order, or as Reichhold puts it: Economic freedom is fate. (Reichhold 2018) The difference might seem minimal, both conceptions argue that the market will lead to certain behavior. However, the classic liberals assumed that markets, in an affirmative outlook, would allow for individual freedom and emancipation. It was an optimistic and progressive belief that contained a pacifistic and confident perception of people. In the pessimistic view of Hayek, markets enforce certain forms of conduct. The intangible logic of civilization alters human behavior.

In 1945 Hayek would concretize this notion when he elaborated “that it was only by the force of circumstances that he [Author's note: the ordinary human] could be made to behave economically or carefully to adjust his means to his ends” (Hayek 1948a, 11). According to Dekker, Hayek's pessimistic turn on the role of markets arose from the masses revolting against the free market order. But Hayek and the Viennese liberals “seek to resist this revolt” (Dekker 2016, 68).

Socialism and interventionism satisfy utopian hopes not only of the ordinary people. The path of design and social engineering was also widespread amongst many governments during the interwar period. However, while *The Trend of Economic Thinking* superficially appears to be a critical assessment of the status of economics and economic policy in the interwar period, throughout the whole text, a condemnation of demands towards economists and politicians resonates. One can read about the “attack on economics” (Hayek et al. 1991, 17), that economists have to combat “naive beliefs regarding economic phenomena” (Hayek et al. 1991, 22), and about “the lack of understanding of the functions of capital, [which] is one of the main destructive forces leading the world to misery” (Hayek et al. 1991, 25). These judgments seem

⁴⁹ See section 2.2. & Johnson (1972)

to imply a critique of demands from the public sphere and the social realm. In line with this thesis' argument, I think it is appropriate to claim that while Hayek seems to defend the economic sphere against interventions by governments, it is just as accurate that he tries to defend the liberal economic theory - and markets as its central entity - against the masses' demands for deliberately planning and modifying the economic order. Liberal economics, at least in Hayek's pessimistic conception, "developed mainly as the outcome of the investigation and refutation of successive Utopian proposals" (Hayek et al. 1991, 15).

With the turn of the century, but especially with the end of World War I, the Viennese liberals developed a severe pessimism towards the ordinary people. Hayek's conception of markets as disciplinary entities aligns with this pessimism. The hope that liberal ideals would be independently incorporated by more and more enlightened and educated people proved to be too utopian. The spontaneous order that Hayek tried to portray throughout his intellectual life seems to be a response to the very fact that the optimistic liberal hope turned out to be inaccurate. The ordinary people, especially with the rise of mass democracy, developed a new impulse for actively questioning traditional ways of life. Hayek exchanged the optimistic liberal confidence in people's modesty with an emphasis on the necessity of bowing to the *logic* of an evolutionarily emerged order. The early liberal optimism was interchanged with a disciplinary conception of the spontaneous order. In Hayek's view, it was the "existence of a body of reasoning which prevented people from following their first impulsive reaction" (Hayek et al. 1991, 17).

Reichhold (2019) argues that Hayek's *The Trend of Economic Thinking* constitutes the start of his social theoretic endeavor⁵⁰. Concepts like *spontaneous order* and *cultural* evolution that are prominent in most of Hayek's writings after World War II were anticipated in this essay. Moreover, although conservatism and liberalism are – at least widely presumed – two clearly distinct ideologies, it seems that Hayek's emphasis on the spontaneous order, its enforcing and disciplinary features, and the condemnation of modernity's episode of politicizing society and economy show that this distinction is not consistent, at least for Hayek⁵¹. His evolutionary conception of civilization and markets implies the necessity to bow to a fateful momentum that excludes modifiability and participation. Hayek's writings indicate a connection between his

⁵⁰ Similarly, Dekker argues that Hayek's focus on an order "emerge[d] as the unintended consequences of human action" (Dekker 2016, 76) started not later than in the late 1920s and early 1930s. Dekker adds that Hayek's thought was – typical for the cultural melting pot of interwar Vienna – inspired by Sigmund Freud, father of psychoanalysis and the poet Franz Grillparzer. (Dekker 2016, 76n)

⁵¹ Reichhold identifies strong similarities between Hayek's thought and the work of Edmund Burke, the founder of modern conservatism. Especially the rejection of tampering with social and economic conditions and a rather fateful conception of worldly evils is apparent in the work of both Hayek and Burke. (Reichhold 2019, 33f)

notion of liberalism and conservatism that is much closer than is generally assumed. Reichhold argues that Hayek's social theoretic endeavors are not simply an add-on to his economic liberalism but an indication of a conservative conception of society as a whole. Moreover, Reichhold emphasizes that while these concepts are broadly discussed in secondary literature, their historical and political origins in the interwar period and its political turmoil are underrepresented. (Reichhold 2019, 33f) In Hayek's 1944 published book *Road to Serfdom*, this view seems to be affirmed. He complains that his generation ignores economic insights. This "Econophobia" (Hayek 1944, 209) is a revolt against the very considerations that Hayek's thinking was founded on: civilization's impersonal and spontaneous character. (ibid.) When individual freedom is only achievable by accepting the existence and working of a spontaneous order, all resistance against it is counteracting individual freedom. Hayek's response to the revolt against civilization, including his pessimistic take on markets as disciplinary forces, substantiates this thesis' argument. While governments, intellectuals, and bureaucracy are certainly targets of Hayek's critical assessments, the ordinary people's naïve and short-termed aspirations, as well as their aversion to the evolutionary and inevitable character of civilization, are too. This becomes apparent when Hayek complains that his generation "is most decidedly unwilling to sacrifice any of its demands to what are called economic arguments, it is impatient and intolerant of all restraints on their immediate ambitions, and unwilling to bow to economic necessities" (Hayek 1944, 208). Individual freedom is feasible by the submission to the spontaneous order of civilization and not by "permanently revolt[ing] against it" (Dekker 2016, 8).

6. Conclusion

While I do not arrogate to claim that neoliberalism as such originated in interwar Vienna, I argue that the intellectual and political responses of the Viennese liberals to the turmoil they witnessed are at least one part of the puzzle named the origins of neoliberalism. The political conditions of the late Danube Monarchy, the influence on and integration in the Habsburg bureaucracy, as well as the abrupt and critical decline of the monarchy, shaped the intellectual endeavors of this thesis' protagonists. The harshness in their writings and the rigor in seeking out their enemies are a result of the Viennese intellectual conditions and their grievance about the fall of the empire. Moreover, the pessimism that emerged and intensified in interwar Vienna was a response to the demands articulated by the ascending mass society and democratic sentiments that occurred out of the political vacuum after World War I.

Before I briefly elaborate on how the Viennese liberalism potentially influenced today's neoliberalism, I will recapitulate what has been written so far. In section 2, I started to depict the political, cultural, but also intellectual climate of the late Habsburg Empire. It is intriguing that all the protagonists of this thesis, more or less, shared the same background: Born in relatively privileged families, all could attend the best schools and universities of the empire, mainly in its capital Vienna. Although educated at universities, their intellectual endeavors mainly took place in informal and rather interdisciplinary gatherings where intellectual disputes and political debates were regularly on the agenda. Moreover, while especially the Austrian liberals are nowadays perceived as *state-phobic*, nearly all of them were, to different degrees, part of the Austrian bureaucracy. In particular, Mises' career in the civil service and his identification with the state apparatus are quite intriguing. The fall of the Danube Monarchy was a severe blow for the Austrian liberals. They were strongly invested in the empire and convinced that the Austrian monarchy's impartial, multiethnic, and economic liberal character would be a blueprint for an upcoming world order. (Slobodian 2019a, 12) The emerging democratization and urges for participation after the fall of the empire fueled a pessimism within the Austrian liberals.

As I have shown in section 3, this pessimism did not initially emerge in Austria. After the civil revolutions in the middle of the 19th century, the liberal bourgeoisie had to experience that the weapons they employed to fight the aristocracy and clergy were now turned against the liberal reign itself. While the liberal combats against feudalism united the worldly classes, the harmony did not last long. Demands for individual freedom, participation, and education awakened the masses and their urges for codetermination. The liberal pessimism occurred “once ‘the people’ wished to dispense with their bourgeois proxies and speak and act for themselves” (Landa 2010, 21). While this development emerged in a creeping process throughout Europe, I claim that due to the late fall of the Habsburg Empire, the Viennese liberals sustained their liberal optimism longer. With the end of World War I and the fall of Austria-Hungary, the pessimism occurred in one fell swoop. The political vacuum after the war strengthened the pessimist sentiment and shed light on the ordinary people and their political demands as the new enemy.

While I argue that the Viennese pessimism emerged after World War I, there is one Austrian liberal who anticipated the pessimism to come: Friedrich Wieser, whom I elaborated on in section 4. In his lectures from 1910, he tried to answer the question of what it meant to be free in the early 20th century. He dismissed the early liberal optimism with its universalistic sentiment. Moreover, it seems that Wieser redefined the conception of liberty but especially its »stakeholder«: While the optimistic liberal pledge for a universalistic account of liberty might

be worth striving for, the majority of humans were not mature enough to be perceived as free and autonomous individuals in the early 20th century. Wieser's conclusion was to abandon the optimism, exclude the masses, and promote a liberalism for the chosen few; the liberal elite. Those *superhumans* would be able to forgo the masses' primitive instincts and strive for their own desires. Not only are the ordinary people excluded from this pessimistic liberalism, but they are its enemy. The last remains of liberalism – freed from universalistic and emancipatory elements – had to be defended against the ordinary people.

The aim of section 5 was to demonstrate that Wieser's pessimistic shift and his condemnation of the ordinary people's inability and unwillingness to act according to liberal virtues was not a singular stance. On the contrary: While Wieser was most explicit about this readjustment of liberty, there arguably are indications for such a shift in the interwar writings of Mises, Schumpeter, and Hayek. The liberal pessimism toward the masses is even enhanced in their writings. Mises developed an intense elitism that was fueled by his observation that "people lack the mental ability to absorb the principles of sound economics" (Mises 2011, 316) and that "men are too dull to follow complicated chains of reasoning" (ibid.). According to Mises, the weak spot of classical liberalism was exactly the naïve and way too optimistic assessment of the ordinary people's ability and will to join the liberal path to progress.

While Mises' elitism was more concerned with the inadequacies of the ordinary people, Schumpeter offered an elitist answer for Wieser's rather abstract search for the new liberal idol. The entrepreneur is the one who breaks with norms and traditions and ignores social and democratic charges. He is the heroic *superhuman* who has "the will to conquer" (Schumpeter & Opie 2021, 75) and whose endeavor is "to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself" (ibid.). Schumpeter follows Wieser in perceiving ordinary people as subordinate. The masses are only relevant as the opponent of liberty; as obstacles for the entrepreneur to extend his authority "to the moral, cultural, and social consequences of it" (Schumpeter & Opie 2021, 74).

The last sections were concerned with Hayek and his conception of a spontaneous order. His theoretical agenda differs from Wieser's and Schumpeter's in one central component: While the latter conceptualized the elite as the ones who urged to break traditions and norms, Hayek emphasized their importance for civilization and progress. Moreover, freedom and autonomy are a product of the spontaneous order, not reasons for its emergence. Therefore, the ignorance toward, or urge for alterations of the spontaneous order is threatening individual freedom. It is well known that Hayek condemned politicians for state interventions and economic planning due to his accentuation of the intangibility of the spontaneous order. However, it seems that the

threat of social aspirations towards not only the economic realm but civilization as a whole is at least as important. The menace to civilization is the ordinary people's refusal to bow to the spontaneous order and the market as its »executive organ«. Moreover, there are apparent similarities between Hayek's account of the spontaneous order and modern conservatism. The irrevocability of traditions and norms, the emphasis on the threat of deliberate alterations, and the fateful character of his social theoretic endeavor suggest that Hayek's liberalism is not only pessimistic but also conservative.

This thesis aim was to elaborate that there was an alteration of liberalism and a political readjustment of liberty that emerged in the political and cultural milieu of interwar Vienna. The shift in liberalism's opponent resulted from the interwar period's democratizing tendencies. The Viennese liberals threw off the early liberal's naïve optimism and altered the liberal theory to adapt to the turbulent times. Their experiences during the Habsburg Empire taught them that absolutistic governance does not necessarily limit individual freedom. For the early 20th century, but especially the interwar period, the threat to freedom was the social realm, its democratizing ambitions, and the ordinary people's ignorance toward the liberal plea.

6.1 How did the pessimistic Viennese liberalism influence neoliberalism?

It is challenging to state the influence on something that is defined so heterogeneously as the term neoliberalism. However, there are some examples of neoliberal practice that seem to reflect the Viennese pessimism towards the ordinary people and their democratic claims.

First, one could argue that democratic access to the economic sphere was pushed back in recent decades. While in the »golden age of capitalism« after World War II, the compromise between capital and labor opened an arena for negotiations and alterations, along with the neoliberal turn in the late 1970s, the aim to “depoliticize the economic” (Wassermann 2019, 133) gained in significance. Codetermination and democratic decisions were relegated to mere political spheres. Angela Merkel brought this development to the point when she said that democracy has to be in line with market requirements⁵². A similar argument was made by Margaret Thatcher with her meanwhile even pop-culturally relevant slogan *There is No Alternative*. It is an intriguing observation that this slogan not only seems to exclude democratic sentiments but also reformulate Hayek's notion of an immutable spontaneous order⁵³. Hayek's emphasis on

⁵² Merkel employed the German term *marktkonforme Demokratie*. See <https://www.faz.net/aktuell/politik/harter-bretter/marktkonforme-demokratie-oder-demokratiekonformer-markt-11712359.html>

⁵³ It is well known that Hayek's *Constitution of Liberty* heavily inspired Thatcher.

the need to “bow to economic necessities” (Hayek 1944, 208) in order to prolong civilization and progress was adopted by many liberal and conservative politicians in recent decades.

Another example of the Viennese pessimism in today's neoliberalism is the fierce reaction of liberals to the announcement of the Greek bailout referendum concerning the tense debt situation in 2015. The mere fact that the people should be allowed to decide upon questions that affect economic considerations was replied to with indignation and anti-democratic opinion-making.

Quinn Slobodian argued that the Viennese liberalism was “a specific institution-building project” (Slobodian 2019a, 5) that aimed at the continuance of some of the Habsburg Empire's characteristics. Supranational institutions like the WTO, the World Bank, the IMF, and many more, were inspired and impelled by the neoliberal urge to (re)build a world economy. (ibid. 4f) However, in line with this thesis' argument, it seems appropriate to consider these institutions from a slightly different perspective: What these institutions have in common is that they are barely democratically legitimated and therefore shield the economic sphere from social aspirations. The pessimism toward socially emerged claims by immature voting masses seemed to prolong the Viennese interwar period.

These are only some examples, rather sketchily illustrated. More research on the actual transition of the Viennese pessimism to today's neoliberalism would be interesting. Moreover, a potentially promising project would be to investigate how Mises', Schumpeter's, and Hayek's intellectual programs after their emigration in the 1930s were influenced by their interwar writings but also in what aspects they differ. Or to reformulate it: To what extent were the three author's intellectual endeavors specific Austrian projects, and to what extent did the intellectual and political surroundings of their later lives influence and alter their “prescientific analysis” (Schumpeter 1949, 350)?

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Appendix

Appendix 1: Abstract in English

The aim of this thesis is the investigation of the Viennese liberal's role in the development of neoliberalism. It is widely known that especially Ludwig von Mises and Friedrich August von Hayek are central figures of neoliberal theory. However, most literature deals with their impact on the political and intellectual scene after World War II. Therefore, the timeframe for this

thesis is Vienna's interwar period. While interwar Vienna is commonly known as a playground for heterodox socialist and Austro-Marxist experimentations, its cultural and political surroundings also heavily inspired and animated an evolution in liberal theory. This evolution is essentially a reaction to the Habsburg Empire's abrupt decline and the subsequent political turmoil. The Viennese intellectual's pessimistic reaction involves a political readjustment of liberty that states the social realm with its political and socioeconomic urges as the opponent of liberty. Furthermore, the Viennese pessimism and the readjustment of liberty anticipate some central neoliberal characteristics.

Appendix 1: Abstract in German

Österreichische Liberale wie u.a. Ludwig von Mises und Friedrich August von Hayek zählen zu den prominentesten Vorreitern neoliberaler Theorie. Besonders eingehend wurden deren Schriften im Zusammenhang mit den politischen und intellektuellen Konflikten und Diskursen nach dem Zweiten Weltkrieg behandelt. Weniger bekannt sind die theoretischen und politischen Arbeiten der österreichischen Liberalen in der Zwischenkriegszeit. Während das Wien der Zwischenkriegszeit heute als Biotop für heterodoxe sozialistische und Austro-Marxistische Experimente bekannt ist, sind auch im liberalen politischen und intellektuellen Spektrum weitreichende Adaptionen und Neuausrichtungen erkennbar. Diese sind wesentlich vom abrupten Ende der Habsburger Monarchie sowie den daraus folgenden politischen Unruhen beeinflusst. Die liberale Antwort hierauf war die Adaption einer pessimistischen Zukunftsperspektive und eine politische Neuausrichtung der liberalen Auffassung von Freiheit. Der Staat als Feindbild des klassischen Liberalismus wich der Auffassung, dass individuelle Freiheit gegen die Massen und deren politische und sozioökonomische Ansprüche verteidigt werden muss. Der liberale Pessimismus der Zwischenkriegszeit und die damit einhergehende Neuausrichtung des Freiheitsbegriffs nehmen zentrale Merkmale der heutigen Auffassung des Neoliberalismus vorweg.